ALBERTA HERITAGE SAVINGS TRUST FUND

1993 - 94 ANNUAL REPORT

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The Heritage Fund was established in 1976 with three objectives:

- 1. to save for the future;
- 2. to strengthen and diversify the economy of Alberta; and
- 3. to improve the quality of life for Albertans.

TREASURY

Jim Dinning Provincial Treasurer

A.J. McPherson Deputy Provincial Treasurer Finance and Revenue

Additional copies of this annual report and copies of the future quarterly reports on the Alberta Heritage Trust Fund may be obtained by writing:

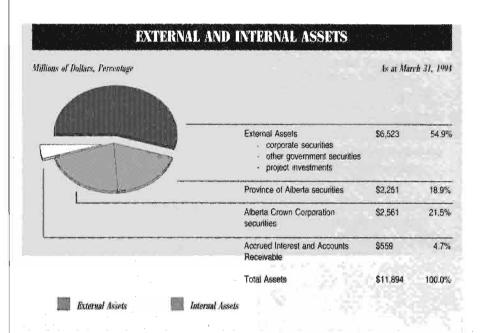
Heritage Trust Fund 302 Terrace Building Edmonton, Alberta T5K 2C3

or by telephoning (403) 427-4414



HERITAGE FUND HIGHLIGHTS 1993 · 94

- The Heritage Fund had assets of \$11,894 million at March 31, 1994. Of this amount, \$6.5 billion was invested in corporate securities, project investments and securities of other governments (external assets), while \$4.8 billion was invested in securities of **Alberta Crown corporations** and the Province of Alberta (internal assets). Accrued interest and accounts receivable totalled \$559 million.
- Heritage Fund income in 1993-94 was \$1,103 million. This included a \$273 million gain on the sale of Alberta Energy Company common shares held by the Fund which was used to reduce the province's deficit and debt. In 1992-93 Heritage Fund income was \$785 million.
- The Heritage Fund has about \$6.0 billion in its Cash and Marketable Securities portfolio, a \$690 million increase since March 31, 1993. This portfolio provides liquidity and flexibility to the Fund and to the province. At March 31, 1994, \$2.3 billion was invested in Alberta government securities and \$3.7 billion was invested in non-Alberta securities.



- In May 1993, the Heritage Fund's holding of Alberta Energy Company common shares was sold for \$476 million. The profit of \$273 million was used to reduce the province's deficit and debt.
- Effective September 1993, the Heritage Fund sold a five percent equity interest in the Syncrude Project to Murphy Oil Company Ltd. for its \$150 million book value.
- During 1993-94, the book value of the Fund's investment in the Lloydminster Bi-provincial Upgrader was reduced by the equity loss of \$10.6 million, as well as a \$16.7 million write-down at March 31, 1994. The book value of the Fund's investment in Millar Western Pulp was written down by \$53.5 million at March 31, 1994.

PROVINCIAL TREASURER'S REPORT



PROVINCIAL TREASURER'S REPORT

In last year's Heritage Fund report, I talked about Alberta being at a turning point — of having to reexamine our goals and the fundamental role of government in order to address the financial challenge which we face. Today I can report that together we are meeting the challenge. The financial results for 1993-94 show that we are on course to balance the budget by 1996-97. The actions we are taking are working to bring Alberta back to financial health, and secure a vibrant and prosperous future for our children.

The Heritage Fund has been a successful part of Alberta's financial picture for 18 years. Since 1982, it has provided over \$15 billion of income to support spending on health, education and other services that Albertans value. With assets just under \$12 billion today, the Heritage Fund remains a significant positive factor against the debts which Alberta has accumulated.

The Heritage Fund has had three basic objectives since it was established in 1976:

- 1. to save for the future;
- 2. to strengthen and diversify Alberta's economy; and
- 3. to improve the quality of life in Alberta.

Given the province's financial situation, Albertans are asking, and rightly so, whether we should keep our savings account when we owe so much on our credit card. In the review we will seek answers to questions such as: What should happen to the Heritage Fund as we move to a balanced budget and beyond? Should we reconsider the Fund's objectives? Should we sell off parts of the Fund to pay down the debt?

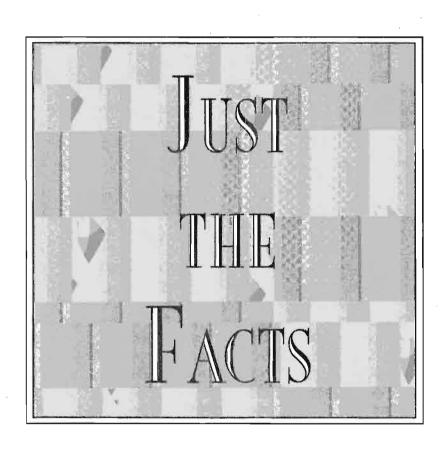
The Heritage Fund belongs to all Albertans and, before any decisions are made about the future of the Fund, I want to hear the views of Albertans on these important questions.

This annual report provides current information on the Heritage Fund and what it does today. The Heritage Fund continues to be an important source of revenue for the province. This year, \$830 million of income generated by the Fund went to pay for essential programs in health and education, family and social services, and an additional \$273 million of income from the profits of the Alberta Energy Company sale was used to reduce the province's deficit and debt.

The \$1,103 million of Heritage Fund income in 1993-94, including the gain from the sale of Alberta Energy Company, represents a rate of return on book value of 10.7 percent. This compares to an 8.7 percent cost on Alberta's General Revenue Fund debt for 1993-94, including valuation adjustments on U.S. dollar debt. This cost was made up of a 4.8 percent cost on short-term debt and a 10.1 percent cost on medium and long-term debt.

Now it's time to look to the future. Not to think about what the Heritage Fund is today . . . but to plan for what it should be tomorrow.

Jim Dinning Provincial Treasurer





Just the Facts

Alberta has had a Heritage Fund for 18 years. It was established when, quite literally, the province was booming and our revenues far exceeded the money we needed to spend. It was our savings account. But most Albertans don't have the facts to know what the Fund does and what the money has been used for.

"Just the Facts" answers Albertans' questions about their Heritage Fund.

People living in Fort McMurray may know the Heritage Fund funded research to support oil sands development. Farmers may know that the Fund paid for rail hopper cars, supports agricultural research projects, and provides market rate financing to the Agriculture Financial Services Corporation, which in turn offers loans and financial counselling to farmers. Or that it helped to build the Prince Rupert Grain Terminal, a terminal that now handles almost 19 percent of Canada's and about 27 percent of the west coast's annual grain exports. Albertans who have travelled to Kananaskis Country may know that Heritage Fund dollars developed an exceptional provincial park with hiking, cross-country skiing, biking, camping and snowmobiling, not to mention world-class golfing.

But how many Albertans know that the Heritage Fund has also paid for:

 Urban parks in places like Airdrie, Calgary, Camrose, Edmonton, Fort McMurray, Fort Saskatchewan, Leduc, Spruce Grove, St. Albert and the County of Strathcona

- Land reclamation and reforestation projects
- World-renowned medical research
- Scholarships in the arts, sciences and the humanities that have been awarded to over 79,000 Albertans.

And let's not forget that since 1982, \$15.4 billion has been transferred from the Heritage Fund to the general revenues of the province. And those funds have helped pay for health care, education, social programs and for other essential government programs. In 1993-94 alone, the Heritage Fund contributed \$1,103 million including \$830 million to the province's general revenues and \$273 million of profit from the sale of Alberta Energy Company shares to reduce the province's deficit and debt.

But much has changed in 18 years. Alberta has gone from the boom times to serious financial challenges, where spending beyond our means has led us to annual deficits and a growing debt. Just like any Alberta family, when we're faced with a change in our revenues, it's time to look at all aspects of our financial situation — at what we spend, at the programs we support, and at our revenues — in order to set a new course and get our financial future back on track.

And that means looking at the Heritage Fund and asking ourselves whether we should keep the Fund as it is, whether we should sell off as many of the assets as we can to pay down our debt or whether we should look at new uses for the Fund's assets.

Over the years a number of questions have been raised about the Fund. We've picked some of Albertans' most asked questions about the Heritage Fund. Here are the answers.

1. Does the Heritage Fund still exist or have we used it all up?

The Fund exists. And it's still valued at about \$11.9 billion.

The problem is that even after deducting the Heritage Fund's investments and Alberta's other financial assets, the net debt of the province was \$13.4 billion at March 31, 1994. That's why some people say that the Heritage Fund has effectively been mortgaged—it's no longer enough to cover our debts.

2. How much is the Fund really worth?

Some people have said that the Heritage Fund isn't worth much or that government exaggerates what it's really worth. Let's go with what the Auditor General says. He agrees the value of the Fund is about \$11.9 billion. Of this amount, \$4.8 billion was invested in Alberta Crown corporations and Province of Alberta securities, while \$6.5 billion was invested in



JUST THE FACTS

corporate bonds and shares as well as project investments.

3. How much of the Heritage Fund could be sold or liquidated to pay down our debt?

The \$11.9 billion in the Heritage Fund could all be used to reduce the province's gross debt. The province and its agencies have borrowed \$4.8 billion from the Fund. These debts could be cancelled, which would reduce the province's gross debt and the Heritage Fund's assets. Almost all of the remaining Heritage Fund assets (\$7.1 billion) could be sold over a reasonable period of time, and the proceeds could be used to pay down gross debt. However, using assets to pay down debts would not change the net debt of the province.

4. Is the Heritage Fund still earning money?

Yes. In 1993-94, the Heritage Fund earned \$1,103 million. Of this amount \$830 million was transferred to the general revenues of the province, to be spent on essential programs like health care, education and social services. A further \$273 million was used to reduce the province's deficit and debt.

5. The Heritage Fund was meant for a rainy day but I don't see it helping me or the province. Is the Fund doing us any good now?

The Fund helps the province every day. In fact, without the Heritage Fund, we'd have even more difficulty paying our bills. Every day the Fund earns over \$2 million from its investments. For last year, that amounted to \$1,103 million. So the Fund also helps to keep our taxes low. And let's not forget that the Fund continues to support projects that build Alberta's economy and create jobs — irrigation projects, forestry and reforestation projects, pipeline expansion, heavy oil development, research and parks.

6. Why don't we sell it off and pay down the debt?

That's one option Albertans will need to consider during the upcoming review of the future of the Fund. But remember, it's not a quick fix. Even if the assets of the Heritage Fund were sold to pay down debt, the net debt of the province would remain unchanged. The level of the annual consolidated deficit would not be reduced by selling the Fund — it would lower interest costs on debt but would also reduce interest income. If we don't get our spending in line with revenues, we'll be in the same financial problem and we won't have the flexibility provided by the Heritage Fund.

7. The Heritage Fund started off with such a big promise about what it was going to do for the province. Have we blown it?

No. The Fund is still valued at about \$11.9 billion and it's still one of the province's biggest sources of revenue each year. In 1982 we started using the money the Heritage Fund earned each year to protect and maintain the programs and services Albertans expect and value — schools, hospitals, social welfare benefits, roads, policing and parks. The result is that the Fund has not grown the way it could have if all of its earnings had remained in the Fund.

8. Why have the assets of the Heritage Fund been declining?

The assets of the Heritage Fund decline by the amount spent on capital projects such as irrigation projects, hospitals, parks and research. In 1993-94 this spending was \$71 million.

9. What kinds of corporations has the Fund invested in?

Approximately 50 percent of the Fund is invested in Alberta. The Fund has invested in well-known Alberta companies such as NOVA Corporation, TransCanada PipeLines Ltd., Canadian Western Bank, Alberta Energy Company and Vencap. Heritage Fund dollars have also financed the Alberta-Pacific Pulp Mill project, the Lloydminster Bi-provincial



JUST THE FACTS

Upgrader project, Prince Rupert Grain Terminal and Syncrude.

10. Why does the Heritage
Fund loan money to
Crown corporations?
Isn't this just one arm of
government lending
money to another?

In a way, the Heritage Fund acts like a bank for Crown corporations so they can deliver their programs to farmers, small businesses and Albertans who need social housing. Crown corporations borrow at the same interest rate the province would have to pay if it borrowed the money from an outside source. This rate is set by independent investment advisors. Crown corporations have to pay all the interest and principal back to the Heritage Fund and, to date, all payments have been made in full and on time. The costs of the programs provided by these Crown corporations are paid from the province's budget rather than the Heritage Fund.

11. Why does the province keep borrowing money from the Heritage Fund and when is it going to stop?

The province has to borrow money to finance its debt and deficits. In addition to borrowing from capital markets, the province borrows from the Heritage Fund. This borrowing is always done at market interest rates and results in savings on underwriting and issue costs.

When the budget is balanced at the end of the four year plan, there will

be less reason to borrow from the Heritage Fund. Crown corporation debts to the Heritage Fund have been reduced by approximately 60 percent since 1988. Crown corporations are meeting their 1994-95 requirements by having the province borrow in the financial markets on their behalf.

12. We've heard that the province "gave away"
Heritage Fund money to other provinces or loaned it at bargain rates. Is that true?

Between 1977 and 1982, the Heritage Fund made long-term loans to several other provinces and their agencies, including New Brunswick, Newfoundland, Nova Scotia, Prince Edward Island as well as Hydro-Quebec. But we certainly didn't give the money away. In fact, these are some of the Fund's best investments. In total, these loans amount to \$1.1 billion and the interest rates are fixed at between 9.5 and 13.875 percent. For anyone who has checked the bank rates on a savings account, a savings bond,

or an RRSP, that's well above the going interest rates. And other provinces are a good risk! Every single payment of principal and interest has been received on time. In fact, in 1993-94 the Heritage Fund received \$100 million in early principal repayments from Nova Scotia.

13. Why isn't the Heritage Fund being used to eliminate the deficit?

A deficit is the difference between the spending in a year and the revenue of that year. The only way to eliminate the consolidated deficit is to bring spending in line with revenue for that year.

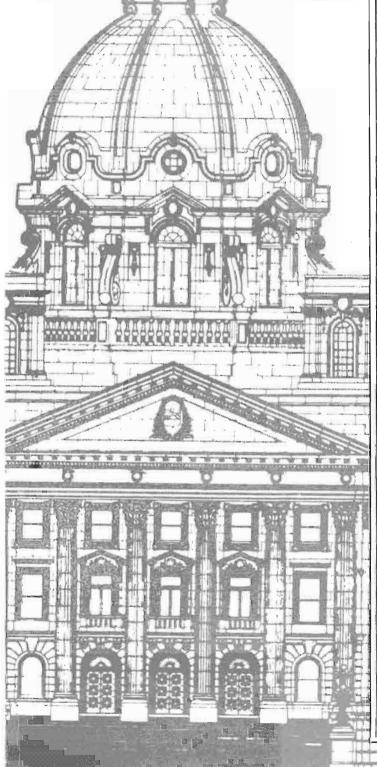
The Heritage Fund was built up with resource revenue and investment income which was included in the province's consolidated revenue of past years. So the Heritage Fund can't be counted as revenue in this or future years. However, the investment income which the Heritage Fund earns each year does reduce the consolidated deficit.

