ALBERTA HERITAGE SCHOLARSHIP 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 Scholarship 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 SCHOLARSHIP FUND

STATEMENT OF FINANCIAL POSITION

March 31, 2006

	2006	2005
	($ thousands)	
Assets		
Portfolio investments (Note 3)	$ 520,616	$ 249,274
Transfers receivable	350	359
Receivable from sale of investments	1,950	-
Administration expense receivable	-	9
	$ 522,916	$ 249,642
Liabilities		
Liabilities for investment purchases	$ 2,000	$ -
Administration expense payable	9	-
	2,009	-
Net Assets (Note 6)	520,907	249,642
	$ 522,916	$ 249,642

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2006

	2006		2005
	Budget	Actual	Actual
	($ thousands)		
Net investment income (Note 7)	$ 12,818	$ 43,783	$ 20,878
Transfers from the General Revenue Fund (Note 6b)	-	250,000	-
Transfers from Province of Alberta	200	350	359
Other contributions	40	38	80
Scholarships	(23,660)	(22,906)	(23,029)
Change in Net Assets	$ (10,602)	271,265	(1,712)
Net Assets at beginning of year		249,642	251,354
Net Assets at end of year		$ 520,907	$ 249,642

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

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STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2006

	2006	2005
	($ thousands)	
Operating transactions		
Net investment income	$ 43,783	$ 20,878
Non-cash items included in net investment income	(2,222)	(2,193)
	41,561	18,685
Increase in receivables	(1,932)	(250)
Increase in payables	2,009	-
Cash provided by operating transactions	41,638	18,435
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	19,272	73,436
Purchase of investments	(280,984)	(69,681)
Cash (applied to) provided by investing transactions	(261,712)	3,755
Transfers		
Transfers from the General Revenue Fund	250,000	-
Transfers from the Province of Alberta	350	359
Other contributions	38	80
Transfers to Advanced Education for scholarships	(22,906)	(23,029)
Cash provided by (applied to) transfers	227,482	(22,590)
Increase (decrease) in cash	7,408	(400)
Cash at beginning of year	5,082	5,482
Cash at end of year	$ 12,490	$ 5,082
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 12,490	$ 5,082

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

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006 ($ thousands)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Scholarship Fund ("the Fund") operates under the authority of the *Alberta Heritage Scholarship Act,* Chapter A 24, Revised Statutes of Alberta 2000.

The purpose of the Fund is to invest the endowment made to the Fund. The Fund is managed with the objectives of providing an annual level of income for scholarships while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

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 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 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.

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

Income and expense 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

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 2 (continued)

gains and losses of the security being hedged. As a result, income and expense 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 contracts, 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 real estate, absolute return strategies and other private placements. The fair value 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.

(ii) Private fixed-income securities 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.

ALBERTA HERITAGE SCHOLARSHIP FUND

Note 2 (continued)

(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) Real estate investments are reported at their 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 discounted cash flows.

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

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

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

(viii) 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 SCHOLARSHIP FUND

NOTE 3 PORTFILIO 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)	$ 12,490	$ 12,490	2.2	$ 5,082	$ 5,082	1.9
Canadian Dollar Public Bond Pool (b)	133,831	132,602	23.7	60,081	60,807	23.1
Private Mortgage Pool (c)	12,069	12,636	2.3	9,067	9,838	3.7
Currency Alpha Pool (d)	356	365	0.1	-	-	-
Tactical Asset Allocation Pool (e)	615	594	0.1	521	522	0.2
	159,361	158,687	28.4	74,751	76,249	28.9
Canadian Equities (Schedule B)						
Domestic Passive Equity Pooled Fund (f)	62,483	64,301	11.5	28,235	28,796	10.9
Canadian Pooled Equity Fund (g)	30,893	37,903	6.8	14,530	17,508	6.6
Canadian Equity Enhanced Index Pool (h)	16,213	18,583	3.3	8,581	9,391	3.6
Canadian Large Cap Pool (i)	14,583	14,750	2.6	5,070	5,601	2.1
Growing Equity Income Pool (j)	5,249	7,077	1.3	4,050	4,814	1.8
Canadian Multi-Cap Pool (k)	9,407	9,654	1.7	3,973	3,976	1.5
Tactical Asset Allocation Pool Canadian futures contracts (e)	(3,105)	(3,105)	(1.0)	(2,663)	(2,663)	(1.0)
	135,723	149,163	26.2	61,776	67,423	25.5
United States Equities (Schedule C)						
S&P 500 Index Fund (l)	70,292	75,592	13.5	33,404	34,440	13.1
US Large Cap Equity Pool	-	-	-	6	6	-
US Small/Mid Cap Equity Pool (m)	9,390	11,151	2.0	4,871	5,207	2.0
Growing Equity Income Pool (j)	2,362	2,192	0.4	772	767	0.3
Tactical Asset Allocation Pool US futures contracts (e)	3,134	3,134	1.0	2,677	2,677	1.0
	85,178	92,069	16.9	41,730	43,097	16.4
Non-North American Equities (Schedule D)						
EAFE Active Equity Pool (n)	63,710	70,881	12.7	31,238	30,956	11.8
EAFE Passive Equity Pool (o)	4,099	5,448	1.0	6,556	8,331	3.2
Emerging Markets Equity Pool (p)	4,426	5,701	1.0	2,829	3,122	1.2
EAFE Structured Equity Pool (o)	11,729	11,676	2.1	-	-	-
	83,964	93,706	16.8	40,623	42,409	16.2
Real Estate (Schedule E)						
Private Real Estate Pool (q)	43,210	52,284	9.3	18,618	22,471	8.5
Foreign Private Real Estate Pool (r)	975	956	0.2	937	889	0.3
	44,185	53,240	9.5	19,555	23,360	8.8
Absolute Return Strategies (s)	7,746	7,828	1.4	8,369	8,361	3.2
Private Equities (t)	2,259	2,444	0.4	1,265	1,443	0.6
Private Income (t)	1,579	1,584	0.3	1,205	1,187	0.4
Timberland (u)	621	585	0.1	-	-	-
Total Investments (v)	$ 520,616	$ 559,306	100.0	$ 249,274	$ 263,529	100.0

