ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

MARCH 31, 2006

AUDITOR'S REPORT

To the Minister of Finance

I have audited the statement of financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2006 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 19, 2006

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 13,681,630	$ 11,417,548
Accrued investment income	26,433	7,008
Administration expense receivable	22	281
	$ 13,708,085	$ 11,424,837
Liabilities		
Accounts payable	$ 135,842	$ 7
Due to the General Revenue Fund	77,684	62,388
	213,526	62,395
Net Assets (Note 6)	13,494,559	11,362,442
	$ 13,708,085	$ 11,424,837

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2006

	2006		2005
	Budget	Actual	Actual
	($ thousands)		
Net income (Note 7)	$ 680,973	$ 1,397,413	$ 1,091,903
Transfers to the General Revenue Fund (Note 6a)	(465,973)	(1,015,296)	(1,091,903)
Amount retained for inflation-proofing (Note 6a)	215,000	382,117	-
Transfers from the General Revenue Fund (Notes 6c & 6d)	250,000	1,750,000	-
Change in net assets	$ 465,000	2,132,117	-
Net Assets at beginning of year		11,362,442	11,362,442
Net Assets at end of year		$ 13,494,559	$ 11,362,442

The accompanying notes and schedules are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Operating transactions		
Net income	$ 1,397,413	$ 1,091,903
Non-cash items included in net income	(166,400)	(208,924)
	1,231,013	882,979
(Increase) decrease in accounts receivable	(19,166)	563
Increase (decrease) in accounts payable	135,835	(35)
Cash provided by operating transactions	1,347,682	883,507
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,157,512	2,716,273
Purchase of investments	(3,097,533)	(2,460,083)
Cash (applied to) provided by investing transactions	(1,940,021)	256,190
Transfers		
Transfers from the General Revenue Fund	1,750,000	-
Transfers to the General Revenue Fund	(1,015,296)	(1,091,903)
Increase (decrease) in amounts due to the General Revenue Fund	15,296	(90,097)
Cash provided by (applied to) transfers	750,000	(1,182,000)
Increase (decrease) in cash	157,661	(42,303)
Cash at beginning of year	71,359	113,662
Cash at end of year	$ 229,020	$ 71,359
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 229,020	$ 71,359

The accompanying notes and schedules are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended March 31, 2006 ($ thousands)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund operates under the authority of the *Alberta Heritage Savings Trust Fund Act* (the Act), Chapter A-23, Revised Statutes of Alberta 2000, as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

The accounting policies of significance to the Fund are as follows:

(a) Portfolio Investments

Fixed-income securities, mortgages, equities, real estate investments, absolute return strategies and timberland investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Investments in loans are recorded at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 2 (continued)

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

Income and expenses from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expenses from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for purposes of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.

(d) Investment Valuation

Portfolio investments are recorded in the financial statements at cost. The fair value of investments is provided for information purposes and is disclosed in Note 3 and Schedules A to E.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private income, private real estate, loans, absolute return strategies and timberland investments. The fair values of these investments are based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Fair value of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

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Note 2 (continued)

(ii) Private fixed-income securities, provincial corporation debentures and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

(iv) The fair value of real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

(v) The fair value of absolute return strategy investments are estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

(vii) The fair value of timberland investments are appraised annually by independent third party evaluators.

(viii) The fair value of deposits, receivables, accrued interest and payables are estimated to approximate their book values.

(ix) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 3 PORTFOLIO INVESTMENTS