201214 201214	HERIT	AGE FUND FA	ACTS	
		1993-94	1992-93 millions of dolla	1991-92 urs)
Assets Book value		11,894	11,951	12,039
Income		1,103	785	1,386
		lue Rates of each year ov		





INVESTMENT AND REVIEW PROCESS



Provincial Legislature

- Establishes overall legislative framework for the Fund and its operations.
- Approves the Special Appropriation Act to transfer resource revenue to the Heritage Fund.
- Votes on the amounts to be spent under the Capital Projects Division.
- Approves maximum investment in each provincial Crown corporation under the Alberta Investment Division.
- Votes on operating grants from the General Revenue Fund to Alberta Mortgage and Housing Corporation, Agriculture Financial Services Corporation and Alberta Opportunity Company.

Investment Committee (Cabinet)

- Approves all investments under the Alberta, Canada and Energy Investment Divisions upon the recommendation of the Provincial Treasurer.
- Has delegated authority to the Provincial Treasurer to make investments under the Commercial Investment Division within guidelines it has approved.

Provincial Treasurer

- Responsible for day-to-day investments under the Commercial Investment Division and Cash and Marketable Securities portfolio.
- Responsible for overall administration of the Heritage Fund.

Other Ministers

 Responsible for the submission of budgets and the administration of projects funded through the Capital Projects Division, the administration of provincial Crown corporations and other investments financed under the Alberta Investment Division.

Select Standing Committee on the Alberta Heritage Savings Trust Fund Act

- Composed of members of the Legislative Assembly from all parties.
- Reviews Annual Report and makes recommendations with respect to existing and potential investments.

Auditor General

 Audits the financial statements of the Heritage Fund.



THE HERITAGE FUND'S INVESTMENT DIVISIONS

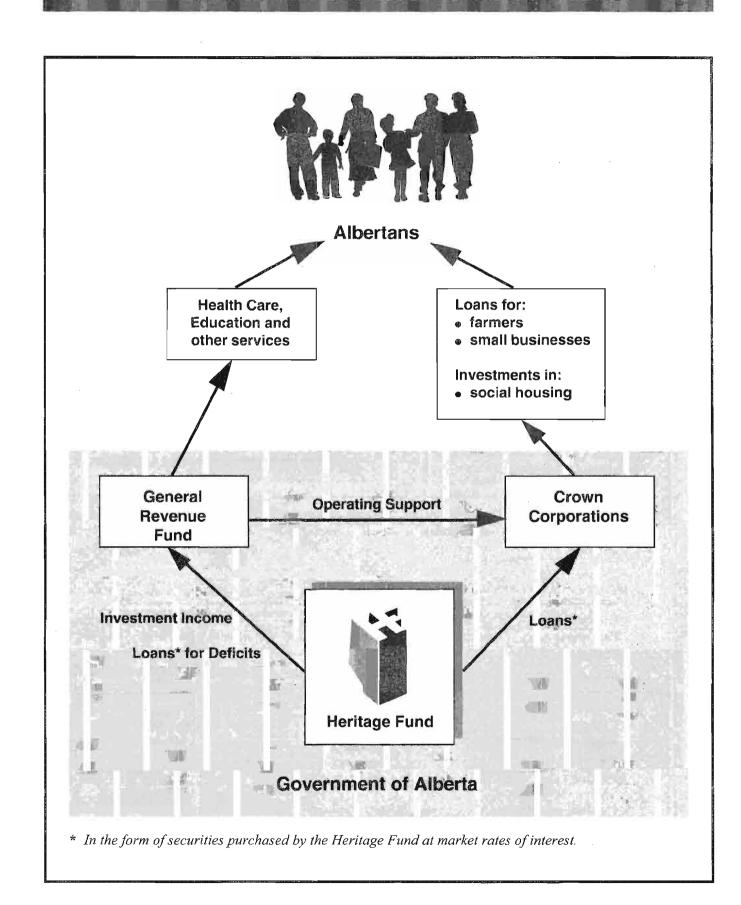
The Heritage Fund consists of five investment divisions and a portfolio of cash and marketable securities. The following chart describes the different types of investments permitted for each division or portfolio.

Division:	What the Investments Must Do:	Investments Permitted:
Alberta Investment Division	Strengthen or diversify the economy of Alberta.	Debt or equity. No limitation on the size of the Division. Current investments include debentures of provincial Crown corporations, corporate
	Yield a reasonable return or profit.	securities, project investments and equity holdings.
Canada Investment Division	Investments were made at the interest rate at which the most credit worthy province could borrow at the time.	Loans to other provincial governments or their agencies. The Division is limited to 20 percent of the Fund's assets including deemed assets.* Lending activity was suspended in 1982.
	Yield a reasonable return or profit.	•
Commercial Investment Division	Yield a commercial return or profit.	A wide range of securities is permitted. Current investments are primarily common shares. Guidelines limit investment in common shares of any one Canadian corporation to no more than five percent of the shares outstanding. The limit on this Division increases quarterly by an amount equivalent to the net investment income earned by the Division.
Energy Investment Division	Facilitate the development, processing or transportation of energy resources within Canada.	Debt or equity. No limitation on the size of the Division. No investments are held in this Division at this time.
	Yield a reasonable return or profit.	
Capital Projects Division	Provide long-term economic or social benefits to the people of Alberta.	Spending includes capital projects, agricultural and oil sands research, and endowment funds for medical research and scholarships. The Division is
DIVISION	Projects may not necessarily yield a financial return.	limited to 25 percent of the Fund's assets including deemed assets.*
Cash and Marketable Securities	Invest funds not immediately required for other divisions.	Short-term and medium-term money market securities, marketable bonds, deposits and mortgage-backed securities.
Portfolio	Yield a commercial return or profit.	mongage outlied socialities.

^{*} Spending under the Capital Projects Division is deemed to be an asset of the Fund for the purposes of section 6 of the Alberta Heritage Savings Trust Fund Act.
This spending is not part of the Heritage Fund's assets.



THE HERITAGE FUND'S ROLES IN ALBERTA'S FINANCES





THE HISTORY OF THE HERITAGE FUND

General Revenue Fund

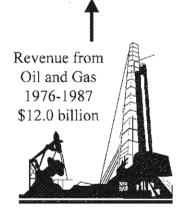
Income Transferred 1982-1994 \$15.4 billion

Assets at March 31, 1994

\$11.9 billion



Heritage Fund Created in 1976



- The Heritage Fund grew as a portion of Alberta's oil and gas revenue was deposited into the Fund (30% prior to 1983-84, 15% from 1983-84 to March 31, 1987).
- Prior to 1982, the Fund kept all its investment income (\$3.3 billion) which also helped it grow.
- Starting in 1982, all net income was transferred to the General Revenue Fund each year to pay for important programs like health care, education and the environment, as well as to help keep taxes low. \$15.4 billion has been transferred so far.

Capital Projects

Spending 1976-1994 \$3.4 billion

- Since 1976, the Fund has spent \$3.4 billion on capital projects like parks, hospitals, irrigation, scholarships and research. This spending reduces the Fund's assets.
- The assets of the Fund were \$11.9 billion at March 31, 1994, of which \$6.0 billion was marketable securities. The assets of the Fund have been declining from the peak level of \$12.7 billion in March 1987, due to spending on capital projects.





ALBERTA INVESTMENT DIVISION

The Alberta Investment Division is composed of investments which will yield a reasonable return or profit to the Heritage Fund and will tend to strengthen or diversify the economy of Alberta. Investments are made in provincial Crown corporations, corporate securities and in project investments.

PROVINCIAL CROWN CORPORATIONS

Alberta Opportunity Company

Alberta Opportunity Company (AOC) provides loans, guarantees, financial and management assistance to small Alberta businesses. The Company is an alternative source of financing to Alberta businesses which are unable to obtain funding on reasonable terms and conditions elsewhere.

AOC has decided to wind down its Seed and Venture Equity investment programs. As a result new commitments were limited to six follow-on investments during the year totalling \$500,000.

In 1993-94, the Company made 326 direct loans totalling \$19.6 million funded by borrowing from the Heritage Fund.

During 1993-94, AOC prepaid \$13 million of its debentures held by the Heritage Fund. This was accomplished with the proceeds of early loan payouts by many of its successful clients. In March, AOC borrowed \$10 million from the Fund at 7.05 percent for a term of five years. Interest rates on outstanding AOC debentures range between 7.05 percent and 11.28 percent, with maturities between 1997 and 2001.

Investment:

- in 1993-94: \$10 million
- at March 31, 1994: \$106 million

Agriculture Financial

Services Corporation

Effective March 31, 1994, the Alberta Agricultural Development Corporation and the Alberta Hail and Crop Insurance Corporation merged to become the Agriculture Financial Services Corporation (AFSC). The operations of the former Alberta Agricultural Development Corporation will be carried on by the lending division of the AFSC.

The lending division of the Corporation offers loans, loan guarantees and financial counselling to farmers and agribusinesses. Programs and services are designed to help farm businesses develop as profitable, self-supporting enterprises.

ALBERTA INVESTMENT DIVISION: COMPOSITION OF ASSETS Millions of Dallars, Percentage As at March 31, 1994 Agriculture Financial Services 25.6% Corporation Alberta Municipal Financing \$140 3.8% Corporation Alberta Mortgage and Housing \$1.367 36.9% Corporation Alberta Opportunity Company \$106 2.8% Corporate Securities \$325 8.8% Project Investments \$820 22.1% \$3,707 100.0%



AFSC also promotes value-added processing, the farm service sector and other diversification opportunities to improve the long-term health of the Alberta agricultural sector. Programs include such features as fixed interest rates for as long as 20 years and interest assistance for eligible beginning farmers.

In 1993-94, the Corporation approved 683 loans totalling \$56.9 million under its direct farm loan programs and 6,085 farm loan guarantees, totalling \$124.3 million. These loans and guarantees assisted beginning farmers' entry into agriculture and helped established farmers expand.

Fifty-one loans totalling \$14.0 million were also provided to businesses. This included 28 loans totalling \$7.5 million made under the Canada Alberta Partnership on Agri-food program. This support assisted in the establishment and expansion of food processing, agribusiness and the farm service sector in Alberta.

The Corporation did not borrow from the Heritage Fund in 1993-94. Loan repayments and land sales provided sufficient funds for new lending. Interest rates on outstanding debentures range from 7.37 to 11.83 percent and are reset every five years. The debentures mature between 2001 and 2013.

Investment:

- in 1993-94: nil
- at March 31, 1994: \$949 million

Alberta Municipal

Financing Corporation

Loans provided by this
Corporation are an economical
source of long-term financing for
Alberta's municipalities, school
systems and hospital districts.
These loans carry an Alberta
government interest rate rather
than higher rates these borrowers
would pay if they borrowed on
their own. By making loans at the
lowest possible cost to local
governments, Alberta Municipal
Financing Corporation (AMFC)
has encouraged progress and
growth in many communities.

During 1993, the Corporation lent \$509 million, but did not borrow from the Heritage Fund.

The lending was financed by borrowing \$113 million by issuing promissory notes and by relending funds received from loan repayments during the year.

Interest rates on AMFC debentures held by the Heritage Fund range from 11.7 percent to 13.5 percent with maturities in 1999 and 2000.

Investment:

- in 1993-94: nil
- at March 31, 1994: \$140 million

Alberta Mortgage and

Housing Corporation

Alberta Mortgage and Housing Corporation's (AMHC) focus is on social housing: the needs of the disabled, those with special needs, senior citizens, and low-income families. During 1993-94, AMHC made commitments to construct \$33 million of new social housing. This included \$22.2 million to upgrade 28 senior citizen lodges, as well as a commitment to support the annual operating costs of 186 new housing units for Albertans which allowed non-profit groups to obtain \$10.8 million from private lenders.

AMHC continues to sell land, real estate and mortgages which do not meet its social housing objectives. In 1993-94, these sales helped reduce AMHC's inventory surplus by \$203 million. In addition settlements were negotiated on mortgages which also helped reduce AMHC's inventory surplus by \$55 million. The proceeds from these transactions were used primarily to repay debt held by the Heritage Fund. Including regularly scheduled repayments. \$309 million of principal was returned to the Heritage Fund in 1993-94.

At March 31, 1994, \$259 million of AMHC mortgages and properties remained to be disposed.

During 1993-94, AMHC borrowed \$15 million at 8.17 percent for 25 years to finance social housing projects. Rates on AMHC debentures held by the Heritage Fund range between 7.73 percent and 18.05 percent. The debentures mature between 1997 and 2019.

Investment:

- in 1993-94: \$15 million
- at March 31, 1994: \$1,367 million

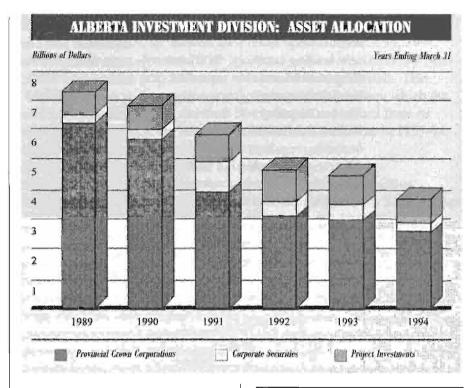


CORPORATE SECURITIES

TransCanada PipeLines Limited (TCPL)

TCPL is a Canadian-based public company headquartered in Calgary, with assets of more than \$8 billion. It is one of North America's leading transporters of natural gas. Its main pipeline system begins near Empress, Alberta, crosses Saskatchewan, Manitoba, and Ontario, and terminates near Montreal, Quebec. TCPL is affiliated with three Canadian and three American pipelines, giving the company access to four of North America's major gas markets. The company has complementary businesses in gas marketing, power generation, gas liquids extraction and gas storage.

TCPL's major capital investment program commenced in 1989 and will carry on at least into 1995. This program will expand the capacity of TCPL's Canadian mainline and of affiliated, connecting pipelines. In 1993, the company's capital expenditures totalled \$1.3 billion, bringing the total invested since 1989 to \$4.6 billion. To date, this expansion has increased TCPL's firm contracted services by 1.9 billion cubic feet of natural gas per day. In 1993 TCPL set a new gas transmission record of 2,128 billion cubic feet, a 50 percent increase from the 1989 level.



