Alberta Heritage Savings Trust Fund

First Quarter Update

For the three months ended June 30, 2007

2007-2008

Alberta

Heritage Fund

Alberta Finance

Alberta Heritage Savings Trust Fund
2007-2008

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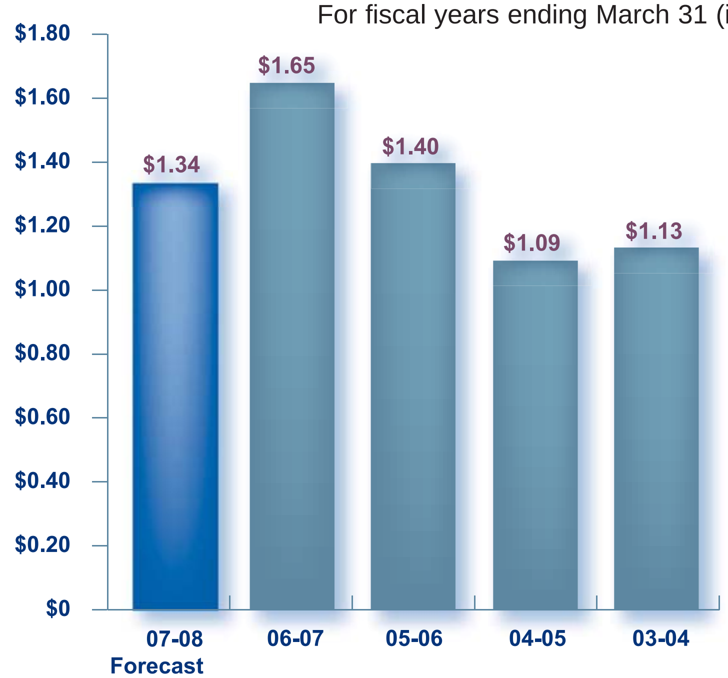
Highlights

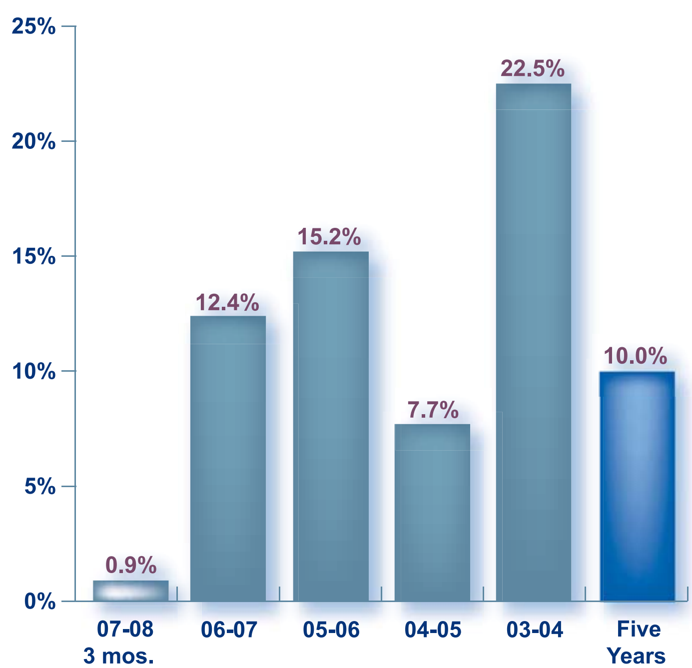
NET INCOME
For fiscal years ending March 31 (in billions)

The Heritage Fund (the Fund) is forecast to earn net income of $1.34 billion in fiscal year 2007-08, of which $543 million was earned in the first three months of the fiscal year.



» The net income earned from the Fund's investments, less the amount retained for inflation-proofing, is transferred to the Province's main operating fund, the General Revenue Fund (the GRF), to help pay for government programs. Of the total realized net income during the quarter, $457 million was transferred to the GRF and $86 million was retained in the Fund for inflation-proofing. Transfers to the GRF include amounts paid and payable totaling $216 million and $241 million, respectively.

INVESTMENT RETURNS
(in percent)

