Alberta Heritage Savings Trust Fund

Interim Financial Report

For the Nine Months Ended
December 31, 2011

Government of Alberta

Heritage Fund

The mission
of the Heritage Fund
is to provide prudent stewardship
of the savings from Alberta's
non-renewable resources by providing
the greatest financial returns on those savings
for current and future generations
of Albertans.

Published by Alberta Finance

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2011-12 THIRD QUARTER FINANCIAL STATEMENT HIGHLIGHTS

Net income: **$183** Million

Rate of Return: **1.5** Per cent

Fair Value: **$15.4** Billion

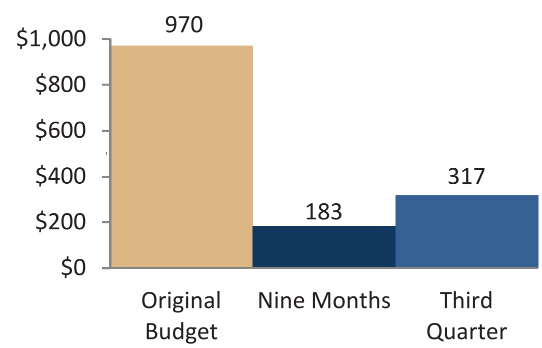
Positive stock market fundamentals, including healthy corporate profits and low price-to-earnings ratios, helped propel global equity markets into positive territory in the third quarter of fiscal 2011-12. Gains in equities of 4.2% this quarter partially offset last quarter's losses stemming from the European sovereign debt crisis and downgrades in credit ratings of numerous countries including the U.S. Over nine months, the equity investments have lost 6.5%.

Most of the Fund's income over the past nine months has come from its diversified investments in interest-bearing securities and real estate. Real estate investments gained 13.6% in the third quarter and 19.2% over nine months, while interest bearing securities gained 1.5% this quarter for a gain of 8.1% over nine months.

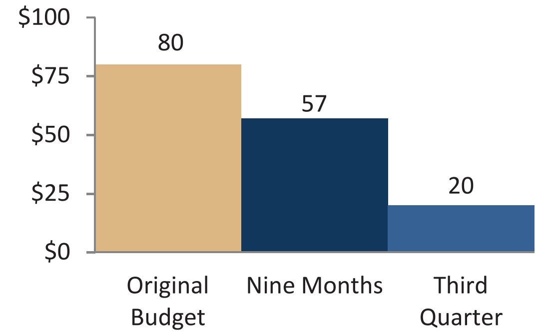
The Alberta Heritage Savings Trust Fund (the Fund) recorded net income of $317 million in the third quarter of 2011-12, which more than offset the net loss from the previous six months of $134 million, giving the Fund an overall net income of $183 million for the nine months ended December 31, 2011. All of the income was retained in the Fund for inflation proofing. In the 3rd quarter of 2011-12, the Fund earned 4.6% on its investments which more than offset the net loss of -2.9% from the previous six months for an overall return of 1.5% over nine months.

The charts below show the original budget for net income and expenses in fiscal 2011-12 and the actual income and expenses over the past nine months and the third quarter.

Net income, after expenses ($ millions)

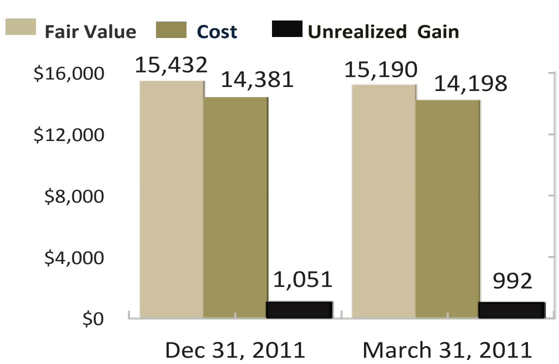


Investment expense ($ millions)

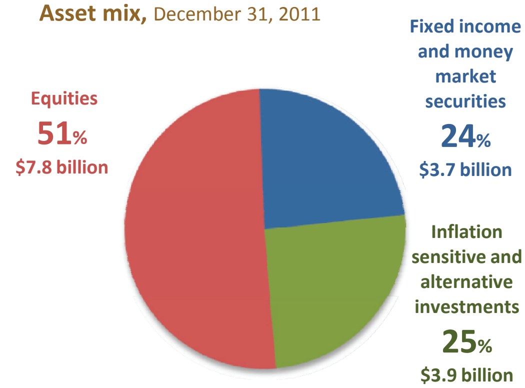


At December 31, 2011, the net asset value of the Fund totaled $15.4 billion, at fair value, and $14.4 billion, at cost. Net unrealized gains increased by $59 million to $1,051 million from $992 million at the beginning of the year.