	2006			2005		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed-Income Securities (Schedule A)	($ thousands)			($ thousands)		
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 229,020	$ 229,020	1.5	$ 71,359	$ 71,359	0.6
Canadian Dollar Public Bond Pool (b)	3,877,585	3,888,854	25.9	3,094,268	3,154,021	25.5
Bonds, notes & short-term paper, directly held (c)	22,315	22,358	0.2	23,067	23,742	0.2
Private Mortgage Pool (d)	584,319	591,638	3.9	518,924	532,357	4.3
Provincial corporation debentures, directly held (e)	80,927	113,925	0.8	88,340	132,261	1.1
Loans, directly held (f)	102,219	102,219	0.7	93,298	93,298	0.8
Currency Alpha Pool (g)	16,751	17,209	0.1	-	-	-
Tactical Asset Allocation Pool (h)	28,921	27,947	0.2	24,529	24,555	0.2
	4,942,057	4,993,170	33.3	3,913,785	4,031,593	32.7
Public Equities						
Canadian (Schedule B)						
Domestic Passive Equity Pooled Fund (i)	1,032,351	1,131,293	7.5	868,241	989,240	8.1
Canadian Pooled Equity Fund (j)	493,715	666,827	4.4	491,455	605,425	4.9
Canadian Equity Enhanced Index Pool (k)	278,441	332,581	2.2	292,113	319,695	2.6
Canadian Large Cap Equity Pool (l)	230,719	231,602	1.5	163,796	184,242	1.5
Growing Equity Income Pool (m)	106,187	150,261	1.0	128,558	152,821	1.3
Canadian Multi-Cap Pool (n)	203,525	205,931	1.4	138,847	138,958	1.1
Tactical Asset Allocation Pool Canadian futures contracts (h)	(146,080)	(146,080)	(1.0)	(125,308)	(125,308)	(1.0)
	2,198,858	2,572,415	17.0	1,957,702	2,265,073	18.5
United States (Schedule C)						
S&P 500 Index Fund (o)	1,472,667	1,629,524	10.9	1,179,505	1,284,273	10.4
US Small/Mid Cap Equity Pool (p)	266,559	307,170	2.1	237,574	240,550	2.0
US Large Cap Equity Pool	-	-	-	77	77	-
Portable Alpha United States Equity Pool (q)	386,366	382,057	2.5	326,700	316,340	2.6
Growing Equity Income Pool (m)	47,759	46,552	0.3	24,513	24,350	0.2
Tactical Asset Allocation Pool US futures contracts (h)	147,487	147,487	1.0	125,969	125,969	1.0
	2,320,838	2,512,790	16.8	1,894,338	1,991,559	16.2
Non-North American (Schedule D)						
EAFE Active Equity Pool (r)	1,615,625	1,867,616	12.4	1,402,418	1,467,601	12.0
EAFE Passive Equity Pool (s)	169,033	238,566	1.6	267,922	364,905	3.0
Emerging Markets Equity Pool (t)	116,466	159,782	1.1	128,567	141,465	1.1
EAFE Structured Equity Pool (s)	264,167	253,781	1.7	-	-	-
	2,165,291	2,519,745	16.8	1,798,907	1,973,971	16.1
Real Estate (Schedule E)						
Private Real Estate Pool (u)	1,055,710	1,396,862	9.3	966,041	1,148,626	9.4
Foreign Private Real Estate Pool (v)	44,916	44,042	0.3	43,161	40,948	0.3
	1,100,626	1,440,904	9.6	1,009,202	1,189,574	9.7
Absolute Return Strategies (w)	569,151	571,720	3.8	615,053	610,593	5.0
Private Equities (x)	243,179	258,322	1.7	166,624	153,374	1.3
Private Income (x)	81,688	81,948	0.6	61,937	61,012	0.5
Timberland (y)	59,942	56,454	0.4	-	-	-
Total Investments (z)	$ 13,681,630	$ 15,007,468	100.0	$ 11,417,548	$ 12,276,749	100.0