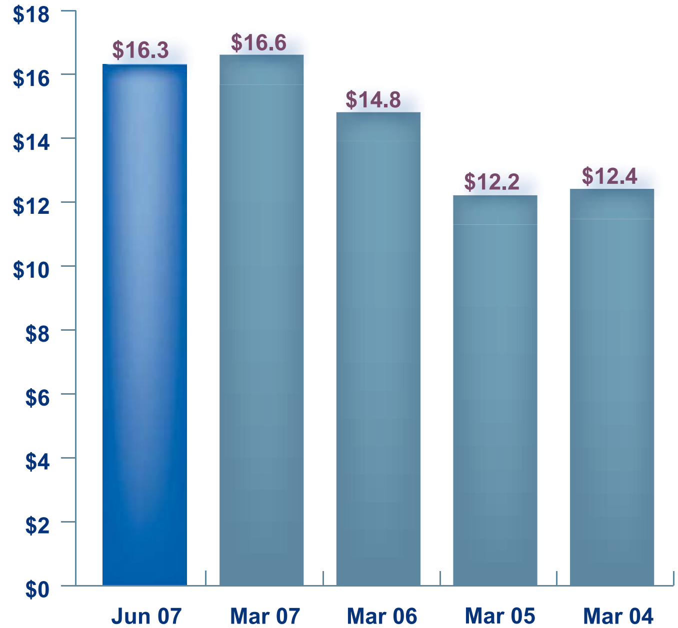


Over the five year period, July 1, 2002 to June 30, 2007, assets in the Fund earned an annualized market value return of 10.0% including 0.9% in the first quarter of 2007-08.

» Net income of $543 million, less a decrease in accumulated unrealized capital gains of $388 million, accounted for the Fund's overall investment market value return of $155 million or 0.9%.

FAIR VALUE OF THE HERITAGE FUND
At June 30, 2007 (in billions)

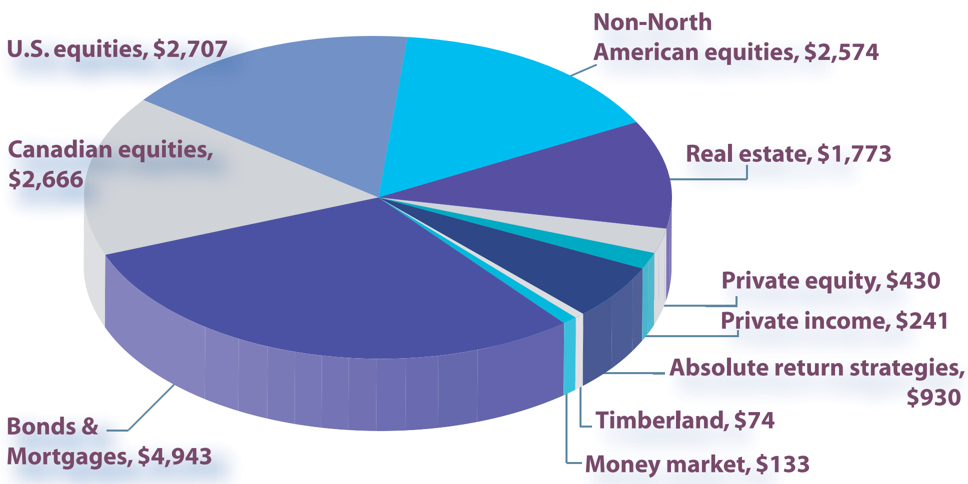
The fair value of the Fund was $16.3 billion at June 30, 2007, a decrease of $0.3 billion from $16.6 billion at March 31, 2007.



- During the quarter, transfers to the GRF of $457 million exceeded the market value return of $155 million, resulting in a decline in value of the Fund of $302 million.
- A stronger Canadian dollar against other world currencies and rising interest rates had a negative impact on the fair value of the Fund's foreign equity investments and fixed income securities.

ASSET MIX, at fair value
June 30, 2007
(in millions)

Publicly traded equities make up the largest part of the Fund's investment portfolio followed by bonds, real estate and alternative investments.



First Quarter Update

(June 30, 2007)

QUARTER IN REVIEW

For the three months ended June 30, 2007, the Fund recorded net income of $543 million compared to $172 million in the same period last year. Better-than-expected income during the quarter, from realized capital gains, resulted in an increase in the Fund's forecast net income to $1.335 billion for fiscal year 2007-08, up $120 million from the budgeted amount of $1.215 billion (see table below).

According to the Fund's legislation, all of its net income is transferred to the GRF except for an amount retained in the Fund to protect its value from inflation. Of the total net income earned in the first quarter, $86 million was retained in the Fund for inflation-proofing while $457 million is transferred to the GRF. On an annual basis, the forecast provides for $346 million to be retained in the Fund for inflation-proofing, an increase of $62 million from $284 million in Budget 2007. The increase results from an expected increase in the Canadian gross domestic product index (GDP Index) rate to 2.3% from 1.9% for 2007-08.

At June 30, 2007, the value of the Fund's net assets totaled $16.279 billion at fair value and $15.114 billion at cost. Accumulated unrealized capital gains totaling $1.165 billion made up the difference between the fair value and cost of the net assets. At March 31, 2007, the value of net assets totaled $16.581 billion at fair value and $15.028 billion at cost and accumulated unrealized capital gains totaled $1.553 billion. During the quarter, accumulated unrealized capital gains declined by $388 million. The decline in fair value and accumulated unrealized gains during the quarter was primarily attributed to the negative effects of the stronger Canadian dollar on the fair value of foreign equities and higher interest rates on the fair value of fixed income securities.

