Alberta Heritage Savings Trust Fund

Annual Report 2006-2007

Alberta

Heritage Fund

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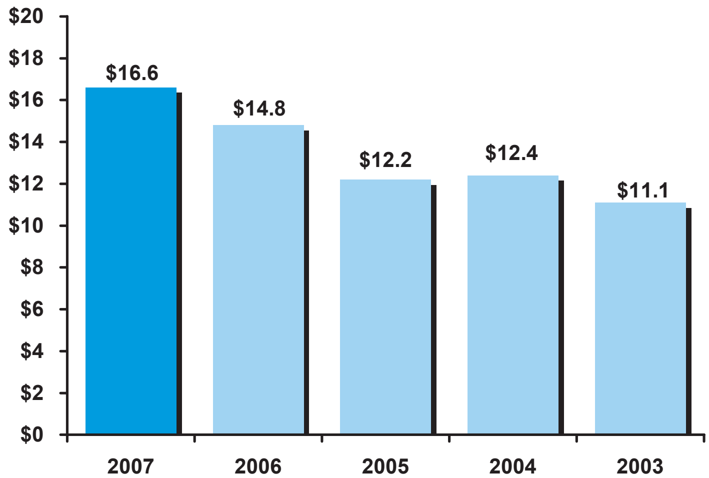
Highlights

FAIR VALUE OF THE HERITAGE FUND

At March 31 (in billions)



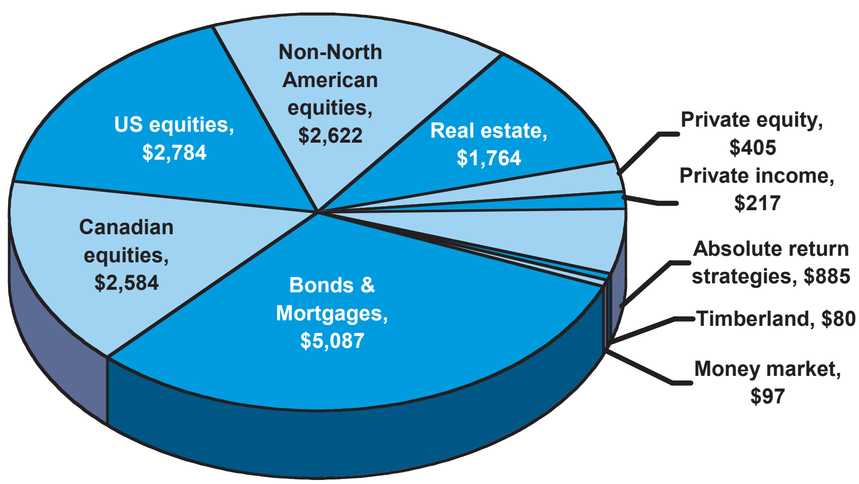
The fair value of the Heritage Fund (the Fund) was $16.6 billion at March 31, 2007, an increase of $1.8 billion from $14.8 billion at the beginning of the 2006-07 fiscal year.

- The increase of $1.8 billion includes $1 billion deposited into the Fund from the province's 2006-07 surplus and an additional $250 million for the advanced education endowment within the Fund.
- $283 million was retained in the Fund from the investment income transferred to the Province's general revenues to protect it from inflation. Since regular inflation-proofing began in 2005-06, $665 million has been retained in the Fund.
- The balance of the increase includes unrealized capital gains during the year totaling $228 million.

ASSET MIX

Fair value at March 31, 2007 (in millions)

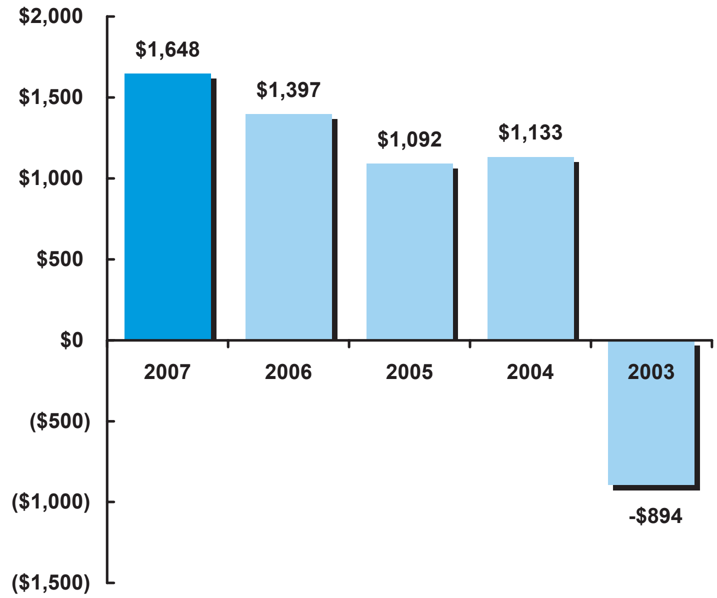
The Fund's investments are diversified among many different asset classes held in markets around the world.



- About 23% of the Fund's Canadian equity holdings and 26% of private investments, including real estate, are Alberta-based. In total, Alberta-based investments represent approximately 9% of the Fund's holdings.

INVESTMENT INCOME

For fiscal years ending March 31 (in millions)

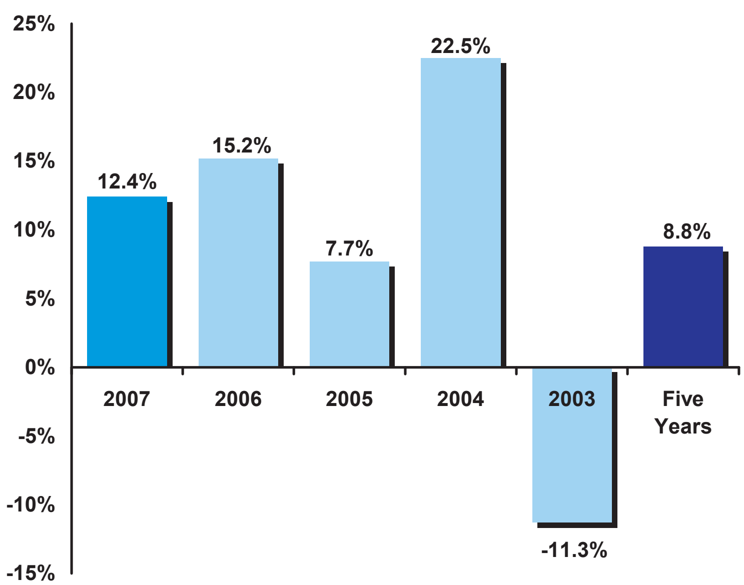


The Fund earned investment income of $1.65 billion in 2006-07, of which $1.37 billion was transferred to the General Revenue Fund (the GRF).

- The income earned from the Fund's investments, less the amount retained for inflation-proofing, is transferred to the province's main operating fund, the GRF, to help pay for government programs.

INVESTMENT RETURNS

For fiscal years ending March 31 (in percent)

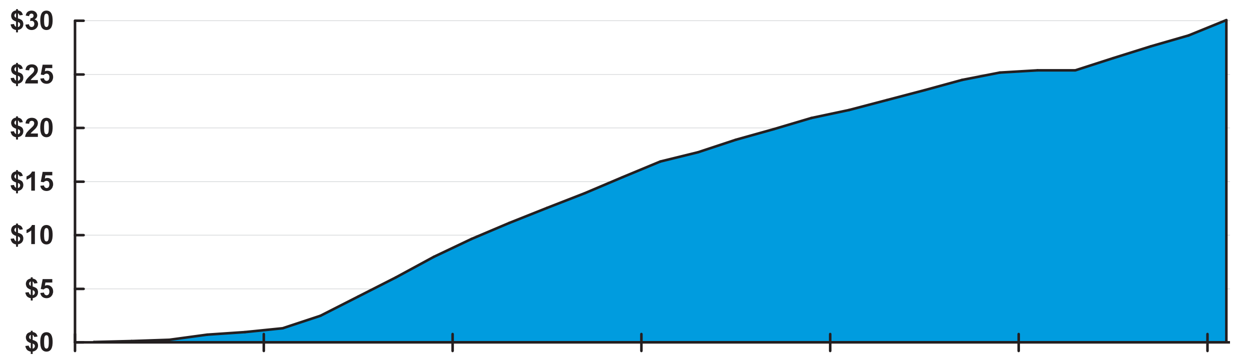


Assets in the Fund earned a 12.4% investment return for the year ending March 31, 2007 and an annualized return of 8.8% over five years.

History of the Heritage Fund

- The *Alberta Heritage Savings Trust Fund Act* states the purpose of the Heritage Fund is: "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."
- When the Fund was created in 1976, it received 30% of non-renewable resource revenue. The Fund also retained its investment earnings.
- Facing a budget deficit, the government began transferring investment income from the Fund to the General Revenue Fund starting in September 1982. The amount of non-renewable resource revenue put into the Fund also dropped to 15% in April 1983.
- With a growing debt and the collapse of world oil prices, transfers of revenue to the Heritage Fund stopped in 1987.
- Until the mid 1990s, a total of $3.5 billion was transferred from the Fund and used for capital projects, such as environmental protection, healthcare, agriculture and community development. The Fund was the main source of funding for endowment funds such as the Alberta Heritage Scholarship Fund ($100 million) and Alberta Heritage Foundation for Medical Research Endowment Fund ($300 million).
- The government surveyed Albertans in the mid-1990s about the future of the Fund. Following the results of the survey, the Fund was restructured to focus on long-term investment with inflation-proofing once the debt was repaid.
- The government retained a portion of the Fund's income in some years between 1996 and 2000 to partly offset inflation. In 2005, with the accumulated debt eliminated, the government began annual inflation-proofing of the Fund. The government also passed the *Access to the Future Act* in 2005, which established an endowment within the Fund to benefit post-secondary education.
- Since March 31, 2005, the government has transferred, from the 2005-06 and 2006-07 surpluses, $3 billion into the Fund including $1 billion to support the advanced education endowment.
- The Fund received $12 billion in resource revenue between 1976 and 1987, with an additional $3 billion in deposits over the past two years, for a total of $15 billion. Through its investment earnings, the Fund has contributed $30 billion to Albertans' priorities like healthcare, education, infrastructure, keeping taxes low and debt reduction. At March 31, 2007, the value of the Fund's assets stood at $16.6 billion at fair value, and $15 billion at cost.