TCPL's net income in 1993 was \$355.6 million, an increase of 8.2 percent over the \$328.7 million recorded in 1992.

The Heritage Fund holds a \$150 million, 10.426 percent convertible subordinated debenture of TCPL maturing in December 2001. The debenture is convertible into TCPL common shares at a conversion price of \$23.041 per share. TCPL common shares closed at \$18.50 per share on March 31, 1994, down from \$18.63 on March 31, 1993. The estimated market value of the convertible debenture at March 31, 1994, was \$166 million.

In 1993-94, the Fund earned \$15.6 million of interest income from this investment.

Investment:

- in 1993-94: nil
- at March 31, 1994: \$150 million

NOVA Corporation

(NOVA)

NOVA's headquarters are in Calgary. Its activities include operating an extensive network of natural gas pipelines, manufacturing and marketing petrochemicals and plastics, and marketing natural gas. NOVA has annual revenues of about \$3.3 billion, assets of \$6.9 billion and over 6,000 employees.

During 1993 and early 1994, NOVA sold interests in businesses which did not fit its strategic direction. Today, NOVA's four inter-related businesses are Alberta gas transmission, North America gas services, international gas services, and petrochemicals.



In May 1994, NOVA's shareholders approved a corporate restructuring which resulted in a new holding company, "NOVA Corporation" and four separate subsidiary operating companies. The restructuring will facilitate the Alberta Public Utilities Board becoming regulator of NOVA's Alberta gas transmission business. In addition, it allows greater flexibility for both the regulated and non-regulated businesses to develop and finance business opportunities. Also in May 1994, the province repealed the NOVA Corporation of Alberta Act, under which NOVA had previously been regulated.

In 1993, NOVA invested \$523 million to expand its Alberta pipeline system in response to gas producers' needs for additional capacity for increased sales. Total Alberta pipeline investment since January 1990, is almost \$2.2 billion, with a further investment of \$2 billion planned through 1996.

In 1993, NOVA's net income increased to \$202 million, compared to \$164 million in 1992. This improvement was largely the result of a \$25 million gain on the sale of an investment and reduced interest expense, resulting from lower average debt levels. Improved 1993 earnings resulted in NOVA's common share value rising to \$10.00 at March 31, 1994, from \$9.13 at March 31, 1993. The market value of the common shares held by the Heritage Fund was \$28.0 million (\$24.5 million book value) at March 31, 1994.

The Heritage Fund also holds a \$150 million 6.25 percent adjustable rate convertible subordinated debenture of NOVA maturing in 2008. The debenture is convertible into NOVA common shares at a conversion price of \$10.70 per share. The estimated market value of the debenture was \$142 million at March 31, 1994. In May 1994, all obligations under the debentures were assumed by NOVA Corporation as part of the reorganization of the company. The reorganization will have no financial effect on the value of the Heritage Fund's investment.

In total, the Fund earned over \$10 million from its investments in NOVA in 1993-94.

Investment:

- · in 1993-94: nil
- at March 31, 1994: \$175 million

Alberta Energy

Company Ltd. (AEC)

AEC is a diversified, Canadian natural resource development corporation headquartered in Calgary. It ranks among the top 10 oil and gas companies in Canada in reserves, production levels and land holdings. AEC and its subsidiaries had assets of over \$2.1 billion and employed over 1,000 persons at December 31, 1993.

AEC has significant operations in Alberta and is also active throughout western Canada and in the U.S. The company's activities include oil and gas exploration and development and investments in Syncrude, pipelines and forest products.

A major milestone in 1993 was the sale of the Heritage Fund's 25.1 million AEC common shares for \$476.1 million on May 11. The shares were sold to the public at \$19 per share on an instalment basis of \$9.50 payable on May 11, 1993, and \$9.50 due on May 11, 1994. Forty percent of the shares were reserved for Albertans, and the remainder was sold to other investors in Canada and abroad. The profit of \$273 million was transferred to the General Revenue Fund to reduce Alberta's deficit and debt, while the \$183 million book value was reinvested in the Heritage Fund. In October 1993, the province repealed the Alberta Energy Company Act.

Investment:

at March 31, 1994: nil

Canadian Western Bank

The Canadian Western Bank (CWB) is a Schedule I bank that was formed on April 29, 1988. It was created by the amalgamation of the Bank of Alberta with Western & Pacific Bank of Canada. The Bank's head office is in Edmonton and branches operate in all four western provinces. CWB has a network of over 100 independent deposit agents located throughout Canada. The Bank's assets totalled \$598 million at January 31, 1994. The Heritage Fund holds CWB common shares, with a book value of \$720,000 and a market value of \$1,440,000 at March 31, 1994.



The Bank's 1993 consolidated net income of \$1.8 million was 43 percent higher than in 1992. In 1993, CWB purchased six retail branches from Metropolitan Trust Company. This purchase significantly increased assets as well as net interest income. The Bank's provision for credit losses was \$2.1 million compared to \$2.0 million in 1992. The market price of the Bank's shares increased to \$8.00 at March 31, 1994, from \$4.95 the previous year.

In 1993-94, dividend income from CWB was \$8,000.

Investment:

- in 1993-94: nil
- at March 31, 1994: \$0.7 million

PROJECT INVESTMENTS Alberta-Pacific Forest Industries (Al-Pac)

Construction of the Al-Pac pulp mill located northeast of Athabasca was completed on schedule and within budget. The mill moved into the start-up phase of operations in the early fall of 1993.

The mill is a joint venture between Crestbrook Forest Industries Ltd., New Oji Paper Co., Ltd., (formerly Kanzaki Paper Canada Ltd.) and MC Forest Investment Inc. Total annual pulp production capacity will be 496 000 tonnes, 80 percent of which will be hardwood pulp and 20 percent softwood pulp.

The Al-Pac project is one of the largest capital investments that Alberta has attracted in the past decade. The approximate cost of construction of the pulp mill was \$1.3 billion.

The project created about 2,250 person years of employment during construction, and about 550 person years of employment to complete the infrastructure. When fully operational, the mill will generate about 1,100 mill and woodland jobs for operations and about 800 additional jobs in support of businesses located in the surrounding communities. In addition to the Heritage Fund's commitment for a cash investment of up to \$275 million, the Government of Alberta has also spent \$70 million for the construction of road and bridge infrastructure in the area. There is a provision with this project for the development of an on-site paper mill with a projected cost of approximately \$300 million.

The Heritage Fund's investment is secured by debentures covering the security interest of the three companies in the joint venture. Cash advanced on this loan to March 31, 1994, totalled \$244.1 million. The principal amount of the debenture is repayable in five equal annual payments commencing in 2006.

The interest rate on the debentures equals the Alberta 20-year borrowing rate at the date of each cash advance. This rate is reset for five-year periods starting November 30, 1995. Prior to November 1997, interest is accrued and capitalized

and after that date it is payable to the extent of available project cash flow. To March 31, 1994, \$36.3 million of interest had been accrued and capitalized. This included \$22.2 million which the Heritage Fund earned from its investment in Al-Pac in 1993-94.

Investment:

- in 1993-94: \$85 million
- at March 31, 1994: \$280 million

Prince Rupert Grain Terminal - Ridley Grain Ltd.

The Prince Rupert Grain Terminal is a port facility on the west coast. The terminal increases the ability of Alberta farmers to serve Pacific grain markets by easing the load on southern rail routes to the west coast. It is owned and operated by Ridley Grain Ltd., a consortium of six major western Canadian grain companies. The Heritage Fund's investment is in the form of first mortgage bonds. Financing was also provided by members of the consortium and Alberta's General Revenue Fund.

During its eighth year of operation, ended July 31, 1993, the terminal processed 4.8 million tonnes of grain. This was well above its design capacity of 3.5 million tonnes; however, due to slow Canadian Wheat Board sales at the beginning of the crop year, this represents a decrease of 480 000 tonnes from 1992. This highly automated terminal now handles almost 19 percent of Canada's, and about 27 percent of the west coast's annual grain exports.



The Heritage Fund holds \$121.3 million of first mortgage bonds with an 11 percent interest rate. For four years after construction cash flow was insufficient for full interest payments and \$34.3 million of interest was accrued and capitalized but not recorded on the Heritage Fund books. The Heritage Fund receives interest on both the principal outstanding and this capitalized interest. From the remaining cash flow the Heritage Fund is entitled to up to \$4.3 million per year of principal repayment. Unpaid principal is due by 2015.

In 1993-94, Ridley Grain Ltd. made a full interest payment of \$18.1 million. It also made a \$4.3 million principal payment on the Heritage Fund's first mortgage bonds in 1993.

Investment:

- in 1993-94: nil
- at March 31, 1994: \$121 million

Millar Western Pulp Ltd.

The \$204 million Millar Western Pulp mill is located at Whitecourt. The mill produces high-yield, chlorine-free pulp from both softwood (pine and spruce) and hardwood (aspen). The pulp is marketed in many applications to customers world-wide. The mill has an annual capacity of 225,000 tonnes of pulp and employs about 140 people in its ongoing operations.

The Heritage Fund holds a \$120 million participating

debenture issued by Millar Western Pulp Ltd. with a 10 percent interest rate. Interest is payable to the extent of available project cash flow, and unpaid interest is accrued and capitalized, but not recorded on the Heritage Fund books. Interest continues to compound on all unpaid balances. All principal is due by 2004. To the extent accrued interest is unpaid at maturity, it continues to bear interest until repaid in full.

In 1993-94, as in past years, no interest or principal payments were received from this investment and no income was recorded as earned.

In order to enable the company to obtain required financing, a major financial restructuring of the company was negotiated in early 1994, between the company, its banker and the province. Subject to the completion of the restructuring, a new operating company is to be formed and Millar Western Pulp Ltd. will transfer all of its assets and liabilities to the new company, except for a \$6 million shareholder loan and \$90 million of principal, together with all accrued interest on the Heritage Fund loan. This portion of the Heritage Fund loan will be secured by an assignment of the 60 percent shareholding Millar Western Pulp Ltd. will have in the new operating company. The remaining \$30 million portion of the Heritage Fund loan is being assumed by the new operating company and will be interest free and secured by a debenture registered against the assets of the

new company (including the pulp mill), ranking behind the prior charge of the bank.

In recognition of the impact of the financial restructuring on the province's investment, the book value of the investment has been further reduced from its carrying value of \$74.1 million at March 31, 1993, to \$20.6 million at March 31, 1994.

Investment:

- in 1993-94: nil
- at March 31, 1994: \$21 million

Syncrude

The Syncrude Project is the world's largest oil sands operation. It produces almost 12 percent of Canada's total crude oil requirements which makes Syncrude the nation's largest single source of crude oil. Total production of synthetic crude oil in 1993-94 was 70.9 million barrels, a 14 percent increase from the 62.4 million barrels produced in 1992-93.

Syncrude has a significant impact on Alberta and Canada. The original investment in the Project was \$2.3 billion but since 1978 there has been a further \$2 billion invested to expand and sustain production. At the end of March 1994, Syncrude provided direct employment for 4,142 employees and another 1,035 contract people. The Project generates 16,000 direct and indirect jobs annually in Canada and \$1 billion annually in spending for the Canadian economy.



Effective September 1, 1993, the Heritage Fund sold a five percent equity share in the Project to Murphy Oil Company Ltd. for \$150 million which was the book value at the sale date. The Heritage Fund's share of the Project was reduced to 11.74 percent and the following results represent five months of a 16.74 percent share and seven months of an 11.74 percent share.

The Heritage Fund's income from Syncrude was \$22.0 million in 1993-94, down from \$44.0 million in 1992-93. The reduction was a result of the Fund's reduced share in the Project and a decline in the 1993-94 selling price of Syncrude's synthetic crude oil of about 10 percent to approximately \$21.00 per barrel from approximately \$23.25 per barrel in 1992-93. In total, the Heritage Fund has received income of \$627 million from Syncrude since production began in 1978.

Investment:

- (net) in 1993-94: \$(158) million
- at March 31, 1994: \$341 million

Lloydminster

Bi-provincial Upgrader

The Lloydminster Bi-provincial Upgrader has the capacity to produce 46,000 barrels of synthetic crude oil per day. It upgrades heavy oil and bitumen from Alberta and Saskatchewan. BPU Operations Ltd. is managing this project for a joint venture consisting of Husky Oil Ltd. and the governments of Alberta, Saskatchewan and Canada.

The Upgrader officially opened on November 20, 1992. During 1993-94, the Upgrader produced 16.3 million barrels of synthetic crude oil. As of March 31, 1994, there were 497 operations staff, including maintenance contractors, working at the Upgrader.

The Heritage Fund is a 24.17 percent joint venture participant in the Upgrader and shares in all project revenues as well as operating and capital costs.

The final cost of the project is \$1.63 billion, 28 percent above the original estimate. The increase was due to higher than expected construction costs, increased management and material costs and other factors.

Alberta was responsible for funding a portion of the \$365 million increase in the cost of the project. It was provided by a further equity investment from the Heritage Fund which brought the Fund's total commitment to about \$404 million, of which \$403 million had been advanced by March 31, 1994.

Because of the cost overruns, the value of the investment was written down by \$88.2 million at March 31, 1992. At March 31, 1993, it was determined that the value of the investment in the Upgrader was significantly below its book value. As a result, the book value was reduced to \$74.8 million at March 31, 1993, and a loss of \$231 million, made up of a write-down of \$217 million and operating loss of \$14 million, was charged against 1992-93 income. During 1993-94, the

Upgrader continued to experience operating losses due primarily to narrow price differentials between its heavy oil feedstock and the light synthetic crude oil it produces. The book value of the Heritage Fund's investment was reduced by \$10.6 million as a result of these operating losses. In addition, a further write-down of \$16.7 million was taken at March 31, 1994, which represents the total cash provided to the Upgrader by the province during 1993-94 (a further capital investment by the Heritage Fund of \$8.7 million and \$8 million provided separately for operating losses).

Alberta set up a special purpose company, 540540 Alberta Ltd., to fund its portion of the Upgrader's operating losses. This company makes loans to the Upgrader on an interest free basis as do the other joint venturers. In 1993-94 these loans totalled \$8.0 million. These loans will be repaid from the Upgrader's profits on a priority basis. Only after they are repaid in full will the Heritage Fund receive funds from the Upgrader. The company had loaned \$18.1 million to the Upgrader by March 31, 1994.

On August 5, the province announced the sale of its interest in the Upgrader to the Government of Saskatchewan and Husky Oil Ltd. for \$32 million cash, resulting in a final write-down of \$43 million.

Investment:

- (net) in 1993-94: \$(19) million
- at March 31, 1994: \$56 million



CAPITAL PROJECTS DIVISION

Vencap Equities

Alberta Ltd.