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Note 3 (continued)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2006, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2006	**2005**
Absolute Return Strategy Pool	88.5	88.5
Canadian Dollar Public Bond Pool	40.2	35.6
Canadian Equity Enhanced Index Pool	25.8	60.2
Canadian Large Cap Equity Pool	12.6	8.0
Canadian Multi-Cap Pool	56.9	60.2
Canadian Pooled Equity Fund	54.5	56.3
Currency Alpha Pool	28.9	-
Domestic Passive Equity Pooled Fund	42.3	41.7
EAFE Active Equity Pool	31.7	31.7
EAFE Passive Equity Pool	76.5	79.9
EAFE Structured Equity Pool	24.0	-
Emerging Markets Equity Pool	26.4	33.6
Foreign Private Equity Pool (02)	43.8	43.8
Foreign Private Equity Pool (05)	87.3	-
Foreign Private Real Estate Pool	87.1	87.1
Growing Equity Income Pool	55.8	59.1
Portable Alpha United States Equity Pool	87.9	87.9
Private Equity Pool	13.6	13.6
Private Equity Pool (02)	62.1	62.1
Private Equity Pool (04)	77.0	77.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	25.7	25.7
Private Income Pool 2	86.7	-
Private Mortgage Pool	43.4	44.2
Private Real Estate Pool	37.1	40.4
Standard & Poor's 500 Index Fund	71.8	69.3
Tactical Asset Allocation Pool	86.7	35.5
Timberland Pool	87.6	-
US Small/Mid Cap Equity Pool	25.2	25.5

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the Fund have an average effective market yield of 3.96% per annum (2005: 2.79% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2006, securities held by the Pool have an average effective market yield of 4.7% per annum (2005: 4.48% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 3%); 1 to 5 years: 34% (2005: 38%); 5 to 10 years: 33% (2005: 31%); 10 to 20 years: 12% (2005: 12%); and over 20 years: 19% (2005: 16%).

ALBERTA HERITAGE SAVINGS TRUST FUND

Note 3 (continued)

(c) As at March 31, 2006, fixed-income securities held directly by the Fund have an average effective market yield of 3.92% per annum (2005: 3.18% per annum). As at March 31, 2006, fixed-income securities have the following term structure based on principal amount: under two years: 100% (2005: 100%).

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.5%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2006, securities held by the Pool have an average effective market yield of 5.27% per annum (2005: 5.29% per annum) and the following term structure based on principal amount: under 1 year: 2% (2005: 2%); 1 to 5 years: 19% (2005: 22%); 5 to 10 years: 50% (2005: 43%); 10 to 20 years: 10% (2005: 12%); and over 20 years: 19% (2005: 21%).

(e) As at March 31, 2006, Provincial corporation debentures have an average effective market yield of 8.00% per annum (2005: 7.51% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100% (2005: 100%).

(f) Investments in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at March 31, 2006, investment in loans, at cost, include the Ridley Grain loan amounting to $100,000 (2005: $91,245) and the Vencap loan amounting to $2,219 (2005: $2,053).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $100,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2006 amounted to $90,161 (2005: $92,517). The increase in carrying value of the Ridley Grain loan resulted from a change in management's estimate of the realizable value of the loan. Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588, is due July 2046 and bears no interest. The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

(g) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year moving period while reducing return volatility through multiple manager investment style and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts. Participants deposit into the Pool a modest amount of cash to minimize rebalancing of cash flows in or out of the Pool when the forward foreign exchange contracts settle.

(h) The Tactical Asset Allocation Pool provides participants with a quick, effective and efficient way to earn excess returns, on an opportunistic basis, by altering the portfolio weights of broad asset classes using synthetic instruments. At March 31, 2006, the Pool is comprised of a long position through United States equity index futures contracts and a short position through Canadian equity index futures contracts. Cash and short-term securities held by the Pool support approximately 5% to 10% of the Pool's notional exposure in Canadian and United States equity index futures contracts.

(i) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool.

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Note 3 (continued)

FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

(j) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection while remaining sector neutral.

(k) The Canadian Equity Enhanced Index Pool allows participants the opportunity to gain investment exposure to the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The portfolio is comprised of publicly traded equities in Canadian corporations. The enhanced index generates a consistent level of return above the Index with relatively low risk.

(l) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. The portfolios are actively managed by external managers with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(m) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income by investing in mature Canadian and U.S. companies with strong financial characteristics and growing distributions. Risk is reduced by holding established, well-capitalized companies. The performance of the pool is measured against the total return of a custom S&P/TSX Composite Index for dividend paying stocks.

