First Quarter Update

Heritage Fund

2005-06

Alberta Heritage Savings Trust Fund

For the three months ended June 30, 2005

Alberta

2005 Alberta Centennial

Alberta Heritage Savings Trust Fund
Room 434, 9515 - 107 Street
Edmonton, Alberta TKK 2C3

Phone: (780) 427-5364

FIRST QUARTER UPDATE

JUNE 30, 2005

Alberta Heritage Savings Trust Fund

QUARTER IN REVIEW

The Heritage Fund earned $321 million from its investments this quarter, compared to $328 million for the same period last year. Realized gains from equity investments accounted for most of the earnings.

Two new aspects of the Heritage Fund are included in the 2005-06 fiscal year. Inflation proofing the Fund and transfers from the General Revenue Fund related to the Access to the Future Fund are discussed on pages 2 and 8 respectively.

The Canadian stock market rallied to a four-year high. Consumer spending and business investment continued to advance at a robust pace. Manufacturing demand continued to expand with new orders trending up. A housing boom and low interest rates pushed retail sales to record levels.

Oil prices also increased to record levels this quarter. West Texas Intermediate (WTI) opened the quarter at $55.41US per barrel and closed the quarter at $56.50 US per barrel. As a result of higher oil prices, the energy sector in the S&P/TSX Index increased by 12.6% over the quarter and 58.2% over one year. Overall, the S&P/TSX Index increased by 3.6% this quarter and 18.0% in the year.

The Canadian dollar declined in value. At June 30, 2005, one US dollar purchased $1.23 Canadian compared to $1.21 Canadian at March 31, 2005. As a result, the value of the Heritage Fund's United States equity investments increased when translated into Canadian dollars, resulting in higher investment returns. Over the past three months, the U.S. market measured by the S&P 1500 Index increased by 1.7% in US dollars and 3.1% in Canadian dollars.

The non-North American market measured by the MSCI EAFE Index increased by 0.3% this quarter in Canadian dollars.

MARKET SUMMARY

Benchmark Index Returns

Three months ended June 30, 2005

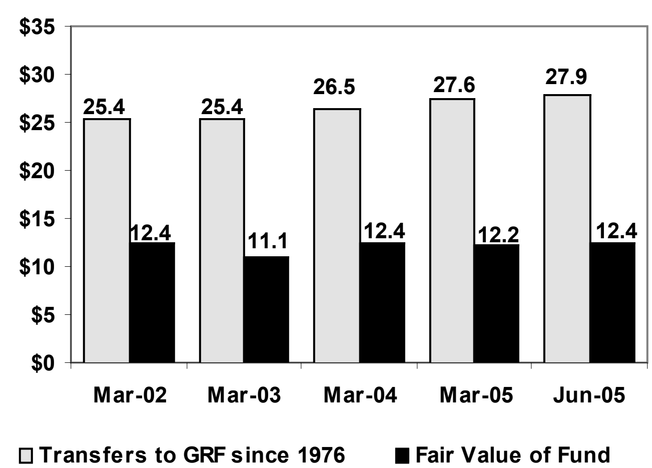
	%
Stock Markets	
Canadian	
S&P/TSX Composite Index	3.6
United States	
S&P 1500 Index (US $)	1.7
S&P 1500 Index (Cdn $)	3.1
Non-North American	
MSCI EAFE Index (Cdn $)	0.3
Canadian Bond Market	
SC Bond Universe Index	4.5

Fund Value

At June 30, 2005, the fair value of the Heritage Fund stood at $12.4 billion. Since 1976, total transfers to the General Revenue Fund have increased to approximately $27.9 billion.

Heritage Fund - Fair Value

(billions)



Change in Net Assets

The Heritage Fund accounts for its investments using the cost basis of accounting. Investments recorded on a cost basis exclude unrealized gains and losses. Investment income on a fair value basis includes changes in unrealized gains and losses during the period. The investment income on a fair value basis for the three months ended June 30, 2005 was $416 million.

Changes in Net Assets
(millions)

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
Fair value, beginning of period	$ 12,222	$ 12,396
Investment income, cost basis (1)	321	328
Change in unrealized gains during the period	95	(254)
Investment income, fair value basis	416	74
Transfers to general revenues (2)	(264)	(328)
Fair value, end of period (3)	$ 12,374	$ 12,142

(1) Includes interest, dividends, realized gains and losses, derivative income and administration expenses.
(2) Net of inflation proofing. See financial statements (Note 6).
(3) Includes investments of $12,705 million less net current liabilites of $331 million.

INVESTMENT INCOME

The Fund recorded net income of $321 million this quarter. Interest, dividends, real estate income and security lending income totalled $119 million net of administrative expenses, compared to $114 million for the same period last year. Net realized capital gains from sale of securities and net gains from derivative transactions totalled $202 million, compared to $214 million for the same period last year.

Net Investment Income (Loss)
(millions)

	Fixed Income	Equity Income*	Real Estate	Absolute Return Strategies	Total
05-06 3 mos.	$ 76	$ 230	$ 19	$ (4)	$ 321
04-05	264	728	68	32	1,092
03-04	304	737	54	38	1,133
02-03	286	(1,224)	39	5	(894)
01-02	444	(276)	38	-	206

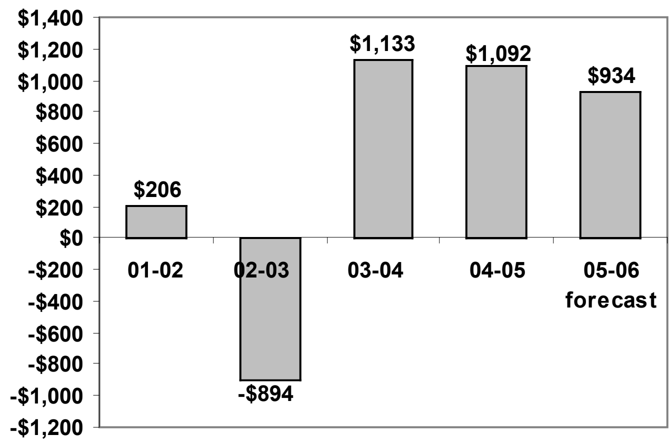
* Includes income from private equities.