Vencap was launched in 1983 with a \$44 million public share and convertible debenture issue and a \$200 million participating loan from the Heritage Fund. Vencap is Canada's second largest publicly traded venture capital company and is listed on the Alberta Stock Exchange. The company's investment focus is on potential high growth, profitable companies whose business operations will significantly benefit Alberta's economic development.

Vencap invests in a broad range of industries and in companies at various stages of development — seed, start-up, early stage, expansion and later stage situations.

In 1993-94, \$33.9 million was invested and committed to seven new and 12 existing venture investments. Investments were made in fields such as advanced material technology, consumer products and retail. The corporation's venture portfolio consisted of 36 companies in which net venture investments totalled \$114.4 million at March 31, 1994. The remaining \$179.6 million of Vencap's assets was invested in marketable securities.

The Heritage Fund's \$200 million loan to Vencap is due in 2013.

At present the Fund is entitled to 50 percent of Vencap's net income, after realized capital gains and investment write-downs. In 1993-94 this income, based on nine months actual results to December 31, 1993, was forecast at \$4.6 million, down from \$5.3 million in 1992-93. Subsequent to the completion of the financial statements in this report, Vencap announced that its 1993-94 net income was \$0.8 million, due to write-downs of investments totalling \$16.6 million. The Heritage Fund received an interest payment of \$0.3 million, including an adjustment to prior years' income on June 30, 1994, rather than the forecast \$4.6 million included in these financial statements.

In April 1994, Vencap announced its intention to redeem all its outstanding 12 percent convertible debentures on June 30, 1994, four years ahead of their maturity date. The debentures were issued in 1983 as part of Vencap's initial capitalization.

Investment:

- in 1993-94; nil
- at March 31, 1994: \$132 million

Canada Investment Division

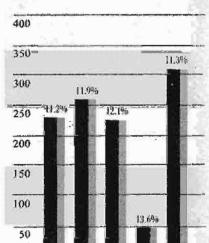
The Canada Investment Division holds provincial government or government-backed debentures. These investments were made between 1977 and 1982 at market rates of interest. Outstanding

debentures have interest rates between 9.5 and 13.875 percent. The rate of interest was determined by the rate at which the most credit worthy Canadian province could borrow at the time of the loans. No further investments have been made through the Canada Investment Division since lending was suspended in March 1982.

During 1993-94, the Division's rate of return on book value was 13.0 percent compared with 12.1 percent the previous year. These debentures provide a high, stable return to the Heritage Fund.

During 1993-94, interest received totalled \$137 million, and principal repayments were \$108 million including the early repayment, at a premium, of \$100 million by Nova Scotia Power and the Province of Nova





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Scotia in December 1993. From 1977 to March 31, 1994, total interest income received has been \$2,733 million and principal repayments received total \$863 million. All interest and principal payments have been received in full when due.

These debentures had an estimated market value of \$1,201 million at March 31, 1994.

Investment:

- in 1993-94: nil
- at March 31, 1994: \$1,069 million

Commercial Investment Division

The Commercial Investment Division was established in 1982 to help diversify the Heritage Fund's investments. The Division invests primarily in equity securities of Canadian companies. The Division grows by the amount of net investment income earned on its investments. In 1993-94, the Division's book value increased by \$60.2 million to \$399.5 million due to the high level of realized capital gains.

The equities of the Commercial Investment Division help diversify the Heritage Fund's financial asset mix, which is primarily fixed income securities. Equity investments are expected to earn better long-term returns than fixed income securities. The Commercial Investment Division is invested in a broad range of

companies which are traded on the Toronto Stock Exchange. Although the Division cannot invest in bank stocks and does not invest in stocks of small companies, over the long-term its results are similar to those of the TSE-300 index (excluding banks). During 1993-94, the Commercial Investment Division earned a rate of return on book value of 17.0 percent compared with 1.9 percent the preceding year. The Division's return based upon market value performance was 18.8 percent, while the equity portion of the portfolio (excluding the money market portion) had a return of 21.3 percent.

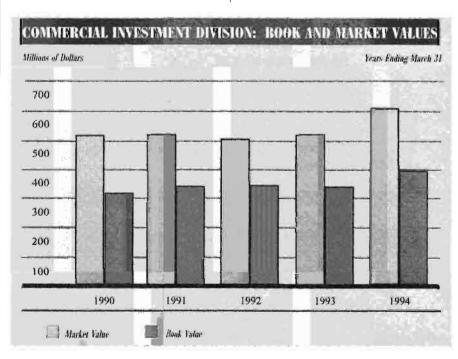
During 1993 Canadian equity markets performed well, with the TSE-300 (excluding banks) showing a total return of 23.8 percent. The TSE-300 peaked in March 1994, at a high of 4,609,

after which a stock market correction occurred and the index declined by approximately 11 percent to a level of 4,100 a month later.

In 1993-94, earnings from dividends, interest and net realized capital gains totalled \$61.8 million. During the year, a number of the Division's investments were sold and the proceeds were reinvested in short-term interest bearing securities. These sales resulted in the high level of realized capital gains and increased the Division's holding of short-term securities by \$140 million, to \$167 million. At March 31, 1994, the Division's total market value of \$613 million exceeded its book value by \$214 million.

Investment:

- (net) in 1993-94: \$60 million
- at March 31, 1994: \$400 million





CASH AND MARKETABLE SECURITIES

Funds not immediately required for investment in other divisions are invested under section 10 of the Alberta Heritage Savings Trust Fund Act. Funds in the Cash and Marketable Securities portfolio provide the Heritage Fund with the ability to fund its various investments. They also provide the province with considerable flexibility in managing its borrowing. Of the Heritage Fund's \$11,894 million of assets at March 31, 1994, \$6,029 million or 51 percent, were in the Cash and Marketable Securities portfolio.

The portfolio increased by \$690 million during 1993-94 mainly due to provincial Crown corporation debenture repayments and redemptions of \$406 million, the early repayment of \$100 million by Nova Scotia and Nova Scotia Power Corporation, and the receipt of the \$60 million initial payment from the sale of a five percent equity interest in the Syncrude Project.

The \$6.0 billion Cash and Marketable Securities portfolio can be divided into two segments:

 Securities with a remaining term to maturity of less than one year. Approximately 58 percent of these securities were issued by the Province of Alberta or its agencies. This portion of the

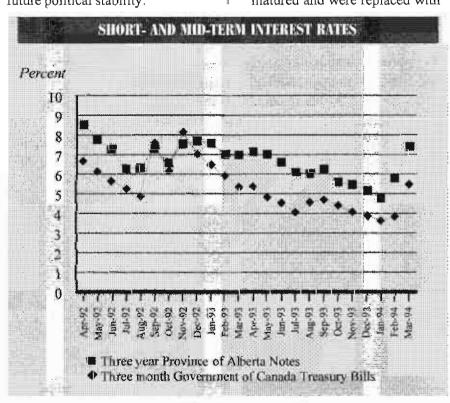
- portfolio decreased by \$35 million in 1993-94, to \$3,396 million (at cost).
- Securities with a remaining term to maturity between one and five years which generally earn higher interest rates than the short-term securities, and which could be sold should the province determine it required additional cash. This portion of the portfolio increased by \$778 million in 1993-94, to \$2,686 million (at cost).

Interest rates declined over most of 1993-94 reflecting Canada's weak economy and low rate of inflation. However, rates jumped sharply at the end of the fiscal year due to increases in U.S. interest rates, as well as investor concern over Canada's government deficits and future political stability.

Short-term interest rates averaged 4.35 percent during the first 11 months of 1993-94, but jumped to 5.47 percent in March 1994. However, the average short-term rate of 4.44 percent for 1993-94 was well below the average rate of 6.26 percent in 1992-93. Three year interest rates also declined throughout 1993-94, reaching 4.76 percent on January 31, 1994, before jumping to 7.40 percent on March 31, 1994.

These changes in interest rates affect the two portions of the Cash and Marketable Securities portfolio differently.

 Declines in short-term rates are quickly reflected in lower cash income from the short-term section of the portfolio, because on average these securities matured and were replaced with





new securities approximately every 128 days. The new securities were at the new lower interest rates. However, when interest rates rise, the higher rates are also very quickly reflected in higher cash income.

• Declining mid-term interest rates have less effect on the cash income from the mid-term portion of the portfolio, because it holds securities with the interest rates locked in for an average of approximately three years. As interest rates decline, mid-term securities with higher interest rates increase in value. During 1993-94, the mid-term portion of the Cash and Marketable Securities portfolio had a market value well above its book value for most of the year. However, when rates increased

at the end of the fiscal year, the value of the securities in the mid-term portion of the portfolio declined to less than their original cost, and a provision of \$53.1 million was made for this portion of the portfolio to reflect the decline in market value.

In 1993-94, the Cash and Marketable Securities portfolio contributed \$325 million, or 29 percent of the Heritage Fund's income, after deducting the \$53.1 million provision. This equated to a book value rate of return of 6.4 percent. This return was substantially below the 9.2 percent return earned in 1992-93 because on average interest rates were lower, and the provision reduced net income significantly.

The province borrows from the Cash and Marketable Securities portfolio as part of its debt management program. At March 31, 1994, the portfolio contained \$2,258 million of Alberta securities, an increase of \$127 million from March 31, 1993 (at cost). Borrowing has been done mainly to finance past years' deficits. Each time the province borrowed from the Fund it was at the public market interest rate Alberta would have had to pay on the day of the financing. This system ensures the Heritage Fund receives the full income available from investing in similar securities. It also ensures that the full cost of the debt is charged to the province's budget.

Investment:

- (net) in 1993-94: \$690 million
- at March 31, 1994: \$6,029 million

CASH AND MARKETABLE SECURITIES PORTFOLIO (AT COST)

(millions of dollars)

As at March 31, 1994

Government Securities ^a
Alberta
Other Governments
Corporate Securities
Total
Average Term to Maturity (Years)

a	Includes	Crown	corporations	and	agencies

	Kemaining '	Term to Maturity			
Less '	Than	Mo	re Than		
One Year		0r	ne Year		Total
\$	%	\$	%	\$	%
1,969	58	289	11	2,258	37
796	23	1,878	70	2,674	44
2,765	81 .	2,167	81	4,932	81
631	19	519	19	1,150	19
3,396	100	2,686	100	6,082	100
0.35		2.9		1.5	

SUMMARY STATISTICS



RATES OF RETURN, YIELDS TO MATURITY, AND MARKET VALUES

Rates of Return

In reviewing the returns of a portfolio, the nature of the investments must be taken into account. When measuring returns for the Alberta and Canada Investment Divisions, rates of return are based on book value because the investments are held for the long-term and most of the securities are not traded on public markets. Consequently the returns are not comparable with conventional industry benchmarks or indexes.

The book value rates of return include investments in joint ventures (Syncrude, Bi-provincial Upgrader) and the investment in Vencap. Rates of return also include retroactive adjustments to book values under the concessionary loan policy adopted at March 31, 1993, as well as due to write downs.

The Cash and Marketable
Securities portfolio and
Commercial Investment Division
portfolio are comprised of readily
marketable investments. Therefore
returns can also be calculated on the
basis of market values which can be
more easily compared with various
performance standards. These
returns are determined by

movements in interest rates, and changes in the prices of securities.

The one year, three year, five year and ten year returns are summarized in the table on page 26, together with industry benchmarks, where appropriate.

The Cash and Marketable Securities portfolio consists of two components: money market securities maturing within one year and mid-term securities with more than one year to maturity. The returns on both components reflect the fluctuations in interest rates.

The rates of return of the Commercial Investment Division are similar to other large Canadian equity portfolios. However, since the Division is prohibited from owning shares of banks, and does not invest in the shares of smaller companies, its returns are not directly comparable with other indexes or Canadian equity funds. Four indexes are included on page 26 as a basis for comparison. The TSE-300 (excluding banks), the TSE-100 and the TSE-35 (which exclude smaller companies, but include banks), and the SEI. SEI is a performance measurement firm. It measures the performance of several hundred pension funds. Half of these funds have returns

above the median return shown, while half are below.

Yields to Maturity

The yield to maturity of an investment is an estimate of the annual rate of return an investor would earn if the investment were held to maturity and the income from the investment was reinvested at the same rate. The yield to maturity is calculated for an investment portfolio at a particular date.

Market Values

The table on page 27 compares the book value of the Fund's financial assets with available market values at March 31, 1994. Market values for securities which are actively traded are based on March 31, 1994, closing prices. For securities which are not actively traded, values are estimated by using market prices of securities which are traded and making adjustments for unique features where possible. No attempt has been made to derive market values for project investments or securities which have unique characteristics.



ANNUALIZED RATES OF RETURN



(percentage, years ending March 31, 1994)

Annualized Returns Based on Book Values	10 Years	5 Years	3 Years	1 Year
Alberta Investment Division				
Provincial Crown Corporations and Corporate Securities	13.8	14.2	16.3	18.9
Project Investments ^a	3.5	(0.6)	(6.3)	(2.1)
Total Alberta Investment Division	12.0	11.1	11.2	13.7
Canada Investment Division	12.7	12.5	12.5	13.0
Commercial Investment Division	8.2	6.7	7.3	17.0
Capital Projects Division - Vencap	11.2	7.7	8.2	7.4
Cash and Marketable Securities	10.2	10.6	9.1	6.4
Total Returns	11.7	10.9	10.5	10.7
Cash and Marketable Securities Short-Term Marketable Securities (less than one year) Comparison: ScotiaMcLeod 91 day T-Bills Mid-Term Marketable Securities (one to five years; duration 2.54 year Comparison: ScotiaMcLeod Short-Term Bonds (one to five years; duration 2.65 years)		9.3 9.2 1 0.2 11.1	6.9 6.8 8.8 10.0	4.5 4.7 5.3 5.9
Total Returns for Cash and Marketable Securities	10.3	10.1	8.1	4.9
Commercial Investment Division Total Division Including Money Market Securities Equities Only	8.9 9.0	4.6 4.6	6.5 7.3	18.8 21.3
Comparisons: TSE-300 Excluding Banks	9.0	6.6	10.6	23.8
TSE-100	9.8	7.3	9.9	22.4
TSE-35	9.0	6.4	8.0	19.4
SEI Median Return for Canadian Equity Funds	10.3	7.2	9.7	20.6

a Includes investments in joint ventures (Syncrude, Bi-provincial Upgrader and OSLO) as well as Al-Pac, Millar Western and Ridley Grain. Returns include applicable write-downs.