(n) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is measured against the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (i)).

(o) Publicly traded U.S. equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 Index over a four-year period. The Pool's investment in units of the FRNP are used as the underlying securities to support the index swaps of the pool (see Note 3 (i)).

(p) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap U.S. equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 Index over a four-year period.

(q) The Portable Alpha United States Equity Pool consists of futures and swap contracts which provide exposure to the U.S. equity market by replicating the S&P 500 Index and investments in value added absolute return strategies. The performance objective is to provide returns higher than the total return of the S&P 500 Index over a four-year period.

(r) The Europe, Australasia and Far East (EAFE) Active Equity Pool consists of multiple portfolios of publicly traded non-north American equities. Portfolios are actively managed by external managers with European and Pacific Basin mandates. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE Index over a four-year period.

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Note 3 (continued)

(s) The EAFE Passive Equity Pool and the EAFE Structured Equity Pool are managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicates the MSCI EAFE Index. The EAFE Structured Equity Pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The structured pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (i)).

(t) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free (MSCI EMF) Index over a four-year period.

(u) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. Real estate is held through intermediary companies, which have issued, to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

(v) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(w) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Hedge Fund Research Inc. Global Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

(x) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02, PEP04, the Foreign Private Equity Pool 2002 and the Foreign Private Equity Pool 2005. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool invests in infrastructure related projects that are structured to yield high current income with the objective of providing investment returns higher than the CPI plus 6.0%.

(y) The Timberland Pool provides high current income and long investment horizons. The timberland investment is a partnership interest in forestry land in British Columbia. The performance objective is to earn a return higher than CPI plus 4%.

(z) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short-term market trends and is temporary in nature.

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NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2006:

	Maturity			2006		2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				($ thousands)			
Equity index swap contracts	75%	25%	-	$ 2,460,014	$ 45,423	$ 1,534,324	$ 7,673
Interest rate swap contracts	22%	49%	29%	1,053,569	(2,391)	491,031	(12,449)
Forward foreign exchange contracts	100%	-	-	1,554,419	(1,980)	935,430	13,334
Cross-currency interest rate swaps	14%	34%	52%	711,678	52,051	580,540	2,228
Credit default swap contracts	2%	5%	93%	1,298,187	2,984	128,430	1,384
Bond index swap contracts	100%	-	-	236,998	24,470	61,311	428
Equity index futures contracts	100%	-	-	782,574	15,652	302,125	5,957
				$ 8,097,439	$ 136,209	$ 4,033,191	$ 18,555

(a) The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Fund attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 2 (e).

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 5 INVESTMENT RISK MANAGEMENT

Income and financial returns of the Fund are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2006-2009 Business Plan proposed the following long-term policy asset mix for the Fund.

Public equities	45.0%
Fixed income securities	30.0%
Real estate	10.0%
Absolute return strategies	5.0%
Private equities	4.0%
Private income	4.0%
Timberland	2.0%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 6 NET ASSETS

The following table shows accumulated net income and transfers from (to) the General Revenue Fund (GRF) since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2006	**2005**
	($ thousands)	
Accumulated net income	$ 28,321,592	$ 26,924,179
Transfers to General Revenue Fund (a)		
Section 8(2) transfers		
Income	(25,953,222)	(24,555,809)
Amount Retained for Inflation-proofing	812,753	430,636
	(25,140,469)	(24,125,173)
Capital Expenditures (1976-1995) (b)	(3,485,888)	(3,485,888)
	(28,626,357)	(27,611,061)
Transfers from the General Revenue Fund		
Resource Revenue (1976-1987)	12,049,324	12,049,324
Access to the Future (c)	750,000	-
Appropriations (d)	1,000,000	-
	13,799,324	12,049,324
Net Assets	$ 13,494,559	$ 11,362,442

(a) In accordance with section 8(2) of the *Alberta Heritage Savings Trust Fund Act* (the Act), the Fund transferred $1,015 million to the GRF for the year. The Act states that the net income of the Heritage Fund, totalling $1,397 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $382 million, shall be transferred to the General Revenue fund annually in a manner determined by the Minister of Finance.

