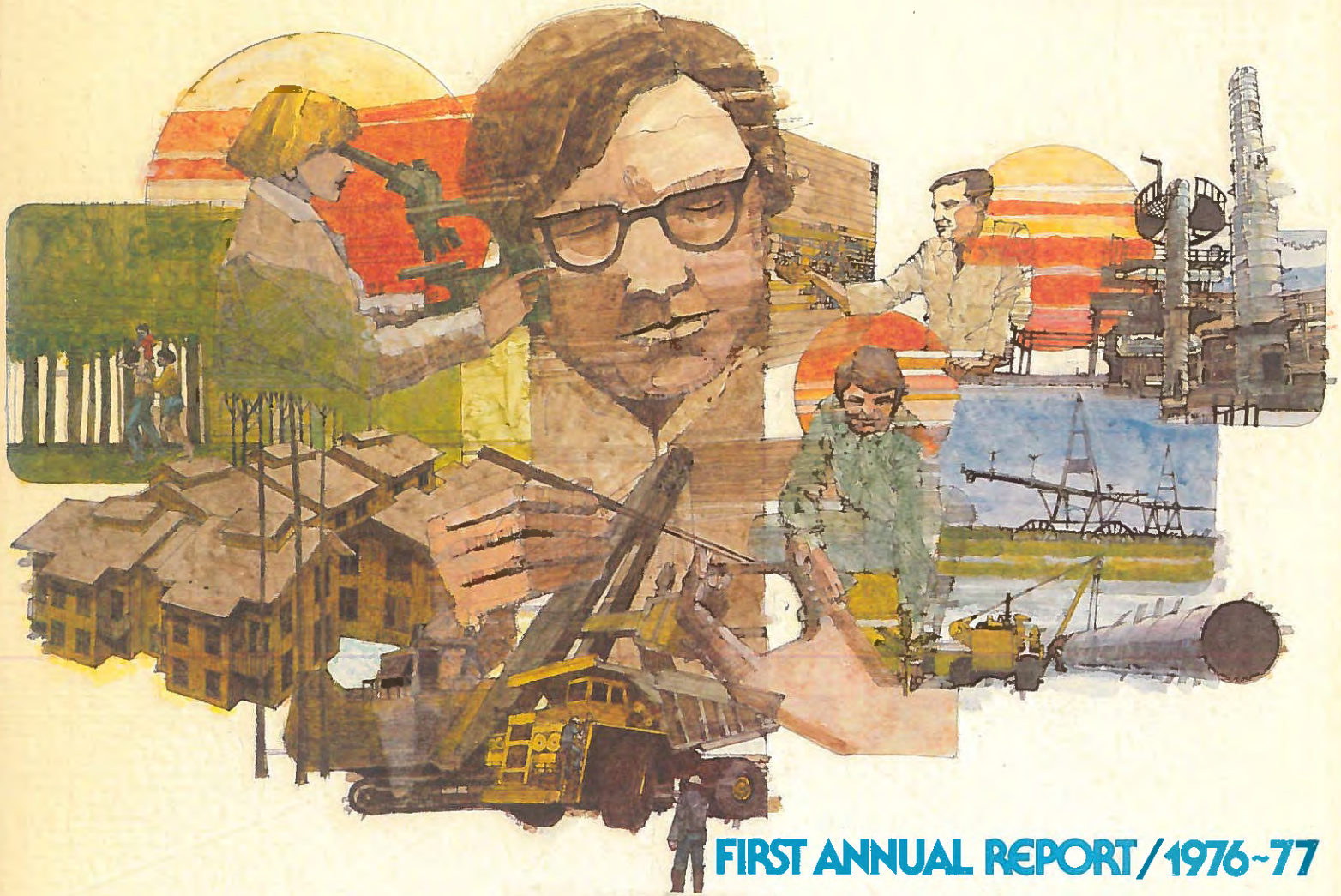


ALBERTA HERITAGE SAVINGS TRUST FUND



FIRST ANNUAL REPORT / 1976~77

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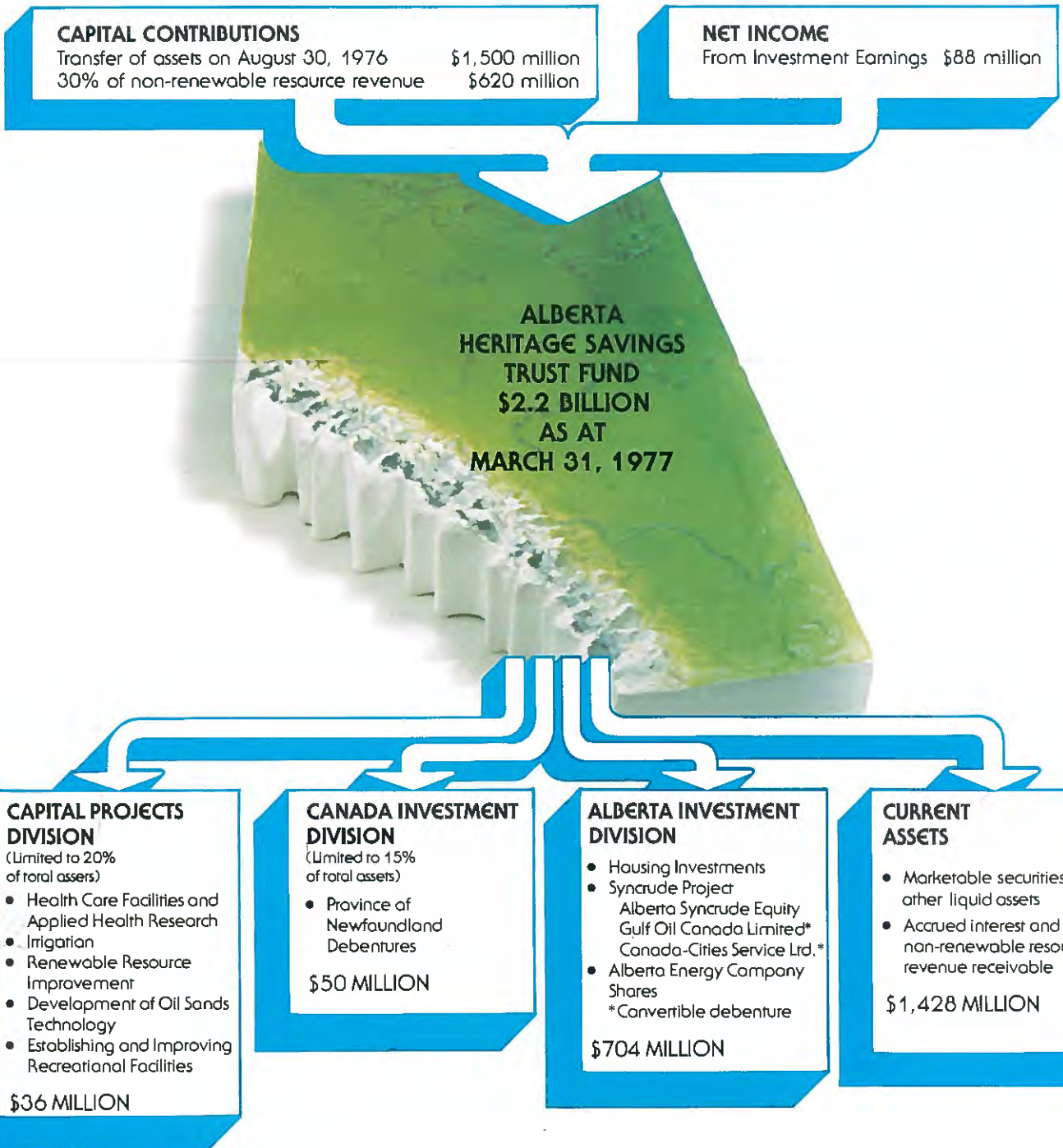


A. F. Collins, Deputy Provincial Treasurer

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

Heritage Fund Reports
434 Terrace Building, Edmonton, Alberta T5K 2C3

ALBERTA HERITAGE SAVINGS TRUST FUND HIGHLIGHTS – 1976-77



It is my great pleasure and honour to present the first annual report of the Alberta Heritage Savings Trust Fund (the "Heritage Fund") to the people of Alberta.