Contributions Towards Albertans' Priorities Since 1976
(in billions)



Minister of Finance's Report to Albertans on the Alberta Heritage Savings Trust Fund

As Minister of Finance, it is my honour to present the 31st annual report of the Alberta Heritage Savings Trust Fund (the Fund). Over its lifetime, the Fund has been a vital part of Alberta's economic, fiscal and financial strategy. Contributions from the Fund have helped maintain Alberta's high quality of life.

Beginning in the late 1980s and until recent years, the Province struggled with challenges such as budget deficits and an accumulating debt. During this time, income earned by the Fund was taken out of the Fund and used to support Albertans' priorities, such as healthcare, education, infrastructure, keeping taxes low and debt reduction. Because the income was not reinvested in the Fund, its value remained largely unchanged for many years.

With the recent elimination of the accumulated debt, we have again been able to grow the value of the Fund. In 2005-06, we transferred $1.75 billion into the Fund and also kept $382 million in the Fund to protect its value from being eroded by inflation.

This year, we continued the process of growing the Fund. The government transferred $1.25 billion to the Fund and $283 million was kept within the Fund for inflation proofing. Including unrealized gains of $228 million, the Fund's fair value stood at $16.6 billion at March 31, 2007, up $1.8 billion from $14.8 billion at the beginning of the fiscal year.

In 2006-07, the Fund recorded the second highest income ever reported in its history, earning $1.65 billion. Of this, approximately $1.37 billion was transferred to general revenues, with the rest remaining in the Fund for inflation-proofing. Including investment income and unrealized capital gains, the Fund reported an investment return of 12.4% for the year.

The key to achieving long-term, sustainable performance is to maintain a prudent, diversified portfolio, with a long-term focus, and investment discipline. Assets within the Fund include bonds, mortgages, public and private equities, real estate, timberland, absolute return strategies and infrastructure related investments. These investments are located in Canada, the United States, Europe, Australia, Asia and emerging markets.

Later this year, Alberta Finance will establish a Financial Investment and Planning Commission. This Commission will review the Province's savings and investment funds, including the Heritage Fund, and will recommend ways to ensure our savings are invested to maximize the long-term benefits for Albertans.

With the Heritage Fund, Alberta is in a position to respond to current and future challenges. Through its investments and earnings, the Fund will continue to build on Alberta's basic strengths and enhance our quality of life. The Heritage Fund is working for the benefit of all Albertans.

Honourable Dr. Lyle Oberg, M.D.
Minister of Finance

The Year in Review

(April 1, 2006 to March 31, 2007)

At March 31, 2007, the fair value of net assets held in the Fund totaled $16.6 billion, an increase of $1.76 billion from $14.82 billion at the beginning of the year.

The Fund earned a market value rate of return of 12.4% in 2006-07, compared to 15.2% in the last fiscal year.

The table below summarizes the overall increase in the fair value of the Fund.

Changes in Fair Value of Net Assets
For the year ended March 31, 2007 (in millions)

	2007	2006
Fair value, beginning of year	**$ 14,820**	**$ 12,222**
Investment income, cost basis	1,648	1,397
Transfers to the GRF	(1,365)	(1,015)
Retained for inflation proofing	283	382
Increase in unrealized gains	228	466
Transfers from the GRF:		
Deposits	1,000	1,000
Advanced education endowment	250	750
Total increase in net assets	**1,761**	**2,598**
Fair value, end of year	**$ 16,581**	**$ 14,820**
Cost, end of year	$ 15,028	$ 13,495
Accumulated unrealized gains	$ 1,553	$ 1,325

According to the Fund's legislation, all of its investment income is transferred to the GRF except for an amount retained in the Fund to protect its value from inflation. The Fund earned investment income of $1.648 billion this year, of which $1.365 billion was transferred to the GRF, leaving $283 million retained in the Fund for inflation-proofing. This year, less was retained in the Fund for inflation-proofing than last year due to a decline in the Canadian gross domestic product index (GDP Index) rate to 2.1%, from 3.4% last year.

The Fund's actual income of $1.648 billion exceeded budgeted income of $914 million by $734 million. A strong increase in world equity markets and real estate values during the year also contributed to the overall increase in accumulated unrealized capital gains of $228 million. As a result, at March 31, 2007, accumulated unrealized gains representing the difference between the fair value of investment securities and their cost totaled $1.553 billion, up $228 million from $1.325 billion at the beginning of the year. Once securities are sold, unrealized gains become realized and are included in investment income for that year.

Budget 2006 provided for a transfer of $1 billion to the Fund from the GRF. In addition, $250 million was transferred from the GRF under the *Access to the Future Act*, adding to the $750 million received in 2005-06. The *Access to the Future Act* allows for a maximum of $3 billion to be transferred into the Fund to support the advanced education endowment.

MARKET SUMMARY

The Canadian stock market posted good returns this year. Overall, the S&P/TSX Composite Index increased by 11.4% in 2006-07 compared to a strong return of 28.4% in 2005-06.

At March 31, 2007, one U.S. dollar purchased $1.15 Canadian compared to $1.17 Canadian at March 31, 2006. As a result, investment returns from U.S. dollar investments were lower when translated into Canadian dollars.

The S&P 1500 Index, which tracks the largest 1,500 American companies, increased by 11.3% in U.S. dollars compared to 13.0% last year. In Canadian dollars, the increase in the S&P 1500 Index was lower at 9.9% compared to 9.1% last fiscal year.

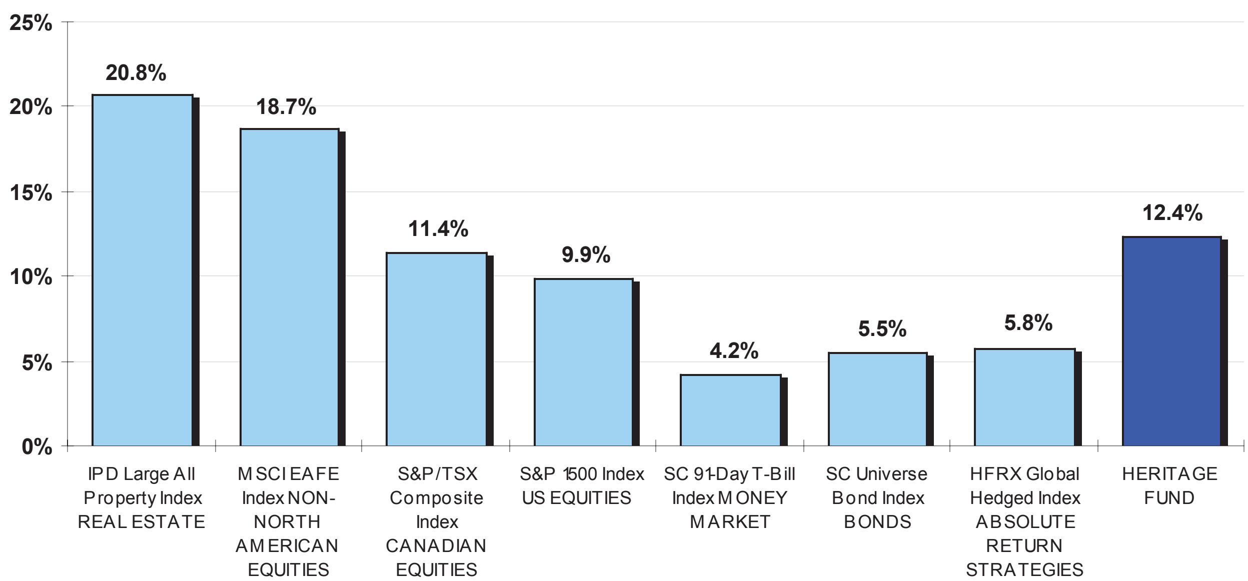
The bond market represented by the SC Bond Universe Index posted a return of 5.5%, compared to 4.9% last year.

Overall, the non-North American markets had strong returns for the year ended March 31, 2007. The MSCI EAFE Index measures the performance of approximately 1,200 companies on 21 country indices around the world. The Index increased by 18.7% in Canadian dollars compared to 20.0% last fiscal year.

The Fund's investment portfolio is well diversified and includes investments in real estate; U.S., non-North American and Canadian equities; bonds and money market securities; absolute return strategies; private equities; private income securities; and timberland investments.

The following chart summarizes the market returns from various indices around the world and the overall return from the Fund for the year ended March 31, 2007. Indices for private equities, private income and timberland are not shown, as these investments are relatively illiquid with no readily available market.