(b) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research Endowment Fund in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

(c) Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be allocated from the GRF to the Fund, of which $750 million was received in the current fiscal year.

(d) On March 20, 2006, the Fund received $1 billion from the GRF under *The Appropriation (Supplementary Supply) Act*, 2006, which received Royal Assent on March 16, 2006.

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 7 NET INCOME

	2006	2005
	($ thousands)	
Deposit and fixed-income securities	$ 318,152	$ 264,136
Canadian equities	594,845	450,950
United States equities	57,840	9,086
Non-North American equities	299,714	258,049
Real estate	89,573	68,678
Absolute return strategies	23,444	32,098
Private equities	5,380	7,925
Private income	11,853	3,184
Timberland	(1,088)	-
Investment income	1,399,713	1,094,106
Direct administrative expenses (Note 8)	(2,300)	(2,203)
Net income	$ 1,397,413	$ 1,091,903

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income (loss) earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the year ended March 31, 2006 includes writedowns totalling $43,055 (2005: $34,425).

NOTE 8 ADMINISTRATIVE EXPENSES

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Alberta Finance charges direct fund and internal management expenses on a cost recovery basis. External management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Comparative figures have been restated to include estimated indirect external management fees deducted directly from income of private equity and private income investments, real estate, timberland and absolute return strategies.

	2006	2005
		(restated)
	($ thousands)	
Direct fund expense (Note 7)	$ 2,300	$ 2,203
External management fees	37,274	28,725
Internal management expenses	4,797	3,713
Total	$ 44,371	$ 34,641
Expenses as a percentage of net assets at fair value	0.299%	0.283%

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 9 INVESTMENT PERFORMANCE (SCHEDULE F)

The following is a summary of the overall investment performance results attained by the Fund determined on a fair value basis:

	One Year Return	Five Year Compound Annualized Return
Time-weighted rates of return		
Overall actual return	15.2%	7.1%
Benchmark return (1)(2)	13.8%	6.7%

(1) The overall benchmark return for the year ended March 31, 2006 is a product of the weighted average policy sector weights and the sector benchmark returns.

(2) The Fund is expected to generate a real rate of return of 4.5% over a moving five-year period based on the Fund's business plan. Over a five-year period, the annualized inflation rate was 2.2%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.7%.

NOTE 10 COMPARATIVE FIGURES

Certain 2005 figures have been reclassified to conform to 2006 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 276,441	$ 276,441	$ 103,527	$ 103,527
Fixed-income securities (a)				
Corporate, public and private	2,599,608	2,583,255	1,890,339	1,905,009
Government of Canada, direct and guaranteed	1,104,032	1,097,843	960,687	968,395
Provincial, direct and guaranteed:				
Alberta	23,397	23,044	1,781	1,931
Other provinces	681,060	720,829	712,581	761,815
Provincial corporation debentures	80,927	113,925	88,340	132,261
Loans	102,218	102,218	93,298	93,298
Municipal	18,445	19,686	37,860	39,985
	4,609,687	4,660,800	3,784,886	3,902,694
Receivable from sale of investments and accrued investment income	95,136	95,136	43,651	43,651
Accounts payable and accrued liabilities	(39,207)	(39,207)	(18,279)	(18,279)
	55,929	55,929	25,372	25,372
	$ 4,942,057	$ 4,993,170	$ 3,913,785	$ 4,031,593

(a) Fixed income securities held as at March 31, 2006 have an average effective market yield of 4.98% per annum (2005: 4.84% per annum) and the following term structure based on principal amount:

	2006	2005
	%	%
under 1 year	3	3
1 to 5 years	30	33
5 to 10 years	35	36
10 to 20 years	13	11
over 20 years	19	17
	100	100