Albertans today enjoy the highest level of government services with one of the lowest levels of taxation in Canada largely as a result of the Province receiving substantial revenue from the sale of non-renewable resources. In recognition that the supply of non-renewable resources is limited and that revenue from the sale of those resources ultimately will decline, the Heritage Fund was established by an act of the Legislature of Alberta on May 19, 1976. The Alberta Heritage Savings Trust Fund Act provides for 30 per cent of non-renewable resource revenue to be set aside and invested for the benefit of the people of Alberta in future years. The Heritage Fund provides the opportunity and the resources needed to strengthen and diversify the economy of Alberta and to undertake special projects which will improve the

quality of life in this Province. In addition, the investment earnings of the Heritage Fund, and indeed perhaps in the longer term the capital, may provide an alternative source of revenue to help finance government services as non-renewable resource revenue declines. At present, however, all income earned by the Heritage Fund remains in the Fund.

In accordance with The Alberta Heritage Savings Trust Fund Act, the Heritage Fund received funds from two basic sources during 1976-77: capital contributions and investment earnings. Thirty per cent of the non-renewable resource revenue received by the Government of Alberta from April 1, 1976 to March 31, 1977 accrued to the Heritage Fund. This amounted to \$620 million. A

special capital contribution of \$1.5 billion of cash and other financial assets was transferred from the General Revenue Fund of the Province to the Heritage Fund on August 30, 1976.



In addition to these capital contributions, the Heritage Fund earned \$88 million from investments during 1976-77. The total assets of the Heritage Fund were \$2,218 million on March 31, 1977.

The Heritage Fund is structured into three divisions: the Capital Projects Division; the Canada Investment Division; and the Alberta Investment Division. Until such time as required for investments forming part of one of these specific divisions, funds are invested in high quality bonds and short term securities.

By passage of The Appropriation (Alberta Heritage Savings Trust Fund, Capital Projects Division) Act on November 4, 1976, the Legislature authorized the investment of \$182.5 million under the Capital Projects Division for the period ending March 31, 1978 for various projects which will yield long term economic or social benefits to the people of Alberta but which will not provide a financial return to the Heritage Fund. By March 31, 1977, \$36 million of these funds had been invested leaving authority for investment of \$146.5 million in the approved projects by March 31, 1978.

On February 22, 1977, the Heritage Savings Trust Fund Investment Committee approved the use of assets of the Heritage Fund to make an investment, by way of loan to the Province of Newfoundland, such loan being secured by debentures in the principal amount of

\$50 million. It is the first investment forming the Canada Investment Division and it reflects Alberta's confidence in the future of a united Canada during a particularly difficult time in the life of our nation.

At the end of the 1976-77 fiscal year, \$704 million, or nearly one-third of the \$2,218 million total assets of the Heritage Fund, consisted of investments forming part of the Alberta Investment Division. Of these investments, \$529 million (excluding accrued interest receivable) was included as part of the \$1.5 billion of assets transferred from the General Revenue Fund on August 30, 1976. The investments transferred to the Alberta Investment Division included debentures of the Alberta Housing Corporation and the Alberta Home Mortgage Corporation, Alberta Energy Company common shares, the Province's 10 per cent equity share in the Syncrude Project, and convertible debentures of Gulf Oil Canada Limited and Canada-Cities Service Ltd., two other participants in the Syncrude Project. During the remainder of the 1976-77 fiscal year, an additional \$175 million of investments was added to the Alberta Investment Division as follows: \$33 million in debentures of the Alberta Housing Corporation, \$60 million in debentures of the Alberta Home Mortgage Corporation, \$37 million to maintain the Province's 10 per cent equity interest in the

Syncrude Project, advances of \$39.4 million and accrued interest receivable of \$4.9 million under the terms of the convertible debenture loan agreements with Gulf Oil Canada Limited and Canada-Cities Service Ltd., and \$167 thousand in common shares of the Alberta Energy Company in order to maintain the percentage of voting shares held by the Province at 50 per cent.

At the end of the fiscal year, \$1,368 million was invested in high quality bonds and short term securities in accordance with the residual investment powers of Section 9 of The Alberta Heritage Savings Trust Fund Act. These investments included \$509 million in bonds and notes of the Alberta Government Telephones Commission, \$363 million in Alberta Municipal Financing Corporation bonds, and \$202 million in deposits in the Consolidated Cash Investment Trust Fund.

Further details on the financial operations of the Heritage Fund for the 1976-77 fiscal year are provided in the accompanying audited financial statements which form part of this annual report in accordance with Section 12(2) of The Alberta Heritage Savings Trust Fund Act.

Regarding the outlook for 1977-78, non-renewable resource revenue contributions and investment earnings are expected to total nearly \$1 billion enabling the Fund to reach a

level of approximately \$3.2 billion by March 31, 1978. It is estimated that during 1977-78, investments of \$335.9 million will be made from the Alberta Investment Division pursuant to approvals given by the Investment Committee during the 1976-77 fiscal year. These investment approvals include: \$52.9 million for debentures of the Alberta Housing Corporation, \$142 million for debentures of the Alberta Home Mortgage Corporation, \$72 million in order to maintain the Province's 10 per cent equity interest in the Syncrude Project, and \$69 million under the terms of the convertible debenture loan agreements with Gulf Oil Canada Limited and Canada-Cities Service Ltd.

These approved Alberta Investment Division investments together with the investment authority of \$146.5 million noted above for the Capital Projects Division will require \$482.4 million during 1977-78.



Hon. Merv Leitch
Provincial Treasurer
August 30, 1977

SOURCE OF FUNDS

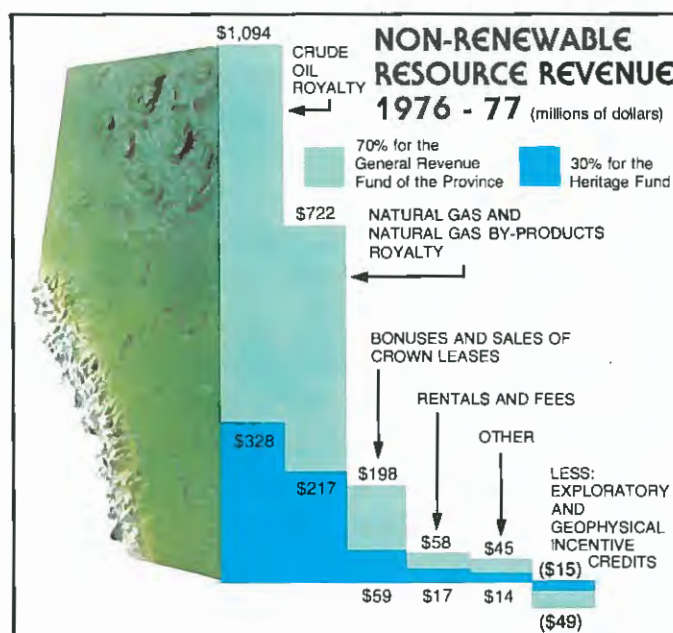
The basic sources of funds for the Heritage Fund are the capital contributions from the General Revenue Fund of the Province of 30 per cent of non-renewable resource revenue received during the fiscal year, and earnings from the investments of the Fund. On August 30, 1976, a special capital contribution of \$1.5 billion of cash and other financial assets also was made from the General Revenue Fund of the Province to the Heritage Fund.

30 Per Cent of Non-renewable Resource Revenue

The Alberta Heritage Savings Trust Fund Act requires that 30 per cent of non-renewable resource revenue received by the Province in 1976-77 be transferred to the Heritage Fund. Based on preliminary figures of the amount of non-renewable resource revenue received in 1976-77, the 30 per cent Heritage Fund share will be \$620.2 million. Calculating the amount to be transferred on estimates of the resource revenue received, \$616.3 million was transferred to the Heritage Fund by March 31, 1977. The remainder of \$3.9 million is shown in the financial statements as a receivable. An adjustment payment based on non-renewable resource revenue to be reported in the Public Accounts of the Province for 1976-77 will be made in accordance with Section 5(6) of the Act.

For the purpose of the transfer to the Heritage Fund, non-renewable resource revenue means any money received by the Crown pursuant to agreements or as bonuses to acquire agreements as defined in The Mines and Minerals Act or in lieu of royalty under a bituminous sands lease. This includes crude oil royalty, natural gas and natural gas by-products royalty, synthetic crude oil royalty, coal royalty, rentals and fees, and bonuses and sales of Crown leases.