YIELDS TO MATURITY BASED ON BOOK VALUE^a

	March 31, 1994	March 31, 1993
Canada Investment Division	11.8	11.7
Alberta Investment Division	9.4	10.4
Commercial Investment Division ^b	4.5	6.6
Cash and Marketable Securities	5.7	7.7_
Total	7.3	9.2

^a Yields are for interest bearing securities only; equities and projects are excluded.

^b Money market securities only.



COMPARISON OF BOOK AND MARKET VALUES OF HERITAGE FUND INVESTMENTS

(as at March 31, 1994, millions of dollars)

FINANCIAL ASSETS	Book Value	Market Value
Cash and Marketable Securities		
Mid-term securities	3,275*	3,275
Short-term money market securities	2,754	2,754
Total Cash and Marketable Securities	6,029	6,029
Canada Investment Division	1,069	1,201
Commercial Investment Division	400	613
Alberta Investment Division		
Provincial Crown Corporation Debentures		
Agriculture Financial Services Corporation	949	986
Alberta Mortgage and Housing Corporation	1,367	1,532
Alberta Municipal Financing Corporation	140	167
Alberta Opportunity Company	106	109
Corporate Securities		
NOVA Corporation convertible subordinated debentures	. 150	142
TransCanada PipeLines Ltd. convertible subordinated debeutures	150	166
Canadian Western Bank common shares	. I	1
NOVA Corporation common shares	25	28
Alberta Investment Division Assets Above	2,888	3,131
Total For Which Market Values Are Available	10,386	10,974
Remaining Investments Book Value ^b	949	949
Accrued Interest and Accounts Receivable	559	559
Total	11,894	12,482

After a provision of \$53.1 million to adjust for market value below original cost.

No market values are available for the remaining investments: Alberta Pacific Pulp Mill project, Lloydminster Bi-provincial Upgrader project, Millar Western Pulp Ltd., Ridley Grain Ltd. (Prince Rupert), Syncrude project and Vencap Equities Alberta Ltd.



COMPARISON OF ACTUAL INCOME TO BUDGET FOR 1993-94

(millions of dollars)	1993-94	1993-94	3 7 •
	Budget	Actual	Variance
Cash and Marketable Securities			
Short-Term	213	205	(8)
Mid-Term	165	173	8
Provision on Mid-Term		(53)	(53)
	378	325	(53)
Canada Investment Division	138	137	(1)
Alberta Investment Division			
Syncrude	38	22	(16)
Millar Western Pulp Ltd.	0	(53)	(53)
Bi-provincial Upgrader	(19)	. (27)	(8)
Other	635	629	(6)
	654	571	(83)
Commercial Investment Division			
Interest and Dividend Income	15	19	4
Realized Capital Gains	10	43	33
	25	62	37
Capital Projects Division (Vencap)	9	. 9	-
Administrative Expenses	(1)	(1)	
	1,203	1,103	(100)
			

Explanation of Variance

Cash and Marketable Securities

The accounting policy for the Cash and Marketable Securities portfolio is to value its medium term component at the lower of cost or market value. The amount of any reduction in value reduces income. At March 31, 1994, the market value of this portfolio was \$53 million lower than cost and income from the portfolio was reduced by this amount.

The reduced market value occurred because late in 1993-94 market interest rates jumped dramatically, with three year rates increasing by over 2.5 percent in the final two months of the year. When interest rates go up the market value of a bond goes down. Investors will pay less for that bond to compensate for its lower interest rate.



Alberta Investment Division

Three events were primarily responsible for actual income from the division being below the budgeted level:

- As a result of weak pulp prices and the need for additional financing, Millar Western Pulp Ltd. was restructured and the Heritage Fund wrote down the carrying value of its investment by \$53 million;
- The Lloydminster Bi-provincial Upgrader continued to experience poor financial results. As a result, the Heritage Fund's losses were \$8 million higher than anticipated;
- The average oil price received by Syncrude for its production was approximately U.S. \$1 per barrel below the budgeted level for the year. Also, the province sold a five percent interest in Syncrude during the year which reduced the income from this investment.

Commercial Investment Division

The budget assumed that normal selling of securities throughout the year would result in realized capital gains of \$10 million during 1993-94. However, as stock market prices climbed during the year, a larger portion of the portfolio was sold and capital gains of \$43 million were realized.

SECURITIES LENDING OPERATIONS

Securities lending involves lending a security (e.g., a common stock or a bond certificate) to an approved financial institution (e.g., a bank or investment dealer) generally for several days for a fee. Securities from the Heritage Fund's Cash and Marketable Securities portfolio and the Commercial Investment Division are used for this purpose.

Financial institutions borrow securities for many different reasons. These include managing financial risk and increasing the ability to trade in certain securities. Standardized systems have been developed to make this process profitable for both the security lender and borrower. Alberta has contracted with a chartered bank to manage its securities lending activities. Under this contract, the bank assesses security borrowers, ensures that they provide sufficient collateral and agrees to absorb all losses should there be a default.

The fees earned for securities lending are set competitively in the marketplace. In 1993-94, the Heritage Fund earned \$0.4 million from securities lending, including \$0.2 million in the Cash and Marketable Securities portfolio and \$0.2 million in the Commercial Investment Division.



ALBERTA INVESTMENT DIVISION

	Cost March 31, 1993	Purchases	Write-down	Disposals, Repayments and Redemptions	Cost March 31, 1994
Investments in Provincial Crown Corporations:					
Agriculture Financial Services Corporation Debentures Investments at March 31, 1993	1,013.3	-	_	64.5	948.8
Alberta Mortgage and Housing Corporation Debentures Investments at March 31, 1993 Investments made during 1993-94: 8.17% March 15, 2019	1,661.4	 15.0	-	309.4	1,352.0 15.0
0.1770 Maich 13, 2017	1,661.4	15.0		309.4	1,367.0
Alberta Municipal Financing Corporation Debentures	1,001.4	13.0		307.4	1,307.0
Investments at March 31, 1993	140.0	_		_	140.0
Alberta Opportunity Company Debentures Investments at March 31, 1993 Investments made during 1993-94:	128.4	-	-	32.5	95.9
7.05% March 31, 1999		10.0	_		10.0
	128.4	10.0	-	32.5	105.9
Total Provincial Crown Corporations	2,943.1	25.0	-	406.4	2,561.7



ALBERTA INVESTMENT DIVISION

(CONTINUED)

	Cost March 31, 1993	Purchases	- Write-down	Disposals, Repayments and Redemptions	Cost March 31, 1994
Other Alberta Investment Division Investments:					
Alberta-Pacific Pulp Mill Project					
Variable rate debentures, Nov. 30, 2010					
Crestbrook Forest Industries Ltd.	78.4	33.9	/ -	_	112.3
New Oji Paper Co., Ltd.	48.9	21.2	<u> </u>	_	70.1
MC Forest Investment Inc.	68.5	29.5	(A) -	_	98.0
Millar Western Pulp Ltd.	16	/ "			1000
Participating debenture, Oct. 31, 2004	74.1	-	53.5	_	20.6
NOVA Corporation					
Adjustable rate convertible					
subordinated debentures, 6.25% Feb. 15, 2008	150.0	_	-	_	150.0
Ridley Grain Ltd.					
Debenture, 11% July 31, 2015	125.6		. –	4.3	121.3
TransCanada PipeLines Ltd.					
Convertible debenture,					
10.426% Dec. 20, 2001	150.0	-	-		150.0
Alberta Energy Company Ltd.					
Common shares	183.3	_	_	183.3	_
Canadian Western Bank					
Common shares	0.7	_	-	-	0.7
NOVA Corporation					
Common shares	24.5		-	. –	24.5
Participation in Lloydminster					
Bi-provincial Upgrader Project	74.8	8.7	16.7	10.7	56.1
Participation in Syncrude Project	499.3	170.5	-	328.6	341.2
Total	4,421.2	288.8	70.2	933.3	3,706.5



CANADA INVESTMENT DIVISION

	Maturity Date	Cost March 31, 1993	Amortization	Repayments and Redemptions	Cost March 31, 1994°	Par Value March 31, 1994	Coupon Rate (%)
Province of New Brunswick	Dec 1997	47.0	-	_	47.0	47.0	9.5
Province of New Bruaswick	June 2000 ^d	24.8.	_	_	24.8	25.0	11.3
Province of New Brunswick	Aug 20004	74.4	1.0		74.5	-75.0	11.9
		146.2	0.1	_	146.3	147.0	11.0
New Brunswick Electric				-	_		
Power Commission New Brunswick Electric	Aug 2000 ^a .	34.8	0.05	-	34.8	35.0	11.9
Power Commission	Jan 2005 ^d	49.5	0.05	_	49.5	50.0	11.3
		84.3	0.1		84.3	85.0	11.5
		230.5	0.2	-	230.6	232.0	11.2
Province of Newfoundland	Mar 1998 ^a	49.9	_	_	49.9	50.0	10.0
Newfoundland and Labrador Hydro	Dec 1999 ^d	74.2	0.1	_	74.4	75.0	11.3
Newfoundland and Labrador Hydro	Jan 20014	74.9	_		74.9	75.0	13.4
		149.1	0.1	_	149.3	150.0	12.3
Newfoundland Municipal Financing Corporation Newfoundland Municipal	c	1.5	-	1.5	_	-	16.4
Financing Corporation Newfoundland Municipal	Dec 1999 ^a	24.7	_	_	24.7	25.0	11.3
Financing Corporation	Jan 2001 ³	35.0	_		35.0	35.0	13.4
		61.2	-	1.5	59.7	60.0	12.5
		260.2	0.1	1.5	258.9	260.0	11.9 1
Province of Nova Scotia	c	49.8	_	49.8		_	10.0
Province of Nova Scotia	Jan 2000 ³	74.5	0.1	_	74.6	75.0	11.3
Province of Nova Scotia	Dec 2000 ^s	84.3	0.1		84.4	85.0	13.4
		208.6	0.2	49.8	159.0	160.0	12.4 ⁸

^{*} Does not add horizontally due to rounding.

b Does not include coupon from redeemed debentures.

Repaid in 1993-94.

d Can be called prior to maturity by the issuer.



		Maturity Date	Cost March 31, 1993	Amertization	Repayments and Redemptions	Cost March 31, 1994	Par Value March 31, 1994	Coupon Rate (%)
Nova Scotia Municipal								
Finance Corporation		c	1.25	_	1.25	_	_	13.4
Nova Scotia Municipal								
Finance Corporation		c	1.25	_	1.25	_	_	11.3
Nova Scotia Municipal								
Finance Corporation		c	2.0	_	2.0	_	_	15.8
Nova Scotia Municipal								
Finance Corporation	Jan 19	95 to Jan 2000	7.5	-	_	7.5	7.5	11.3
Nova Scotia Municipal	D 100	D. 4	0.7			0.7		
Finance Corporation	Dec 199	94 to Dec 2000	8.7			8.7	8.8	13.4
			20.7		4.5	16.2	16.3	I2.4 b
Nova Scotia Power Corpor	ation	c	49.8		49.8	_	-	10.0
Nova Scotia Power Corporation		Jan 2000 ^d	49.7	0.1	_	49.7	50.0	11.3
			99.5	0.1	49.8	49.7	50.0	I1.3 ¹
			328.8	0.3	104.1	224.9	226.3	12.1 6
Province of Prince Edward	l Island	c	2.0	_	2.0	~	_	15.8
Province of Prince Edward	l Island	Mar 2000 ^d	8.9	0.03		8.9	9.0	13.5
Province of Prince Edward	l Island	Jan 2001 ⁴	19.8	0.03	_	19.9	20.0	13.4
Province of Prince Edward	l Island	Apr 2001 ^d	19.8	0.03	_	19.8	20.0	13.9
			50.5	0.1	2.0	48.6	49.0	13.6 8
Hydro-Québec		Oct 2004 ^d	195.1	0.4	_	195.6	200.0	11.0
Hydro-Québec		Jaly 2005 ^d	110.0	-	_	110.0	110.0	11.8
			305.1	0.4	_	305.6	310.0	11.3
Total			1,175.1	1.1	107.6	1,068.6	1,077.3	11.7 6
							_	

COMMERCIAL INVESTMENT DIVISION

	Cost March 31, 1993	Purchases	Amortization	Disposals, Repayments and Redemptions	Cost March 31, 1994	Market Value March 31, 1994
Common and preferred shares Short-term money market securities	312.3		_	80.1	232.2	445.9
and mid-term participating certificate	27.0	223.1	3.8	86.6	167.3	167.3
Total	339.3	223.1	3.8	166.7	399.5	613.1



FIVE YEAR REVIEW: 1989-90 to 1993-94

(millions of dollars)

	1993-94	1992-93	1991-92	1990-91	1989-90
Fransfer of Non-Renewable Resource Revenue to the Heritage Fund	. 0	0	0	0	0
Net Income Earned on the Heritage Fund's Investments	1,103	785	1,386	1,342	1,249
Subtract					
ncome Transferred to Budgetary Revenues	1,103	785	1,386	1,342	I ,24 9
Spending on Non-Income Earning Capital Projects Division Projects (Deemed Assets)	70	84	84	150	134
New Funds Available to the Heritage Fund for Income Earning Investments	(70)	(84)	(84)	(150)	(134)
ncrease (Decrease) in Payables	13	(4)	(1)	(13)	9
Add Financial Assets of the Heritage Fund at the Beginning of the Year	1 1, 951	12,039	12,124	12,287	12,412
Financial Assets of the Heritage Fund at the End of the Year	11,894	11,951	12,039	12,124	12,287
Consisting of Alberta Investment Division	3,706	4.421	4,658	5,875	6,887
Capital Projects Division	131	127	122	118	113
Canada Investment Division	1,069	1,175	1,182	1,189	1,306
Commercial Investment Division	400	339	345	340	316
Cash and Marketable Securities	6,029	5,339	4,865	3,891	3,162
Accrued Interest and Accounts Receivable	559	550	867	711	503
Pinancial Assets	11,894	11,951	12,039	12,124	12,287



CAPITAL PROJECTS DIVISION

The Capital Projects Division spends money on projects that will provide long-term economic or social benefits to the people of Alberta. These projects generally do not yield a financial return to the Heritage Fund. However, they

improve the present and future quality of life in Alberta.

The projects listed below are not included in the assets of the Heritage Fund.

ONGOING PROJECTS

Deenon	eibla	Department
respon	sidie	Department

Period/Spending

Description of Program

Agriculture, Food and Rural Development

			. 1	T .
Harr	าวเกก	tor	the	Future
ı anı	жилы	TOT	LIIV	1 HILLI

in 1993-94: \$5 million at March 31, 1994: \$72 million The program provides financial assistance for agricultural research and demonstration projects. It supports projects aimed at improving agricultural marketing and production, food processing, and soil and water conservation. In 1993-94, 99 research projects and 96 demonstrations were conducted.