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule B

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 12,558	$ 12,558	$ 17,140	$ 17,140
Public equities (a) (b)				
Financials	660,495	760,049	637,357	725,438
Energy	554,056	711,005	357,358	459,663
Materials	301,259	374,979	276,563	322,935
Industrials	124,398	152,304	99,590	121,832
Consumer discretionary	129,733	131,980	136,794	143,247
Telecommunication services	105,590	119,040	123,781	138,568
Information technology	107,604	103,013	118,285	121,644
Consumer staples	73,608	74,865	81,341	98,161
Health care	29,495	26,870	30,952	30,464
Utilities	22,815	25,320	24,398	31,333
	2,109,053	2,479,425	1,886,419	2,193,285
Small Cap Pooled Fund	58,821	62,006	41,766	42,271
Receivable from sale of investments and accrued investment income	59,641	59,641	37,239	37,239
Accounts payable and accrued liabilities	(41,215)	(41,215)	(24,862)	(24,862)
	18,426	18,426	12,377	12,377
	$ 2,198,858	$ 2,572,415	$ 1,957,702	$ 2,265,073

(a) The Fund's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap contracts and equity index futures contracts totalling $1,047,241 (2005: $907,201).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule C

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 8,924	$ 8,924	$ 29,803	$ 29,803
Public equities (a) (b)				
Financials	492,193	528,942	387,321	398,319
Information technology	353,870	382,823	287,905	298,195
Health Care	296,126	318,816	249,009	255,525
Industrials	283,024	310,205	233,052	248,242
Consumer discretionary	242,824	261,940	218,328	233,740
Energy	203,682	234,654	151,561	171,637
Consumer staples	204,301	210,917	177,873	184,501
Materials	77,008	87,447	72,307	77,985
Utilities	74,274	78,710	65,324	70,617
Telecommunication services	67,341	72,141	52,937	54,077
	2,294,643	2,486,595	1,895,617	1,992,838
Receivable from sale of investments and accrued investment income	80,368	80,368	16,281	16,281
Accounts payable and accrued liabilities	(63,097)	(63,097)	(47,363)	(47,363)
	17,271	17,271	(31,082)	(31,082)
	$ 2,320,838	$ 2,512,790	$ 1,894,338	$ 1,991,559

(a) The Fund's effective net investment in U.S. public equities includes the notional amount of U.S. equity index swap contracts and equity index futures contracts totalling $1,326,594 (2005: $929,248).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 57,576	$ 57,576	$ 37,408	$ 37,408
Public equities (a) (b)				
Financials	572,706	699,874	439,381	500,068
Industrials	259,529	321,123	200,853	226,907
Consumer discretionary	245,825	286,011	237,437	253,047
Materials	157,432	195,718	145,507	166,576
Energy	148,267	179,909	143,749	165,802
Health care	154,693	166,597	111,514	113,706
Information technology	146,110	162,371	91,900	94,916
Consumer staples	138,700	143,264	101,731	109,365
Telecommunication services	137,771	131,617	155,675	161,388
Utilities	91,188	105,082	74,749	82,541
	2,052,221	2,391,566	1,702,496	1,874,316
Emerging market pooled funds	46,867	61,976	55,559	58,803
Receivable from sale of investments and accrued investment income	48,418	48,418	23,849	23,849
Accounts payable and accrued liabilities	(39,791)	(39,791)	(20,405)	(20,405)
	8,627	8,627	3,444	3,444
	$ 2,165,291	$ 2,519,745	$ 1,798,907	$ 1,973,971

(a) The Fund's effective net investment in non-North American public equities includes the notional amount of non-North American equity index swap contracts and equity index futures contracts totalling $242,413 (2005: $nil).