Overall, the Fund's net income this quarter less the decline in unrealized capital gains resulted in a net market value return of $155 million, or 0.9% for the quarter. In the first quarter of last year, the Fund's market value loss was $321 million, or negative 2.2%.

The table below summarizes the overall increase in the net assets of the Fund.

Changes in Value of Net Assets

For the quarter ended June 30, 2007 (in millions)	2007-08			2006-07	
	Budget 2007	**Annual Forecast**	**First Quarter Actual**	First Quarter Actual	Annual Actual
Investment income, cost basis (1)	$ 1,219	$ 1,339	$ 543	$ 173	$ 1,650
Fund administration expense	(4)	(4)	-	(1)	(2)
Net income	**1,215**	**1,335**	**543**	172	1,648
Transfers to the GRF	(931)	(989)	(457)	(101)	(1,365)
Retained for inflation proofing	**284**	**346**	**86**	71	283
Transfers from the GRF	**-**	**-**	**-**	-	1,250
Change in accumulated unrealized gains	**-**	**-**	**(388)**	(493)	228
Change in net assets during the period	**$ 284**	**$ 346**	**(302)**	(422)	1,761
Fair value beginning of period			**16,581**	14,820	14,820
Fair value end of period			**$ 16,279**	$ 14,398	$ 16,581
Cost, end of period			**$ 15,114**	$ 13,565	$ 15,028
Accumulated unrealized gains			**$ 1,165**	$ 833	$ 1,553

(1) net of pooled fund fees and expenses (see page 9)

MARKET SUMMARY

The Canadian stock market posted good returns this quarter. Overall, the S&P/TSX Composite Index increased by 6.3% this quarter compared to negative 3.5% in the same period last year.

At June 30, 2007, one U.S. dollar was worth $1.06 Canadian compared to $1.15 Canadian at March 31, 2007. 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 6.3% in U.S. dollars this quarter compared to negative 1.7% for the same period last year. When translated into Canadian dollars, the S&P 1500 Index decreased by 2.0% compared to negative 6.1% in the first quarter of last year.

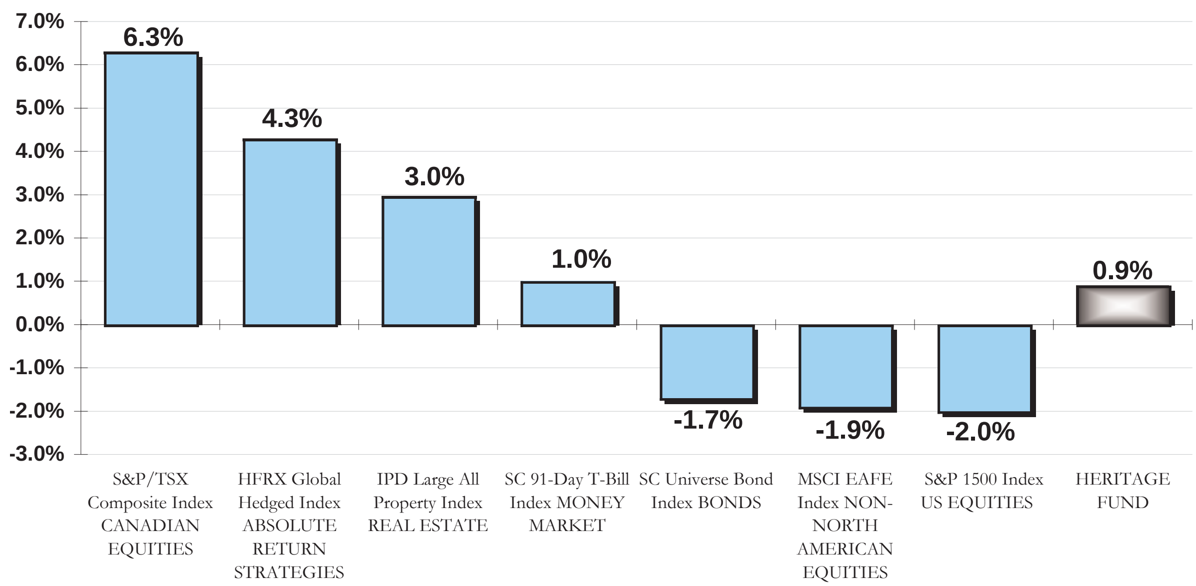
The bond market represented by the SC Bond Universe Index posted a negative return of 1.7% this quarter, compared to negative 1.0% for the same period last year.