Grazing Reserves Enhancement

in 1993-94: \$4 million at March 31, 1994: \$51 million The program follows up the successful Grazing Reserves Development Program. It will redevelop 55,000 hectares (136,000 acres) of pasture on 21 grazing reserves where brush is regrowing. The improved pastures will provide grazing for approximately 20,000 additional head of livestock. Wildlife habitat will be enhanced through careful planning of the redevelopment areas.

Irrigation Rehabilitation and Expansion

in 1993-94: \$24.5 million at March 31, 1994: \$386 million Assistance is provided to the 13 Irrigation Districts to plan, rehabilitate and expand their water distribution networks to manage water resources more effectively and efficiently.

Of the \$24.5 million invested, \$19 million was granted to the 13 districts for rehabilitation of their works. \$5.5 million was paid into the Irrigation District Rehabilitation Endowment



Fund to be held by the Provincial Treasurer for future rehabilitation projects.

During 1993-94, 25 kilometres of canal were lined with buried membrane. 78 kilometres of pipelines and 64 kilometres of earth canals were rehabilitated. In the 1993 crop season, a total of 497,463 hectares (1,229,215 acres) were serviced by the 13 Irrigation Districts.

Private Irrigation Development Assistance

in 1993-94: \$0.4 million at March 31, 1994: \$1.6 million

This program provides up to 50 percent of the capital costs for moving water from a natural supply to private land for irrigation. This program is available to producers outside of the areas serviced by the 13 Irrigation Districts.

During its fifth year, the program contributed to 24 new projects involving 924 hectares (2,284 acres) of new irrigation in the province. A total of 100 projects irrigating 4,972 hectares (12,286 acres) have been developed under the program.

Community Development

Urban Park Development

in 1993-94: \$14 million at March 31, 1994: \$128 million Phase I of the program, which ended in 1987, provided \$87 million to develop urban park systems. Parks were developed in Lethbridge, Lloydminster, Medicine Hat, Red Deer, and Grande Prairie.

Phase II was announced in 1989. It will provide \$50 million over eight years for the development of urban park systems. Airdrie, Calgary, Camrose, Edmonton, Fort McMurray, Fort Saskatchewan, Leduc, Spruce Grove, St. Albert, Wetaskiwin and the County of Strathcona have received funding under the program.



Energy

Renewable Energy Research

in 1993-94: \$0.6 million at March 31, 1994: \$2.8 million The Alberta Office of Renewable Energy Technology promoted development and demonstration of renewable energy technologies in the Pincher Creek/Crowsnest Pass area.

Over the program's four years, 11 projects received approximately \$3 million in financial support. The largest projects were a 2.4 MW hydroelectric power system and two wind farms. The program terminated as scheduled on March 31, 1994.

Environmental Protection

Land Reclamation

in 1993-94: \$2.4 million at March 31, 1994: \$44 million This program reclaims land disturbed as a result of human activity which was not governed at the time of disturbance by the Land Surface Conservation and Reclamation Act. Since 1976, over 1,500 projects have been completed on municipal or Crown land including abandoned garbage dumps, sewage lagoons, gravel pits and mines. Research projects concerned with improving land reclamation methods are also funded, with participation by industry. This program was terminated as scheduled on March 31, 1994.

Pine Ridge Reforestation Nursery Enhancement (Alberta Reforestation Nursery)

in 1993-94: \$0.2 million at March 31, 1994: \$23 million The Nursery was completed in 1984-85 and extensively improved from 1990-1993. It provides high quality seed service and seedlings for government and industry reforestation activities. The expansion increased gross seedling capacity from 24.5 million to 33.5 million per year.

Water Management Systems Improvement

in 1993-94: \$15.6 million at March 31, 1994: \$541 million This project supports the rehabilitation, upgrading or replacement of water storage and delivery systems. Its objective is to provide an assured water supply for irrigation, domestic, municipal and industrial water needs, water-based recreation facilities and wildlife enhancement.



Health

Alberta Family Life and Substance Abuse Foundation in 1993-94: \$1 million March 31, 1994: \$3 million

The Foundation's purpose was to strengthen Alberta families through funding to support the discovery and application of new knowledge about substance abuse. The Foundation was discontinued at the end of 1993-94.

Applied Cancer Research

in 1993-94: \$3 million at March 31, 1994: \$52 million

Through its support to clinical and applied research, this program has established Alberta as a centre of excellence in cancer research and treatment. In 1993-94, 32 projects were funded. They will provide direct improvements to patient care.

Labour

Occupational Health and Safety Research and Education

in 1993-94: \$0.4 million at March 31, 1994: \$12 million

Ten projects were funded in 1993-94. They helped improve workplace health and safety through research, education and conferences.

COMPLETED PROJECTS

Responsible Department

Period/Spending

Description of Program

Advanced Education and Career Development

Alberta Heritage Scholarship Fund

1981-1982:

\$100 million

Earnings from the endowment provide about \$13 million annually. They support 33 scholarship and award programs in the arts, sciences and the humanities. To date, over \$111 million has been awarded to over 79,000 Albertans. The market value of the Fund at March 31, 1994, was

\$224 million.

Clinical Research Building

1989:

\$18 million

Located at the University of Alberta, this facility consists of five bays of laboratory modules and provides clinical research space for various medical disciplines.



Library Development

1979-1983:

\$9 million

This project funded the acquisition of over 600,000 library books, periodicals and non-print resources for library collections in all 15 Alberta public

colleges and universities.

o residual value

Agriculture, Food and Rural Development

Food Processing Development

Centre

1984-1987:

\$9 million

Located in Leduc, the Centre helps food processors develop new or improved products and processes

through the application of new technology.

Rail Hopper Cars

1980-1982:

\$54 million

As part of its commitment to agriculture, the

government acquired 1,000 hopper cars to increase NBV as at Man Sz. /9, the grain carrying capacity of the railway system.

Community Development

Municipal Recreation/

Tourism Areas

1986-1992:

\$14 million

St. Lua man 35 yous.

The program provided grants to rural communities for the development and upgrading of outdoor recreation facilities to improve local recreation

opportunities and increase tourism.

Economic Development and Tourism

Alberta Heritage Foundation for Medical Research

1979-1980:

\$300 million

The Foundation devotes about \$28 million annually from the fund's investment earnings to an

exceptional awards and grants program. The program supports a critical mass of world class career medical scientists in Alberta. An aggressive technology commercialization program is beginning to translate medical research into successful commercial ventures. The market value

of the Foundation's investments was \$677 million

at March 31, 1994.

Electronics Test Centre

1985-1987:

\$6 million

This Edmonton facility tests and certifies electronic

products and provides manufacturers with product

evaluation and technical support.

Individual Line Service

1987-1991:

\$221 million

Individual telephone line service was provided to 115,500 rural Albertans. The program also

refunded monthly exchange circuit surcharges to the 26,000 rural subscribers who acquired private

lines before the program began.



Capital Projects Division Spending Summary

Microchip Design and Fabrication Facilities	1985-1987: \$8 million	The Alberta Microelectronic Centre helps transfer microelectronic technology to industry.
Education		
Alberta Heritage Learning Resources	1978-1981: \$9 million	This project resulted in the development and publication of six sets of materials for use in Alberta schools. All emphasized the history, geography, and the social and natural environment of Canada, particularly western Canada.
Energy		
Alberta Oil Sands Technology and Research Authority (AOSTRA)	1976-1990: \$419 million	The Authority promotes research and development of environmentally acceptable technological methods for the economic recovery of oil sands bitumen, heavy oil and enhanced conventional oil.
Environmental Protection		
Fish Creek Provincial Park (Development)	1984-1987: \$17 million	This 1,330 hectare (3,300 acre) day-use park in south Calgary offers a wide variety of recreational activities. These include a swimming and skating lake, an equestrian centre, amphitheatres, picnic areas and historical sites.
Kananaskis Country Recreation Development	1978-1988: \$225 million	This 405,000 hectare (one million acre) project provides year round recreational enjoyment for Albertans and visitors. More than 1,500 kilometres of trails offer hiking, cross-country skiing, biking, horseback riding, snowmobiling, and off-road vehicle driving. Facilities include golf courses, campgrounds and interpretive amphitheatres. Other special features include William Watson Lodge, providing accommodation designed for persons with disabilities, and the Canmore Nordic Centre, which hosts national and international sporting events.
Lesser Slave Lake Outlet	1979-1984: \$3 million	The outlet stabilized lake levels and reduced flooding in the communities and agricultural lands surrounding Lesser Slave Lake.



Capital Projects Division Spending Summary

Maintaining Our Forests	1979-1987: \$25 million	The money spent helped replace coniferous landbase lost to industrial expansion or damaged by fire. Under this project, approximately 45,000 hectares (111,000 acres) were reforested with seedlings.
Paddle River Basin Development	1979-1987: \$42 million	This project addressed flooding problems in the Paddle River Basin and provided an assured water supply for the area.
Health		
Applied Heart Disease Research	1976-1982: \$29 million	The funds provided assisted in the development of cardiac care programs at the University of Alberta Hospital and the Royal Alexandra Hospital in Edmonton, and the Calgary General Hospital.
Public Works, Supply and Services		· ·
Alberta Children's Provincial General Hospital	1976-1984: \$40 million	The children's health centre in Calgary focuses on the total health of its young patients. Both basic and complex medical and surgical services are provided to in-patients and out-patients through over 30 speciality clinics.
Capital City Recreation Park	1976-1991: \$44 million	This 1,250 hectare (3,000 acre) park in Edmonton joins 14 river valley parks by bridges and 55 kilometres of bicycle and hiking paths. Facilities include a family recreation centre, picnic and nature areas, fountains, a fish pond, and golf course. The province reimbursed Edmonton for the lands purchased for the park. The province will transfer four parcels of provincially owned land located within the park boundary to Edmonton.
Fish Creek Provincial Park (Land)	1976-1983: \$27 million	Land for this provincial park in Calgary was purchased over several years to provide one of Canada's finest urban provincial parks.
Tom Baker Cancer Centre and Special Services Facility	1981-1984: \$93 million	Located at the Foothills Medical Centre in Calgary, the Centre provides diagnostic, chemotherapy, radiation therapy and psychosocial support to cancer patients.



Walter C. Mackenzie Health Sciences Centre 1982-1990: \$391 million Located at the University of Alberta in Edmonton, this 171,700 square metre ultra modern health sciences centre integrates health care, teaching and research. This facility supports leading edge programs such as heart and lung transplants.

Transportation and Utilities

Airport Terminal Buildings

1979-1984: \$16 million Funding was provided to construct airport terminals in 18 communities around the province to improve access to these areas.

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FINANCIAL STATEMENTS

March 31, 1994

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AUDITOR'S REPORT

To the Provincial Treasurer

I have audited the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 1994 and the statements of income, transfers, amounts expended and fund equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

A. J. K. Wingate, CA Acting Auditor General

agn almysti

Edmonton, Alberta June 3, 1994



BALANCE SHEET

March 31, 1994 (thousands of dollars)

		1994	1993
Assets			· · · · · · · · · · · · · · · · · · ·
	Cash and marketable securities, Schedule I	\$ 6,028,870	\$ 5,338,690
	Accrued interest and accounts receivable	526,537	203,703
	Due from the General Revenue Fund	32,661	346,365
	Canada Investment Division investments,		
	Schedule 2	1,068,628	1,175,137
	Alberta Investment Division investments,		
	Schedule 3	3,706,541	4,421,198
	Commercial Investment Division investments,		
	Schedule 4	399,507	339,342
	Capital Projects Division investments,		
	Schedule 5	131,647	127,053
		\$11,894,391	\$11,951,488
Liabilities and	Fund Equity		
	Liabilities:		
	Accounts payable	\$ 19,552	\$ 6,138
	Fund equity	11,874,839	11,945,350
		\$11,894,391	\$11,951,488

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



STATEMENT OF INCOME, TRANSFERS, AMOUNTS EXPENDED AND FUND EQUITY

For the Year Ended March 31, 1994 (thousands of dollars)

		1994	1993
Іпсоте:			
	Investment income before the undernoted	\$ 857,374	\$ 1,011,958
	Net gain on disposals of investments	317,156	7,604
	Write down of investments	(70,225)	(234,086
	Net investment income	1,104,305	785,476
	Administrative expenses (Note 3)	835	944
	Net income (Note 4)	1,103,470	784,532
Transfers:	-		
	Transfers to the General Revenue Fund	1,103,470	784,532
-	Division amounts expended:		
(Schedule 6)	Agriculture and economic development	34,348	40,410
			30,110
		18 006	24.078
	Environment and resource conservation	18,006 14,057	24,978 14,049
	Environment and resource conservation Recreation and culture	14,057	14,049
	Environment and resource conservation		14,049 5,296
	Environment and resource conservation Recreation and culture Health	14,057 4,175	14,049 5,296
Net decrease in A	Environment and resource conservation Recreation and culture Health Previous year capital expenditure refunds	14,057 4,175 (75)	14,049 5,296 (246) 84,487
Net decrease in A Fand equity at be	Environment and resource conservation Recreation and culture Health Previous year capital expenditure refunds	14,057 4,175 (75) 70,511)4,049 5,296 (246)

Alberta Heritage Savings Trust Fund



STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended March 31, 1994 (thousands of dollars)

		1994	1993
Operating transactions:			
Net income	\$ 1,10	03,470	\$ 784,532
Non-cash items included in n	et income (2	56,409)	220,733
Decrease (increase) in receive	ables	(9,130)	316,809
Increase (decrease) in payabl	es	13,414	(3,123)
Cash provided by operating tr	ransactions 8	51,345	1,318,951
Investing transactions:			
Proceeds from disposals, repa	yments and redemptions of investments:		
Canada Investment Divi		09,660	8,000
Alberta Investment Divi	•	05,244	542,178
Commercial Investment		09,834	26,355
Capital Projects Division	n	1	l
Investments:			
Alberta Investment Divi		88,791)	(522,878)
Commercial Investment	Division (2)	23,132)	(30,180)
Cash provided by investing tr	ansactions 1,0	12,816	23,476
Transfers and amounts expended:			
Transfers to the General Reve	enue Fund (1,1	03,470)	(784,532)
Capital Projects Division amo	unts expended (70,511)	(84,487)
Cash applied to transfers and	amounts expended (1,1	73,981)	(869,019)
Increase in cash and marketable securities	6	90,180	473,408
Cash and marketable securities at beginning	g of year 5,3	38,690	4,865,282
Cash and marketable securities at end of ye	ear \$ 6,0	28,870	\$ 5,338,690



NOTES TO THE FINANCIAL STATEMENTS

March 31, 1994

Note I Authority and Financial Structure

The Alberta Heritage Savings Trust Fund operates under the authority of the Alberta Heritage Savings Trust Fund Act (the Act), Chapter A-27, Revised Statutes of Alberta 1980, as amended.