Value of Heritage Fund ($ millions)



Asset mix, December 31, 2011



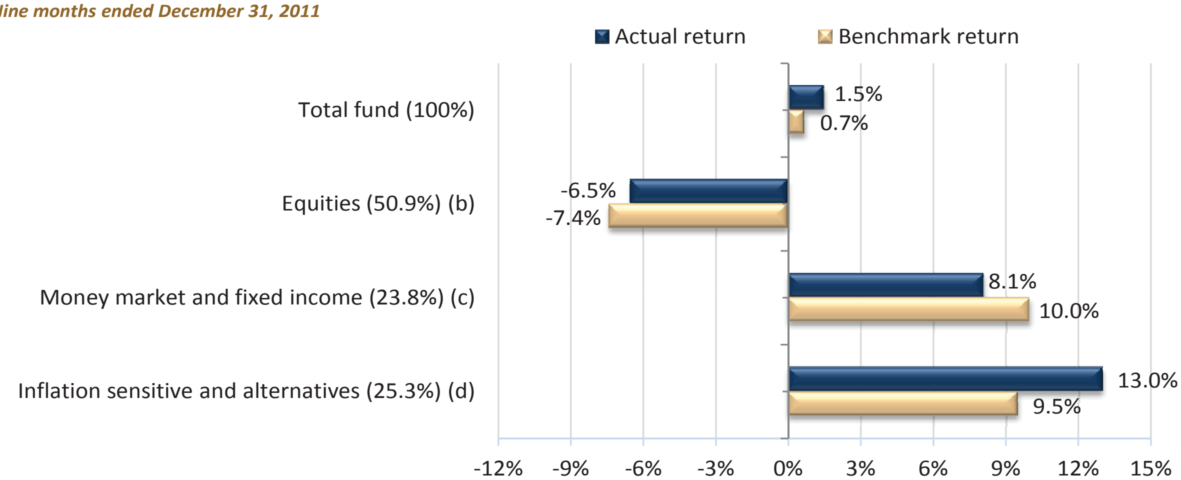
INVESTMENT RETURNS (See Note 8 to Financial Statements)

The Fund's third quarter gain of 4.6% more than offset its loss of -2.9% in the first half of the year for an overall gain of 1.5% for the nine months ended December 31, 2011.

Money market and fixed income securities gained 1.5% in the third quarter and 8.1% over nine months, while inflation sensitive and alternative investments gained 8.3% in the third quarter and 13.0% over nine months. Equity investments gained 4.2% in the third quarter, reducing the loss over nine months to -6.5%.

In the chart below, the horizontal bars compare the actual return against the benchmark return, on a fair value basis. The asset class and its percent of the total Fund is shown on the left.

Comparison of Actual Returns to Benchmark Returns [a] (in Canadian dollars)
Nine months ended December 31, 2011



(a) All returns provided by AIMCo on January 20, 2012. Any changes to returns subsequent to January 20, 2012 will be reflected in the next reporting period.

(b) Money market and fixed income securities are comprised of:

i) 4% Deposits and short-term securities and 96% bonds and mortgages which posted a gain of 1.5% this quarter and 8.1% over nine months compared to the benchmark gain of 10.0%.

(c) Equities are comprised of:

i) 73% Foreign equities, which posted a gain of 5.7% this quarter for a loss of -7.0% over nine months compared to the benchmark loss of -6.1%,
ii) 15% Canadian equities, which posted a gain of 3.3% this quarter for a loss of -12.0% over nine months compared to the benchmark loss of -13.6%,
iii) 12% Private equities, which posted a loss of -3.9% this quarter for a gain of 6.3% over nine months compared to the benchmark loss of -7.1%.

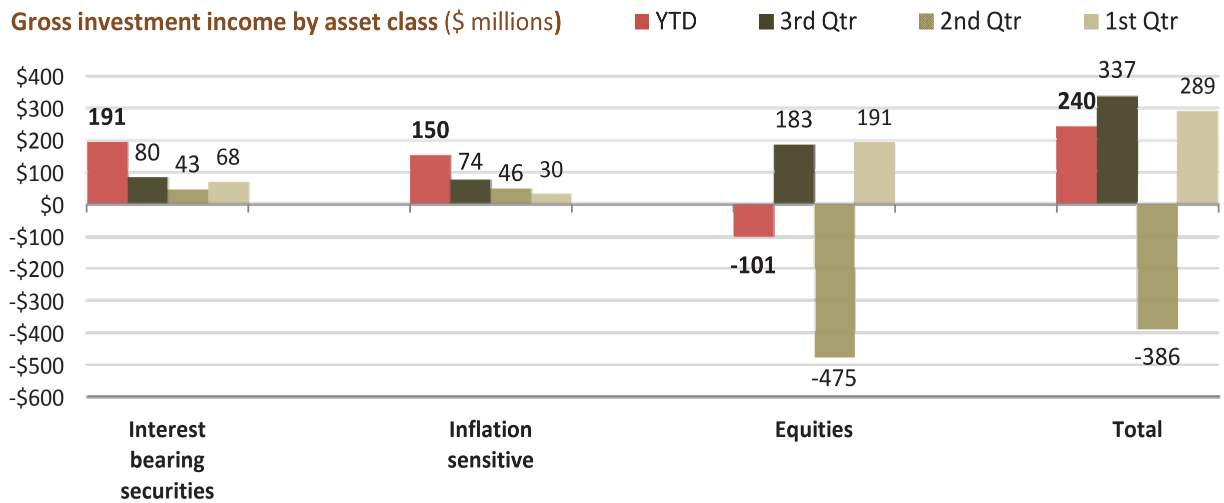
(d) Inflation sensitive and alternatives are comprised of:

i) 62% Real estate, which posted a gain of 13.6% this quarter for a gain of 19.2% over nine months compared to the benchmark gain of 18.4%,
ii) 31% Infrastructure and private debt, which posted a gain of 0.2% this quarter for a gain of 2.7% over nine months compared to the benchmark loss of -3.2%,
iii) 7% Timberland, which posted a gain of 1.5% this quarter for a gain of 13.8% over nine months compared to the benchmark loss of -3.2%.

INVESTMENT INCOME (LOSS), before expenses (See Note 6 to Financial Statements)

Over the past nine months, gross investment income, before expenses, totalled $240 million of which $191 million came from interest bearing securities, $150 million from inflation sensitive investments, mostly from real estate, and a loss of $101 million from equities. Interest bearing securities and inflation sensitive investments continued to provide a steady stream of income for the Fund. Income from equity investments continues to be volatile. Investments and investment income are recorded in the financial statements on a cost basis, which excludes unrealized gains and losses.

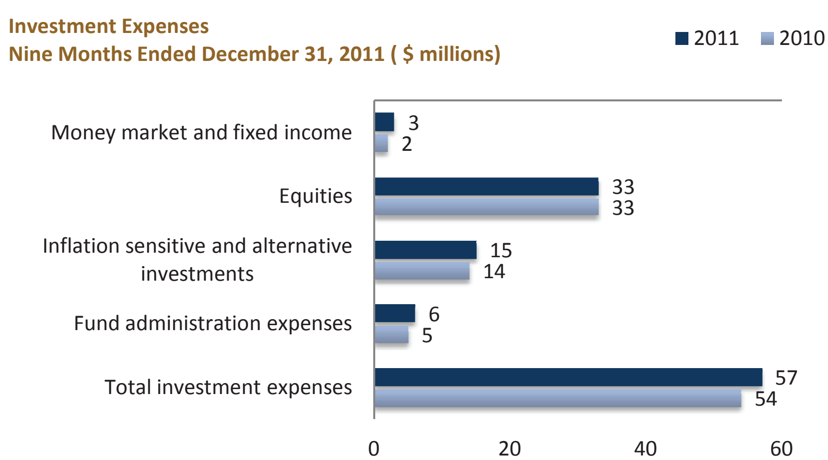
The chart below shows the Fund's gross investment income, before expenses, for the past nine months (year- to-date) and the previous three quarters.



INVESTMENT EXPENSES (See Note 7 to Financial Statements)

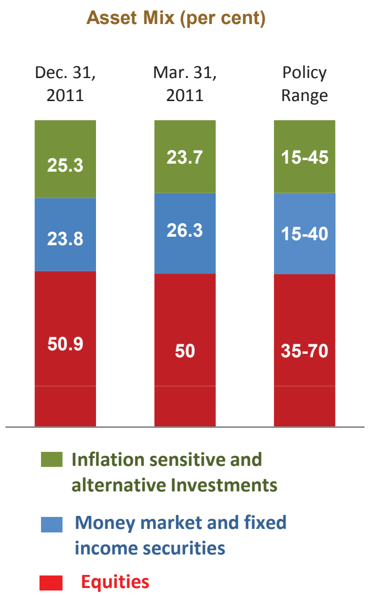
The day-to-day investment services for the Fund are provided by AIMCo which manages the majority of the Fund's investments through pooled investment funds. While most of the investments are managed directly by AIMCo, some investments are managed by third party investment managers selected and monitored by AIMCo. The Department of Finance provides investment accounting and reporting for the Fund, investment policy oversight and treasury management services. A portion of these costs is charged to the Fund.