Overall, the non-North American markets had good returns for the quarter ended June 30, 2007. The MSCI EAFE Index measures the performance of approximately 1,200 companies on 21 country indices around the world. The Index increased by 5.9% in local currency during the quarter. When translated into Canadian dollars, the Index declined by 1.9% compared to negative 3.8% in the first quarter of last fiscal year. At June 30, 2007, one EURO was worth $1.44 Canadian compared to $1.54 Canadian at March 31, 2007. As a result, investment returns from non-North American investments were lower when translated into Canadian dollars.

The Fund's investment portfolio is well diversified and includes investments in Canadian equities, absolute return strategies, bonds and money market securities, non-North American and U.S. equities, private equities, private income securities, and timberland investments. This diversification helped offset negative returns from non-Canadian equities and fixed income securities.

The following chart summarizes the market returns from various indices around the world and the overall return from the Fund for the quarter ended June 30, 2007. Indices for private equities, private income and timberland are not provided, as these investments are relatively illiquid with no readily available market index.

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



PERFORMANCE MEASURES

Value added return from long-term policy asset mix decisions
Measuring the value added from the Fund's policy asset mix decisions is determined by comparing its expected long-term investment return against the policy benchmark return. The expected long-term investment return of the Fund is the Consumer Price Index (CPI) plus 4.5%. The policy benchmark return is measured by calculating the return the policy asset mix 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 long-term annualized rate of return of 6.9% over the last five years represented by CPI plus 4.5%. The actual annualized policy benchmark return over 5 years was 8.9%, or 2.0% higher than the expected return.

Value added return from active management
In order to measure the performance of the Fund's active management, such as security selection, the Fund's actual return is compared to the policy benchmark return. For the three months ended June 30, 2007, the Fund's overall actual return of 0.9% exceeded the policy benchmark return of 0.6% by 0.3%, or approximately $50 million, net of expenses. Over five years, the Fund's overall actual annualized return of 10.0% exceeded the policy benchmark return of 8.9% by 1.1%, or approximately $150 million per year, net of expenses.

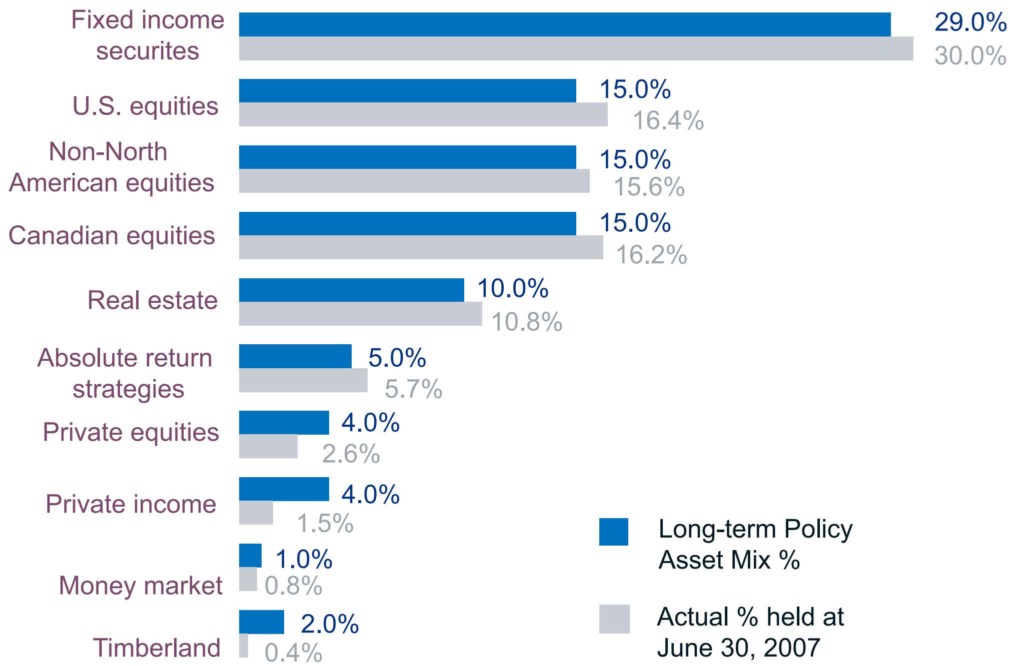
Comparison of Actual to Benchmark Returns	**Quarter Ended June 30, 2007 (%)**	**Annualized Five Year Return (%)**
		(July 02 - June 07)
Overall Actual Return	**0.9**	**10.0**
Policy Benchmark Return	***0.6***	***8.9***
Net Value Added from Active Management	**0.3**	**1.1**
LT fixed income	**(1.8)**	**6.8**
SC Universe Bond Index	*(1.7)*	*6.0*
Net value added	(0.1)	0.8
U.S. public equities	**(1.4)**	**3.4**
S&P 1500 Index	*(2.0)*	*3.3*
Net value added	0.6	0.1
Non-North American equities	**(0.6)**	**10.8**
MSCI EAFE Index	*(1.9)*	*9.6*
Net value added	1.3	1.2
Canadian public equities	**7.0**	**17.2**
S&P/TSX Index	*6.3*	*16.6*
Net value added	0.7	0.6
Real estate	**3.0**	**16.1**
IPD Large All Property Index	*3.0*	*11.9*
Net value added	0.0	4.2
Absolute return strategies	**3.7**	**8.4***
HFRX Global Hedged Index	*4.3*	*8.5* *
Net value added	(0.6)	(0.1)
Private equities	**(0.4)**	**11.6***
CPI Plus 8.0%	*3.5*	*10.3* *
Net value added	(3.9)	1.3
Private income	**1.2**	**12.3***
CPI plus 6.0%	*3.1*	*8.3* *
Net value added	(1.9)	4.0
Money market	**0.8**	**3.0**
SC 91-Day T-Bill	*1.0*	*3.1*
Net value added	(0.2)	(0.1)
Timberland	**2.0**	**n/a**
CPI plus 4.0%	*2.6*	*n/a*
Net value added	(0.6)	n/a