Forecast Investment Income

The Fund's forecast investment income for fiscal year 2005-06 is $934 million, an increase of $250 million from the original budget estimate of $684 million.

The Government of Alberta financial statements are prepared on a consolidated basis, which eliminates the income the Heritage Fund earns from Alberta provincial corporation securities, which is forecast to be $15 million for fiscal year 2005-06. On a consolidated basis, the Heritage Fund forecast investment income is $919 million.

Heritage Fund Investment Income
(millions)



Transfers to the General Revenue Fund and Inflation Proofing the Fund

The Heritage Fund business plan provides for inflation proofing of the Fund in fiscal year 2005-06. For 2005-06, the total amount to be retained in the Fund for inflation proofing is estimated to be $226 million, of which $56.5 million has been accrued for the quarter ending June 30, 2005. Starting in 2005-06, net investment income earned by the Fund, less the amount retained in the Fund for inflation proofing, is transferred to the Province's main operating fund, the General Revenue Fund (GRF).

At June 30, 2005, outstanding transfers payable to GRF totaling $326.9 million is comprised of net income for the three months ended June 30, 2005, totaling $321.0 million less inflation proofing of $56.5 million plus the opening payable to GRF of $62.4 million.

INVESTMENTS

Asset Mix

The investment strategy is to invest in a diversified portfolio to optimize long-term returns at an acceptable level of risk. The long-term policy asset allocation as reported in the Fund's Statement of Investment Policies and Guidelines is:

Investment Asset Mix

(percent of fair value)

ASSET CLASS	2005-06 Long-Term Policy Target	Jun05 Actual	2004-05 Long-Term Policy Target	Mar05 Actual
Fixed income	**30.0**	**33.2**	**32.5**	**32.7**
Public equities				
Canadian	15.0	18.0	15.0	18.5
United States	15.0	16.1	15.0	16.2
Non-North American	15.0	15.8	15.0	16.1
	45.0	**49.9**	**45.0**	**50.8**
Real estate	**10.0**	**9.8**	**10.0**	**9.7**
Absolute return strategies	**6.0**	**4.8**	**7.5**	**5.0**
Private equities	**4.0**	**1.4**	**5.0**	**1.3**
Private income	**3.0**	**0.4**	**-**	**0.5**
Timberland	**2.0**	**0.5**	**-**	**-**
	100.0	100.0	100.0	100.0

Based on the Heritage Fund Statement of Investment Policies and Guidelines (SIP&G), the long-term policy asset mix for fixed income securities decreases from 32.5% to 30.0%. The long-term policy mix for public equity investments remains the same at 45.0%. The target for real estate investments remains unchanged at 10.0% of total portfolio investments. Absolute return strategy investments decrease from 7.5% to 6.0% of total portfolio investments. Private equity and private income investments increase from 5.0% to 7.0% of total investments. Timberland investments added during the year represent 2.0% of the portfolio.

The actual investment mix for fixed income securities increased slightly from 32.7% to 33.2% at the beginning of the year. Public equity investments decreased from 50.8% to 49.9%. Real estate investments increased from 9.7% to 9.8% of the Fund's total investment portfolio. Absolute return strategies decreased from 5.0% to 4.8% of the Fund's investment portfolio. Private equity investments increased from 1.3% to 1.4%. Private income investments decreased from 0.5% to 0.4%. Timberland investments commenced this quarter and comprise 0.5% of the investment portfolio.

New Investment Products

Over the quarter, a new investment in timberland products was introduced in order to further diversify the Heritage Fund's investment portfolio (see Note 3 to the financial statements). Timberland investments, responsibly managed, are a renewable and sustainable resource. The demand for lumber and paper products has consistently increased over the past decade, mostly from developing countries and is expected to increase in the future. The Fund also invested in the currency alpha and EAFE structured equity products. The currency alpha investment earns returns from active currency management while the EAFE structured equity investment provides passive exposure to non-North American equity markets, primarily through foreign equity index swaps.

Investment Valuation

Investments and income are recorded on the financial statements of the Heritage Fund at cost in accordance with government accounting policies. The fair value of the Fund and its investments are provided for information purposes. Management uses fair value to assess the investment performance of the fund against market-based benchmarks.

The Fund's policy is to write down the cost of those securities where the decline in value below cost is not considered temporary. On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. Based on management's review, writedowns totalling $1.6 million were recorded during the quarter ended June 30, 2005.

PERFORMANCE MEASUREMENT

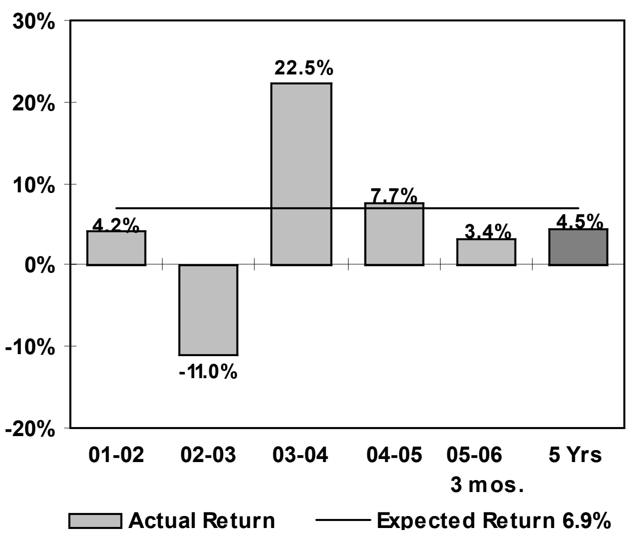
Heritage Fund Rate of Return

The Heritage Fund posted an overall return of 3.4% this quarter, the same as the Fund's policy benchmark return.