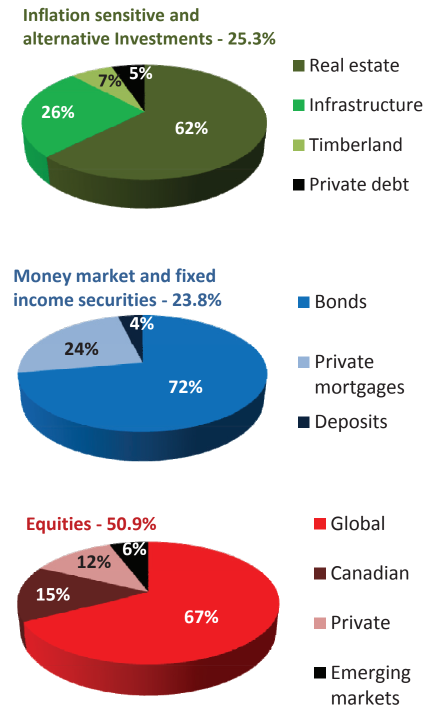
Investment expenses totalled $57 million over nine months compared to $54 million for same period last year. As a percentage of net assets, investment expenses represent 0.37% of net assets compared to 0.36% in 2010.



INVESTMENTS (See Note 3 to Financial Statements)

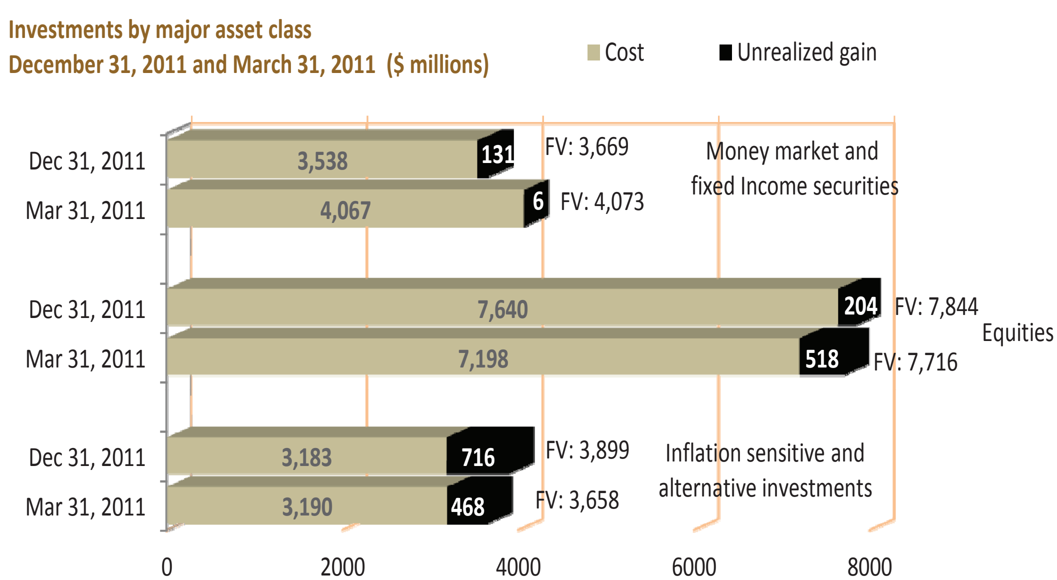
The chart on the right compares the actual asset mix of the Fund at December 31, 2011 to the asset mix at March 31, 2011 and the approved policy range reported in the Fund's Statement of Investment Policies and Goals (SIP&G).





As a percentage of the total Fund, equities increased to 50.9% from 50.0% at the beginning of the year. Inflation sensitive and alternative investments increased to 25.3% from 23.7%. These increases were offset by a decrease in money market and fixed income securities. Most of the increase in equities came from moving the hedge fund portfolio into the global developed portfolio in the first quarter offset by a decrease in the value of equities.

The chart below shows the cost, unrealized gain and total fair value (FV) for each of the three major asset classes at December 31, 2011, and March 31, 2011. Unrealized gains represent the difference between the fair value and cost of the investment. Once securities are sold, unrealized gains become realized and are included in investment income for the year. At December 31, 2011, unrealized gains totalled $1,051 million, up $59 million from $992 million at March 31, 2011. Increases in unrealized gains from money market and fixed income securities of $125 million and $248 million from inflation sensitive and alternative investments were offset by a decrease in unrealized gains from equities of $314 million.