* four year annualized return.

INVESTMENTS

The Fund's investment portfolio is held in pooled investment funds 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 June 30, 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 June 30, 2007 and March 31, 2007. 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 June 30, 2007, the pool of unrealized gains had declined to $1.165 billion, down $388 million, from $1.553 billion at the beginning of the quarter.

Summary of Net Assets
At June 30, 2007

	June 30, 2007			March 31, 2007		
	Fair Value	**Cost**	**Unrealized Gain (loss)**	**Fair Value**	**Cost**	**Unrealized Gain**
Investments:		(in millions)			(in millions)	
Fixed income securities	$ 4,943	$ 5,057	$ (114)	$ 5,087	$ 5,055	$ 32
U.S. equities	2,707	2,533	174	2,784	2,517	267
Non-North American equities	2,574	2,412	162	2,622	2,366	256
Canadian equities	2,666	2,370	296	2,584	2,283	301
Real estate	1,773	1,212	561	1,764	1,220	544
Absolute return strategies	930	905	25	885	818	67
Private equities	430	395	35	405	359	46
Private income	241	235	6	217	200	17
Money market	133	132	1	97	97	-
Timberland	74	55	19	80	57	23
Total Investments	16,471	15,306	**$ 1,165**	16,525	14,972	**$ 1,553**
Accounts receivable (payable), net (1)	(192)	(192)		56	56	
Net assets	**$ 16,279**	**$ 15,114**		**$ 16,581**	**$ 15,028**	

(1) At June 30, 2007, includes payable to the GRF of $233 million less accrued income and accounts receivable of $41 million.

Fixed income securities

The fair value of fixed income securities totaled $4.943 billion or 30.0% of the total portfolio at June 30, 2007 compared to $5.087 billion, or 30.8% at March 31, 2007. This asset class includes bonds, mortgages and loans issued by many entities such as corporations and various levels of government.

Public equities

Public equities comprised $7.947 billion or 48.2% of the total investment portfolio at June 30, 2007 compared to $7.990 billion or 48.3% at March 31, 2007. The public equity portfolio includes shares of major publicly traded corporations in Canada, the U.S., Europe, Asia and emerging markets.

Real estate

Real estate investments are held in the internally managed Private Real Estate Pool and Foreign Private Real Estate Pool. They comprise $1.773 billion or 10.8% of the total portfolio at June 30, 2007 compared to $1.764 billion or 10.7% at March 31, 2007. The Canadian real estate portfolio includes office, retail, industrial and residential properties of which approximately 59% is located in Ontario, 30% is Alberta, 9% in Quebec and 2% in British Columbia.

Absolute return strategies

Absolute return strategies (hedge funds) comprised $930 million or 5.7% of the Fund's investment portfolio at June 30, 2007 compared to $885 million or 5.4% at March 31, 2007. 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 $430 million or 2.6% of the total portfolio at June 30, 2007 compared to $405 million or 2.4% at March 31, 2007. Private equity investments include all forms of private placement investing, i.e., venture capital and merchant banking. Venture capital investments include early stage financings for start-up companies. 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 $241 million or 1.5% of the portfolio at June 30, 2007 compared to $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 and comprised $133 million or 0.8% of the total portfolio at June 30, 2007 compared to $97 million or 0.6% 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 comprised $74 million or 0.4% of the Fund's total portfolio compared to $80 million or 0.5% at March 31, 2007. The investment includes a sole interest in a limited partnership which holds timberland and land held for more profitable use located in the Province of British Columbia.