The composition of non-renewable resource revenue received by the Province during 1976-77 and the amounts accruing to the Heritage Fund are depicted in the following chart.



\$1.5 Billion Transfer

The following table outlines the composition of the \$1.5 billion in cash and other financial assets transferred from the

General Revenue Fund of the Province to the Heritage Fund on August 30, 1976.



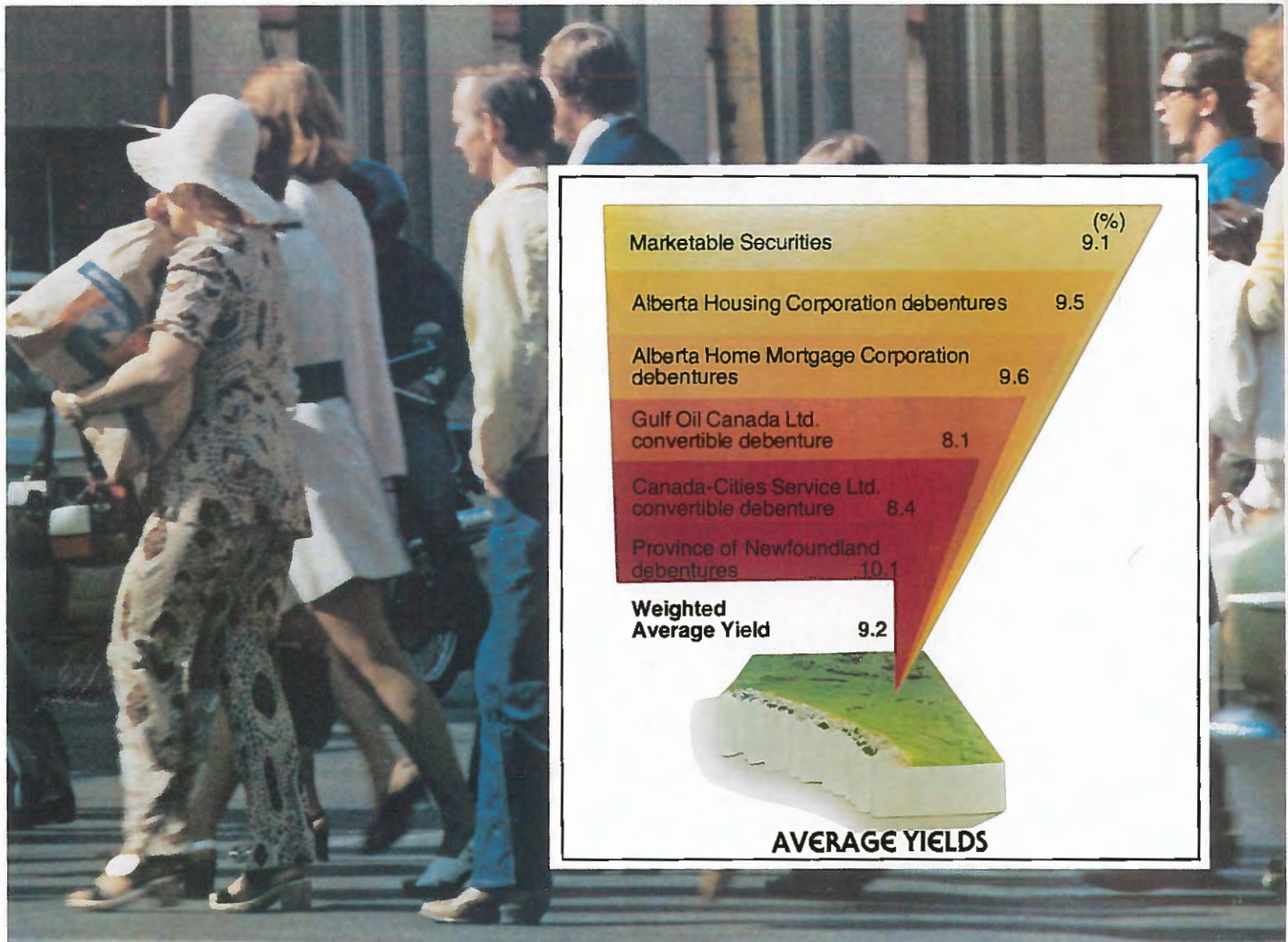
AUGUST 30, 1976 CAPITAL TRANSFER (millions of dollars)

HOUSING INVESTMENTS	
Alberta Housing Corporation debentures	\$122.0
Alberta Home Mortgage Corporation debentures	\$167.2
Accrued Interest Receivable	\$ 9.8
ENERGY RESOURCES INVESTMENTS	
Alberta Energy Company shares	\$ 75.3
Alberta Syncrude Equity	\$ 83.2
Gulf Oil Canada Limited convertible debenture	\$ 42.9
Canada-Cities Service Ltd. convertible debenture	\$ 38.5
MARKETABLE SECURITIES	
Alberta Government Telephones Commission notes and debentures	\$452.9
Alberta Municipal Financing Corporation debentures	\$238.6
Accrued Interest Receivable	\$ 15.1
CASH	\$254.5
TOTAL	\$1,500.0

Investment Earnings

Any income earned by the investments of the Heritage Fund accrues to and forms part of the Fund. In 1976-77, the net investment earnings of \$87.7 million were comprised largely of interest earned on marketable securities and on debentures of the Alberta Housing Corporation, Alberta Home Mortgage

Corporation, Gulf Oil Canada Limited, and Canada-Cities Service Ltd. At the end of the fiscal year, \$1,926 million or approximately 87 per cent of the Heritage Fund was invested in interest earning securities. The average weighted yield on the interest earning investments of the Heritage Fund as at March 31, 1977 was 9.2 per cent.

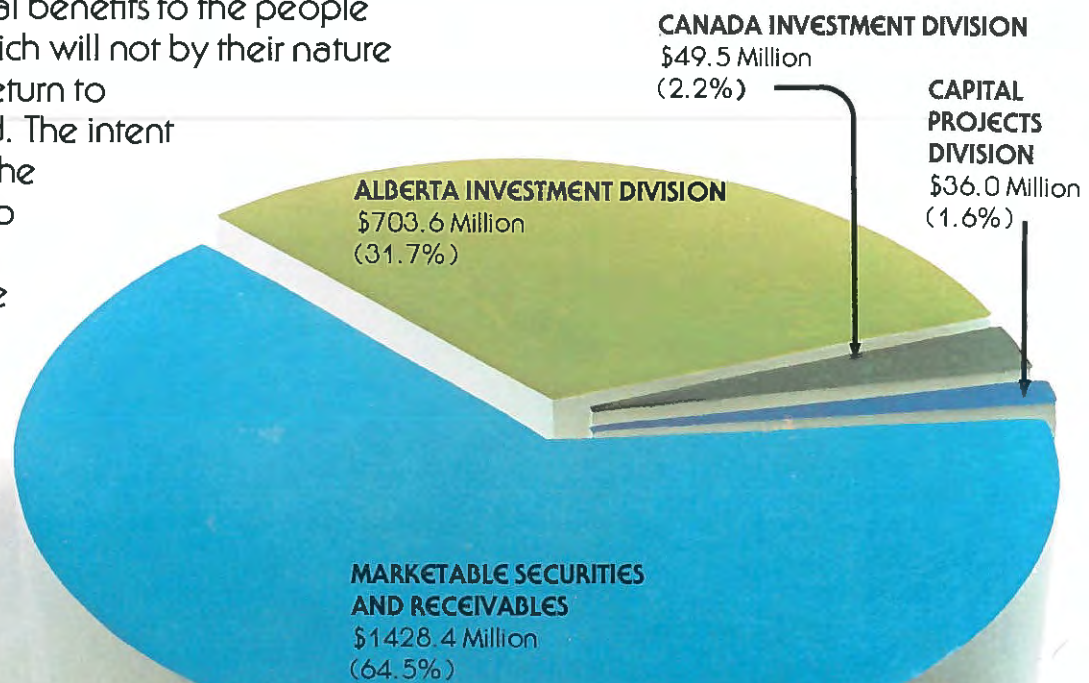


The following chart shows the composition of the investments of the Heritage Fund as at March 31, 1977.