Financial Statement Discussion & Analysis

Alberta Heritage Savings Trust Fund

Interim Financial Statements

(unaudited)

December 31, 2011

Statement of Financial Position

As at December 31, 2011

(unaudited)

(in millions)

	December 31, 2011	March 31, 2011
Assets		
Portfolio investments (Note 3)	$ 14,361	$ 14,455
Receivable from sale of investments and accrued income	22	19
	$ 14,383	$ 14,474
Liabilities		
Due to the General Revenue Fund	$ -	$ 276
Payable from purchase of investments and amounts payable	2	-
	2	276
Net Assets (Note 5)	14,381	14,198
	$ 14,383	$ 14,474

Statement of Operations and Net Assets

Nine Months Ended December 31, 2011

(unaudited)

(in millions)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2011	**2010**	**2011**	**2010**
Investment income (Note 6)	$ 337	$ 508	$ 240	$ 772
Investment expenses (Note 7)	(20)	(17)	(57)	(54)
Net income	317	491	183	718
Transfers to the General Revenue Fund (Note 5b)	-	(416)	-	(490)
Net income retained in the Fund (Note 5b)	317	75	183	228
Net Assets at beginning of period	14,064	13,991	14,198	13,838
Net Assets at end of period	$ 14,381	$ 14,066	$ 14,381	$ 14,066

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Nine Months Ended December 31, 2011

(unaudited)

(in millions)

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Operating transactions				
Net income	$ 317	$ 491	$ 183	$ 718
Non-cash items included in net income	(26)	(50)	(133)	(69)
	291	441	50	649
(Increase) decrease in accounts receivable	(3)	20	(3)	25
Increase in accounts payable	1	-	2	-
Cash provided by operating transactions	289	461	49	674
Investing transactions				
Proceeds from disposals, repayments and redemptions of investments	931	821	3,460	1,680
Purchase of investments	(1,248)	(1,116)	(3,248)	(2,211)
Cash provided by (used by) investing transactions	(317)	(295)	212	(531)
Transfers				
Transfers to the General Revenue Fund	-	(416)	-	(490)
Decrease in amounts due to the General Revenue Fund	-	416	(276)	490
Cash used in transfers	-	-	(276)	-
(Decrease) increase in cash	(28)	166	(15)	143
Cash at beginning of period	118	60	105	83
Cash at end of period	$ 90	$ 226	$ 90	$ 226
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3a)	$ 90	$ 226	$ 90	$ 226

The accompanying notes are part of these financial statements.

Notes to the Interim Financial Statements

December 31, 2011

(unaudited)

(in millions)

NOTE 1 AUTHORITY AND MISSION

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

These financial statements are prepared in accordance with Canadian public sector accounting standards.

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

a) PORTFOLIO INVESTMENTS

The Fund invests in units of pooled investment funds established and administered by Alberta Investment Management Corporation (AIMCo). Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units. Pooled investment funds include financial instruments (including derivatives), investment receivables and liabilities, and cash.

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. 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.

b) INVESTMENT INCOME AND EXPENSES

Investment income and expenses, as reported in Notes 6 and 7, are recorded on the accrual basis. Investment income is accrued when 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 infrastructure, private real estate, absolute return strategies and timberland investments, the actual income and expenses may not be known at the time the financial statements are prepared. In these cases, estimates may be used, which may vary from actual income and expenses.

Net recognized gains and losses arising as a result of disposals of investments, including those arising from derivative transactions, are included in the determination of investment income.

Changes in fair value of derivative contracts are included in investment income except for certain derivative contracts 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 year as the gains and losses of the security being hedged.

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. When the derivative no longer qualifies as an effective hedge, the hedge accounting is discontinued prospectively. If hedge accounting is discontinued, gains and losses resulting from the changes in fair value of the derivative contract are recognized in income immediately.

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) VALUATION OF INVESTMENTS

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 infrastructure, private debt and loans, private real estate, absolute return strategy hedge funds, timberland investments, and other investments where no readily available market exists. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

Changes in estimated fair value of investments are reported in the period in which new information is received.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING.... CONTINUED

The methods used by AIMCo to determine fair value of investments held either by the Fund or by pooled investment funds is explained in the following paragraphs:

i) Public interest-bearing 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 interest-bearing debt 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 and infrastructure investments is estimated by managers or general partners of private equity and infrastructure 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 earnings multiple analysis.

iv) The estimated 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.

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, warrants and swap option contracts. As disclosed in Note 3, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from 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 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.

vi) Warrants and rights 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.