Returns for Major Markets and the Heritage Fund (in Canadian dollars)

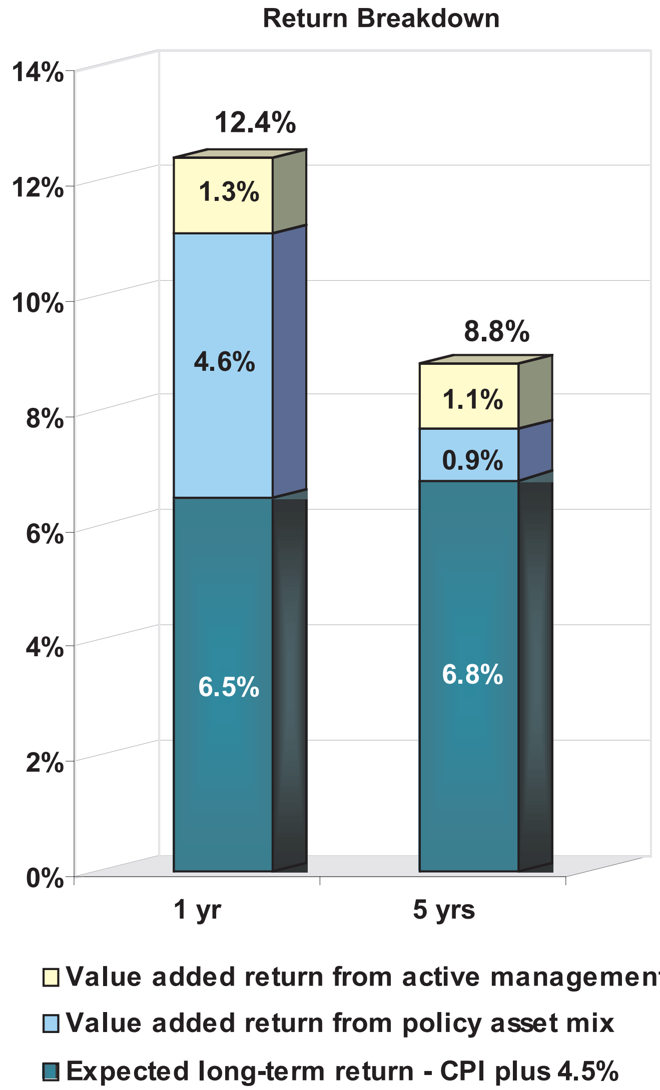


PERFORMANCE MEASURES

A. Value added return from policy asset mix decisions

The first performance measure of the Fund compares its expected long-term investment return against the policy benchmark return to determine the value added return from policy asset mix decisions. The expected long-term investment return is the Consumer Price Index (CPI) plus 4.5%. The policy benchmark return is measured by calculating the return the policy would have delivered without active management and represents the total of the weighted average benchmark returns for each asset class.

The asset mix was expected to produce a return of 6.5% for 2006-07 and 6.8% over the last five years represented by CPI plus 4.5%. The actual policy benchmark return for the fiscal year was 11.1%, or 4.6% higher than the expected return of 6.5%. Over five years, the actual policy benchmark return of 7.7% was 0.9% greater than the expected return of 6.8%.



B. Value added return from active management

The second performance measure compares the Fund's actual return against the policy benchmark return to determine the value added from active management such as security selection.

In 2006-07, the Fund's overall actual return of 12.4% exceeded the policy benchmark return of 11.1% by 1.3%, or approximately $200 million, net of expenses. Over five years, the Fund's overall actual annualized return of 8.8% exceeded the policy benchmark return of 7.7% by 1.1%, or approximately $150 million per year, net of expenses. The difference between the Fund's overall actual return and policy benchmark return represents the value added return from active management, which is expected to be 0.5% or better. As a result, Alberta Investment Management of Alberta Finance (see page 37) exceeded its value added target by 0.8% over one year and 0.6% over five years.

Breakdown of Overall Actual Return	One Year - %	Five Years (Annualized) - %
Expected long-term return - CPI plus 4.5%	6.5	6.8
Value added return from policy asset mix decisions	4.6	0.9
Policy benchmark return	11.1	7.7
Value added return from active management	1.3	1.1
Overall actual return	**12.4**	**8.8**

The table below shows the actual return for each asset class compared to its benchmark.

Returns by Asset Class

(in Canadian dollars)

	One Year (%)	Five Years (%) *
Money market	**3.9**	**3.0**
SC 91-Day T-Bill	*4.2*	*3.0*
Net value added	(0.3)	0.0
Absolute return strategies	**11.4**	**n/a**
HFRX Global Hedged Index	*5.8*	*n/a*
Net value added	5.6	n/a
LT fixed income	**6.3**	**7.8**
SC Universe Bond Index	*5.5*	*7.0*
Net value added	0.8	0.8
Real estate	**24.3**	**15.7**
IPD Large All Property Index	*20.8*	*12.3*
Net value added	3.5	3.4
Private income	**20.3**	**n/a**
CPI plus 6.0%	*8.0*	*n/a*
Net value added	12.3	n/a
Timberland	**54.0****	**n/a**
CPI plus 4.0%	*6.0*	*n/a*
Net value added	48.0	n/a
Canadian public equities	**11.8**	**13.6**
S&P/TSX Index	*11.4*	*13.1*
Net value added	0.4	0.5
U.S. public equities	**10.5**	**(0.1)**
S&P 1500 Index	*9.9*	*(0.2)*
Net value added	0.6	0.1
Non-North American equities	**17.6**	**9.4**
MSCI EAFE Index	*18.7*	*8.5*
Net value added	(1.1)	0.9
Private equities	**19.6**	**n/a**
CPI Plus 8.0%	*10.0*	*n/a*
Net value added	9.6	n/a
OVERALL ACTUAL RETURN	**12.4**	**8.8**
POLICY BENCHMARK RETURN	***11.1***	***7.7***
NET VALUE ADDED	**1.3**	**1.1**

* annualized.

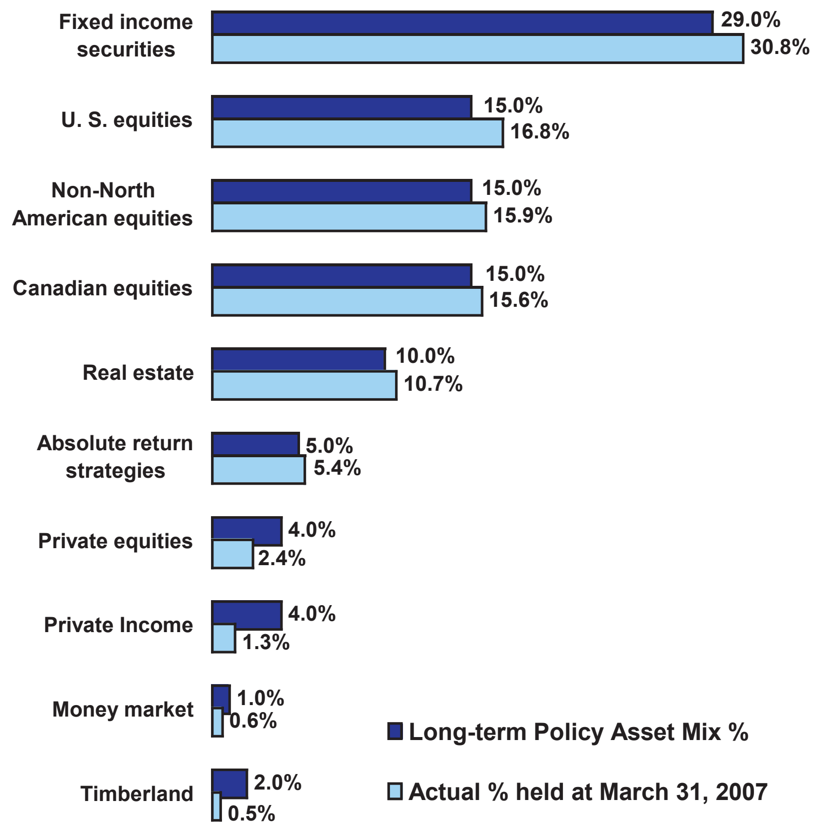
** reflects unrealized gain based on updated appraisels of timberlands.

INVESTMENTS

The Fund's investment portfolio is held in pooled investment funds established and administered by Alberta Finance. The portfolio is diversified and includes many different types of investments held in markets around the world.

The chart on the right compares the approved long-term policy allocation for each class of investment held by the Fund against the actual percentage held in that asset class at March 31, 2007.

While the majority of the Fund's portfolio includes traditional investments like stocks, bonds and real estate, alternative type investments are a growing part of the portfolio. Alternative investments include absolute return strategies (hedge funds), private equities, private income and timberland. These assets are relatively illiquid, have longer investment horizons and will take time to build up to their long-term policy allocation.



The table below shows the fair value and cost of each asset class and the unrealized gain at March 31, 2007 and 2006. Unrealized gains represent the difference between the fair value and cost of the investment. Once securities are sold, through portfolio turnover, unrealized gains become realized and are included in investment income for that year. At March 31, 2007, the pool of unrealized gains has grown to $1.553 billion, up $228 million, from $1.325 billion at the beginning of the fiscal year.

Summary of Net Assets

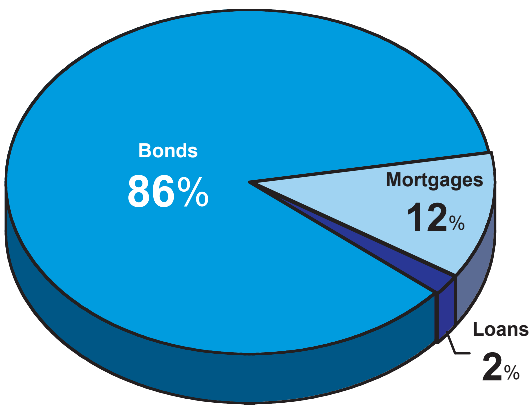
At March 31, 2007	**2007**			2006		
	Fair Value	**Cost**	**Unrealized Gain**	Fair Value	Cost	Unrealized Gain (loss)
Investments:		(in millions)			(in millions)	
Fixed income securities	$ 5,087	$ 5,055	$ 32	$ 4,697	$ 4,645	$ 52
U.S. equities	2,784	2,517	267	2,513	2,322	191
Non-North American equities	2,622	2,366	256	2,520	2,165	355
Canadian equities	2,584	2,283	301	2,572	2,199	373
Real estate	1,764	1,220	544	1,441	1,101	340
Absolute return strategies	885	818	67	572	569	3
Private equities	405	359	46	258	243	15
Private income	217	200	17	82	82	-
Money market	97	97	-	297	297	-
Timberland	80	57	23	56	60	(4)
Total Investments	16,525	14,972	**$ 1,553**	15,008	13,683	$ 1,325
Accounts receivable (payable), net	56	56		(188)	(188)	
Net assets	**$ 16,581**	**$ 15,028**		**$ 14,820**	$ 13,495	

Fixed income securities

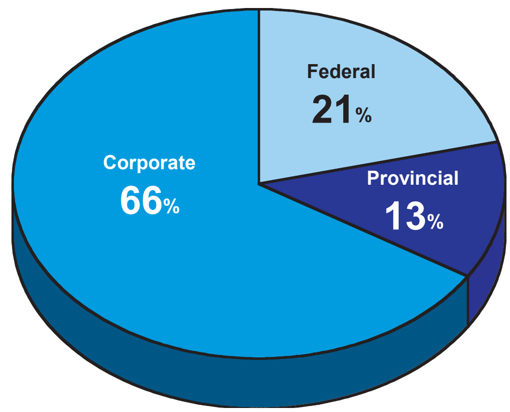
Fixed income securities totaled $5.087 billion, or 30.8% of the total portfolio at March 31, 2007. This asset class includes bonds, mortgages and loans issued by many entities such as corporations and various levels of government.