Pursuant to section 4(2) of the Act which came into force in September 1982, all of the net income of the Fund is transferred to the General Revenue Fund. In total, the Fund has transferred \$15,355,145,000 to the General Revenue Fund from 1982 to 1994. Net income from the inception of the Fund in 1976 to August 1982 totalling \$3,262,247,000 has been retained by the Fund.

Under the authority of "Special Acts" and section 5(1) of the Act, non-renewable resource revenue totalling \$12,049,325,000 was transferred from the General Revenue Fund to the Fund, from the inception of the Fund in 1976, to March 31, 1987.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with generally accepted accounting principles. The accounting policies of significance to the Fund are as follows:

- (a) Securities included in the Canada Investment Division, the Alberta Investment Division, and the Commercial Investment Division are valued at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the securities.
- (b) The participation in joint ventures, included in the Alberta Investment Division, is accounted for on the equity basis.
- (c) Investments in loans, included in the Alberta Investment Division and the Capital Projects Division, are reported at their face value discounted by the amount of concessions [see Schedule 3 Note c and Schedule 5 Note b]. The amount of the discount is amortized to investment income over the term of the loan, except when the collectibility of either the principal or interest related to the loan transaction is not reasonably assured.
- (d) Bonds, bond coupons and residuals, mortgage-backed securities and mid-term money market securities included in marketable securities are valued at cost or market value, whichever is lower, on an aggregate basis. Short-term money market securities are valued at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the securities.



Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

- (e) The cost of disposals is determined on the average cost basis. Gains and losses arising as a result of disposals and any change in the provision to adjust the cost of marketable securities to the lower of cost or market value, on an aggregate basis, are included in the determination of net investment income.
- (f) Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.
- (g) 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.
- (h) Foreign currency transactions are translated into Canadian dollars using average rates of exchange, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the forward exchange contracts. Exchange differences on unhedged transactions are included in the determination of investment income.
- (i) Capital Projects Division amounts expended represent the cost of goods and services acquired during the year and amounts expended or accrued in accordance with the conditions of approved grant programs, including capital acquisitions, amounts expended on capital projects and grants for capital purposes [see Schedule 6 Note a].

Note 3	Administrative Expenses		
		1994	1993
	Expenses paid directly from the Fund pursuant to section 11(1) of the Alberta Heritage Savings Trust Fund Act	\$ 86,000	\$ 172,000
	Other administrative expenses estimated and charged to the		
	Fund pursuant to section 11(2) of the Alberta Heritage		
	Savings Trust Fund Act	749,000	772,000
		\$ 835,000	\$ 944,000

Administrative expenses estimated at \$772,000 for the year ended March 31, 1994 (1993 \$664,000) relating to investments in joint ventures are not included in other administrative expenses but are reflected in results of operations of the projects for the year.



Note 4 Comparison of Planned and Actual Results

A budget of the Fund's net income was included in the Budget '93 Update released on September 8, 1993. A more comprehensive budget of the Fund's net income, which was prepared by management, has been included in these financial statements for comparison with the actual figures.

	1994		1	993
	Budget	Actual	Budget	Actual
Cash and marketable securities (a)	\$ 378,000,000	\$ 325,290,000	S 392,100,000	\$ 420,485,000
Canada Investment Division investments	138,100,000	137,390,000	139,300,000	138.966,000
Alberta Investment Division investments (b) 654,400,000	570,626,000	444,100,000	209.622.000
Commercial Investment Division investments	24,600,000	61,781,000	24,000,000	6,461,000
Capital Projects Division investments	9,000,000	9,218,000	5,500,000	9,942,000
Administrative Expenses	(1,000,000)	(835,000)	~	(944,000)
	\$1,203,100,000	\$1,103,470,000	\$1,005.000,000	S 784,532,000

- (a) Actual includes \$120,798,000 (1993 \$142,146,000) income from investments in Province of Alberta funds and agencies.
- (b) Actual includes \$291,454,000 (1993 \$332,467,000) income from investments in Province of Alberta agencies.

Note 5 Comparative Figures

The 1993 figures have been reclassified where necessary to conform to 1994 presentation.

Note 6 Approval of Financial Statements

These financial statements were approved by management.





Cash and Marketable Securities

SCHEDULE 1

March 31, 1994

	19	94	19	93
		Market		Market
	Cost	Value	Cost	Value
		(thousa	nds of dollars)	
Bonds (a):				
Government of Canada, direct and guaranteed Provincial:	\$ 988,911	\$ 967,286	\$ 915,587	\$ 928,988
Alberta, direct and guaranteed	299,100	293,512	134,270	137,478
Other, direct and guaranteed	480,592	472,847	471,953	482,320
Municipal	15,411	15,814	11,759	12,363
Foreign governments, guaranteed	8,107	8,158	8,141	8,308
Corporate	254,136	251,521	150,632	154,438
	2,046,257	2,009,138	1,692,342	1,723,895
Bond coupons and residuals:				
Government of Canada, direct	29,993	29,992	105,584	106,424
Province of Alberta, direct	4,483	4,421	4,195	4,086
Other provinces, guaranteed	2,646	2,716	77,324	79,596
	37,122	37,129	187,103	190,106
Mortgage-backed securities:				
Government of Canada guaranteed	673,431	668,794	387,590	395,287
Other .	28,777	27,335		_
	702,208	696,129	387,590	395,287
Mid-term money market securities:				
Promissory notes:				
Province of Alberta, direct	45,200	43,890	235,000	238,163
0ther	260,110	250,36 0	151,438	153,105
Certificates of deposit and guaranteed				
investment certificates	224,183	225,266	270,509	276,164
Bankers' acceptances	12,500	12,603	26,020	26,538
	541,993	532,119	682,967	693,970





Schedule 1 (continued)

	19	94	199	93
		Market		Market
	Cost	Value	Cost	Value
		(thousar	ids of dollars)	
Short-term money market securities (b):				
Treasury bills:				
Government of Canada	\$ 127,703	\$ 127,703	\$ 94,949	\$ 94,949
Province of Alberta	9,868	9,868	29,661	29,661
Other provinces	57,712	57,712	37,919	37,919
Promissory notes:				
Province of Alberta	1,898,921	1,898,921	1,727,815	1,727,815
Other	172,035	172,035	84,855	84,855
Bearer deposit notes	117,901	117,901	163,940	163,940
Bankers' acceptances	219,534	219,534	73,164	73,164
Call loans	65,000	65,000	_	_
Certificates of deposit and				
guaranteed investment certificates		_	75,000	75,000
	2,668,674	2,668,674	2,287,303	2,287,303
Deposits in the Consolidated				
Cash Investment Trust Fund	85,681	85,681	101,385	101,385
	\$6,081,935	\$6,028,870	\$5,338,690	\$5,391,946

- (a) At March 31, 1994 certain securities were loaned to certain borrowers. The loans were secured by marketable securities. During the term of the loans, the Fund retains the right to receive income on the securities loaned.
- (b) The market value of short-term money market securities is estimated to approximate cost.





CANADA INVESTMENT DIVISION INVESTMENTS

SCHEDULE 2

March 31, 1994

			Cost	
	1994			
	Par Value	1994	1993	
		(thousands of dollars)		
Debentures (a):				
Province of New Brunswick	\$ 147,000	\$ 146,339	\$ 146,229	
New Brunswick Electric Power Commission	85,000	84,345	84,270	
Province of Newfoundland	50,000	49,906	49,882	
Newfoundland and Labrador Hydro	150,000	149,253	149,125	
Newfoundland Municipal Financing Corporation	60,000	59,739	61,194	
Province of Nova Scotia	160,000	158,987	208,626	
Nova Scotia Municipal Finance Corporation	16,250	16,212	20,698	
Nova Scotia Power Corporation	50,000	49,726	99,478	
Province of Prince Edward Island	49,000	48,564	50,499	
Hydro-Québec	310,000	305,557	305,136	
	\$1,077,250	\$1,068,628	\$1,175,137	

(a) Debentures bear interest at rates of 9.50% to 13.875% with maturity dates from December 19, 1994 to July 15, 2005. Certain debentures are redeemable prior to maturity at the option of the issuer. In general, other debentures are redeemable by a single payment of the full principal sum on maturity.





ALBERTA INVESTMENT DIVISION INVESTMENTS

SCHEDULE 3

March 31, 1994

	1994	1993
	(thousan	ds of dollars)
Provincial corporation debentures (a):		
Alberta Agricultural Development Corporation	\$ 948,786	\$1,013,279
Alberta Mortgage and Housing Corporation	1,366,978	1,661,390
Alberta Municipal Financing Corporation	140,000	140,000
Alberta Opportunity Company	105,868	128,362
Corporate debentures:		•
Alberta Pacific Pulp Mill Project		
Variable rate debentures (b):		
Crestbrook Forest Industries Ltd.	112,323	78,435
Kanzaki Paper Canada Inc.	70,100	48,931
MC Forest Investment Inc.	98,035	68,503
Millar Western Pulp Ltd.		
Participating debenture (c)	20,600	74,100
NOVA Corporation of Alberta Ltd.	•	
Adjustable rate convertible subordinated debentures (d)	150,000	150,000
Ridley Grain Ltd.		
11% participating first mortgage bonds (e)	121,329	125,579
TransCanada Pipelines Ltd.		
10.426% convertible subordinated debentures (f)	150,000	150,000
Common shares:		
Alberta Energy Company Ltd. (g)	_	183,272
Canadian Western Bank	720	720
NOVA Corporation of Alberta Ltd.	24,533	24,533
Participation in joint ventures:		
Lloydminster Bi-provincial Upgrader Project (h)	56,100	74,781
Syncrude Project (i)	341,169	499,313
	\$3,706,541	\$4,421,198



SCHEDULE 3 (CONTINUED)

(a) Provincial corporation debentures bear interest at rates of 7.05% to 18.05% with maturity dates from March 1, 1996 to March 15, 2019. Interest rates on Alberta Municipal Financing Corporation debentures are fixed to maturity and redemption is by a single payment of the full principal sum on maturity. In general the interest rates on the other provincial corporation debentures are fixed for a five year period only and repayment is by annual instalments of the principal sum over the life of the debenture. The Provincial Treasurer may permit all or part of the debentures to be redeemed by the issuer prior to maturity without penalty. During the year, debentures amounting to \$243,767,000 (1993 \$174,354,000) were redeemed prior to maturity.

The Fund's investment in provincial corporation debentures is summarized hereunder:

	1994	1993
Balance at beginning of year	\$2,943,031,000	\$3,150,021,000
Investments:		
Alberta Mortgage and Housing		
Corporation	15,000,000	73,000,000
Alberta Opportunity Company	10,000,000	30,000,000
Disposals, repayments and redemptions:		
Alberta Mortgage and Housing	•	
Corporation	(309,412,000)	(218,616,000)
Alberta Agricultural Development		
Corporation	(64,493,000)	(47,945,000)
Alberta Opportunity Company	(32,494,000)	(43,429,000)
Balance at end of year	\$2,561,632,000	\$2,943.031,000

- (b) As at March 31, 1994, the Fund is committed to invest up to an additional \$30,858,000 in subordinated debentures of Crestbrook Forest Industries Ltd., Kanzaki Paper Canada Inc., and MC Forest Investment Inc., the joint venturers of the Alberta Pacific Pulp Mill Project. Under the terms of the debentures, prior to November 30, 1997, interest is accrued and capitalized at the Alberta 20 year Canadian dollar borrowing rate applicable on the date of the advance. After that date interest is accrued and paid monthly to the extent of the available cash flow. The rate will be adjusted on November 30, 1995 and every five years after that date to the Alberta 20 year Canadian dollar borrowing rate applicable on the date of adjustment. The debentures mature on or before November 30, 2010 and are repayable in five equal instalments commencing November 30, 2006. Total capitalized interest amounts to \$36,316,000 at March 31, 1994 (1993 \$14,075,000).
- (c) The loan was provided to the company based on cash flow projections which indicated that the effective interest rate on the loan was lower than the Province's average cost of borrowings. This difference in interest rates constituted a form of financial assistance provided to the company. To reflect the value of the financial assistance provided, the recorded amount of the loan on the date of advance has been reduced by a discount.



SCHEDULE 3 (CONTINUED)

In March 1994, the company received approval to restructure its loan from the Fund. The restructuring will permit the company to arrange for the bank financing needed to sustain operations. Upon completion of the restructuring plan, the Fund will hold a \$90 million debenture in the company and a \$30 million debenture in a new operating company. All the assets and liabilities of Millar Western Pulp Ltd., except interest owing to the Fund, the \$90 million debenture and a \$6 million shareholder loan, are to be transferred to the new company. Millar Western Pulp Ltd. will hold a 60% non-voting interest in the new company. The remaining 40% will be held by Millar Western Industries Ltd. (the parent of Millar Western Pulp Ltd.) and a chartered bank.

The \$30 million debenture in the new company will be non-interest bearing and is to be secured by a charge against mill assets. It will rank behind existing and future bank loans. It is due to be repaid under certain conditions, including sale of the new company shares by Millar Western Industries Ltd., any sale of material assets of the new company or disposition of debt held by the chartered bank.

The \$90 million debenture and interest owing by Millar Western Pulp Ltd. will be secured by an assignment of the shares in the new company. The debenture will earn interest at 10% compounded annually. These amounts will be repayable from the sale of shares of the new company or from dividends paid by the new company to Millar Western Pulp Ltd.

Income from the debentures will be recognized to the extent that interest is received.

The estimated value of the loan after the approval of the restructuring plan is significantly less than its carrying value. A write down of the investment has been recorded to recognize the loss in value.

The Fund's investment in the loan is summarized as follows:

1994	1993
\$120,000,000	\$120,000,000
(45,900,000)	(45,900,000)
(53,500,000)	
\$ 20,600,000	\$ 74,100,000
	\$120,000,000 (45,900,000) (53,500,000)

(d) The debentures are convertible at the Fund's option into common shares of the company, at a conversion price of \$10.70 per share, subject to certain adjustments. Interest is payable semi-annually at a minimum rate of 6.25% per annum. The interest rate is adjustable to 7.5% per annum if the conversion price is increased to \$11.45 per share by the company. The debentures are redeemable at the company's option, at the principal amount plus accrued interest. The debentures mature on February 15, 2008. The company may elect to repay principal and interest in common shares of the company.