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Note 3 (continued)

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:

	2006	2005
Absolute Return Strategy Pool	1.2	1.2
Canadian Dollar Public Bond Pool	1.4	0.7
Canadian Equity Enhanced Index Pool	1.4	1.8
Canadian Large Cap Equity Pool	0.8	0.2
Canadian Multi-Cap Pool	2.7	1.7
Canadian Pooled Equity Fund	3.1	1.6
Currency Alpha Pool	0.6	-
Domestic Passive Equity Pooled Fund	2.4	1.2
EAFE Active Equity Pool	1.2	0.7
EAFE Passive Equity Pool	1.7	1.8
EAFE Structured Equity Pool	1.1	-
Emerging Markets Pool	0.9	0.7
Foreign Private Equity Pool (02)	1.0	1.0
Foreign Private Real Estate Pool	1.9	1.9
Growing Equity Income Pool	2.6	1.9
Private Equity Pool	2.2	2.2
Private Equity Pool (02)	0.9	0.9
Private Income Pool	0.5	0.5
Private Income Pool 2	1.0	-
Private Mortgage Pool	0.9	0.8
Private Real Estate Pool	1.4	0.8
Standard & Poor's 500 Index Fund	3.3	1.9
Tactical Asset Allocation Pool	1.8	0.8
Timberland Pool	0.9	-
US Small/Mid Cap Equity Pool	0.9	0.6

(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%).

(c) 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

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Note 3 (continued)

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%).

(d) 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 styles 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 our out of the Pool when the forward foreign exchange contracts settle.

(e) 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.

(f) 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. 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.

(g) 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.

(h) 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.

(i) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager 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.

(j) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature 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.

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Note 3 (continued)

(k) 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 (f)).

(l) 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 (f)).

(m) 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.

(n) 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.

(o) 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 replicate 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(f)).

(p) The External Managers 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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, PEP02, PEP04 and the Foreign Private Equity Pool 2002. Private equity investments are held in institutionally sponsored private equity pools. Risk is

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Note 3 (continued)

reduced by avoiding direct investments in private companies and by limiting holdings in any single pool. The Private Income Pool allows unit holders to participate as equity investors 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%.

(u) 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 higher than CPI plus 4.0%.

(v) 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 are temporary in nature.

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.

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Note 4 (continued)

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%	-	$ 108,663	$ 2,248	$ 35,355	$ 332
Interest rate swap contracts	22%	49%	29%	46,364	(131)	13,891	(354)
Forward foreign exchange contracts	100%	-	-	30,644	(21)	15,779	205
Cross-currency interest rate swaps	14%	34%	52%	32,377	2,455	13,896	201
Credit default swap contracts	2%	5%	93%	46,397	111	3,441	34
Bond index swap contracts	100%	-	-	9,738	1,256	1,182	8
Equity index futures contracts	100%	-	-	24,020	443	5,740	68
				$ 298,203	$ 6,361	$ 89,284	$ 494

(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).

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.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2005-2006 fiscal year:

Fixed-income securities	33% to 23%
Equities	67% to 77%

Risk is reduced through asset class diversification, diversification within each asset class, quality 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).