The charts below summarize the fixed income portfolio by type of security and issuer.

Summary of Fixed Income Holdings
(by type of security)



Summary of Fixed Income Holdings
(issued & guaranteed by)



Public equities

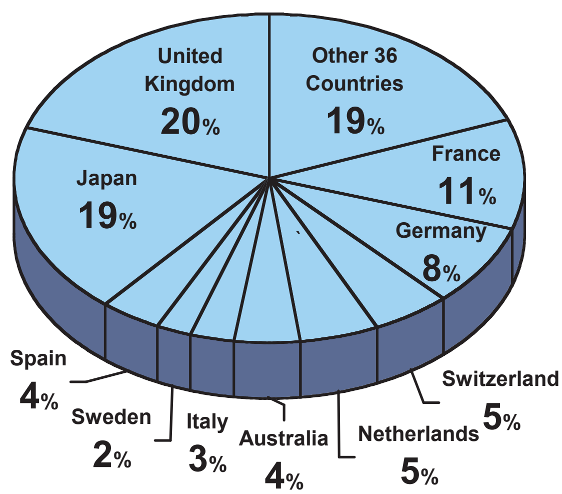
Public equities comprise $7.990 billion or 48.3% of the total investment portfolio. The public equity portfolio includes shares of major corporations in Canada, the U.S., Europe, Asia and emerging markets.

The table and chart below show the Fund's effective exposure to the major industry sectors in Canada, the U.S. and non-North American markets and the non-North American sector by country.

Public Equities by Major Industry

March 31, 2007 Percent	United States	Non-North American	Canada
Consumer discretionary	11	12	6
Consumer staples	9	7	3
Energy	10	7	26
Financials	21	28	33
Health Care	12	6	1
Industrials	12	15	5
Information technology	15	7	4
Materials	3	7	15
Telecommunications	3	6	6
Utilities	4	5	1
	100	100	100
Fair Value ($ billions)	$ 2.784	$ 2.622	$ 2.584
Percent of public equities	35%	33%	32%

Non-North American Equities by Country
(total 46 countries)

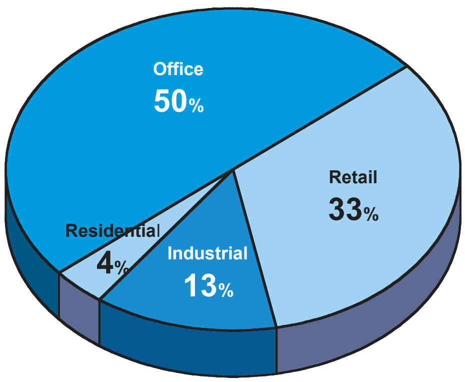


Real estate

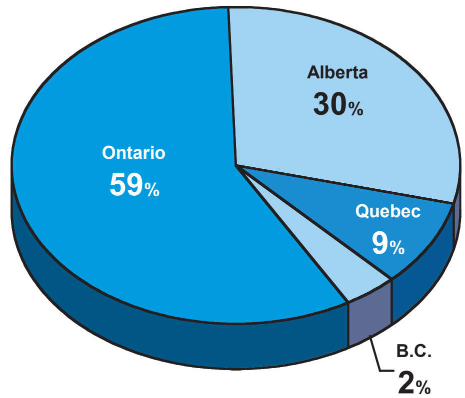
Real estate investments are held in the internally managed Private Real Estate Pool and Foreign Private Real Estate Pool. They comprise $1.764 billion or 10.7% of the investment portfolio.

The following charts show the distribution of Canadian real estate investments by sector and by province.

Real Estate by Sector



Real Estate by Province



Absolute return strategies

Absolute return strategies (hedge funds) comprised $885 million, or 5.4%. This class of investment encompasses a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities.

Private equities

Private equities comprise $405 million or 2.4% of the total investment portfolio. Private equity investments include all forms of private placement investing i.e. venture capital and merchant banking. Venture capital investments include early stage financings and in some cases start-up companies financing. Merchant banking transactions include expansion capital, acquisition financings, and management buyouts, family succession, turnaround financings, project financings and leverage reductions.

Private income investments

Private income securities comprise $217 million or 1.3%. Private income investments include infrastructure related projects that are structured to yield high current income.

Money market

Money market investments include cash and short-term investments, which comprises $97 million, or 0.6% of the total investment portfolio at March 31, 2007. Cash includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) and underlying cash and short-term investments held in the Currency Alpha Pool and Tactical Asset Allocation Pool. CCITF is a portfolio of investments administered by Alberta Finance, which includes high-quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years.

Timberland

Timberland investments comprise $80 million or 0.5% of the total portfolio and includes a sole investment in a partnership interest in forestry land located in British Columbia.

INVESTMENT INCOME

Investments and investment income are recorded in the financial statements on a cost basis. During the year, the Fund earned investment income of $1.648 billion compared to $1.397 billion last year. Of the total investment income earned during the year, $598 million (2006: $509 million) came from interest, dividends and security lending income, net of administration fees. Net realized gains from sale of securities and gains and losses from derivative transactions totaled $1.05 billion compared to $888 million earned last year.

The fair value of investments is provided for information purposes. Management uses fair value to assess the investment performance of the Fund against market-based benchmarks. Investment income on a fair value basis includes current period changes in unrealized gains. Investment income on a fair value basis was $1.876 billion in 2006-07 compared to $1.862 billion last fiscal year.

The table below shows the net income of the Fund, on a cost and fair value basis, for each asset class.

Summary of Investment Income

For the year ended March 31, 2007 (in millons)	Income Cost basis		Increase (decrease) in unrealized gains		Income Fair value basis	
	2007	2006	**2007**	2006	**2007**	2006
Non-North American equities	**$ 542**	$ 300	**$ (99)**	$ 180	**$ 443**	$ 480
Canadian equities	**386**	595	**(72)**	66	**314**	661
Fixed income securities	**258**	264	**(20)**	(66)	**238**	198
U.S. equities	**186**	58	**76**	93	**262**	151
Real estate	**144**	90	**204**	159	**348**	249
Money market	**66**	54	**-**	-	**66**	54
Private equity	**39**	4	**31**	29	**70**	33
Absolute return strategies	**14**	23	**64**	7	**78**	30
Private income	**13**	12	**17**	1	**30**	13
Timberland	**2**	(1)	**27**	(4)	**29**	(5)
Investment income	**1,650**	1,399	**228**	465	**1,878**	1,864
Fund administration expenses	**(2)**	(2)	**-**	-	**(2)**	(2)
Net investment income	**$ 1,648**	$ 1,397	**$ 228**	$ 465	**$ 1,876**	$ 1,862

ADMINISTRATIVE EXPENSES

The Fund incurs administration expenses at the Fund level and the pool level. Internal expenses include amounts charged by Alberta Finance directly to the Fund and to pooled funds on a cost recovery basis. Fees charged to pooled funds by external managers are primarily based on a percentage of net assets at fair value. Administration expenses at the Fund level totaled $2 million for 2006-07, unchanged from the last fiscal year. The Fund's share of expenses incurred in pooled investment funds totaled $53 million compared to $42 million last year. Pooled fund expenses for the year include internal and external expenses of $5 and $48 million, respectively (2006: $5 and $37 million). Approximately two-thirds of the Fund's investments are internally managed and one-third are externally managed.

The table below shows the Fund's total administration expense as a percentage of net assets at fair value.