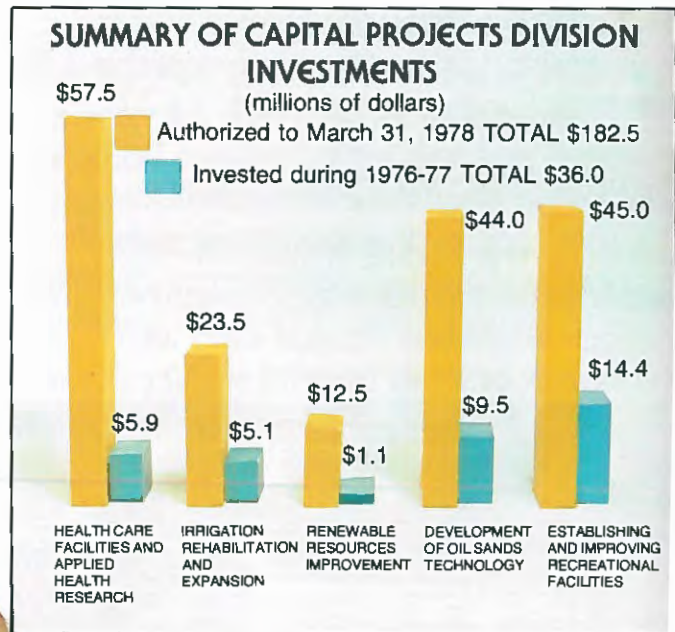
CAPITAL PROJECTS DIVISION

The Capital Projects Division provides for the making of investments in projects which will provide long term economic or social benefits to the people of Alberta but which will not by their nature yield a financial return to the Heritage Fund. The intent of this portion of the Heritage Fund is to improve the present and future quality of life in Alberta

by doing some special things which would not be done without this source of capital. However, since investments of this nature do not provide for return of capital or earnings to the Heritage Fund, the total investments in this division are limited by The Alberta Heritage Savings Trust Fund Act to 20 per cent of the



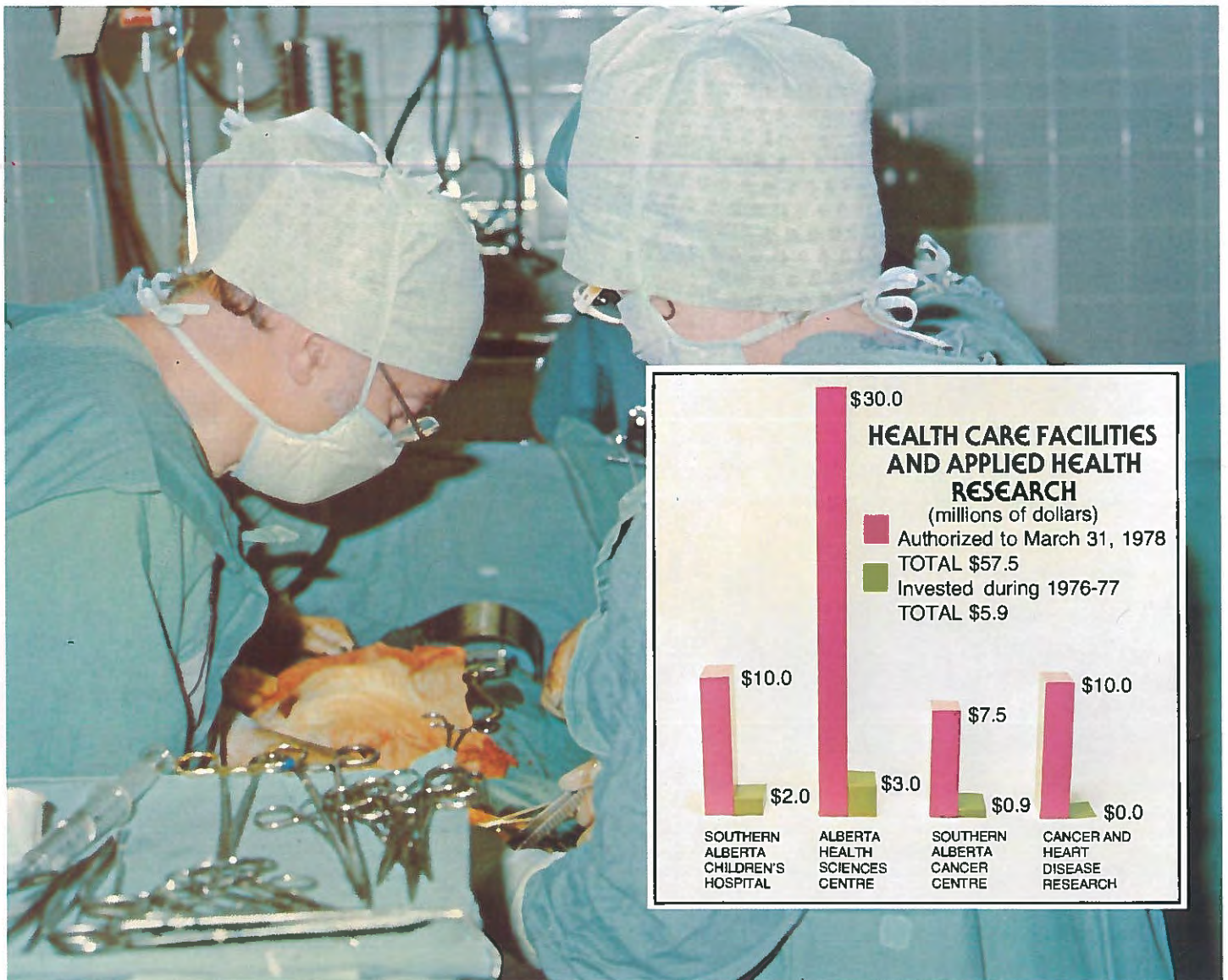
total assets of the Heritage Fund as determined at the end of each fiscal year. Funds for investments in this division must be appropriated by the Legislature. In the fall of 1976, the Legislature appropriated \$182.5 million to March 31, 1978 for investment in five major programme areas. Details of the investments made during 1976-77 in each of these areas are presented in the following pages.



Cancer and Heart Disease Research

An investment of \$10 million was approved for construction, equipment, renovations and operating expenses associated with applied research programmes in specialized cancer referral