INVESTMENT INCOME

Investments and investment income are recorded in the financial statements on a cost basis. During the three months ended June 30, 2007, the Fund earned investment income of $543 million compared to $172 million in the same period last year. Of the total investment income earned during the first quarter, $141 million (June 30, 2006: $154 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 $402 million compared to $18 million in the same period last year.

The fair value of investments provides information 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 $155 million for the three months ended June 30, 2007 compared to a loss of $321 million for the same period last 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 three months ended June 30, 2007

(in millons)	Realized income (loss) Cost basis		Increase (decrease) in unrealized gains		Income (loss) Fair value basis	
	2007	2006	**2007**	2006	**2007**	2006
Canadian equities	**$ 204**	$ 33	**$ (5)**	$ (128)	**$ 199**	$ (95)
Real estate	**36**	23	**17**	35	**53**	58
Absolute return strategies	**74**	26	**(42)**	(18)	**32**	8
Money market	**12**	7	**1**	1	**13**	8
Private income	**14**	3	**(11)**	1	**3**	4
Timberland	**5**	3	**(4)**	(2)	**1**	1
Private equity	**9**	4	**(11)**	12	**(2)**	16
Non-North American equities	**79**	72	**(94)**	(199)	**(15)**	(127)
U.S. equities	**55**	(56)	**(93)**	(87)	**(38)**	(143)
Fixed income securities	**55**	57	**(146)**	(108)	**(91)**	(51)
Net investment income	**$ 543**	$ 172	**$ (388)**	$ (493)	**$ 155**	$ (321)

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 for the three months ended June 30, 2007, totaled $15 million or 0.09% of the Fund's total fair value of investments compared to $12 million or 0.08% for the same period last year. Externally managed investments make up approximately one-third of the Fund's investment portfolio and comprise approximately 90% of the total administration expense.

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

Administrative Expense
For the three months ended June 30, 2007

(in millions)	Three Months Ended	
	June 30, 2007	June 30, 2006
Total administrative expenses	**$ 15**	$ 12
Expenses as a percent of net assets at fair value	**0.09%**	0.08%

Alberta Heritage Savings Trust Fund

Financial Statements

JUNE 30, 2007

(unaudited)

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2007 (unaudited)

(in millions)

	June 30, 2007	March 31, 2007
Assets		
Portfolio investments (Note 3)	$ 15,306	$ 14,972
Accrued investment income	21	21
Receivable from sale of investments	20	32
Due from the General Revenue Fund	-	8
	$ 15,347	$ 15,033
Liabilities		
Due to the General Revenue Fund	$ 233	$ -
Liabilities for investment purchases	-	5
	233	5
Net Assets (Note 6)	15,114	15,028
	$ 15,347	$ 15,033

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF OPERATIONS AND NET ASSETS

FOR THE THREE MONTHS ENDED JUNE 30, 2007 (unaudited)

(in millions)

	Three Months Ended June 30,	
	2007	2006
Net income (Note 7)	$ 543	$ 172
Transfers to the General Revenue Fund (Note 6b)	(457)	(101)
Amount retained for inflation-proofing (Note 6b)	86	71
Net Assets at beginning of period	15,028	13,494
Net Assets at end of period	$ 15,114	$ 13,565

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

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED JUNE 30, 2007 (unaudited)

(in millions)

	Three Months Ended June 30, 2007	2006
Operating transactions		
Net income	$ 543	$ 172
Non-cash items included in net income	(64)	(18)
	479	154
Decrease (increase) in accounts receivable	12	(71)
Decrease in accounts payable	(5)	(63)
Cash provided by operating transactions	486	20
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	561	222
Purchase of investments	(802)	(424)
Cash applied to investing transactions	(241)	(202)
Transfers		
Transfers to the General Revenue Fund	(457)	(101)
Increase in amounts due to the General Revenue Fund	241	101
Cash applied to transfers	(216)	-
Increase (decrease) in cash	29	(182)
Cash at beginning of period	22	229
Cash at end of period	$ 51	$ 47
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 51	$ 47

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

ALBERTA HERITAGE SAVINGS TRUST FUND

Notes to the Financial Statements

JUNE 30, 2007 (unaudited)
(in millions)

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

(a) Portfolio Investments

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

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

Investments are recorded as of the trade date.

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

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

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value. For certain investments such as private equities, private income, private real estate, absolute return strategies and timberland investments, the actual income and expense 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 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, credit default swap contracts and options, are recorded at fair value.

(c) Foreign Currency

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At period end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the period 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.