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NOTE 6 NET ASSETS

Net assets represents the difference between the carrying value of assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 1981:

	Cumulative since 1981	
	2006	**2005**
	($ thousands)	
Transfers from the Alberta Heritage Savings Trust Fund (a)	$ 100,000	$ 100,000
Transfers from the General Revenue Fund (b)	250,000	-
Other contributions	11,627	11,239
Accumulated investment income	488,717	444,934
Accumulated scholarship payments (a)	(329,437)	(306,531)
Net Assets	$ 520,907	$ 249,642

(a) The endowment was received from the Alberta Heritage Savings Trust Fund on June 18, 1981. The *Alberta Heritage Scholarship Act* (the Act) provides that money required by the Students Finance Board for providing scholarships, or for paying for the costs of administering scholarship, shall be paid from the Fund, but no portion of the original endowment may be paid out of the Fund.

(b) Section 2.1 of the Act and section 7 of the *Access to the Future Act* provides that the Fund shall receive up to $1 billion, of which the Fund received $250 million during the current year.

NOTE 7 NET INVESTMENT INCOME

	2006	**2005**
	($ thousands)	
Deposits and fixed-income securities	$ 6,946	$ 4,781
Canadian equities	22,770	10,466
United States equities	1,811	(906)
Non-North American equities	9,001	4,652
Real estate	2,578	1,364
Absolute return strategies	327	440
Private equities	228	95
Private income	231	62
Timberland	(11)	-
Investment income	$ 43,881	$ 20,954
Direct administration expense (Note 8)	(98)	(76)
Net investment income	$ 43,783	$ 20,878

Investment income is comprised of interest, dividends, amortization of discount or premium, 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 of $1,260 (2005: $628).

ALBERTA HERITAGE SCHOLARSHIP FUND

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 expenses (Note 7)	$ 98	$ 76
External management fees	654	496
Internal management expenses	141	82
Total	$ 893	$ 654
Expenses as a percentage of net assets at fair value	0.160%	0.262%

NOTE 9 INVESTMENT PERFORMANCE (SCHEDULE F)

The following is a summary of the 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	16.5%	6.7%
Benchmark return (1)	15.3%	6.1%

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

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 SCHOLARSHIP 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	$ 13,806	$ 13,806	$ 5,727	$ 5,727
Fixed-income securities (a)				
Corporate, public and private	82,130	80,977	35,758	36,327
Government of Canada, direct and guaranteed	37,050	36,400	18,229	18,236
Provincial, direct and guaranteed:				
Alberta	808	786	35	37
Other provinces	23,068	24,185	13,780	14,664
Municipal	637	671	735	771
	143,693	143,019	68,537	70,035
Receivable from sale of investments and accrued investment income	3,093	3,093	837	837
Accounts payable and accrued liabilities	(1,231)	(1,231)	(350)	(350)
	1,862	1,862	487	487
	$ 159,361	$ 158,687	$ 74,751	$ 76,249

(a) Fixed income securities held as at March 31, 2006 have an average effective market yield of 4.75% per annum (2005: 4.59% per annum) and the following term structure based on principal amount:

	2006	2005
	%	%
under 1 year	3	3
1 to 5 years	31	37
5 to 10 years	35	30
10 to 20 years	12	11
over 20 years	19	19
	100	100

ALBERTA HERITAGE SCHOLARSHIP 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	$ 739	$ 739	$ 510	$ 510
Public equities (a) (b)				
Financials	40,665	44,505	19,835	21,659
Energy	34,757	41,245	11,197	13,726
Materials	18,725	21,860	8,912	9,580
Industrials	7,751	8,822	3,226	3,623
Consumer discretionary	8,251	7,636	4,410	4,255
Telecommunication services	6,510	7,002	3,886	4,151
Information technology	6,696	6,090	3,753	3,611
Consumer staples	4,557	4,330	2,591	2,914
Health Care	1,890	1,570	1,057	895
Utilities	1,459	1,449	846	931
	131,261	144,509	59,713	65,345
Small Cap Equity Pool	2,715	2,907	1,195	1,210
Receivable from sale of investments and accrued investment income	3,278	3,278	1,094	1,094
Accounts payable and accrued liabilities	(2,270)	(2,270)	(736)	(736)
	1,008	1,008	358	358
	$ 135,723	$ 149,163	$ 61,776	$ 67,423

(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 $52,933 (2005: $25,376).