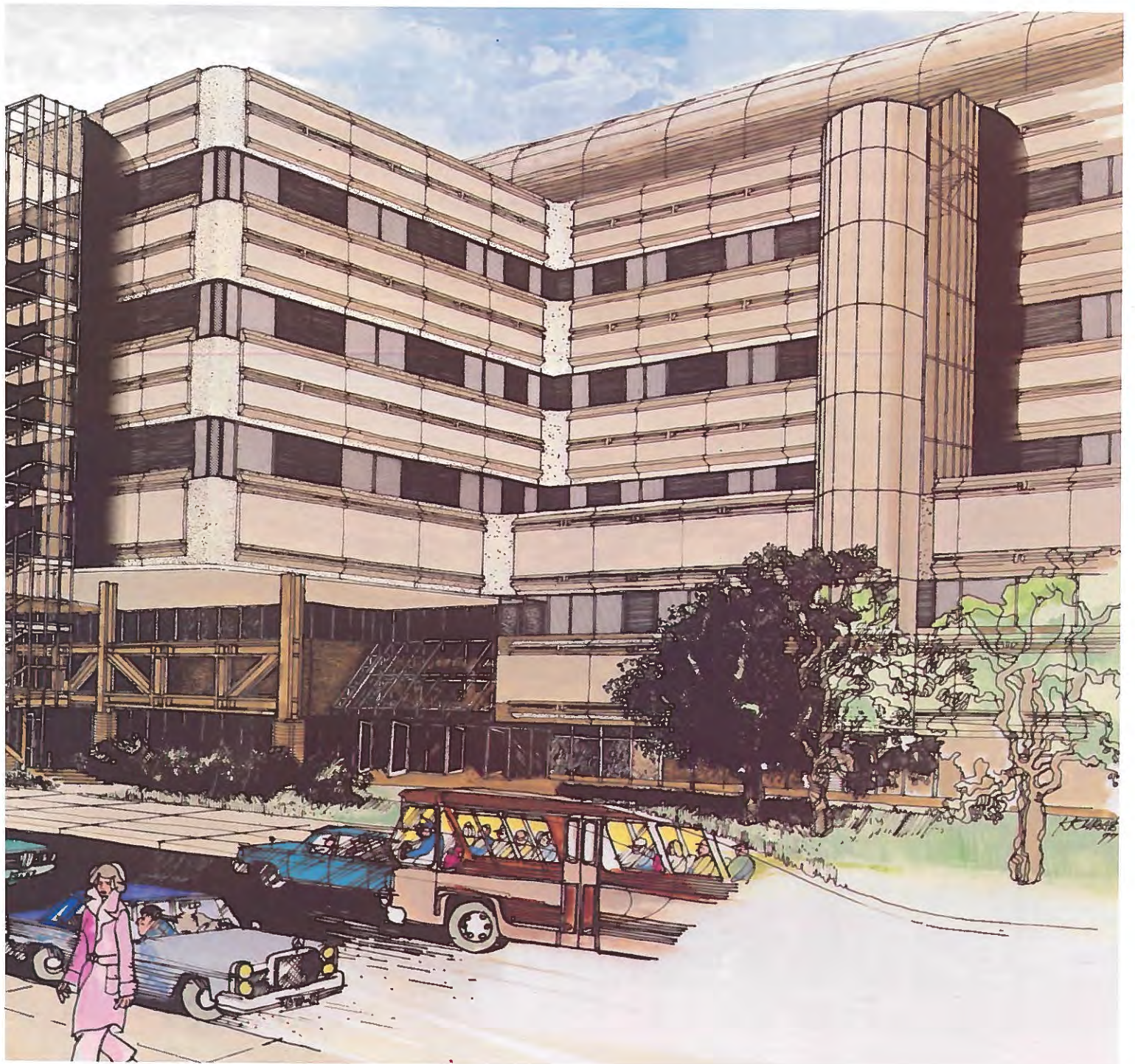
centres and for comprehensive cardiac care programmes. Although no funds were invested in 1976-77, significant programme planning was undertaken.



Alberta Health Sciences Centre

The Alberta Health Sciences Centre as part of the University of Alberta Hospital, will provide in a single institution the closely related functions of patient care, health research, and health education. Construction will be carried out in two successive phases, the first of which is to be completed in 1982. The first phase will include the construction of new buildings to provide additional space and rehouse hospital services facilities, emergency, administration, cafeteria, radiology, clinical laboratories, surgical suite, case rooms, in-patient units, teaching facilities, and ambulatory clinics. In addition, the conversion of the present interns' residence to provide hostel accommodation for patients, and the construction of a two level pedestrian street linking the Clinical Sciences Building to the Hospital Core and to the Medical Sciences Building is planned to be completed during the first phase. The Legislature has appropriated \$30 million up to March 31, 1978 for this first phase of which \$3 million was invested as at March 31, 1977. Construction of the second phase is to be considered at a later date.

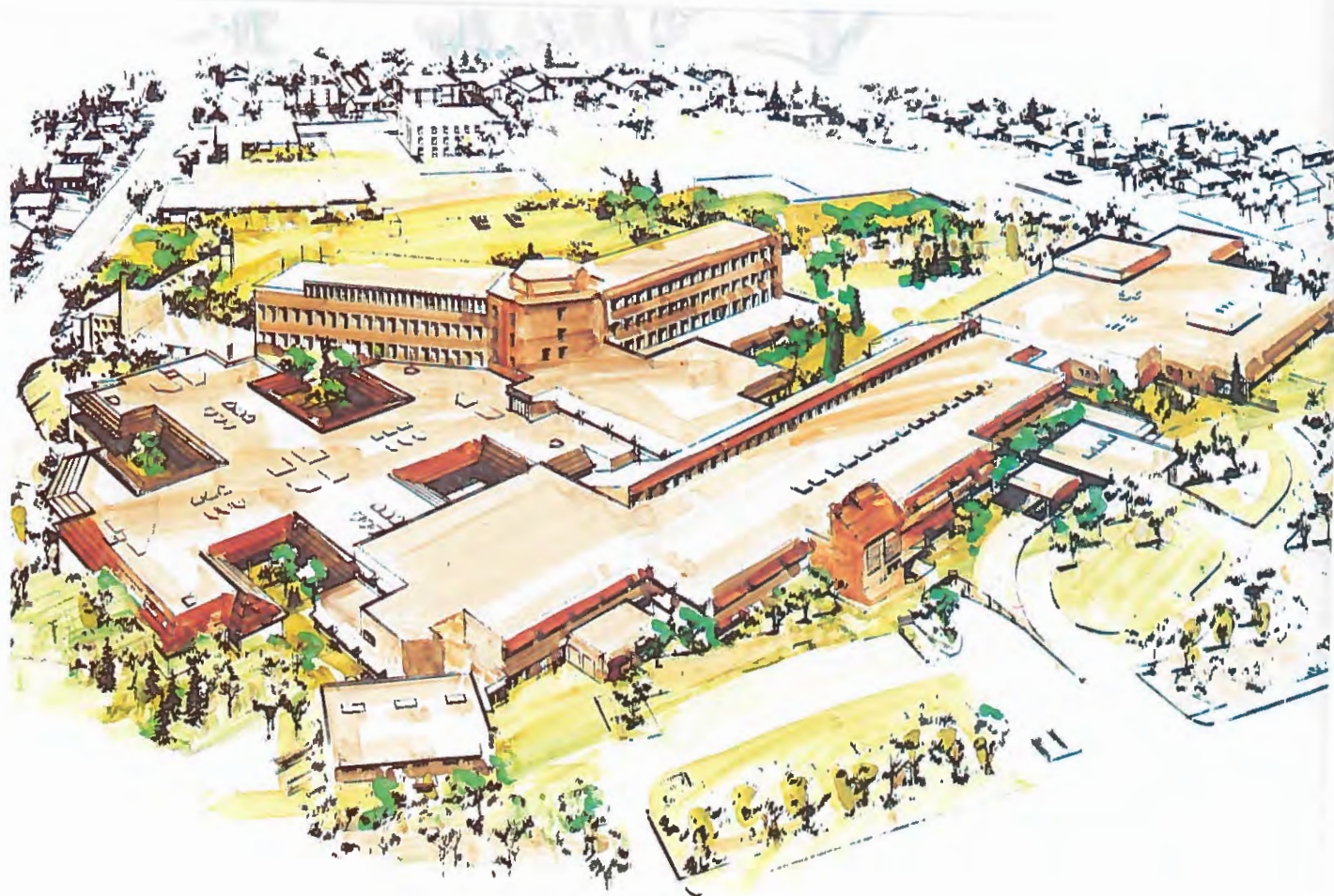




Southern Alberta Children's Hospital

The Legislature appropriated \$10 million to March 31, 1978 for the construction of a Child Health Care Centre in Calgary for diagnostic assessment and treatment of children with complex health problems. Construction is to be carried out in two successive phases. The first phase, which was approximately 75 per cent complete as at March 31, 1977, will provide for a full range of educational