(b) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Japan	$ 489,461	$ 556,801	$ 312,925	$ 320,278
United Kingdom	431,466	471,910	380,864	405,968
France	206,848	242,852	162,309	183,838
Germany	134,382	162,451	119,400	131,916
Switzerland	140,028	160,948	106,425	117,242
Netherlands	100,723	122,836	91,777	100,489
Australia	77,449	88,969	67,350	83,907
Italy	64,186	76,189	59,403	71,454
Spain	59,245	66,008	46,605	54,061
Sweden	40,398	49,272	44,048	49,991
Other	308,035	393,330	311,390	355,172
	$ 2,052,221	$ 2,391,566	$ 1,702,496	$ 1,874,316

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2006

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Deposits and short-term securities	$ 766	$ 766	$ 469	$ 469
Real estate (a)				
Office	498,043	690,588	453,555	522,348
Retail	335,662	462,023	360,867	465,131
Industrial	127,434	145,334	79,273	90,736
Residential	58,525	62,871	53,785	51,850
	1,019,664	1,360,816	947,480	1,130,065
Foreign Private Real Estate Pool	44,916	44,042	43,161	40,948
Participation units	32,397	32,397	16,571	16,571
Accrued income and accounts receivable	2,883	2,883	1,521	1,521
	$ 1,100,626	$ 1,440,904	$ 1,009,202	$ 1,189,574

(a) The following is a summary of real estate investments by geographic location:

	Fund's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
	($ thousands)			
Ontario	$ 640,189	$ 828,604	$ 606,473	$ 752,027
Alberta	232,439	380,913	192,339	234,630
Quebec	126,261	124,425	126,049	118,870
British Columbia	20,775	26,874	22,619	24,538
	$ 1,019,664	$ 1,360,816	$ 947,480	$ 1,130,065

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

For the Year Ended March 31, 2006

The Fund uses a time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

	One Year Return - %					5 Year Compound Annualized
Time-weighted rates of return	**2006**	**2005**	**2004**	**2003**	**2002**	**Return**
Short-term fixed income	**2.9**	**2.3**	**2.9**	**3.0**	**3.8**	**3.0**
Scotia Capital 91-day T-Bill Index	*2.8*	*2.2*	*3.0*	*2.7*	*3.7*	*2.9*
Long-term fixed income	**6.5**	**5.5**	**11.3**	**9.5**	**5.9**	**7.7**
Scotia Capital Universe Bond Index	*4.9*	*5.0*	*10.8*	*9.2*	*5.1*	*7.0*
Canadian equities	**28.8**	**15.4**	**36.6**	**(16.6)**	**4.2**	**12.1**
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*4.9*	*11.7*
United States equities	**8.2**	**(1.6)**	**22.0**	**(30.6)**	**1.4**	**(1.8)**
S&P 1500 Index	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*1.6*	*(1.7)*
Non-North American equities	**24.2**	**7.6**	**40.9**	**(29.1)**	**(5.8)**	**4.7**
MSCI EAFE Index	*20.0*	*6.2*	*40.5*	*(29.3)*	*(7.3)*	*3.3*
Real estate	**20.7**	**17.0**	**7.5**	**9.8**	**7.3**	**12.3**
IPD Large Institutional All Property Index	*18.1*	*7.1*	*5.7*	*9.6*	*9.9*	*10.0*
Absolute return strategies	**5.2**	**5.5**	**10.7**	**1.6**	**n/a**	**n/a**
HFRX Global Hedged Index	*10.1*	*8.1*	*6.7*	*4.7*	*n/a*	*n/a*
Private equities	**18.4**	**5.2**	**4.6**	**(3.3)**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*10.2*	*10.1*	*8.7*	*5.7*	*n/a*	*n/a*
Private income	**21.3**	**5.3**	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*	*n/a*
Timberland Investments*	**(4.9)**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
*CPI plus 4%**	*4.2*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Total Endowment portfolio	**15.2**	**7.7**	**22.5**	**(11.3)**	**3.3**	**6.8**
Policy Benchmark	*13.8*	*6.4*	*21.7*	*(11.7)*	*3.4*	*6.1*
Transition portfolio	**n/a**	**n/a**	**n/a**	**0.5**	**5.3**	**n/a**
Overall Return	**15.2**	**7.7**	**22.5**	**(11.0)**	**4.2**	**7.1**

* Returns from Timberland Investments are for nine months.