The performance of the Heritage Fund is measured over the long term. Over the past five-year period, the fund generated a nominal annualized return of 4.5%. The Heritage Fund is expected to generate a real rate of return of 4.5% at an acceptable level of risk over a moving five-year period. Over a five-year period, the annualized inflation rate was 2.4%. Therefore, the Fund is expected to generate a nominal annualized rate of return of 6.9%.

Heritage Fund Annual Returns at Fair Value

(percent)



The performance of the Heritage Fund investments is measured against various market-based indices. Value added by investment management is accomplished through asset mix decisions and security selection. The following sections describe the performance of the Fund's major asset classes in relation to their benchmarks.

Business Plan Performance Measures

Time Weighted Rates of Return
(percent)

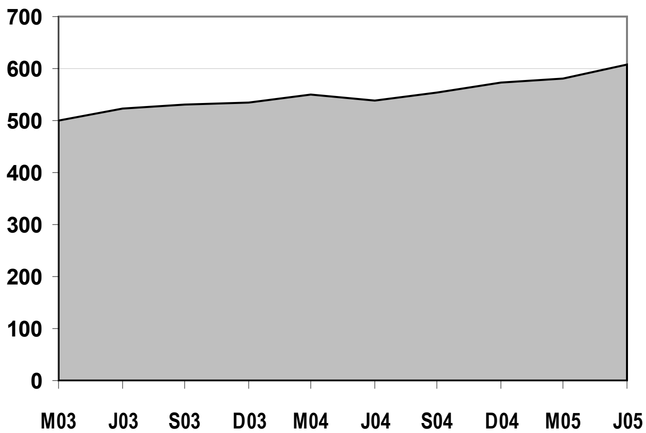
	Current Quarter	One Year	Five Years (2)
OVERALL RETURN (1)	**3.4**	**10.7**	**4.5**
ENDOWMENT PORTFOLIO	**Current Quarter**	**One Year**	**Five Years (2)**
Short term fixed income	**0.7**	**2.4**	**3.4**
SC 91-Day T-Bill	*0.6*	*2.4*	*3.3*
Long term fixed income	**4.7**	**12.7**	**8.9**
SC Universe Bond Index	*4.5*	*12.0*	*8.3*
Canadian equities	**3.6**	**19.0**	**2.1**
S&P/TSX Index	*3.6*	*18.0*	*1.1*
United States equities	**2.7**	**(2.2)**	**(5.4)**
S&P 1500 Index (3)	*3.1*	*(2.0)*	*(5.8)*
Non North American equities	**1.4**	**6.8**	**(3.6)**
MSCI EAFE Index	*0.3*	*3.9*	*(4.3)*
Real estate	**4.6**	**19.3**	**10.9**
IPD Large All Property Index (4)	*5.5*	*10.1*	*9.4*
Absolute return strategies	**(0.6)**	**5.5**	**n/a**
CPI plus 6.0%	*2.4*	*7.6*	**n/a**
Private equities	**7.4**	**11.9**	**n/a**
CPI Plus 8.0%	*2.8*	*9.6*	**n/a**
Private income	**10.9**	**15.9**	**n/a**
CPI plus 6.0%	*2.4*	*7.6*	**n/a**
Timberland (5)	**n/a**	**n/a**	**n/a**
CPI plus 4.0% (5)	*n/a*	*n/a*	*n/a*
Total Endowment Portfolio	**3.4**	**10.7**	**2.9**
Policy Benchmark	*3.4*	*9.2*	*2.3*

1) The overall return includes the Endowment Portfolio and the past returns of the Transition Portfolio which was wound up in the first half of 2002-03.
(2) Returns for 5 years are annualized.
(3) Prior to April 1, 2004, the benchmark for US equities was the S&P 500 Index.
(4) Prior to April 1, 2005, the benchmark for Real Estate was the Consumer Price Index (CPI) plus 5%. Prior to April 1, 2002, the benchmark was the Russell Canadian Property Index.
(5) Full quarter returns for Timberland investments are not provided since Timberland investments commenced during the current quarter.

Fixed Income Investments

The Scotia Capital (SC) Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past quarter, the SC Universe Bond Index increased by 4.5% while the short term SC 91-Day T-Bill Index increased by 0.6%.

SC Universe Bond Index



LT Fixed Income	Actual Return %	Benchmark SC Universe Bond Index %	Over (Under) bps*
Current Quarter	4.7	4.5	20
One Year	12.7	12.0	70
Five Years (annualized)	8.9	8.3	60

ST Fixed Income	Actual Return %	Benchmark SC 91-Day T-Bill Index %	Over (Under) bps*
Current Quarter	0.7	0.6	10
One Year	2.4	2.4	0
Five Years (annualized)	3.4	3.3	10

* one basis point equals 0.01%.