NOTE 3 PORTFOLIO INVESTMENTS (in millions)

	December 31, 2011			March 31, 2011		
	Cost *	**Fair Value ***	**%**	**Cost**	**Fair Value**	**%**
Interest-bearing securities						
Deposits and short-term securities [a]	$ 135	$ 135	0.9	$ 119	$ 119	0.7
Bonds and mortgages [b]	3,403	3,534	22.9	3,948	3,954	25.6
	3,538	3,669	23.8	4,067	4,073	26.3
Equities						
Canadian [c]	1,107	1,152	7.5	1,214	1,414	9.2
Global developed [d]	5,194	5,295	34.3	5,141	5,412	35.0
Emerging markets [e]	447	448	2.9	46	45	0.3
Private [f]	892	949	6.2	797	845	5.5
	7,640	7,844	50.9	7,198	7,716	50.0
Inflation sensitive and alternative investments						
Real estate [g]	1,731	2,445	15.8	1,544	1,987	12.9
Inflation sensitive real return bonds [h]	-	-	-	4	5	-
Infrastructure [i]	1,049	998	6.5	641	587	3.8
Absolute return strategy hedge funds [j]	-	-	-	720	788	5.1
Timberland [k]	217	259	1.7	205	216	1.4
Private debt and loan [l]	186	197	1.3	76	75	0.5
	3,183	3,899	25.3	3,190	3,658	23.7
Total Investments [m]	**$ 14,361**	**$ 15,412**	**100.0**	**$ 14,455**	**$ 15,447**	**100.0**

* Investment balances are based on amounts provided by AIMCo on the 6th business day following the quarter end. Any changes to the balances will be made in the subsequent quarter.

The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the *Statement of Investment Policies and Goals* (SIP&G) approved by the Minister of Finance. The majority of the Fund's investments, in each asset class, are held in pooled investment funds established and administered by AIMCo. Pool units represent the Fund's proportionate share of securities held in the pooled fund. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

a) Deposits and short-term securities includes deposits in the Consolidated Cash Investment Trust Fund (CCITF), being cash as reported in the Statement of Cash Flows, of $90 (March 31, 2011: $105) and short-term securities of $45 (March 31, 2011: $14). These investments include primarily short-term and mid-term interest-bearing securities

NOTE 3 PORTFOLIO INVESTMENTS (in millions) CONTINUED

which have a maximum term to maturity of less than three years. At December 31, 2011, deposits in CCITF had a time-weighted return of 1.3% per annum (March 31, 2011: 1.1% per annum).

b) Interest-bearing bonds and mortgages include universe bonds totalling $2,423 (March 31, 2011: $2,883), private mortgages totaling $830 (March 31, 2011: $797), policy investments of $144 (March 31, 2011: $148) and other securities of $6 (March 31, 2011: $120). The portfolio includes government direct and guaranteed bonds and mortgage-backed securities, corporate bonds and asset-backed securities, private debt issues, private mortgages, repurchase agreements, debt-related derivatives and loans. At December 31, 2011, interest bearing bonds and mortgages had an average effective market yield of 3.7% per annum (March 31, 2011: 4.5% per annum) and the following term structure based on principal amount: under 1 year: 3% (March 31, 2011: 11%); 1 to 5 years: 45% (March 31, 2011: 32%); 5 to 10 years: 24% (March 31, 2011: 31%); 10 to 20 years: 15% (March 31, 2011: 13%); and over 20 years: 13% (March 31, 2011: 13%).

   Included in bonds and mortgages are two policy investments held in the Fund prior to its restructuring in 1996-97. These policy investments include an 11% participating first mortgage bond with principal and deferred interest totaling $165 (March 31, 2011: $169) due July 31, 2015 and a loan with principal of $53 due July 2046. At December 31, 2011, these policy investments have carrying values, excluding accrued interest, of $141 and $3 respectively (March 31, 2011: $145 and $3).

c) The Fund's Canadian public equity portfolio includes directly held investments in Canadian public companies and indirect exposure to Canadian public equity markets through structured equity products using index swaps and futures contracts linked to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) Composite Index and S&P/TSX 60 Index.

d) The global developed market is used to describe countries whose economies and capital markets are well established and mature. The Fund's global developed public equity portfolio includes directly held investments in public companies in the U.S., Europe, Australasia and the Far East (EAFE), emerging markets and Canada. The Fund's indirect exposure to global developed markets and emerging markets is also attained by investing in structured equity products using index swaps and futures contracts linked to the Morgan Stanley Capital International (MSCI) World Total Return Index, MSCI EAFE Index, S&P 500 Index and Emerging Markets Free Net Index. A component of the Fund's global portfolio includes investments in North American concentrated equities which include larger holdings in mid-size Canadian and American companies ranging from 5% to 20% of outstanding common shares. The portfolio also included value-added hedge funds which are externally managed.

e) Emerging markets consist of publicly traded equities in countries in the process of rapid growth and industrialization such as Brazil, Russia, India and China. The portfolio is actively managed by external managers with expertise in emerging markets.

f) Canadian and foreign private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

g) The real estate portfolio is primarily held in Canada. Real estate is held through intermediary companies, which issue 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. Real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities which provide diversification from the securities market with opportunities for high return.