Administrative Expense
For the year ended March 31, 2007
(in millions)

	2007	2006
Internal direct fund management	**$ 2**	$ 2
Pooled fund portfolio management fees	**53**	42
Total administrative expenses	**$ 55**	$ 44
Expenses as a percent of net assets at fair value	**0.332%**	0.299%

Historical Summary of Operations
May 19, 1976 to March 31, 2007
(in millions)

		TRANSFERS TO THE FUND			TRANSFERS (FROM) THE FUND		
Fiscal Year	**NET INCOME (LOSS) (a)**	**Resource Revenue Allocation**	**New Deposits**	**Advanced Education Endowment (b)**	**Section 8 (2) Income Transfers (c)**	**Capital Project Expenditures**	**Fund Equity, at cost**
1976-77	$88	$2,120	-	-	-	($36)	$2,172
1977-78	194	931	-	-	-	(87)	3,210
1978-79	294	1,059	-	-	-	(132)	4,431
1979-80	343	1,332	-	-	-	(478)	5,628
1980-81	724	1,445	-	-	-	(227)	7,570
1981-82	1,007	1,434	-	-	-	(349)	9,662
1982-83	1,482	1,370	-	-	(867)	(296)	11,351
1983-84	1,467	720	-	-	(1,469)	(330)	11,739
1984-85	1,575	736	-	-	(1,575)	(228)	12,247
1985-86	1,667	685	-	-	(1,667)	(240)	12,692
1986-87	1,445	217	-	-	(1,445)	(227)	12,682
1987-88	1,353	-	-	-	(1,353)	(129)	12,553
1988-89	1,252	-	-	-	(1,252)	(155)	12,398
1989-90	1,244	-	-	-	(1,244)	(134)	12,264
1990-91	1,337	-	-	-	(1,337)	(150)	12,114
1991-92	1,382	-	-	-	(1,382)	(84)	12,030
1992-93	785	-	-	-	(785)	(84)	11,946
1993-94	1,103	-	-	-	(1,103)	(71)	11,875
1994-95	914	-	-	-	(914)	(49)	11,826
1995-96	1,046	-	-	-	(1,046)	-	11,826
1996-97	932	-	-	-	(756) **(d)**	-	12,002
1997-98	947	-	-	-	(922) **(d)**	-	12,027
1998-99	932	-	-	-	(932)	-	12,027
1999-00	1,169	-	-	-	(939) **(d)**	-	12,257
2000-01	706	-	-	-	(706)	-	12,257
2001-02	206	-	-	-	(206)	-	12,257
2002-03	(894)	-	-	-	-	-	11,363
2003-04	1,133	-	-	-	(1,133)	-	11,363
2004-05	1,092	-	-	-	(1,092)	-	11,363
2005-06	1,397	-	1,000	750	(1,015) **(d)**	-	13,495
2006-07	1,648	-	1,000	250	(1,365) **(d)**	-	15,028
TOTAL	**$29,970**	**$12,049**	**$2,000**	**$1,000**	**($26,505)**	**($3,486)**	**$15,028**

a) The net income of the Fund including its assets and liabilities, net of consolidation adjustments, is included in the consolidated financial statements of the Ministry of Finance and Government of Alberta.

b) The Access to the Future Act allows for a maximum of $3 billion to be transferred into the Fund to support the advanced education endowment.

c) In accordance with section 8(2) of the Alberta Heritage Savings Trust Fund Act, the net income of the Fund, less any amount retained in the Fund to maintain its value from inflation, shall be transferred to the GRF, annually in a manner determined by the Minister of Finance.

d) Includes amount retained in the Fund for inflation-proofing represented by the difference between net income and amount transferred to GRF. At March 31, 2007, the accumulated amount retained in the Fund for inflation-proofing was $1.096 billion (2006: $813 million).

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, 2007 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

FCA
Auditor General

Edmonton, Alberta
May 18, 2007

Financial Statements

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STATEMENT OF FINANCIAL POSITION

March 31, 2007 (thousands)

	2007	2006
Assets		
Portfolio investments (Note 3)	$ 14,972,327	$ 13,681,630
Accrued investment income	21,000	26,433
Receivable from sale of investments	31,575	-
Due from the General Revenue Fund	7,696	-
Administration expense receivable	-	22
	$ 15,032,598	$ 13,708,085
Liabilities		
Liabilities for investment purchases	$ 4,419	$ 135,842
Administration expense payable	234	-
Due to the General Revenue Fund	-	77,684
	4,653	213,526
Net Assets (Note 6)	15,027,945	13,494,559
	$ 15,032,598	$ 13,708,085

STATEMENT OF OPERATIONS AND NET ASSETS

For the Year Ended March 31, 2007 (thousands)

	2007		2006
	Budget	Actual	Actual
Net income (Note 7)	$ 913,725	$ 1,648,006	$ 1,397,413
Transfers to the General Revenue Fund (Note 6c)	(671,725)	(1,364,620)	(1,015,296)
Amount retained for inflation-proofing (Note 6c)	242,000	283,386	382,117
Transfers from the General Revenue Fund (Notes 6a & 6b)	1,000,000	1,250,000	1,750,000
Change in net assets	$ 1,242,000	1,533,386	2,132,117
Net Assets at beginning of year		13,494,559	11,362,442
Net Assets at end of year		$ 15,027,945	$ 13,494,559

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

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2007 (thousands)

	2007	2006
Operating transactions		
Net income	$ 1,648,006	$ 1,397,413
Non-cash items included in net income	(240,024)	(166,400)
	1,407,982	1,231,013
Increase in accounts receivable	(26,120)	(19,166)
(Decrease) increase in accounts payable	(131,189)	135,835
Cash provided by operating transactions	1,250,673	1,347,682
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,888,728	1,157,512
Purchase of investments	(3,146,216)	(3,097,533)
Cash applied to investing transactions	(1,257,488)	(1,940,021)
Transfers		
Transfers from the General Revenue Fund	1,250,000	1,750,000
Transfers to the General Revenue Fund	(1,364,587)	(1,015,296)
(Decrease) increase in amounts due to the General Revenue Fund	(85,413)	15,296
Cash (applied to) provided by transfers	(200,000)	750,000
(Decrease) increase in cash	(206,815)	157,661
Cash at beginning of year	229,020	71,359
Cash at end of year	$ 22,205	$ 229,020
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 22,205	$ 229,020

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended March 31, 2007 (thousands)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund (the 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. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used.

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

Note 2 **(cont'd)**

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 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, 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. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year end exchange rates. Exchange differences on 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 period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(ii) Mortgages and private fixed-income securities 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

Note 2 **(cont'd)**

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 Pool investments is 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 is appraised annually by independent third party evaluators.

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

(ix) The fair value of investments and any other assets and liabilities denominated in a foreign currency is 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, equity index futures contracts and swap option 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.

(v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap.

NOTE 3 PORTFOLIO INVESTMENTS

	2007			2006		
	Cost	Fair Value	%	Cost	Fair Value	%
	(thousands)			(thousands)		
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 22,205	$ 22,205	0.1	$ 229,020	$ 229,020	1.5
Currency Alpha Pool (b)	21,210	23,119	0.2	16,751	17,209	0.1
Tactical Asset Allocation Pool (c)	52,952	53,077	0.3	28,921	27,947	0.2
Bonds, notes & short-term paper, directly held	-	-	-	22,315	22,358	0.2
	96,367	**98,401**	**0.6**	**297,007**	**296,534**	**2.0**
Absolute Return Strategies (d)	**818,257**	**884,734**	**5.4**	**569,151**	**571,720**	**3.8**
Fixed-Income Securities (Schedule A)						
Universe Fixed Income Pool (e)	4,371,914	4,397,434	26.6	3,877,585	3,888,854	25.9
Private Mortgage Pool (f)	584,524	591,153	3.6	584,319	591,638	3.9
Loans, directly held (g)	98,148	98,148	0.6	102,219	102,219	0.7
Provincial corporation debentures, directly held	-	-	-	80,927	113,925	0.8
	5,054,586	**5,086,735**	**30.8**	**4,645,050**	**4,696,636**	**31.3**
Inflation Sensitive						
Real Estate **(Schedule B)**						
Private Real Estate Pool (h)	1,133,047	1,675,993	10.1	1,055,710	1,396,862	9.3
Foreign Private Real Estate Pool (i)	87,122	87,379	0.6	44,916	44,042	0.3
	1,220,169	**1,763,372**	**10.7**	**1,100,626**	**1,440,904**	**9.6**
Private Income (j)	**200,263**	**217,182**	**1.3**	**81,688**	**81,948**	**0.6**
Timberland (k)	**57,260**	**79,904**	**0.5**	**59,942**	**56,454**	**0.4**
Equities						
Canadian **(Schedule C)**						
Canadian Structured Equity Pool (l)	954,429	1,018,876	6.2	1,032,351	1,131,293	7.5
Canadian Pooled Equity Fund (m)	557,526	717,411	4.3	493,715	666,827	4.4
Canadian Equity Enhanced Index Pool (n)	308,326	353,031	2.1	278,441	332,581	2.2
Canadian Large Cap Equity Pool (o)	253,862	255,284	1.5	230,719	231,602	1.6
Growing Equity Income Pool (p)	123,882	148,362	0.9	106,187	150,261	1.0
Canadian Multi-Cap Pool (q)	305,358	310,315	1.9	203,525	205,931	1.4
Tactical Asset Allocation Pool Canadian futures (c)	(219,523)	(219,523)	(1.3)	(146,080)	(146,080)	(1.0)
	2,283,860	**2,583,756**	**15.6**	**2,198,858**	**2,572,415**	**17.1**
United States **(Schedule D)**						
US Structured Equity Pool (r)	1,412,381	1,618,510	9.8	-	-	-
US Small/Mid Cap Equity Pool (s)	276,578	309,333	1.8	266,559	307,170	2.0
Portable Alpha United States Equity Pool (t)	561,620	590,884	3.6	386,366	382,057	2.5
Growing Equity Income Pool (p)	48,902	48,858	0.3	47,759	46,552	0.3
S&P 500 Index Fund	-	-	-	1,472,667	1,629,524	10.9
Tactical Asset Allocation Pool US futures (c)	217,069	217,069	1.3	147,487	147,487	1.0
	2,516,550	**2,784,654**	**16.8**	**2,320,838**	**2,512,790**	**16.7**
Non-North American **(Schedule E)**						
EAFE Active Equity Pool (u)	1,746,326	1,979,824	12.0	1,615,625	1,867,616	12.4
EAFE Structured Equity Pool (v)	492,573	475,031	2.9	433,200	492,347	3.3
Emerging Markets Equity Pool (w)	127,180	166,923	1.0	116,466	159,782	1.1
	2,366,079	**2,621,778**	**15.9**	**2,165,291**	**2,519,745**	**16.8**
Private Equities (j)	**358,936**	**405,244**	**2.4**	**243,179**	**258,322**	**1.7**
Total Investments (x)	**$ 14,972,327**	**$ 16,525,760**	**100.0**	**$ 13,681,630**	**$ 15,007,468**	**100.0**