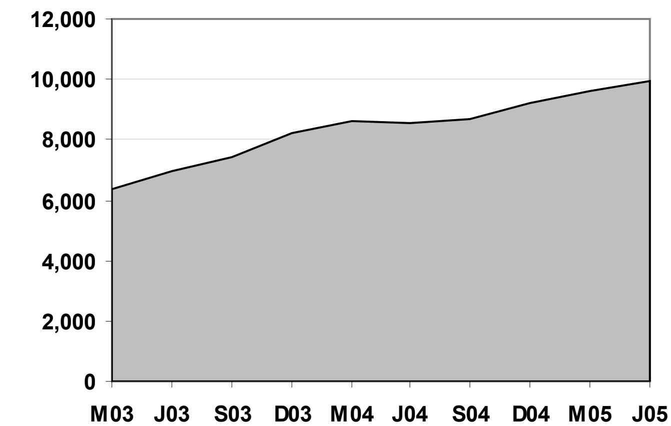
The Fund's actual rate of return over the quarter from long-term Canadian fixed income securities was 4.7%, 20 basis points better than the benchmark SC Universe Bond Index. Over five years, the return from long-term fixed income securities was 8.9% or 60 basis points better than the benchmark of 8.3%. The Fund's return from short-term securities was 0.7% and 3.4% over three months and five years respectively. The Heritage Fund's fixed income portfolio is internally managed through various pools and through direct holdings.

At June 30, 2005, investments in deposits, bonds, notes, short-term paper, provincial corporation debentures and loans totalled 33.2% of total portfolio investments or $4.2 billion compared to 32.7% or $4.0 billion at March 31, 2005.

Canadian Equity Investments

The Toronto Stock Exchange S&P/TSX Index, which measures the performance of Canada's top companies, reported a return of 3.6% for the quarter ending June 30, 2005. During the quarter, the real estate and energy sectors led all sectors with returns of 12.8% and 12.6% respectively. The technology sector finished the quarter with the lowest return of negative 6.9%.

S&P / TSX Composite Index



Canadian Public Equities	Actual Return %	Benchmark S&P/TSX Index %	Over (Under) bps
Current Quarter	3.6	3.6	0
One Year	19.0	18.0	100
Five Years (annualized)	2.1	1.1	100

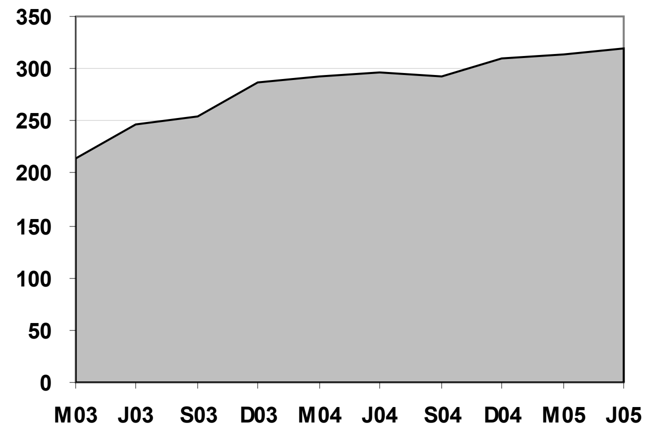
The Heritage Fund's Canadian equity portfolio is held in various investment pools, which are managed by internal and external managers. Over the quarter, the Fund's actual return from Canadian equities was 3.6%, the same as the benchmark return from the S&P/TSX Index. Over five years, the Fund's return from Canadian equities was 2.1%, 100 basis points better than the benchmark return of 1.1%.

At June 30, 2005, investments in Canadian public equities totalled 18.0% or $2.3 billion of the Heritage Fund investment portfolio compared to 18.5% or $2.3 billion at March 31, 2005.

United States Equity Investments

The U.S. equity market closed out the quarter posting a positive return. The Standard & Poor's 1500 Index, S&P 1500, which measures the performance of the largest 1,500 American publicly traded companies, increased by 1.7% in US dollars and 3.1% in Canadian dollars.

S&P 1500 Index



US Public Equities	Actual Return %	Benchmark S&P 1500 Index* %	Over (Under) bps
Current Quarter	2.7	3.1	(40)
One Year	(2.2)	(2.0)	(20)
Five Years (annualized)	(5.4)	(5.8)	40

* Effective April 1, 2004, the benchmark return for US equities changed to the S&P 1500 Index from the S&P 500 Index. The S&P 1500 Index provides a broader coverage of US equities to include smaller capitalization stocks. The S&P 1500 Index covers approximately 90% of US publicly traded equities.

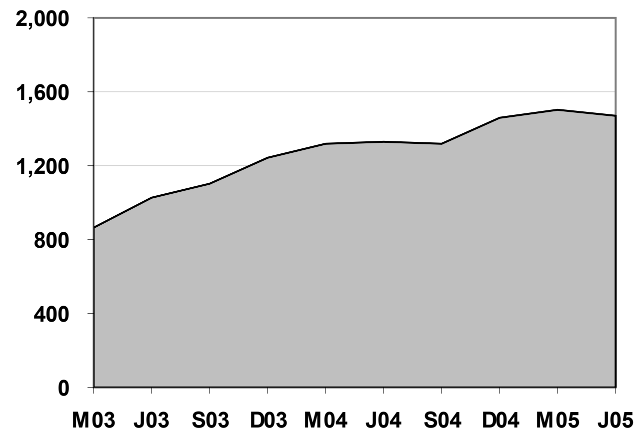
The Fund's actual rate of return over the quarter from US equities was 2.7% in Canadian dollars or 40 basis points less than the S&P 1500 Index. This negative relative performance was primarily due to the Portable Alpha US pool's under performance of the S&P 500. Over five years, the Fund's US equity portfolio returned a negative 5.4%, 40 basis points better than the benchmark.

At June 30, 2005, investments in US equities totalled 16.1% or $2.0 billion of the Heritage Fund investment portfolio compared to 16.2% or $2.0 billion at March 31, 2005.