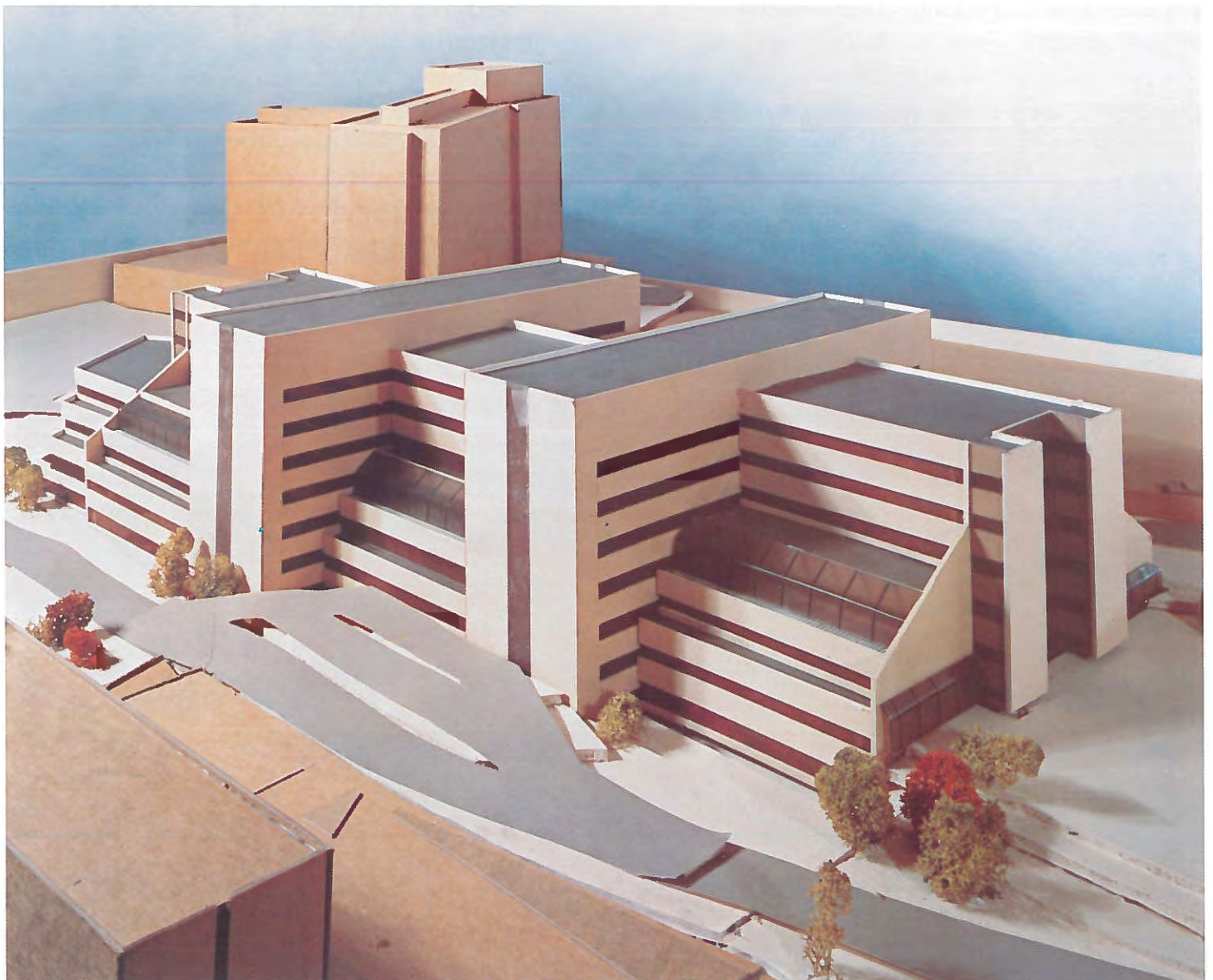
resources required by children at the Centre. In 1976-77, about \$2 million was invested in this phase of the project. The second phase of construction is the hospital portion which will provide in-patient and out-patient services, along with laboratory, x-ray, dietary, surgical, diagnostic, and support services areas. Tenders for the second phase are expected to be called later this year.



Southern Alberta Cancer Centre

An investment of \$7.5 million was approved by the Legislature to the end of the 1977-78 fiscal year to provide funds for the construction and equipping of a Cancer Institute in Calgary to expand

diagnostic, treatment, and research capabilities. In 1976-77, \$900 thousand was invested in the planning and design of the Institute.



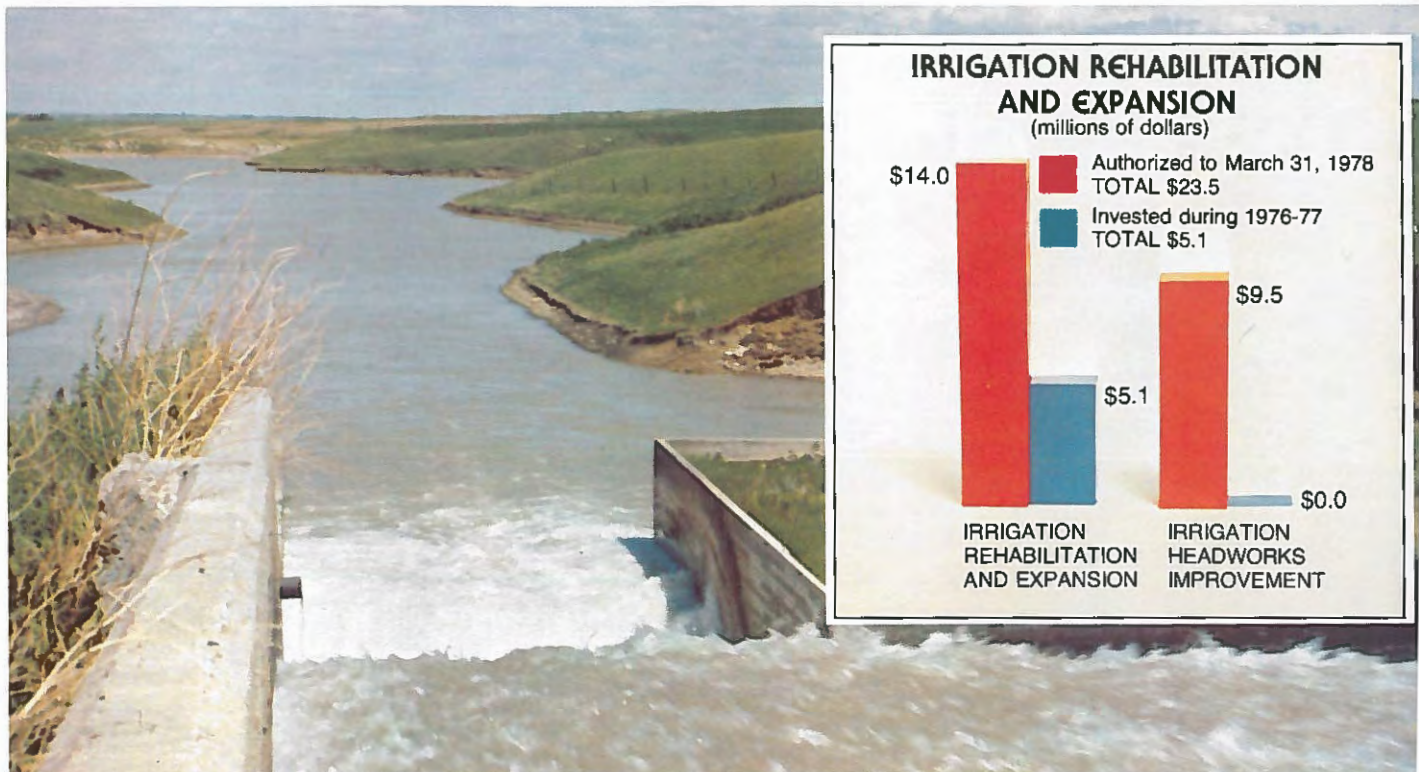
Irrigation

With the objective of increasing Alberta's capacity for agricultural production and to further diversify its agricultural industry, an initial investment of \$23.5 million to March 31, 1978 was approved for irrigation rehabilitation and expansion and irrigation headworks improvement.

As part of a multi-year programme, \$14 million was provided to upgrade and bring into full operating condition, the distribution systems to certain irrigated areas in the Province and to extend irrigation services to new areas. Of this amount, \$5 million was invested in

1976-77 to assist 13 irrigation districts with their irrigation rehabilitation programmes. This investment provided for 86 per cent of the total programme costs and the remaining 14 per cent was financed by the irrigation districts. As a result of these investments, approximately 65,000 new acres potentially will come under irrigation.