Note 3 (cont'd)

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, 2007, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2007	**2006**
Absolute Return Strategy Pool	86.1	88.5
Canadian Equity Enhanced Index Pool	25.2	25.8
Canadian Large Cap Equity Pool	13.0	12.6
Canadian Multi-Cap Pool	45.5	56.9
Canadian Pooled Equity Fund	54.2	54.5
Canadian Structured Equity Pool	46.8	42.3
Currency Alpha Pool	37.2	28.9
EAFE Active Equity Pool	30.2	31.7
EAFE Passive Equity Pool	76.5	76.5
EAFE Structured Equity Pool	40.6	24.0
Emerging Markets Equity Pool	24.5	26.4
Foreign Private Equity Pool (02)	87.5	43.8
Foreign Private Equity Pool (05)	87.3	87.3
Foreign Private Real Estate Pool	87.1	87.1
Global Private Equity Pool (07)	85.2	-
Growing Equity Income Pool	54.1	55.8
Portable Alpha United States Equity Pool	84.2	87.9
Private Equity Pool	13.6	13.6
Private Equity Pool (02)	88.8	62.1
Private Equity Pool (04)	89.0	77.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	88.5	25.7
Private Income Pool 2	86.7	86.7
Private Mortgage Pool	38.7	43.4
Private Real Estate Pool	36.6	37.1
Standard & Poor's 500 Index Fund	-	71.8
Tactical Asset Allocation Pool	83.7	86.7
Timberland Pool	87.6	87.6
US Small/Mid Cap Equity Pool	23.9	25.2
US Structured Equity Pool	37.6	-
Universe Fixed Income Pool	41.8	40.2

(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, 2007, securities held by the Fund have an average effective market yield of 4.36% per annum (2006: 3.96% per annum).

(b) 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.

Note 3 (cont'd)

(c) 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, 2007, 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.

(d) 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.

(e) The Universe Fixed Income Pool (formerly 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, 2007, securities held by the Pool have an average effective market yield of 4.5% per annum (2006: 4.7% per annum) and the following term structure based on principal amount: under 1 year: 3% (2006: 2%); 1 to 5 years: 33% (2006: 34%); 5 to 10 years: 34% (2006: 33%); 10 to 20 years: 11% (2006: 12%); and over 20 years: 19% (2006: 19%).

(f) 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 (94.0%) and provincial bond residuals (6.0%). 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, 2007, securities held by the Pool have an average effective market yield of 5.09% per annum (2006: 5.27% per annum) and the following term structure based on principal amount: under 1 year: 6% (2006: 2%); 1 to 5 years: 15% (2006: 19%); 5 to 10 years: 54% (2006: 50%); 10 to 20 years: 5% (2006: 10%); and over 20 years: 20% (2006: 19%).

(g) 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, 2007, investment in loans, at cost, include the Ridley Grain loan amounting to $95,750 (2006: $100,000) and the Vencap loan amounting to $2,398 (2006: $2,219).

- 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 $95,750 and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2007 amounted to $90,161 (2006: $90,161). 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.

Note 3 (cont'd)

- 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.

(h) 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.

(i) 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.

(j) The Private Income Pools invest 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%. 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, the Foreign Private Equity Pool 2005 and the Global Private Equity Pool 2007. 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.

(k) 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%.

(l) The Canadian Structured Equity Pool (formerly 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) is 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.

(m) 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.

Note 3 (cont'd)

(n) 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. The Pool's investment in units of the FRNP is used as the underlying securities to support the index swaps of the pool (see Note 3 (l)).

(o) 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.

(p) 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.

(q) 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 is used as the underlying securities to support the index swaps of the pool (see Note 3 (l)).

(r) On November 30, 2006, all investments held in the Standard & Poor's 500 Index Fund were transferred to the newly created US Structured Equity Pool. Publicly traded U.S. equities held in the US Structured Equity Pool 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 is used as the underlying securities to support the index swaps of the pool (see Note 3(l)).

(s) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded U.S. 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.

(t) 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.

(u) 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.

Note 3 (cont'd)

(v) The EAFE Structured Equity Pool is managed with the objective to provide returns comparable to the total return of the MSCI EAFE Index over a four-year period. The pool provides exposure to EAFE markets through the use of structured investments such as foreign equity index swaps. The pool also invests in the FRNP to generate the floating rate cash flows needed for its equity swap obligations (see Note 3 (l)).

(w) 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 Morgan Stanley Capital Index Emerging Markets Free (MSCI EMF) Index over a four-year period.

(x) 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 write-down, it is management's best judgement that the decline in value is caused by short-term market trends and is 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.

(iv) Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specific period of time.

Note 4 (cont'd)

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, 2007:

	Maturity			2007		2006	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)(c)	Notional Amount (a)	Fair Value (b)(c)
				(thousands)			
Equity index swap contracts	78%	22%	-	$ 3,510,585	$ (3,095)	$ 2,460,014	$ 45,423
Interest rate swap contracts	8%	53%	39%	2,752,700	(5,973)	1,053,569	(2,391)
Forward foreign exchange contracts	100%	-	-	2,262,507	(2,574)	1,554,419	(1,980)
Cross-currency interest rate swaps	21%	43%	36%	1,035,104	30,058	711,678	52,051
Credit default swap contracts	1%	4%	95%	6,679,344	(22,293)	1,298,187	2,984
Bond index swap contracts	100%	-	-	1,560,938	2,479	236,998	24,470
Equity index futures contracts	100%	-	-	1,205,889	29,305	782,574	15,652
Swap option contracts	65%	25%	10%	4,996,569	317	-	-
				$ 24,003,636	$ 28,224	$ 8,097,439	$ 136,209

(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).

(c) Included in fair value are derivative-related receivables and derivative-related payables of $87,710 and $59,486 respectively.

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 Business Plan proposed the following asset mix policy for the Fund.

Equities	49.0%
Fixed income securities	29.0%
Inflation sensitive	16.0%
Cash and Absolute Return Strategies	6.0%

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).

NOTE 6 NET ASSETS

Net assets represent the difference between the carrying value of assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the it was created on May 19, 1976:

	Cumulative since 1976 2007	2006
	(thousands)	
Accumulated net income	$ 29,969,598	$ 28,321,592
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049,324	12,049,324
Access to the Future (a)	1,000,000	750,000
Voted payments (b)	2,000,000	1,000,000
	15,049,324	13,799,324
Transfers (from) the Fund		
Section 8(2) transfers (c)		
Income	(27,601,228)	(25,953,222)
Amount Retained for Inflation-proofing	1,096,139	812,753
	(26,505,089)	(25,140,469)
Capital Expenditures (1976-1995) (d)	(3,485,888)	(3,485,888)
	(29,990,977)	(28,626,357)
Net Assets at cost	**$ 15,027,945**	**$ 13,494,559**
Net Assets at fair value	**$ 16,581,378**	**$ 14,820,397**

(a) Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the fund. During the year, the Fund received $250 million on account of the *Access to the Future Act*.
(b) During the year, the Fund received $1 billion from the GRF.
(c) In accordance with section 8(2) of the Act, the Fund transferred $1,365 million to the GRF for the year. The Act states that the net income of the Fund, totaling $1,648 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totaling $283 million, shall be transferred to the GRF annually in a manner determined by the Minister of Finance. The estimated amount retained from income of the Fund is determined by multiplying the total equity of the Fund before the amount retained for inflation-proofing by the estimated percentage increase in the Canadian gross domestic product price index (GDP Index) for the year.
(d) Capital expenditures include transfers of $300 million to the Alberta Heritage Foundation for Medical Research in 1980 and $100 million to the Alberta Heritage Scholarship Fund in 1981.

NOTE 7 NET INCOME

	2007	2006
	(thousands)	
Non-North American equities	$ 542,019	$ 299,714
Canadian equities	386,133	594,845
Deposit and fixed-income securities	324,228	318,152
United States equities	185,344	57,840
Real estate	143,709	89,573
Private equities	39,411	5,380
Absolute return strategies	13,960	23,444
Private income	13,041	11,853
Timberland	2,171	(1,088)
Investment income	**1,650,016**	**1,399,713**
Direct administrative expenses (Note 8)	(2,010)	(2,300)
Net income	**$ 1,648,006**	**$ 1,397,413**

Investment income is comprised of interest, dividends, amortization of discount and premiums, derivative income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income 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, 2007 includes writedowns totaling $37,804 (2006: $43,055).

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.

	2007	2006
	(thousands)	
Direct fund expense (Note 7)	$ 2,010	$ 2,300
External management fees	48,141	37,274
Internal management expenses	4,912	4,797
Total	$ 55,063	$ 44,371
Percent of net assets at fair value	0.332%	0.299%

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	12.4%	8.8%
Benchmark return (1)(2)	11.1%	6.8%

(1) The overall benchmark return for the year ended March 31, 2007 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 2.3%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.8%.