h) The inflation sensitive real return bond portfolio is primarily made up of bonds that are issued or guaranteed by the Government of Canada, and bear interest at a fixed rate adjusted for inflation.

i) Infrastructure investments include investments that are structured to provide high returns plus inflation sensitivity with a long investment horizon. Investments may include transportation and logistic investments (e.g. toll roads, airports, ports and rail), power or energy investments (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, waste water, natural gas networks).

j) Effective April 1, 2011 hedge fund assets are classified under equities in accordance with the Fund's SIP&G and on June 30, 2011 hedge fund assets were transferred to the global developed portfolio. The absolute return strategies (hedge funds) use external managers who employ various investment strategies which are expected to produce absolute positive investment returns with lower volatility. Investments are made through multi-hedge fund-of-funds and direct investments to increase strategy diversification.

k) Canadian and foreign timberland investments are inflation sensitive and long-duration. The Canadian timberland investment includes an interest in timber and related land located in the Province of British Columbia. The foreign investment primarily includes forestry and agricultural land in Australia.

l) Private debt and loan investments are in Canada, the United States and Europe. The debt will generally be unrated and if rated would be non-investment grade, i.e. BB and lower. These investments may include senior secured loans, leveraged loans, mezzanine debt and convertible debt.

m) Included in the fair value of the Fund's investments in various pooled funds, summarized in Note 3 by asset class, is the fair value of derivative contracts. A derivative is a financial contract with the following three characteristics (1) its value changes in response to the changes in a specified interest rate, equity or bond index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market and (3) it is settled in the future. AIMCo uses various types of derivative contracts in the pooled investment funds to gain access to equity markets and enhance returns, manage exposure to interest rate risk, currency risk and credit risk and for asset mix 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 with a counter-party. At December 31, 2011, the net fair value of derivative related investments, including deposits in futures contracts margin accounts and collateral accounts, totalled $139 million or 0.9% of total investments (March 31, 2011: $197 million or 1.3% of total investments).

NOTE 3 PORTFOLIO INVESTMENTS (in millions) CONTINUED

The following is a summary of the Fund's proportionate share of the notional amount and fair value for each class of derivative financial instrument included in the fair value of the investments at December 31, 2011 (in millions):

	Maturity			December 31, 2011		March 31, 2011	
Purpose	Under 1 year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Fair Value (b)	Notional Amount (a)	Fair Value (b)
Interest rate derivatives [c]	50%	11%	39%	$ 1,893	$ 13	$ 1,947	$ 10
Equity replication derivatives [d]	92%	8%	-	7,606	53	8,024	30
Foreign currency derivatives [e]	99%	1%	-	4,571	(1)	6,889	38
Credit risk derivatives [f]	16%	21%	63%	1,073	(21)	1,811	(17)
Derivative related receivables, net					44		61
Deposits in futures contracts margin accounts					95		136
Net derivative related investments					$ 139		$ 197

(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).

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

(c) Interest rate derivatives allow the Fund to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps and futures contracts and options.

(d) Equity replication derivatives provide for the Fund to receive or pay cash based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

(e) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(f) Credit risk derivatives include credit default swaps allowing the Fund to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

At December 31, 2011, the value of equity index swap contracts includes amounts related to counterparties that are public service pension plans and Government of Alberta endowment funds managed by AIMCo. The net fair value of these contracts totalled $(13) (March 31, 2011: $(1)).

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity 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. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the *Statement of Investment Policies and Goals* (SIP&G) approved by the Minister of Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 3). In order to earn the best possible return at an acceptable level of risk, the Minister approved the following long-term asset mix policy ranges:

Interest-bearing securities	15–45 %
Equities	35–70 %
Inflation sensitive and alternative investments	15–40 %

Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Fund. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. Interest bearing securities, reported in Note 3, primarily include investment grade bonds, notes and short-term securities issued by governments and corporations and privately issued mortgage and debt securities. Investment grade securities are those issued by counterparties that have a credit rating of BBB- (moderately safe investment) to AAA (safe investment with almost no counterparty credit risk).

Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. A ten per cent increase in the value of the Canadian dollar against all currencies, with all other variables and underlying values held constant, would result in an approximate decrease in the fair value of the Fund's investments by $668 million (March 31, 2011: $705 million).

Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pooled investment funds managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. A one per cent increase in interest rates, with all other variables held constant, would result in an approximate decrease in the fair value of the Fund's interest bearing investments of $197 million (March 31, 2011: $211 million).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Price risk

Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in pooled investment funds managed by AIMCo. The Fund's investments are recorded at cost. Changes in fair value of investments are recognized upon sale of the investment. A ten per cent decrease in equity market indices with all other variables held constant, would result in an approximate decrease in the Fund's fair value by approximately $ 658 million (March 31, 2011: $670 million).