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 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 period-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 (in millions)

	June 30, 2007			March 31, 2007		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash and Absolute Return Strategies						
Money Market						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 51	$ 51	0.3	$ 22	$ 22	0.1
Currency Alpha Pool (b)	33	34	0.2	23	23	0.2
Tactical Asset Allocation Pool (c)	48	48	0.3	52	52	0.3
	132	**133**	**0.8**	**97**	**97**	**0.6**
Absolute Return Strategies (d)	**905**	**930**	**5.7**	**818**	**885**	**5.4**
Fixed-Income Securities						
Universe Fixed Income Pool (e)	4,383	4,279	26.0	4,372	4,398	26.6
Private Mortgage Pool (f)	576	566	3.4	585	591	3.6
Loans, directly held (g)	98	98	0.6	98	98	0.6
	5,057	**4,943**	**30.0**	**5,055**	**5,087**	**30.8**
Inflation Sensitive						
Real Estate						
Private Real Estate Pool (h)	1,123	1,688	10.2	1,133	1,676	10.1
Foreign Private Real Estate Pool (i)	89	85	0.6	87	88	0.6
	1,212	**1,773**	**10.8**	**1,220**	**1,764**	**10.7**
Private Income (j)	**235**	**241**	**1.5**	**200**	**217**	**1.3**
Timberland (k)	**55**	**74**	**0.4**	**57**	**80**	**0.5**
Equities						
Canadian						
Canadian Structured Equity Pool (l)	828	852	5.2	955	1,019	6.2
Canadian Pooled Equity Fund (m)	566	747	4.6	557	718	4.3
Canadian Equity Enhanced Index Pool (n)	317	370	2.2	308	353	2.1
Canadian Large Cap Equity Pool (o)	263	266	1.6	254	255	1.5
Growing Equity Income Pool (p)	127	159	1.0	124	149	0.9
Canadian Multi-Cap Pool (q)	473	476	2.9	305	310	1.9
Tactical Asset Allocation Pool Canadian futures (c)	(204)	(204)	(1.3)	(220)	(220)	(1.3)
	2,370	**2,666**	**16.2**	**2,283**	**2,584**	**15.6**
United States						
US Structured Equity Pool (r)	1,442	1,584	9.6	1,412	1,618	9.8
US Small/Mid Cap Equity Pool (s)	278	304	1.8	277	309	1.8
Portable Alpha United States Equity Pool (t)	556	561	3.4	562	591	3.6
Growing Equity Income Pool (p)	50	51	0.3	49	49	0.3
Tactical Asset Allocation Pool US futures (c)	207	207	1.3	217	217	1.3
	2,533	**2,707**	**16.4**	**2,517**	**2,784**	**16.8**
Non-North American						
EAFE Active Equity Pool (u)	1,811	1,956	11.9	1,746	1,980	12.0
EAFE Structured Equity Pool (v)	479	460	2.8	493	475	2.9
Emerging Markets Equity Pool (w)	122	158	0.9	127	167	1.0
	2,412	**2,574**	**15.6**	**2,366**	**2,622**	**15.9**
Private Equities (j)	**395**	**430**	**2.6**	**359**	**405**	**2.4**
Total Investments (x)	**$ 15,306**	**$ 16,471**	**100.0**	**$ 14,972**	**$ 16,525**	**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 June 30, 2007, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	June 30, 2007	March 31, 2007
Absolute Return Strategy Pool	84.5	86.1
Canadian Equity Enhanced Index Pool	24.6	25.2
Canadian Large Cap Equity Pool	13.0	13.0
Canadian Multi-Cap Pool	46.2	45.5
Canadian Pooled Equity Fund	53.8	54.2
Canadian Structured Equity Pool	46.1	46.8
Currency Alpha Pool	37.2	37.2
EAFE Active Equity Pool	29.6	30.2
EAFE Passive Equity Pool	0.0	76.5
EAFE Structured Equity Pool	40.0	40.6
Emerging Markets Equity Pool	24.9	24.5
Foreign Private Equity Pool (02)	87.5	87.5
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	85.2
Growing Equity Income Pool	52.9	54.1
Portable Alpha United States Equity Pool	80.0	84.2
Private Equity Pool	13.6	13.6
Private Equity Pool (02)	88.8	88.8
Private Equity Pool (04)	89.0	89.0
Private Equity Pool (98)	100.0	100.0
Private Income Pool	88.5	88.5
Private Income Pool 2	86.7	86.7
Private Mortgage Pool	38.0	38.7
Private Real Estate Pool	36.0	36.6
Tactical Asset Allocation Pool	82.1	83.7
Timberland Pool	87.6	87.6
US Small/Mid Cap Equity Pool	23.5	23.9
US Structured Equity Pool	37.4	37.6
Universe Fixed Income Pool	41.3	41.8

(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, 2007, securities held by the Fund have an average effective market yield of 4.62% per annum (March 31, 2007: 4.36% 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.