NOTE 10 COMPARATIVE FIGURES

Certain 2006 figures have been reclassified to conform to 2007 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2007 (thousand)

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 5,168	$ 5,168	$ 24,161	$ 24,161
Fixed-income securities (a)				
Corporate, public and private	3,252,887	3,236,952	2,621,713	2,604,449
Government of Canada, direct and guaranteed	1,054,371	1,053,089	1,059,595	1,054,335
Provincial, direct and guaranteed:				
Alberta	1,540	1,606	1,748	1,850
Other provinces	616,163	665,153	681,060	720,829
Loans	98,148	98,148	102,218	102,218
Municipal	1,675	1,985	18,445	19,686
Provincial corporation debentures	-	-	80,927	113,925
	5,024,784	5,056,933	4,565,706	4,617,292
Receivable from sale of investments and accrued investment income	49,030	49,030	92,002	92,002
Accounts payable and accrued liabilities	(24,396)	(24,396)	(36,819)	(36,819)
	24,634	24,634	55,183	55,183
	$ 5,054,586	**$ 5,086,735**	**$ 4,645,050**	**$ 4,696,636**

(a) Fixed income securities held as at March 31, 2007 have an average effective market yield of 4.7% per annum (2006: 4.98% per annum) and the following term structure based on principal amount:

	2007	2006
	%	%
under 1 year	4	3
1 to 5 years	30	30
5 to 10 years	37	35
10 to 20 years	10	13
over 20 years	19	19
	100	100

SCHEDULE OF INVESTMENTS IN REAL ESTATE — Schedule B

March 31, 2007 (thousand)

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 1,852	$ 1,852	$ 766	$ 766
Real estate (a)				
Office	486,947	803,853	498,043	690,588
Retail	350,388	528,484	335,662	462,023
Industrial	181,439	209,357	127,434	145,334
Residential	53,205	73,231	58,525	62,871
	1,071,979	1,614,925	1,019,664	1,360,816
Foreign Private Real Estate Pool	87,122	87,379	44,916	44,042
Participation units	58,187	58,187	32,397	32,397
Accrued income and accounts receivable	1,029	1,029	2,883	2,883
	$ 1,220,169	**$ 1,763,372**	**$ 1,100,626**	**$ 1,440,904**

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

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Ontario	$ 662,387	$ 944,336	$ 640,189	$ 828,604
Alberta	265,486	491,386	232,439	380,913
Quebec	124,001	148,299	126,261	124,425
British Columbia	20,105	30,904	20,775	26,874
	$ 1,071,979	$ 1,614,925	$ 1,019,664	$ 1,360,816

SCHEDULE OF EFFECTIVE INVESTMENTS IN CANADIAN EQUITIES — Schedule C

March 31, 2007 (thousand)

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 17,320	$ 17,320	$ 12,875	$ 12,875
Public equities (a) (b)				
Consumer discretionary	154,332	159,563	136,328	138,850
Consumer staples	69,786	68,535	75,931	77,209
Energy	593,053	652,493	576,093	733,346
Financials	738,115	847,511	670,622	770,872
Health care	17,641	17,441	30,358	27,861
Industrials	108,261	132,708	128,885	157,101
Information technology	95,801	106,996	109,238	104,743
Materials	332,712	394,476	309,004	384,269
Telecommunication services	126,846	154,296	106,123	119,619
Utilities	19,886	22,310	24,828	27,097
	2,256,433	2,556,329	2,167,410	2,540,967
Receivable from sale of investments and accrued investment income	39,109	39,109	59,788	59,788
Accounts payable and accrued liabilities	(29,002)	(29,002)	(41,215)	(41,215)
	10,107	10,107	18,573	18,573
	$ 2,283,860	**$ 2,583,756**	**$ 2,198,858**	**$ 2,572,415**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 totaling $1,174,290 (2006: $1,047,241).

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

SCHEDULE OF EFFECTIVE INVESTMENTS IN UNITED STATES EQUITIES — Schedule D

March 31, 2007 (thousand)

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 18,938	$ 18,938	$ 8,924	$ 8,924
Public equities (a) (b)				
Consumer discretionary	272,485	301,684	242,824	261,940
Consumer staples	230,288	251,664	204,301	210,917
Energy	233,596	267,079	203,682	234,654
Financials	542,745	595,513	492,193	528,942
Health Care	304,544	333,232	296,126	318,816
Industrials	292,218	324,451	283,024	310,205
Information technology	374,415	413,471	353,870	382,823
Materials	84,649	95,015	77,008	87,447
Telecommunication services	80,315	90,218	67,341	72,141
Utilities	92,468	103,500	74,274	78,710
	2,507,723	2,775,827	2,294,643	2,486,595
Receivable from sale of investments and accrued investment income	16,212	16,212	80,368	80,368
Accounts payable and accrued liabilities	(26,323)	(26,323)	(63,097)	(63,097)
	(10,111)	(10,111)	17,271	17,271
	$ 2,516,550	**$ 2,784,654**	**$ 2,320,838**	**$ 2,512,790**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 totaling $2,035,956 (2006: $1,326,594).

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

SCHEDULE OF EFFECTIVE INVESTMENTS IN NON-NORTH AMERICAN EQUITIES Schedule E

March 31, 2007 (thousand)

	Fund's share			
	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 28,538	$ 28,538	$ 57,576	$ 57,576
Public equities (a) (b)				
Consumer discretionary	282,965	311,840	245,825	286,011
Consumer staples	155,576	170,811	138,700	143,264
Energy	157,524	169,686	148,267	179,909
Financials	639,577	711,663	572,706	699,874
Health care	150,707	154,061	154,693	166,597
Industrials	316,706	368,473	259,529	321,123
Information technology	166,874	170,244	146,110	162,371
Materials	163,656	187,499	157,432	195,718
Telecommunication services	143,790	153,259	137,771	131,617
Utilities	112,028	128,688	91,188	105,082
	2,289,403	2,526,224	2,052,221	2,391,566
Emerging market pooled funds	50,759	69,637	46,867	61,976
	2,340,162	2,595,861	2,099,088	2,453,542
Receivable from sale of investments and accrued investment income	31,604	31,604	48,418	48,418
Accounts payable and accrued liabilities	(34,225)	(34,225)	(39,791)	(39,791)
	(2,621)	(2,621)	8,627	8,627
	$ 2,366,079	**$ 2,621,778**	**$ 2,165,291**	**$ 2,519,745**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. 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 totaling $490,117 (2006: $242,413).

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

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
United Kingdom	$ 491,195	$ 530,612	$ 431,466	$ 471,910
Japan	491,885	498,640	489,461	556,801
France	259,395	284,571	206,848	242,852
Germany	178,941	201,595	134,382	162,451
Switzerland	117,827	139,801	140,028	160,948
Netherlands	99,313	122,399	100,723	122,836
Spain	93,246	104,131	59,245	66,008
Australia	88,480	97,113	77,449	88,969
Italy	71,763	82,369	64,186	76,189
Sweden	41,878	47,026	40,398	49,272
Other	406,239	487,604	354,902	455,306
	$ 2,340,162	$ 2,595,861	$ 2,099,088	$ 2,453,542

SCHEDULE OF INVESTMENT RETURNS — Schedule F

For the Year Ended March 31, 2007

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	**2007**	**2006**	**2005**	**2004**	**2003**	**Return**
Short-term fixed income	**3.9**	**2.9**	**2.3**	**2.9**	**3.0**	**3.0**
Scotia Capital 91-day T-Bill Index	*4.2*	*2.8*	*2.2*	*3.0*	*2.7*	*3.0*
Absolute return strategies	**11.4**	**5.2**	**5.5**	**10.7**	**1.6 #**	**n/a**
HFRX Global Hedged Index	*5.8*	*10.1*	*8.1*	*6.7*	*4.7 #*	*n/a*
Long-term fixed income	**6.3**	**6.5**	**5.5**	**11.3**	**9.5**	**7.8**
Scotia Capital Universe Bond Index	*5.5*	*4.9*	*5.0*	*10.8*	*9.2*	*7.0*
Real estate	**24.3**	**20.7**	**17.0**	**7.5**	**9.8**	**15.7**
IPD Large Institutional All Property Index	*20.8*	*19.4*	*7.1*	*5.5*	*9.6*	*12.3*
Private income	**20.3**	**21.3**	**5.3**	**n/a**	**n/a**	**n/a**
CPI plus 6%	*8.0*	*8.2*	*8.1*	*n/a*	*n/a*	*n/a*
Timberland Investments	**54.0**	**(4.9) ***	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 4%	*6.0*	*4.2 **	*n/a*	*n/a*	*n/a*	*n/a*
Canadian equities	**11.8**	**28.8**	**15.4**	**36.6**	**(16.6)**	**13.6**
S&P/TSX Composite Index	*11.4*	*28.4*	*13.9*	*37.7*	*(17.6)*	*13.1*
United States equities	**10.5**	**8.2**	**(1.6)**	**22.0**	**(30.6)**	**(0.1)**
S&P 1500 Index	*9.9*	*9.1*	*(1.0)*	*20.5*	*(30.7)*	*(0.2)*
Non-North American equities	**17.6**	**24.2**	**7.6**	**40.9**	**(29.1)**	**9.4**
MSCI EAFE Index	*18.7*	*20.0*	*6.2*	*40.5*	*(29.3)*	*8.5*
Private equities	**19.6**	**18.4**	**5.2**	**4.6**	**(3.3) #**	**n/a**
Consumer Price Index (CPI) plus 8%	*10.0*	*10.2*	*10.1*	*8.7*	*5.7 #*	*n/a*
Overall	**12.4**	**15.2**	**7.7**	**22.5**	**(11.3)**	**8.8**
Policy Benchmark	*11.1*	*13.9*	*6.4*	*21.6*	*(11.7)*	*7.7*

* Actual and benchmark returns are for nine months.
# Actual and benchmark returns are for six months.

Fund Governance

- The Fund was established in 1976 and operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. On January 1, 1997, an amended Act was passed that sets out a revised investment framework for the Fund.
- The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the Business Plan and Annual Report of the Fund. The Standing Committee has representation from the major parties of the legislature. The Standing Committee receives regular reports on the performance of the Fund and conducts public meetings on an annual basis in different locations in the province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans on the Fund's objective.
- The Ministry of Finance is responsible for the Fund and its investments. The Minister of Finance is required to report on the performance of the Fund quarterly within 60 days of the end of the quarter and make public the annual report within 90 days of the end of the fiscal year.
- The Minister of Finance established the Endowment Fund Policy Committee (EPC) in 2003, adding private sector financial and business advice in the formulation of the Fund's investment policies and operation. The EPC consists of private sector members and government MLAs. The Committee reviews and makes recommendations to the Minister of Finance with respect to the business plan, annual report and investment policy statements for the Fund. The Committee meets at least quarterly to review performance and fund management.
- The business plan of the Fund is published as part of the provincial budget and the income of the Fund is consolidated into the revenue of the Province. The Treasury and Risk Management Division of Alberta Finance is responsible for the preparation of the Fund's business plan and provides investment policy support to the Minister of Finance, the Standing Committee and the EPC.
- Alberta Investment Management (AIM), a group of highly qualified and experienced professionals in Alberta Finance, manages the day-to-day investment operations of the Fund. External specialized private sector managers are used to manage specific investment mandates.