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on futures contracts. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables for investment purchases.

NOTE 5 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 the Fund was created on May 19, 1976:

	Cumulative since 1976	
	December 31, 2011	March 31, 2011
Accumulated net income	$ 31,489	$ 31,306
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [(a)]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8(2) transfers [(b)]		
Income	(31,694)	(31,511)
Amount Retained for Inflation-proofing	2,105	1,922
	(29,589)	(29,589)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
	(33,075)	(33,075)
Net Assets, at cost	**$ 14,381**	**$ 14,198**
Net Assets, at fair value	**$ 15,432**	**$ 15,190**

(a) Section 9.1 of the *Alberta Heritage Savings Trust Fund Act* (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) During the period, the Fund earned net income of $183 million. Section 8(2) of the Act states that the net income of the Heritage Fund less any amount retained in the Fund to maintain its value, in accordance with section 11(1), shall be transferred to the GRF annually in a manner determined by the Minister of Finance.

If the income of the Fund is less than that required to be retained, then the income, if any, shall be retained in the Fund. All of the income for the nine months ended December 31, 2011 has been retained in the Fund for inflation-proofing. 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 implicit price index (GDP Deflator Index) for the year. In accordance with section 11(3), if the GDP Deflator Index is a negative number, that negative number shall be treated as if it were zero.

(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 6 INVESTMENT INCOME (in millions)

The following is a summary of the Fund's investment income by asset class:

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Interest-bearing securities	$ 80	$ 58	$ 191	$ 176
Equities				
Canadian	3	116	3	208
Foreign	164	241	(160)	238
Private	16	21	56	26
	183	378	(101)	472
Inflation sensitive and alternative investments				
Real estate	40	39	130	87
Infrastructure	28	29	17	33
Timberland	2	2	2	1
Inflation sensitive real return bonds	4	2	1	3
	74	72	150	124
	$ 337	**$ 508**	**$ 240**	**$ 772**

Investment income is comprised of income earned from investments in units of pooled funds which are created and managed by AIMCo.

The investment income for the nine months ended December 31, 2011 includes writedowns totalling $230 (March 31, 2011: $54).

NOTE 7 INVESTMENT EXPENSES (in millions)

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Nine Months Ended December 31, 2011	Nine Months Ended December 31, 2010
Interest-bearing securities	$ 1	$ -	$ 3	$ 2
Equities	12	10	33	33
Inflation sensitive and alternative investments	4	5	15	14
Investment administration expenses	3	2	6	5
Total Investment Expenses	**$ 20**	**$ 17**	**$ 57**	**$ 54**
Average fair value of investments	$ 15,071	$ 15,210	$ 15,430	$ 14,949
Per cent of investments at average fair value	0.13%	0.11%	0.37%	0.36%

Investment services are provided by AIMCo. It provides the day-to-day investment services for the Fund's investment portfolio. However, in order to achieve greater diversification, access external expertise and specialized knowledge and to reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

NOTE 7 INVESTMENT EXPENSES (in millions) CONTINUED

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income by the Fund. The Fund recognizes portfolio management and administration expenses incurred directly by the Fund and its share of expenses through pooled investment funds. Investment services provided by AIMCo are charged directly to the Fund and to pooled funds on a cost recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value, or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive based fees to the extent recognized.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

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

Time-weighted rates of return, at fair value [a]	Three Months Ended December 31,		Nine Months Ended December 31,		Average Annualized Return	
	2011	2010	2011	2010	5 years	10 years
Actual gain [b]	4.6%	4.0%	1.5%	7.5%	1.9%	5.1%
Benchmark gain [b]	5.6%	3.9%	0.7%	7.5%	2.3%	4.8%
Value added (lost) by investment manager [c]	-1.0%	0.1%	0.8%	0.0%	-0.4%	0.3%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns were provided by AIMCo on January 20, 2012. Any subsequent changes to returns will be reflected in the next reporting period. The actual and policy benchmark returns are a product of the weighted average sector weights and sector returns. Some of the sector returns used in the determination of the overall actual and policy benchmark returns are based on management's best estimate which may vary significantly from the final return. Differences between the estimated sector returns and the final returns are recorded in the year of the change.

(c) In the business plan, the Minister of Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1%, above the policy benchmark over one year.

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2011-12 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

The Deputy Minister of Finance approved these financial statements.

Additional copies of this quarterly report on the Heritage Fund may be obtained by:

Visiting our website at: www.finance.alberta.ca

Or by writing:

Alberta Heritage Savings Trust Fund

Room 434, 9515 – 107 Street

Edmonton, Alberta, T5K 2C3

Or by calling:

(780) 427-5364