Non-North American Equity Investments

The non-North American equity market recorded a modest return this quarter. The Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, MSCI EAFE Index, measures the performance of approximately 1000 companies on 21 stock exchanges around the world. Over the quarter, the index increased by 0.3% in Canadian dollars.

MSCI EAFE Index



EAFE Public Equities	Actual Return %	Benchmark MSCI EAFE Index %	Over (Under) bps
Current Quarter	1.4	0.3	110
One Year	6.8	3.9	290
Five Years (annualized)	(3.6)	(4.3)	70

The Fund's actual return from non-North American equities was 1.4%, 110 basis points better than the MSCI EAFE Index. Over five years, the Fund's non-North American equity portfolio returned a negative 3.6%, 70 basis points better than the benchmark MSCI EAFE Index.

At June 30, 2005, investments in non-North American equities totalled 15.8% or $2.0 billion of the Heritage Fund investment portfolio compared to 16.1% or $2.0 billion at March 31, 2005.

Real Estate Investments

The Fund's real estate investments are held in the internally managed Private Real Estate Pool and the Foreign Private Real Estate Pool. Real estate investments earned 4.6% over the quarter and 10.9% over five years.

Real estate	Actual Return %	Benchmark IPD Large All Property* %	Over (Under) bps
Current Quarter	4.6	5.5	(90)
One Year	19.3	10.1	920
Five Years (annualized)	10.9	9.4	150

* Effective April 1, 2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI plus 5%. On June 1, 2005 the benchmark changed from CPI plus 5% to the IPD Large Institutional All Property Index. The benchmark over five years represents a weighted average of all three indexes.

Nearly half of the real estate portfolio is invested in retail, half in office and a small portion in industrial and residential. Approximately 65% of the real estate holdings are located in Ontario, 22% in Alberta, 11% in Quebec and 2% in British Columbia.

At June 30, 2005, investments in real estate totalled 9.8% or $1.2 billion of the Heritage Fund investment portfolio compared to 9.7% or $1.2 billion at March 31, 2005.

Absolute Return Strategies

Absolute return strategy investments 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. Over the quarter, absolute return strategies generated a negative return of 0.6%, 300 basis points less than the benchmark Consumer Price Index (CPI) plus 6.0%.

Absolute Return Strategies	Actual Return %	Benchmark CPI plus 6% %	Over (Under) bps
Current Quarter	(0.6)	2.4	(300)
One year	5.5	7.6	(210)
Five Years (annualized)	n/a	n/a	-

At June 30, 2005, investments in absolute return strategies totalled 4.8% or $607 million of total Fund investments compared to 5.0% or $611 million at March 31, 2005.

Private Equity and Private Income Investments

At June 30, 2005, the private equities comprised a relatively small portion of the Fund's overall investment portfolio at 1.4% or $173 million compared to 1.3% or $153 million at March 31, 2005. At June 30, 2005, private income investments comprised 0.4% or $53 million of overall investments compared to 0.5% or $61 million at March 31, 2005. The fair value of private investments decreased during the quarter because income was distributed and capital gains were realized and distributed. During the quarter, private equity investments returned 7.4%, 460 basis points better than the benchmark Consumer Price Index plus 8%. Private income investments returned 10.9%, 850 basis points better than the benchmark Consumer Price Index plus 6%.

Private Equity	Actual Return %	Benchmark CPI plus 8% %	Over (Under) bps
Current Quarter	7.4	2.8	460
One Year	11.9	9.6	230
Five Years (annualized)	n/a	n/a	-

Private Income	Actual Return %	Benchmark CPI plus 6% %	Over (Under) bps
Current Quarter	10.9	2.4	850
One Year	15.9	7.6	830
Five Years (annualized)	n/a	n/a	-

ADMINISTRATIVE EXPENSES

Administrative expenses include investment management and administration expenses. Fees charged by external managers and external administration fees are deducted directly from the income of externally managed investment pools. Internal investment management costs and internal administrative costs are deducted from the internally managed pooled funds and also directly from the Fund. External investment management fees are based on a percentage of net assets under management at fair value. Internal investment management expenses are based on a cost recovery basis.

The Fund's total administrative expenses for the three months ended June 30, 2005, including amounts deducted from the investment income of the pooled funds, amounted to $4,740,000 or 0.038% of the Funds net assets at fair value compared to $6,142,000 or 0.051% of net assets for the same period last year.

Administrative Expenses Breakdown

Three months ended June 30, 2005 (thousands)

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004
Direct fund expenses	$ 612	$ 727
Externally managed investment pools	3,002	4,422
Internally managed investment pools	1,126	993
Total	$ 4,740	$ 6,142
Expenses as a percent of net assets at fair value	0.038%	0.051%

Over the past three months, expenses of direct and internally managed investment pools increased by $18,000 over the same period last year. Expenses from externally managed investment pools decreased by $1,420,000 over the same period last year. The savings were primarily due to the partial divesture of active large cap managers in favour of internal index funds.

Approximately 81% of total administrative expenses relate to investment management and 19% relate to administration.

TRANSFERS FOR ACCESS TO THE FUTURE

The 2005-06 budget provides for the transfer of $250 million from the General Fund into the Heritage Fund on account of the Access to the Future Fund. The transfer will be recorded in the Heritage Fund when received. An account within the Heritage Fund is deemed to be established to which is allocated, as considered appropriate by the Minister of Finance, money transferred to the Heritage Fund after April 1, 2005. The maximum amount that may be allocated is $3 billion. Annually, in a manner determined by the Minister of Finance, the General Revenue Fund shall pay to the newly created Access to the Future Fund an amount equal to 4.5% of the accumulated transfers to the Heritage Fund and allocated to the Access to the Future Fund, adjusted for inflation.