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

ALBERTA HERITAGE SCHOLARSHIP 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	$ 324	$ 324	$ 287	$ 287
Public equities (a) (b)				
Financials	18,290	19,557	8,705	8,747
Information technology	12,932	13,990	6,323	6,422
Health Care	10,833	11,612	5,511	5,494
Industrials	10,383	11,379	5,106	5,387
Consumer discretionary	8,906	9,604	4,754	5,034
Energy	7,324	8,590	3,240	3,682
Consumer staples	7,669	7,769	3,952	3,971
Materials	2,789	3,190	1,548	1,679
Utilities	2,726	2,890	1,445	1,554
Telecommunication services	2,471	2,633	1,181	1,162
	84,323	91,214	41,765	43,132
Receivable from sale of investments and accrued investment income	3,431	3,431	181	181
Accounts payable and accrued liabilities	(2,900)	(2,900)	(503)	(503)
	531	531	(322)	(322)
	$ 85,178	$ 92,069	$ 41,730	$ 43,097

(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 $40,398 (2005: $15,719).

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

ALBERTA HERITAGE SCHOLARSHIP 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	$ 2,159	$ 2,159	$ 796	$ 796
Public equities (a) (b)				
Financials	22,282	26,002	9,945	10,746
Industrials	10,101	11,949	4,528	4,863
Consumer discretionary	9,507	10,602	5,374	5,429
Materials	6,153	7,289	3,260	3,575
Energy	5,720	6,675	3,261	3,557
Health Care	5,955	6,193	2,552	2,445
Information technology	5,683	6,054	2,079	2,041
Consumer staples	5,364	5,349	2,310	2,357
Telecommunication services	5,317	4,907	3,525	3,451
Utilities	3,520	3,899	1,697	1,778
	79,602	88,919	38,531	40,242
Emerging markets pooled funds	1,786	2,211	1,222	1,297
Receivable from sale of investments and accrued investment income	2,058	2,058	508	508
Accounts payable and accrued liabilities	(1,641)	(1,641)	(434)	(434)
	417	417	74	74
	$ 83,964	$ 93,706	$ 40,623	$ 42,409

(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 $11,153 (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	$ 18,995	$ 20,716	$ 7,105	$ 6,897
United Kingdom	16,597	17,475	8,658	8,738
France	8,033	9,065	3,677	3,935
Germany	5,225	6,050	2,699	2,826
Switzerland	5,433	5,995	2,413	2,517
Netherlands	3,921	4,600	2,088	2,150
Australia	3,017	3,239	1,527	1,801
Italy	2,478	2,830	1,347	1,534
Spain	2,296	2,443	1,064	1,164
Sweden	1,584	1,828	992	1,071
Other	12,023	14,678	6,961	7,609
	$ 79,602	$ 88,919	$ 38,531	$ 40,242

ALBERTA HERITAGE SCHOLARSHIP 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	$ 29	$ 29	$ 9	$ 9
Real estate (a)				
Office	20,445	25,848	8,739	10,218
Retail	13,780	17,293	6,953	9,100
Industrial	5,232	5,440	1,527	1,775
Residential	2,403	2,353	1,036	1,014
	41,860	50,934	18,255	22,107
Foreign Private Equity Pool	975	956	937	890
Participation units	1,213	1,213	324	324
Accrued income and accounts receivable	108	108	30	30
	$ 44,185	$ 53,240	$ 19,555	$ 23,360

(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	$ 26,281	$ 31,013	$ 11,684	$ 14,712
Alberta	9,542	14,258	3,706	4,590
Quebec	5,184	4,657	2,429	2,325
British Columbia	853	1,006	436	480
	$ 41,860	$ 50,934	$ 18,255	$ 22,107

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

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.

	One Year Return - %					5 Year Compound Annualized
Time-weighted Rates of Return	**2006**	**2005**	**2004**	**2003**	**2002**	**Return**
Short-term fixed Income	**2.9**	**2.7**	**3.0**	**2.9**	**4.1**	**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	**5.7**	**5.6**	**11.6**	**9.7**	**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**	**36.2**	**(17.4)**	**3.4**	**11.6**
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*4.9*	*11.7*
United States equities	**8.7**	**(2.0)**	**22.2**	**(30.6)**	**1.4**	**(1.7)**
S&P 500 Index	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*1.6*	*(1.7)*
Non-North American equities	**24.2**	**7.5**	**40.9**	**(29.1)**	**(5.9)**	**4.6**
MSCI EAFE Index	*20.0*	*6.2*	*40.5*	*(29.3)*	*(7.3)*	*3.3*
Real estate	**20.9**	**16.7**	**7.5**	**9.8**	**7.2**	**12.3**
IPD Large Institutional All Property Index	*18.1*	*7.1*	*5.7*	*8.9*	*9.9*	*9.8*
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	**15.3**	**(1.1)**	**1.3**	**(3.5)**	**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*
Overall	**16.5**	**8.1**	**24.0**	**(13.3)**	**2.3**	**6.7**
Policy Benchmark	***15.3***	***6.7***	***23.4***	***(13.7)***	***2.7***	***6.1***

* Returns for Timberland Investments are for nine months.