(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 June 30, 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 June 30, 2007, securities held by the Pool have an average effective market yield of 5.25% per annum (March 31, 2007: 4.5% per annum) and the following term structure based on principal amount: under 1 year: 4% (March 31, 2007: 3%); 1 to 5 years: 31% (March 31, 2007: 33%); 5 to 10 years: 35% (March 31, 2007: 34%); 10 to 20 years: 11% (March 31, 2007: 11%); and over 20 years: 19% (March 31, 2007: 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 (94.5%) and provincial bond residuals (5.5%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at June 30, 2007, securities held by the Pool have an average effective market yield of 5.56% per annum (March 31, 2007: 5.09% per annum) and the following term structure based on principal amount: under 1 year: 4% (March 31, 2007: 6%); 1 to 5 years: 14% (March 31, 2007: 15%); 5 to 10 years: 58% (March 31, 2007: 54%); 10 to 20 years: 5% (March 31, 2007: 5%); and over 20 years: 19% (March 31, 2007: 20%).

(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 June 30, 2007, investment in loans, at cost, include the Ridley Grain loan amounting to $96 (March 31, 2007: $96) and the Vencap loan amounting to $2 (March 31, 2007: $2).

- 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 $96 and deferred interest is repayable on or before July 31, 2015. Deferred interest at June 30, 2007 amounted to $90 (March 31, 2007: $90). 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 $53, is due July 2046 and bears no interest. Amortization on the Vencap loan is calculated 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 and land held for higher and better use located 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.

(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) 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.

(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)). During the prior year, the EAFE Passive Equity Pool was combined with the EAFE Structured Equity Pool.

(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 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.

(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.

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, 2007 (in millions):

	Maturity			**June 30, 2007**		**March 31, 2007**	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Equity index swap contracts	82%	18%	-	$ 3,516	$ (11)	$ 3,511	$ (3)
Interest rate swap contracts	7%	20%	73%	2,843	1	2,753	(6)
Forward foreign exchange contracts	100%	-	-	2,271	71	2,262	(2)
Cross-currency interest rate swaps	21%	47%	32%	1,001	59	1,035	30
Credit default swap contracts	2%	12%	86%	7,577	(24)	6,679	(22)
Bond index swap contracts	100%	-	-	1,111	5	1,561	2
Equity index futures contracts	100%	-	-	1,257	35	1,206	29
Swap option contracts	68%	32%	-	4,001	-	4,997	-
				$ 23,577	$ 136	$ 24,004	$ 28

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

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

NOTE 5 INVESTMENT RISK MANAGEMENT

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

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 (in millions)

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 it was created on May 19, 1976:

	Cumulative since 1976	
	June 30, 2007	March 31, 2007
Accumulated net income	$ 30,513	$ 29,970
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future (a)	1,000	1,000
Voted Payments	2,000	2,000
	15,049	15,049
Transfers (from) the Fund		
Section 8(2) transfers (b)		
Income	(28,144)	(27,601)
Amount Retained for Inflation-proofing	1,182	1,096
	(26,962)	(26,505)
Capital Expenditures (1976-1995) (c)	(3,486)	(3,486)
	(30,448)	(29,991)
Net Assets, at cost	**$ 15,114**	**$ 15,028**
Net Assets, at fair value	**$ 16,279**	**$ 16,581**

(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.

(b) In accordance with section 8(2) of the Act, the Fund transferred $457 million to the GRF for the year. The Act states that the net income of the Heritage Fund, totalling $543 million, less any amount retained in the Fund to maintain its value, in accordance with section 11(1), totalling $86 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.

(c) 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 (in millions)

	Three Months Ended June 30,	
	2007	2006
Canadian equities	$ 204	$ 33
Non-North American equities	79	72
Absolute return strategies	74	26
Deposit and fixed-income securities	67	64
United States equities	55	(56)
Real estate	36	23
Private income	14	3
Private equities	9	4
Timberland	5	3
Net income	**$ 543**	**$ 172**

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income 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 three months ended June 30, 2007 includes writedowns totalling $3 (June 30, 2006: $10).

NOTE 8 ADMINISTRATIVE EXPENSES (in millions)

External management fees and internal management expenses are deducted directly from the income from pooled investment funds. Internal fees charged by Alberta Finance, totalling $1 (June 30, 2006: $2), are on a cost recovery basis. External management fees, totalling $14 (June 30, 2006: $10), 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.

	Three Months Ended June 30,	
	2007	2006
Total Administrative expenses	$ 15	$ 12
Percent of net assets at fair value	0.09%	0.08%

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:

	Three Month Return	Five Year Compound Annualized Return
Time-weighted rates of return		
Overall actual return	0.9%	10.0%
Benchmark return (1)(2)	0.6%	6.9%

(1) The overall benchmark return for the three months ended June 30, 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 2.4%. Therefore, the fund is expected to generate a nominal annualized rate of return of 6.9%.

NOTE 10 COMPARATIVE FIGURES

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

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

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