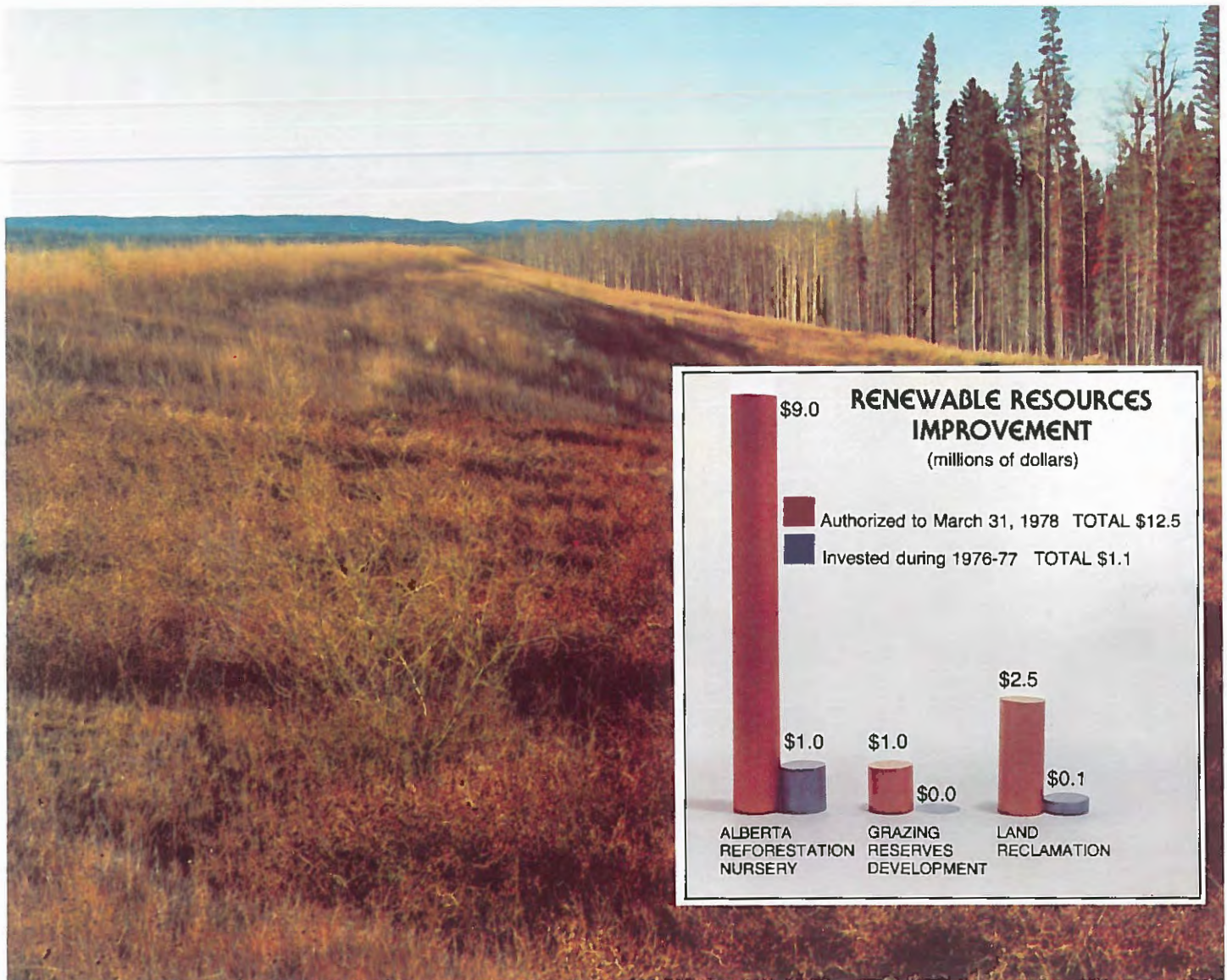
The remainder of \$9.5 million was provided for the improvement of irrigation headworks systems and to provide an assured water supply for irrigation and other multi-purpose uses. Approximately \$17 thousand was invested with respect to this latter purpose during 1976-77.



Land Reclamation

An investment of \$2.5 million was approved by the Legislature for the reclaiming of lands disturbed through industrial land use prior to the imple-

mentation of conservation legislation in 1973. In 1976-77, 25 abandoned gravel pits were reclaimed at a total cost of \$130 thousand.



Alberta Reforestation Nursery

The Legislature approved the investment of \$9 million to March 31, 1978 for the construction of the Pine Ridge Forest Nursery near Smoky Lake in order to expand the capacity within the Province to produce seedlings in support of reforestation programmes. In the 1976-77 fiscal year, a little over \$1 million was invested in the construction of the Nursery. These costs were incurred in clearing fields,

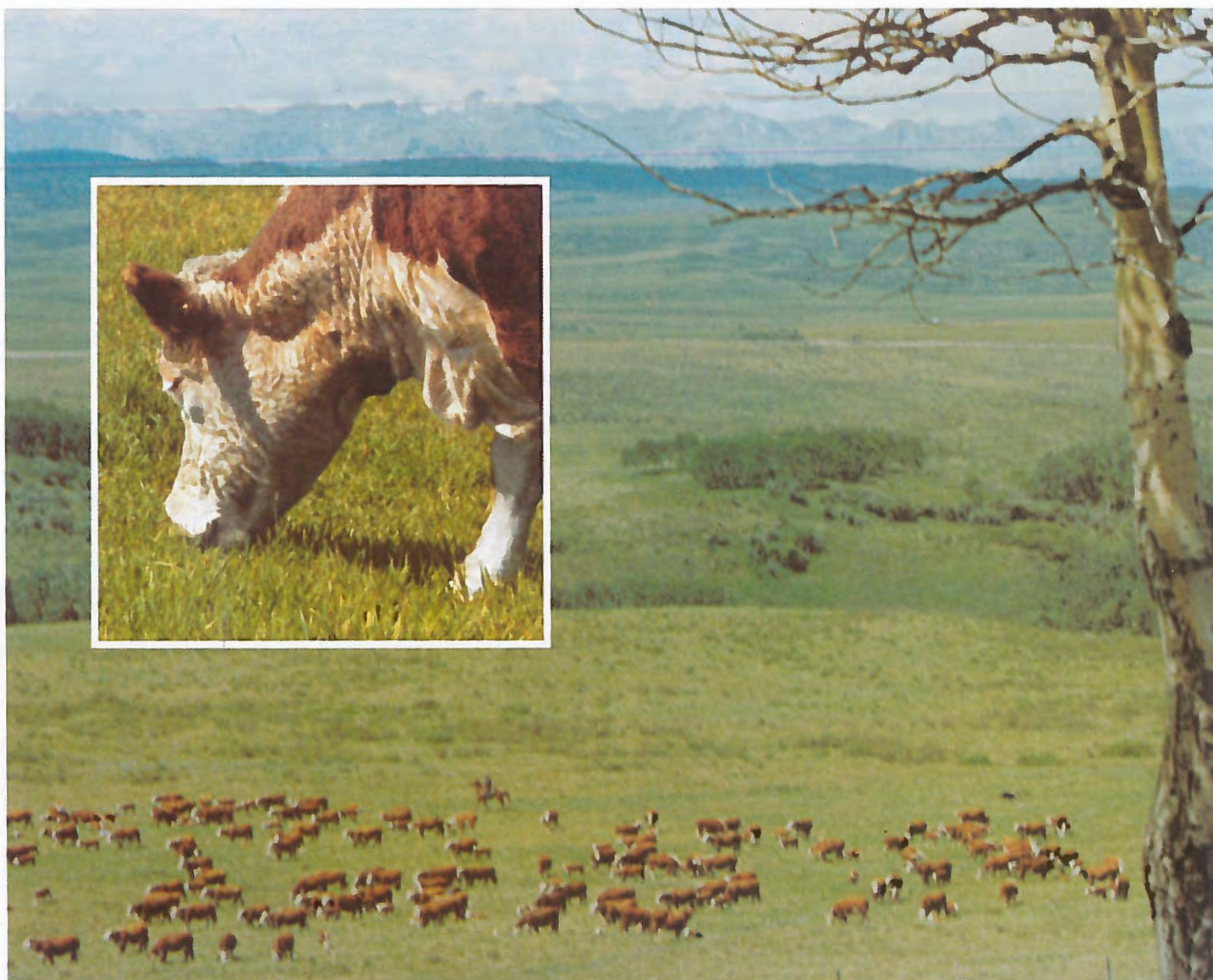
building an intake and pumphouse on the river, bringing a pipeline from the pumphouse to the site, building some powerlines and roads, and commencing the excavation for the reservoir. The project is progressing satisfactorily and on schedule towards achieving the goal of a facility capable of the production of 20 million seedlings per year.



Grazing Reserves Development

The Legislature authorized an investment of \$1 million to March 31, 1978 for the initial stages of a multi-year programme for the development of public grazing lands to increase the productive capacity of grey-wooded soils

in Alberta. During the 1976-77 fiscal year, planning commenced on the Provincial Grazing Reserves Programme. However, no funds were invested prior to March 31, 1977.