Committees

Alberta Heritage Savings Trust Fund Standing Committee

Chair:	Art Johnston, MLA Calgary-Hays
Deputy Chair:	George Rogers, MLA Leduc-Beaumont-Devon
Members:	Victor Doerksen, MLA Red Deer-South
	Doug Griffiths, MLA Battle River-Wainwright
	Hugh MacDonald, MLA, Edmonton-Gold Bar
	Richard Magnus, MLA Calgary-North Hill
	Gary Mar, MLA Calgary-Mackay
	Weslyn Mather, MLA Edmonton-Mill Woods
	Hung Pham, MLA Calgary-Montrose
Committee Clerk:	Jody Rempel

Endowment Fund Policy Committee

Chair:	Allister J. McPherson
Members:	Carol Haley, MLA Airdrie-Chestermere
	Denis Herard, MLA Calgary-Egmont
	Alvin Libin, Balmon Investments Ltd.
	Rob Jennings, Jennings Capital Inc.
	Bill Hutchison, Money Ware Inc.
	John Swendsen, National Bank of Canada
	Peter Watson
	Robert Bhatia (ex officio), Deputy Minister of Finance
Secretary:	Rod Matheson, Assistant Deputy Minister, Treasury and Risk Management, Alberta Finance

Investment Manager
Jai Parihar, Chief Investment Officer, Alberta Investment Management (AIM), Alberta Finance

Auditor
Fred Dunn, FCA, Auditor General of Alberta

Business Plan Summary

PURPOSE

The business plan of the Fund describes the statutory mission, investment goals, strategies and performance measures and policy benchmarks. The business plan is prepared annually by the Treasury and Risk Management Division of Alberta Finance and is published as part of the Provincial budget. The Endowment Fund Policy Committee reviews and makes recommendations to the Minister regarding the business plan and the investment policies for the Fund. The business plan is then reviewed and approved by the Minister of Finance, the Treasury Board and the Legislature's Standing Committee on the Fund.

STATUTORY MISSION

The statutory mission of the Fund is:

"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."

GOALS AND PERFORMANCE MEASURES

The two main goals of the Fund and their related performance measures, as outlined in the Fund's business plan, are as follows:

1. **Maximize long-term returns at an acceptable level of risk while preserving the real value of the Fund assets.**
   - The investment income of the Fund is an important component of the government's fiscal plan. The net income of the Fund, except for amounts retained for inflation proofing, is transferred to the GRF and used to fund Albertans' priorities. The Fund must be invested in such a way as to maximize returns without taking undue risk. It is widely accepted that a prudent mix of fixed income securities, Canadian and foreign equities, real estate and alternative asset classes best achieves the objective of optimizing financial returns and diversifying risk.
   - The Act provides for the maintenance of the Fund's real value by requiring the Fund to be inflation-proofed.

   Key Strategies

   - Implement the long-term target policy asset mix as recommended in the Fund's Investment Policy Statement.
   - Periodically review investment policies to ensure new products are considered and that the asset mix remains appropriate under prevailing market circumstances.
   - Actively manage the Fund with the objective of adding value above the asset mix return without assuming undue risk.
   - Vary the allocation among asset classes based on the manager's market views to enhance returns.
   - Inflation-proof the Fund by retaining a portion of its net income from transfers to the GRF.

Key Performance Measures

The table below describes the various types of investments (asset classes) the Fund can invest in according to the business plan. Each asset class is assigned a target asset mix representing its percentage of the overall portfolio and a policy benchmark representing a market-based index or other measure to which its actual return is compared. The overall policy benchmark return of the Fund represents the total of the weighted average benchmark returns for each asset class. The difference between the Fund's actual return and policy benchmark return represents the return from active management. The active management return is expected to be equal to or greater than 0.5% or 50 basis points. The asset mix return is used to determine whether the target asset mix as set out in the investment policy is achieving expected returns. The asset mix return is expected to exceed the Canadian Consumer Price Index (CPI) plus 4.5%.

Asset Class	Long-term Target Asset Mix	Policy Benchmark
Cash and Absolute Return Strategies		
Money market	1%	Scotia Captial (SC) 91-Day Treasury Bill
Absolute Return Strategies	5%	HFRX Global Investable Index
Fixed income securities	29%	Scotia Captial Universe Bond Index
Inflation sensitive		
Real Estate	10%	Investment Property Databank (IPD) Large Institutional Index
Private income	4%	CPI plus 6%
Timberland	2%	CPI plus 4%
Equities		
Canadian	15%	Standard & Poor's/Toronto Stock Exchange (S&P/TSX) Composite Index
United States	15%	Standard & Poor's (S&P) 1500 Index
Non-North American	15%	Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index
Private equities	4%	CPI plus 8%
Overall		
Actual return over one and five years	100%	Policy Benchmark Return
Policy Benchmark Return	100%	CPI plus 4.5%

2. Ensure the transparency of the Fund's objective and results for Albertans.

- Published reports and news releases will ensure Albertans remain aware of the performance of the Fund.

Key Strategies

- Release quarterly and annual reports on a timely basis in simple understandable language.
- Publish the Heritage Fund Business Plan annually.
- The Legislature's Standing Committee will hold annual public accountability meetings.

Key Performance measures

- Timeliness of reports and public accountability meetings.
- Annual report will be released by June 30 of each year.
- Quarterly reports will be released within two months after the end of each quarter.

Glossary

ABSOLUTE RETURN STRATEGIES

Absolute Return Strategies encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Some of the major types of strategies include long/short equity, fixed income arbitrage, merger arbitrage, macroeconomic strategies, convertible arbitrage, distressed securities and short selling.

ACCRUED INTEREST

Interest income that has been earned but not paid in cash.

ACTIVE STRATEGIES

The strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the S&P/TSX Index for Canadian Stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

ASSET MIX

The percentage of an investment fund's assets allocated to major asset classes (for example 60% equities, 5% real estate and 35% fixed income).

BENCHMARK

A standard against which others are measured. For the purposes of this report, benchmarks are established income indices used to measure the health of the Fund's investment income.

BOND/DEBENTURE

A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

BOOK VALUE

See Cost Value.

CAPITAL GAIN

The market value received on sale of an asset beyond its book value or purchase price. If the asset is bought for $50 and sold for $75, the realized capital gain (profit) is $25.

COST VALUE

The value for which an asset was acquired.

DEPOSITS

Liquid, short-term investments. A cash equivalent.

DERIVATIVE CONTRACT

Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates.

DIVERSIFICATION

Spreading investments to reduce risk by buying different securities from various companies, businesses, locations and governments.

EMERGING MARKET

An economy in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include Brazil, Russia, India and China.

EQUITY

Stocks; the ownership interest in a company.

EXTERNAL MANAGER

A third-party firm contracted to provide investment management services.

FAIR VALUE

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. Fair value is similar to market value.

FIXED INCOME SECURITIES

Interest bearing investments such as bonds and debentures and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

GENERAL REVENUE FUND (GRF)

The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most of the expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

These are accounting guidelines formulated by the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board (AcSB), that govern how businesses report their financial statements to the public. The recommendations of the Public Sector Accounting Board (PSAB) of the CICA are the primary source for the disclosed basis of accounting.

INTEREST RATE SENSITIVE EQUITY

Equity whose return is expected to react to changes in interest rates.

INVESTMENT PORTFOLIO

A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LARGE CAP

Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

LIQUIDITY

The ease with which an asset can be turned into cash and the certainty of the value it will obtain.

MARKET VALUE

See fair value

MARKET (VALUE) RATE OF RETURN

The market value rate of return measures income (interest and dividends) and capital appreciation or depreciation (realized and unrealized). The method used to calculate the return is the time-weighted method.

MARKETABLE SECURITY

An investment for which there is usually a ready market.

MID-TERM INVESTMENT

A fixed income instrument (bonds, debentures, treasury bills or discount notes) that matures in one to five years from the date of acquisition.

MODIFIED DURATION

A measure of price volatility of fixed income securities (i.e., bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY

A fixed income security that matures within one year from the date of acquisition.

NET INCOME

The amount of earnings remaining after deducting expenses.

NET INVESTMENT INCOME

On a cost basis, includes realized capital gains, interest, dividends, security lending income, derivative income and administrative expenses. On a fair value basis, include in addition to the above, current period changes in unrealized gains and losses.

NOMINAL RATE OF RETURN

A measure of return that does not exclude the effect of inflation (see Real Rate of Return).

PAR VALUE

A value set as the face or principal amount of a security, typically expressed as multiples of $100 or $1,000. Bondholders receive par value for their bonds at maturity.

PASSIVE STRATEGIES

These strategies involve investing to replicate the performance of a given market index, such as the S&P/TSX Composite Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix.

REAL VALUE OR REAL RATE OF RETURN

A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED AND UNREALIZED

Terms generally used to describe capital gains or losses. A gain or loss is realized when the asset is sold; prior to sale, the gain or loss is unrealized and it is only a potential gain or loss.

SECURITY

Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT

An investment with a maturity date of less than one year.

SMALL CAP

Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

TERM-TO-MATURITY

The number of years left until a bond matures.

TIME-WEIGHTED RATE OF RETURN

Time-weighted rates of return are designed to eliminate the effect that the size and timing of cash flows has on the internal rate of return since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

VOLATILITY

In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.