In May 1994, the Fund exchanged debentures of the company for new debentures issued by NOVA Corporation with the same terms and conditions.



SCHEDULE 3 (CONTINUED)

- (e) Under the terms of the debenture, prior to July 31, 1985, interest on the bonds has been capitalized and compounded annually; thereafter interest is compounded semi-annually and payable annually and any shortfall is to be capitalized. The principal, including capitalized interest, is repayable on or before July 31, 2015. Unrecorded capitalized interest amounts to \$34,337,000 at March 31, 1994 (1993 \$34,337,000). Income from the bonds is recognized to the extent that interest is received.
- (f) The debentures are convertible at the Fund's option into common shares of the company, at a conversion price of \$23.041 per share. The debentures are redeemable at any time after June 20, 1995, in whole or in part, at the option of the company, at par plus accrued interest, subject to certain conditions. The debentures mature on December 20, 2001.
- (g) In May 1993, the Fund sold all of its common shares of the company to the public, as instalment receipts, through a secondary public offering. Net gains from this disposition amounted to approximately \$273 million.
- (h) Under the Joint Venture Agreement, as amended, the Fund shared approximately 24.76% of the capital costs of the project. Equity contributions are repayable from the Fund's share of net operating revenue, estimated to amount to 29.29% until \$52 million of the contributions are repaid with a return factor, 24.17% until the next \$23 million of contributions are repaid with a return factor, and 16.19% thereafter. Return factors are recognized as income to the extent that they are received.

At March 31, 1994 non-interest bearing advances totalling \$18,125,000 (1993 \$10,150,000) for the Province's share of operating shortfalls during the start-up period, or during maintenance slow downs, are provided by 540540 Alberta Ltd. These advances are repayable from the net operating revenue of the project before repayment of any equity contributions and payment of return factors. Negotiations about the funding of future operating losses and other financial arrangements are currently in progress among the joint venturers.

As the estimated value of the project was less than its carrying value, the investment was written down further in 1994 to recognize the loss in value.

The Fund's participation in the project is summarized hereunder:

1994	1993
\$ 74,781,000	\$ 221,058,000
8,690,000	84,723,000
(10,646,000)	(13,705,000)
(16,725,000)	(217,295,000)
\$ 56,100,000	\$ 74,781,000
	\$ 74,781,000 8,690,000 (10,646,000) (16,725,000)



SCHEDULE 3:(CONTINUED)

(i) Authorization has been given to pay from the Fund the Province's share of construction and operating costs incurred under the Syncrude Project Ownership and Management Agreement. As a 11.74% (1993 16.74%) participant in the project, the Fund is, as lessee, entitled to its proportionate share of all substances produced subject to the liabilities to the Province of Alberta, as lessor, in accordance with the Alberta Crown Agreement.

During the year, the Province sold a 5% interest in the project to Murphy Oil Company Ltd. (Murphy) for approximately \$149,970,000. As at March 31, 1994, Murphy was indebted to the Fund for \$89,970,000 in principal and \$1,525,000 in accrued interest calculated at the rate of 6.25% per annum. The outstanding balance is repayable in annual instalments as follows: \$10 million each on December 22, 1994 and 1995, \$14 million in 1996, \$18 million in 1997 and the balance in 1998.

The Fund's participation in the project is summarized hereunder:

	1994	1993
Balance at beginning of year	\$ 499,313,000	\$ 518,127,000
Advances	170,512,000	197,909,000
Sale of 5% interest	(149,970,000)	_
Repayments	(200,693,000)	(260,722,000)
Net profit for the year	22,007,000	43,999,000
Balance at end of year	\$ 341,169,000	\$ 499,313.000



COMMERCIAL INVESTMENT DIVISION INVESTMENTS

SCHEDULE 4

March 31, 1994

тана 31, 1774	199	1994		1993	
		Market		Market	
	Cost	Value	Cost	Value	
	-	(thousan	ds of dollars)		
Canadian equities (a):					
Common shares and rights (b):					
Communications and media	\$ 10,468	\$ 29,810	\$ 19,022	\$ 35,898	
Conglomerates	14,258	30,637	20,622	37,690	
Consumer products	13,798	39,262	18,181	51,258	
Financial services	10,052	19,225	17,477	19,415	
Gold and silver	24,581	56,902	31,264	45,312	
Industrial products	31,086	56,990	40,468	58,576	
Merchandising	11,751	24,191	24,064	38,353	
Metals and minerals	25,596	44,428	30,259	42,480	
Oil and gas	30,426	48,178	40,090	57,302	
Paper and forest products	9,004	17,429	10,684	17,044	
Pipelines	11,348	18,662	12,661	18,694	
Transportation and environmental services	6,784	9,529	8,219	11,205	
Utilities	29,382	46,227	35,549	48,160	
Preferred shares:					
Financial services	3,705	4,469	3,705	4,184	
,	232,239	445,939	312,265	485,571	
Bonds, bond coupons and residuals:					
Government of Canada, direct	28,422	28,284	_	_	
Short-term money market securities (c):					
Treasury bills				•	
Government of Canada	94,414	94,414	_	_	
Provincial (d)	18,043	18,043	_	_	
Banker's acceptances	26,389	26,389	_	-	
Mid-term participating certificate			27,077	26,735	
	\$399,507	\$613,069	\$339,342	\$512,306	

- (a) The industrial classifications are those used by the Toronto Stock Exchange.
- (b) At March 31, 1994 certain securities were loaned to certain borrowers. The loans were secured by marketable securities. During the term of the loans, the Fund retains the right to receive income on the securities loaned.
- (c) The market value of short-term marketable securities is estimated to approximate cost.
- (d) Contains no Province of Alberta issues.



CAPITAL PROJECTS DIVISION INVESTMENTS

SCHEDULE 5

March 31, 1994

(thousands of dollars)		
\$199,990	\$199,991	
(68,343)	(72,938)	
\$131,647	\$127,053	
	\$199,990 (68,343)	

(a) The outstanding balance of the loan to Vencap Equities Alberta Ltd. (Vencap) is repayable in instalments of \$1,000 in each of the years 1994 to 2002, inclusive, in instalments of \$15,000,000 in each of the years 2003 to 2012, inclusive, and a final instalment of \$49,981,000 in 2013. In the current year interest on the participating debenture securing the loan amounts to 50% (1993 50%) of the defined net income of Vencap. This percentage reduces as the loan is repaid and convertible debentures amounting to \$32,344,000 (1993 \$32,862,000), maturing July 2, 1998 and guaranteed by the Province, are converted or redeemed. For 20 years following full repayment of the loan, the Fund will receive 10% of the defined net income of Vencap.

As further consideration for the loan, the Province has been granted an option to purchase up to 4,000,000 special shares at \$1 each, exclusive to the Province, convertible into common shares of Vencap. The purchase option expires on the later of the repayment of the loan and the redemption or conversion of the convertible debentures, on which later date the 20% voting rights attaching to each and all of the special shares cease.

(b) The loan was provided to Vencap at an interest rate which was lower than the Province's cost of borrowings when the loan was advanced. This difference in interest rates constituted a form of financial assistance provided to Vencap. To reflect the value of the financial assistance provided, the recorded amount of the loan on the date of advance has been reduced by a discount. The discount is amortized to investment income over the term of the loan.



CAPITAL PROJECTS DIVISION AMOUNTS EXPENDED

SCHEDULE 6

March 31, 1994

			1993-94		
	Accumulated			Previous	Accumulated
	Amounts			Years'	Amounts
	Expended			Capital	Expended
	at Beginning		Amounts	Expenditure	at End of
Department/Project	of Year	Budget	Expended	Refunds	Year
			(thousands of dolla	rs)	
Advanced Education and Career Do	evelopment				
Alberta Heritage Scholarship Fund	\$ 100,000	\$ -	\$ -	\$ -	\$ 100,000
Clinical Research Building	17,632	-	_	-	17,632
Library Development	9,000	-	_		9,000
Agriculture, Food and Rural Devel	opment				
Farming For The Future	67,505	5,000	5,000	(50)	72,455
Food Processing Development Centre	9,013	_	_	_	9,013
Grazing Reserves Enhancement	47,012	3,712	3,692	_	50,704
Irrigation Rehabilitation and Expansion	361,942	24,500	24,500	_	386,442
Private Irrigation Development Assistance	1,231	500	381	-	1,612
Rail Hopper Cars	53,589	-	-	-	53,589
Community Development					
Municipal Recreation/Tourism Areas	13,800	_	-	_	13,800
Urban Park Development	113,581	14,060	14,057	_	127,638
Economic Development and Touris	m				
Alberta Heritage Foundation for					
Medical Research Endowment Fund	300,000	_		_	300,000
Electronics Test Centre	6,175		_	_	6,175
Individual Line Service .	221,127	_	_	_	221,127
Microchip Design and Fabrication Facilities	7,750	-	-		7,750
Education					
Alberta Heritage Learning Resources	9,222	_	_	-	9,222
Energy					
Alberta Oil Sands Technology and	-				
Research Authority	418,700	_		_	418,700
Renewable Energy Research	2,220	750	603	_	2,823
	- /		***		2,020



SCHEDULE 6 (CONTINUED)

	•		1993-94		
Department/Project	Accumulated Amounts Expended at Beginning of Year	Budget	Amounts Expended	Previous Years' Capital Expenditure Refunds	Accumulated Amounts Expended at End of Year
			(thousands of dollars	s)	
Environmental Protection					
Fish Creek Provincial Park (Development)	\$ 16,859	s -	s –	\$ -	\$ 16,859
Kananaskis Country Recreation Development	224,728	_	_	_	224,728
Land Reclamation	41,988	2,500	2,430	_	44,418
Lesser Slave Lake Outlet	2,889	_	_	. <u> </u>	2,889
Maintaining Our Forests	24,960	_	_	_	24,960
Paddle River Basin Development	41,781	_	_	_	41,781
Pine Ridge Reforestation Nursery Enhancemen	t 23,167	350	172	_	23,339
Water Management Systems Improvement	525,920	26,400	15,576	(9)	541,487
Health					
Alberta Family Life and Substance Abuse Foun	dation 1,969	1,000	1,000		2,969
Applied Cancer Research	49,176	2,800	2,772	_	51,948
Applied Heart Disease Research	29,341	-	_	-	29,341
Labour					
Occupational Health and Safety					
Research and Education	11,717	750	403	(16)	12,104
Public Works, Supply and Services					
Alberta Children's Provincial General Hospital	40,477	_	_		40,477
Capital City Recreation Park	44,008	_	_	_	44,008
Fish Creek Provincial Park (Land)	27,107	_	_	_	27,107
Tom Baker Cancer Centre and	21,101				,
Special Services Facility	93,204	_	_	_	93,204
Walter C. Mackenzie Health Sciences Centre	391,073	-	-	-	391,073
Transportation and Utilities					
Airport Terminal Buildings	16,359			_	16,359
	\$3,366,222	\$ 82,322	\$ 70,586	\$ (75)	\$3,436,733

- (a) Capital Projects Division Amounts Expended represent the aggregate net amount expended and not recoverable by the Fund from November 4, 1976 to March 31, 1994 under the authority of "Appropriation Acts" passed pursuant to section 6(2)(a) of the Alberta Heritage Savings Trust Fund Act. For the purposes of section 6 of the Alberta Heritage Savings Trust Act, the accumulated amounts expended are deemed to be assets of the Trust Fund with a value equal to accumulated expenditure. The budget figures were included in the 1993-94 Estimates (Alberta Heritage Savings Trust Fund Capital Projects Division) released on September 8, 1993.
- (b) Commitments for Capital Projects amounts expended aggregated approximately \$11,700,000 at March 31, 1994 (1993 \$12,723,000). Claims and potential claims pending at March 31, 1994 in respect of various projects exceeded amounts expended by approximately \$3,910,000 (1993 \$2,910,000). The resulting loss, if any, from these claims and potential claims cannot be determined.



GLOSSARY

Asset Property that has value to its owner. This report mainly focuses on financial assets,

which are claims which could be converted into cash or which will provide future income. Financial assets include instruments like bonds, cash, notes and debentures.

Bond A financial instrument showing a debt where the issuer promises to pay interest and

repay the principal by the maturity date.

Capital Gain The market value of an asset beyond its book value or purchase price. If an asset is

bought for \$50 and sold for \$75, the realized capital gain (profit) is \$25.

Consolidated The total financial affairs of the province, including all funds, agencies and provincial

Crown corporations. Consolidated financial statements eliminate transactions between different parts of the government, and therefore provide a record of all government dealings with third parties such as individuals, corporations or other governments.

Debenture A financial instrument which is very much like a bond.

External Asset/ External assets are claims which the Province of Alber

External assets are claims which the Province of Alberta has against third party individuals, corporations and governments. External debts are the claims these entities have against the Province of Alberta. These are the assets and debts which are listed in

the province's consolidated financial statements.

Fund (or RegulatedAlberta has many different funds which serve different purposes. Each is like a separate bank account, and each Fund publishes individual financial statements to

separate bank account, and each Fund publishes individual financial statements to show how it served its purpose. Examples of provincial funds are the Heritage Fund, the

General Revenue Fundand the Pension Fund.

Generally Accepted Principles under which the financial statements of the Heritage Fund and other provincial funds are prepared. These principles help ensure fair presentation of the

Principles financial affairs of the province.

External Debt

Internal Assets/ Financial claims which the province has outstanding between two of its own entities.

Internal Debts These assets and debts are eliminated in the consolidated financial statements.

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GLOSSARY

Liability An obligation to pay money or perform some other service. Financial liabilities include

bonds, debentures and bank loans.

Liquidity The ability to use short-term financial assets to meet cash needs immediately or in the

near future. A high level of liquidity means the province has access to ample cash for

its current liabilities.

Maturity Generally refers to the date of the final payment on a bond, note, debenture or other

type of financial instrument. By maturity it is expected that all principal and interest

will be received.

Mortgage A financial instrument which is secured by a piece of land, a building or a house.

Mortgage payments are a combination of principal and interest, so the amount

outstanding under the mortgage drops each year until maturity.

Provincial Crown

Corporation

Special purpose companies, often created by special laws, which carry out government

programs. Crown corporations are used because the nature of the programs are

different than those delivered through government departments. The Crown

corporations discussed in this report generally offer financial services on a partial or full

cost-recovery basis.

Realized/Unrealized

Terms generally used to describe capital gains or losses. A gain or loss is realized when

an asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain

or loss.

Short-term In this report - those assets which have a term to maturity less than one year.

Investments with terms over one year are either mid-term (up to five years) or

long-term.

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Honourable J. Dinning
Honourable K. Kowalski
Honourable S. McClellan
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