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

JUNE 30, 2005

(unaudited)

BALANCE SHEET

June 30, 2005 (unaudited)
(thousands)

	June 30, 2005	March 31, 2005
Assets		
Portfolio investments (Note 3)	$ 11,750,471	$ 11,417,548
Accrued investment income	7,258	7,008
Administration expense receivable	-	281
	$ 11,757,729	$ 11,424,837
Liabilities and Fund Equity		
Liabilities		
Accounts payable	$ 11,855	$ 7
Due to the General Revenue Fund	326,881	62,388
	338,736	62,395
Fund equity (Note 6)	11,418,993	11,362,442
	$ 11,757,729	$ 11,424,837

STATEMENT OF OPERATIONS

for the Three Months ended June 30, 2005 (unaudited)
(thousands)

	Three Months Ended June 30, 2005	2004
Net income (Note 7)	$ 321,044	$ 327,980
Transfers to the General Revenue Fund (Note 6)	264,493	327,980
Net change in fund equity (Note 6)	56,551	-
Fund equity at beginning of period	11,362,442	11,362,442
Fund equity at end of period	$ 11,418,993	$ 11,362,442

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

STATEMENT OF CASH FLOWS

for the Three Months ended June 30, 2005 (unaudited)
(thousands)

	Three Months Ended June 30, 2005	2004
Operating transactions		
Net income	$ 321,044	$ 327,980
Non-cash items included in net income	(63,252)	(88,205)
	257,792	239,775
Decrease in accounts receivable	31	47
Increase (decrease) in accounts payable	11,848	(37)
Cash provided by operating transactions	269,671	239,785
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	330,268	577,251
Purchase of investments	(601,192)	(538,758)
Cash provided by (applied to) investing transactions	(270,924)	38,493
Transfers		
Transfers to the General Revenue Fund	(264,493)	(327,980)
Increase in amounts due to the General Revenue Fund	264,493	13,980
Cash applied to transfers	-	(314,000)
Decrease in cash	(1,253)	(35,722)
Cash at beginning of period	71,359	113,662
Cash at end of period	$ 70,106	$ 77,940
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 70,106	$ 77,940

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

Notes to the Financial Statements

June 30, 2005 (unaudited)

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

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 in fixed-income securities, mortgages, equities, real estate and absolute return strategies 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.

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

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the 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.

(unaudited)

Note 2 (continued)

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

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

(c) Foreign Currency

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

(d) Investment Valuation

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

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

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, private real estate, loans, absolute return strategies and other private placements. 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, provincial corporation debentures 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 reflecting conventional valuation methods including discounted cash flows and multiple analysis.

(unaudited)

Note 2 (continued)

(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 discounted cash flows.

(v) The fair value of absolute return strategy 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 are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

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

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

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

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

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

(unaudited)

NOTE 3 PORTFOLIO INVESTMENTS

	June 30, 2005			March 31, 2005		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed income securities			(thousands)			
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 70,106	$ 70,106	0.5	$ 71,359	$ 71,359	0.6
Canadian Dollar Public Bond Pool (b)	3,125,369	3,274,625	25.8	3,094,268	3,154,021	25.5
Bonds, notes & short-term paper, directly held (c)	22,881	23,468	0.2	23,067	23,742	0.2
Private Mortgage Pool (d)	542,242	574,406	4.5	518,924	532,357	4.3
Provincial corporation debentures, directly held (e)	86,629	130,273	1.0	88,340	132,261	1.1
Loans, directly held (f)	93,339	93,339	0.7	93,298	93,298	0.8
External Manager's Currency Alpha Pool (g)	12,183	12,450	0.1	-	-	-
Overlay Pool (h)	48,726	48,790	0.4	24,529	24,555	0.2
	4,001,475	**4,227,457**	**33.2**	**3,913,785**	**4,031,593**	**32.7**
Public equities						
Canadian public equities						
Domestic Passive Equity Pooled Fund (i)	892,363	1,004,652	7.9	868,241	989,240	8.1
Canadian Pooled Equity Fund (j)	492,358	609,403	4.8	491,455	605,425	4.9
External Managers:						
Canadian Equity Enhanced Index Pool (k)	271,477	304,179	2.4	292,113	319,695	2.6
Canadian Large Cap Equity Pool (l)	212,659	215,653	1.7	163,796	184,242	1.5
Growing Equity Income Pool (m)	115,585	140,889	1.1	128,558	152,821	1.3
Canadian Multi-Cap Pool (n)	143,666	143,547	1.1	138,847	138,958	1.1
	2,128,108	2,418,323	19.0	2,083,010	2,390,381	19.5
Overlay Pool Canadian futures contracts (h)	(130,372)	(130,372)	(1.0)	(125,308)	(125,308)	(1.0)
	1,997,736	**2,287,951**	**18.0**	**1,957,702**	**2,265,073**	**18.5**
United States public equities						
S&P 500 Index Fund (o)	1,197,864	1,320,164	10.4	1,179,505	1,284,273	10.4
External Managers:						
US Small/Mid Cap Equity Pool (p)	241,623	255,438	2.0	237,574	240,550	2.0
US Large Cap Equity Pool	-	-	-	77	77	-
Portable Alpha United States Equity Pool (q)	329,080	319,730	2.5	326,700	316,340	2.6
Growing Equity Income Pool (m)	30,369	31,191	0.2	24,513	24,350	0.2
	1,798,936	1,926,523	15.1	1,768,369	1,865,590	15.2
Overlay Pool US futures contracts (h)	122,190	122,190	1.0	125,969	125,969	1.0
	1,921,126	**2,048,713**	**16.1**	**1,894,338**	**1,991,559**	**16.2**
Non-North American public equities						
External Managers:						
EAFE Core Equity Pool (r)	940,766	981,434	7.7	926,654	977,096	8.0
EAFE Plus Equity Pool (r)	488,539	504,130	4.0	475,764	490,505	4.0
EAFE Passive Equity Pool (s)	165,311	198,678	1.6	267,922	364,905	3.0
Emerging Markets Equity Pool (t)	131,378	149,166	1.2	128,567	141,465	1.1
EAFE Structured Equity Pool (s)	171,751	168,817	1.3	-	-	-
	1,897,745	**2,002,225**	**15.8**	**1,798,907**	**1,973,971**	**16.1**
Real Estate						
Private Real Estate Pool (u)	976,968	1,194,159	9.4	966,041	1,148,626	9.4
Foreign Private Real Estate Pool (v)	46,791	45,263	0.4	43,161	40,948	0.3
	1,023,759	**1,239,422**	**9.8**	**1,009,202**	**1,189,574**	**9.7**
Absolute Return Strategies						
External Managers						
Absolute Return Strategy Pool (w)	**610,578**	**606,890**	**4.8**	**615,053**	**610,593**	**5.0**
Private Equities (x)	**179,886**	**173,489**	**1.4**	**166,624**	**153,374**	**1.3**
Private Income (x)	**52,526**	**52,743**	**0.4**	**61,937**	**61,012**	**0.5**
Timberland (y)	**65,640**	**65,640**	**0.5**	**-**	**-**	**-**
Total Investments (z)	**$ 11,750,471**	**$ 12,704,530**	**100.0**	**$ 11,417,548**	**$ 12,276,749**	**100.0**

(unaudited)

Note 3 (continued)

The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Finance. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at June 30, 2005, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	June 30, 2005	March 31, 2005
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	36.2	35.6
Canadian Multi-Cap Pool	57.1	60.2
Canadian Pooled Equity Fund	54.6	56.3
Domestic Passive Equity Pooled Fund	41.9	41.7
EAFE Structured Equity Pool	19.3	-
Foreign Private Equity Pool (02)	43.8	43.8
Foreign Private Real Estate Pool	87.1	87.1
Growing Equity Income Pool	55.1	59.1
Overlay Pool	35.5	35.5
Portable Alpha United States Equity Pool	87.9	87.9
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Equity Pool (02)	62.1	62.1
Private Equity Pool (04)	77.0	77.0
Private Income Pool	25.7	25.7
Private Mortgage Pool	45.6	44.2
Private Real Estate Pool	40.3	40.4
Standard & Poor's 500 Index Fund	69.3	69.3
Timberland Pool	87.8	-
Externally Managed Investment Pools		
Absolute Return Strategy Pool	88.5	88.5
Canadian Large Cap Equity Pool	12.5	8.0
Canadian Equity Enhanced Index Pool	27.0	60.2
Currency Alpha Pool	28.9	-
EAFE Core Equity Pool	31.2	31.2
EAFE Passive Equity Pool	76.5	79.9
EAFE Plus Equity Pool	32.2	32.1
Emerging Markets Equity Pool	33.6	33.6
US Small/Mid Cap Equity Pool	25.5	25.5

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at June 30, 2005, securities held by the Fund have an average effective market yield of 2.65% per annum (March 31, 2005: 2.79% per annum).

(b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at June 30, 2005,

(unaudited)

Note 3 (continued)

securities held by the Pool have an average effective market yield of 3.90% per annum (March 31, 2005: 4.48% per annum) and the following term structure based on principal amount: under 1 year: 2% (March 31, 2005: 3%); 1 to 5 years: 37% (March 31, 2005: 38%); 5 to 10 years: 31% (March 31, 2005: 31%); 10 to 20 years: 13% (March 31, 2005: 12%); and over 20 years: 17% (March 31, 2005: 16%).

(c) As at June 30, 2005, fixed-income securities held directly by the Fund have an average effective market yield of 2.90% per annum (March 31, 2005: 3.18% per annum). As at June 30, 2005, fixed-income securities have the following term structure based on principal amount: under two years: 100% (March 31, 2005: 100%).

(d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.0%) 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 June 30, 2005, securities held by the Pool have an average effective market yield of 4.65% per annum (March 31, 2005: 5.29% per annum) and the following term structure based on principal amount: under 1 year: 3% (March 31, 2005: 2%); 1 to 5 years: 21% (March 31, 2005: 22%); 5 to 10 years: 43% (March 31, 2005: 43%); 10 to 20 years: 11% (March 31, 2005: 12%); and over 20 years: 22% (March 31, 2005: 21%).

(e) As at June 30, 2005, Provincial corporation debentures have an average effective market yield of 7.17% per annum (March 31, 2005: 7.51% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100% (March 31, 2005: 100%).

(f) Investments in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at June 30, 2005, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245 (March 31, 2005: $91,245) and the Vencap loan amounting to $2,094 (March 31, 2005: $2,053). The increase in the carrying value of the Vencap loan resulted from amortization of the loan on a constant yield basis.

- 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 $91,245 and deferred interest is repayable on or before July 31, 2015. Deferred interest at June 30, 2005 amounted to $92,517 (March 31, 2005: $92,517). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588 is due July 2046 and bears no interest.

(g) The External Managers 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.

(unaudited)

Note 3 (continued)

(h) The Overlay Pool provides participants with a quick, effective and efficient means to achieve tactical asset allocation opportunities without incurring undue transaction costs in the underlying investments. Long or short exposures to respective asset classes are obtained through synthetic instruments on a largely unfunded basis using equity index futures contracts. Approximately 5% to 10% of the Pool's notional exposure in Canadian and US futures contracts is supported by cash and short-term securities. The Overlay Pool is comprised of the "long" position through US futures contracts, the "short" position through Canadian futures contracts, and the "cash securities" position through money market securities. Taken together these three positions reduce exposure to Canadian equities and increase exposure to U.S. equities.

(i) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.

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

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

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

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

(n) The Canadian Multi-Cap Pool allows participants to gain investment exposure to the Canadian equity market through internally managed structured investments replicating the S&P/TSX 60 Index and external actively managed Canadian small and mid cap investments. The performance of the pool is

(unaudited)

Note 3 (continued)

measured against the total return of the S&P/TSX Composite Index over a four-year moving average period.

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

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

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

(r) The Europe, Australasia and Far East (EAFE) Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. EAFE Core portfolios are actively managed by external managers with European and Pacific Basin mandates. EAFE core managers have constraints on foreign currency management and deviations from the MSCI EAFE Index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. 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.

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

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

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

(v) The Foreign Private Real Estate Pool is managed with the objective of providing investment returns higher than the IPD Large Institutional All Property Index. The Pool

(unaudited)

Note 3 (continued)

provides diverse exposure to non-domestic real estate by investing in foreign real estate backed securities and assets.

(w) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6%. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

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

(y) The Timberland Pool provides high current income and long investment horizons. The performance objective is to earn a return higher than CPI plus 4.0%.

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

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.

(unaudited)

Note 4 (continued)

The following is a summary of the fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at June 30, 2005.

	Maturity			June 30, 2005		March 31, 2005	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
				(thousands)			
Equity index swap contracts	77%	23%	-	$ 1,802,250	$ 27,545	$ 1,534,324	$ 7,673
Interest rate swap contracts	41%	46%	13%	545,120	(16,157)	491,031	(12,449)
Forward foreign exchange contracts	100%	-	-	948,293	14,919	935,430	13,334
Cross-currency interest rate swaps	9%	29%	62%	633,594	6,533	580,540	2,228
Credit default swap contracts	21%	4%	75%	225,553	991	128,430	1,384
Bond index swap contracts	100%	-	-	136,219	2,830	61,311	428
Equity index futures contracts	100%	-	-	494,358	6,637	302,125	5,957
				$ 4,785,387	$ 43,298	$ 4,033,191	$ 18,555

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

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

NOTE 5 INVESTMENT RISK MANAGEMENT

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

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 2005-08 Business Plan proposed the following asset mix policy for the Fund:

	2005-06	2006-07	2007-08
Public equities	45.0%	45.0%	45.0%
Fixed income securities	35.0%	32.5%	32.5%
Real estate	10.0%	10.0%	10.0%
Absolute return strategies	5.0%	7.5%	7.5%
Private equities	5.0%	5.0%	5.0%

Subsequent to the release of the 2005-08 Business Plan, the long-term asset mix policy for 2007-08 was amended. Fixed income securities were reduced from 32.5% to 30.0%, absolute return strategies were reduced from 7.5% to 6.0%, private equities are reduced from 5.0% to 4.0%, private income and timberland investments are added at 3.0% and 2.0% respectively.

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).

(unaudited)

NOTE 6 FUND EQUITY

Section 8 (2) of the *Alberta Heritage Savings Trust Fund Act (the Act)* states that the net income of the Heritage Fund less any amount retained in the Fund to maintain its value shall be transferred to the General Revenue Fund annually in a manner determined by the Minister of Finance.

The estimated amount retained in the Fund for inflation proofing is determined by multiplying the total equity as recorded on the financial statements by the percentage increase in the Canadian gross domestic product (GDP) price index for the period.

NOTE 7 NET INCOME

	Three Months Ended June 30, 2005	2004
	(thousands)	
Deposit and fixed-income securities	$ 75,971	$ 56,084
Canadian equities	101,301	90,159
United States equities	22,378	46,474
Non-North American equities	98,116	127,258
Real estate	19,272	14,492
Absolute return strategies	(4,475)	(3,021)
Private equities	4,056	(2,806)
Private income	5,034	67
Timberland	3	-
Investment income	**321,656**	**328,707**
Direct administrative expenses (Note 8)	(612)	(727)
Net income	**$ 321,044**	**$ 327,980**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of writedowns, 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 period ended June 30, 2005 includes writedowns totalling $1,595 (June 30, 2004: $Nil).

NOTE 8 ADMINISTRATIVE EXPENSES

Administrative expenses include investment management, cash management, safekeeping costs and other expenses charged on a cost-recovery basis directly from Alberta Finance. The Fund's total administrative expense for the period, including amounts deducted directly from investment income of pooled funds is as follows:

(unaudited)

Note 8 (continued)

	Three Months Ended June 30, 2005	2004
	(thousands)	
Direct fund expense, (Note 7)	$ 612	$ 727
Externally managed investment pools	3,002	4,422
Internally managed investment pools	1,126	993
Total	$ 4,740	$ 6,142
Percent of net assets at fair value	0.038%	0.051%

NOTE 9 INVESTMENT PERFORMANCE

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	3.4%	4.5%
Benchmark return*	3.4%	6.9%

* The overall benchmark return for the three months ended June 30, 2005 is a product of the weighted average policy sector weights and the sector benchmark returns. 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 2.4%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.9%.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

Alberta Heritage Savings Trust Fund
Alberta Finance - Communications
Room 434, 9515 - 107 Street
Edmonton, Alberta T5K 2C3
(780) 427-5364

www.albertaheritagefund.com

PRODUCED BY

Alberta Finance

Printed on Recycled Paper