The Alberta Oil Sands Technology and Research Authority

The Legislature approved the investment of \$44 million to March 31, 1978 through the Alberta Oil Sands Technology and Research Authority (AOSTRA) for pure and applied research with the object of developing systems for economically recovering oil from Alberta's oil sands and heavy oil reservoirs to replace diminishing supplies of conventional oil. In 1976-77, a total of \$9.5 million was invested in in-situ projects, university research, professorships, and underground mining projects.

Two major field projects to test in-situ recovery concepts have been initiated by AOSTRA and will be funded jointly by the Authority and industry participants. AOSTRA has invested \$5.5 million for its 50 per cent share of the Amoco/AOSTRA Gregoire Lake Pilot to test a combustion process in the Athabasca oil sands and \$1.8 million for its 50 per cent share of project costs for the BP/AOSTRA Marguerite Lake Pilot to test a sequential steam-combustion process.

AOSTRA has invested \$1.4 million under the terms of a joint research agreement with the Alberta Research Council. In addition, AOSTRA has invested \$731 thousand from the Capital Projects Division for nine Canadian university scientists to carry out specific research programmes identified as critical barriers to oil sands development. These studies

range from measurements of the physical properties of oil sand bitumen to the development of methods to extract heavy metals from coke and coke ash. As at March 31, 1977 the projects had been under way for about six months. As well, fundamental research has commenced on the properties of clay/oil/water systems with the goal of solving emulsion and tailings pond problems.

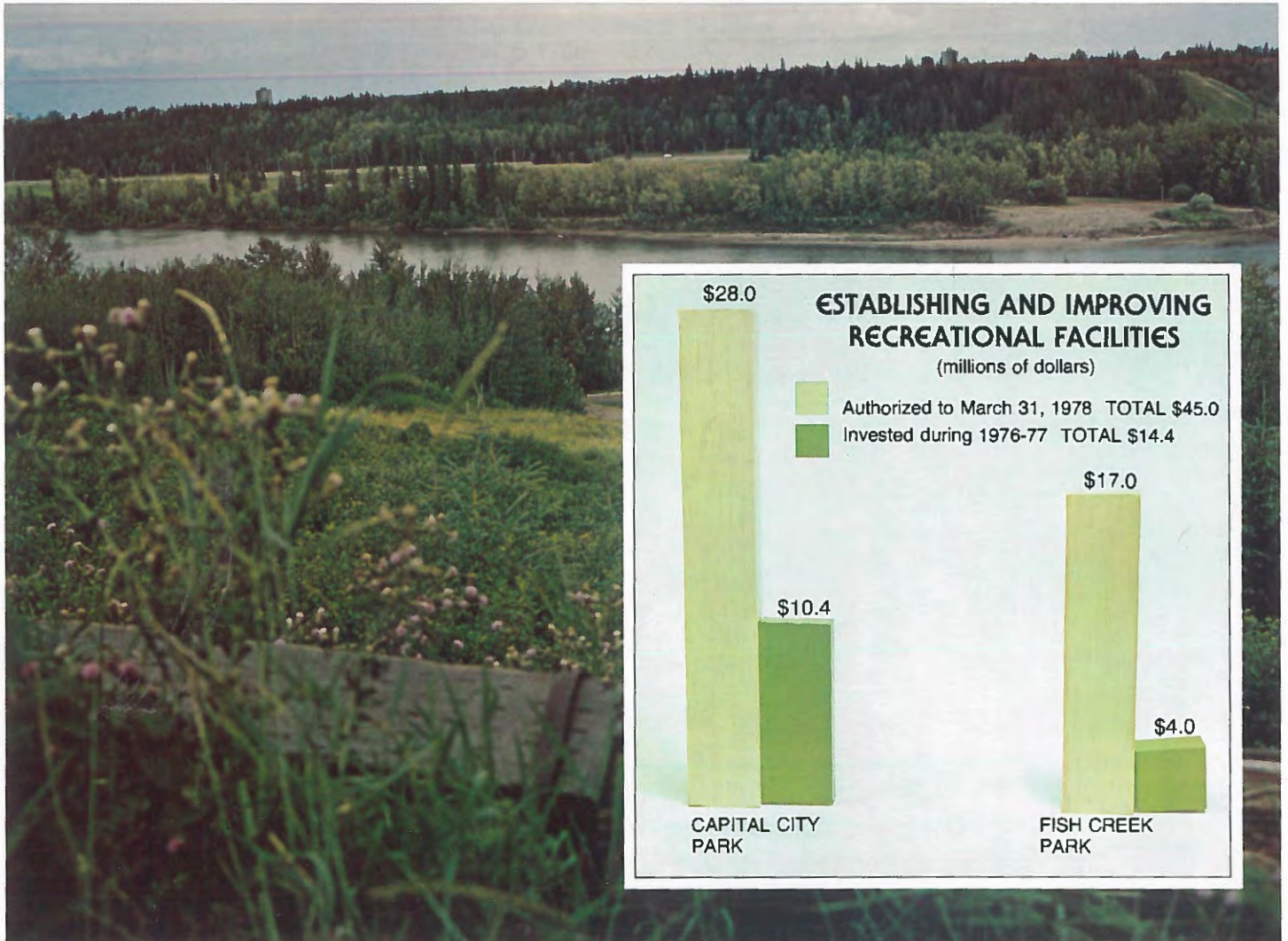
Also in 1976-77, \$86 thousand was invested to obtain data on the safety and stability of underground openings in the oil sands. The data obtained will be valuable in evaluating the potential of underground mining as an alternative method for developing the more deeply buried oil sands.



Fish Creek Park

A total of \$17 million has been provided for the acquisition of additional land and for the development of the Fish Creek Park and recreation area in Calgary. When it is completed, the 3,000 acre park will represent the largest urban park in North America. In 1976-77, \$2.7 million

was invested in the acquisition of land and \$1.4 million was invested in the development of the area east of the Macleod Trail which is expected to be completed by the end of the summer of 1977.



Capital City Park

In 1975, the Province of Alberta entered into an agreement with the City of Edmonton for the development of the North Saskatchewan River valley in Edmonton in order to establish a new, easily accessible park and recreational facilities for the people of Alberta. Under the terms of the agreement, the Province's share of the development costs will not exceed \$34 million in 1974 dollars. In the

fall of 1976, the Legislature approved the investment of \$28 million to March 31, 1978 from the Capital Projects Division to finance the Province's commitment under this agreement. In 1976-77, \$10.4 million was invested largely in the development of the Rundle, Gold Bar, and Hermitage parks, the pedestrian and bicycle bridges, and bank stabilization along the North Saskatchewan River. The project is now approximately one-third complete and is scheduled to be fully completed by July, 1978.



CANADA INVESTMENT DIVISION

This portion of the Heritage Fund provides for making investments outside Alberta to other provincial governments or the Government of Canada or to any person if the repayment of principal and the payment of interest is guaranteed by one of these governments. The intent of the Canada Investment Division is to provide additional interest income to the Fund as well as allowing other Canadians to benefit from the Heritage Fund by providing a new source of domestic capital to fund government and government-supported programmes in other parts of Canada.

Investments in the Canada Investment Division are made or approved by the Investment Committee, which consists of all members of the Executive Council of the Government of Alberta, in accordance with any resolutions of the Legislative Assembly. Pursuant to The Alberta Heritage Savings Trust Fund Act, the total investments in this division shall not exceed 15 per cent of the total assets of the Heritage Fund as determined at the end of each fiscal year.

Loan to the Province of Newfoundland

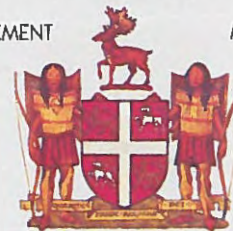
On February 22, 1977, the Investment Committee of the Alberta Heritage Savings Trust Fund approved the first investment under the Canada

Investment Division, being a loan to the Province of Newfoundland to meet part of the general requirements of the Consolidated Revenue Fund of that province for the current fiscal year. The loan is secured by debentures in the principal amount of \$50 million which rank equal with all other debentures of the Province of Newfoundland and is for a term of 21 years. The 10 per cent coupon debentures were purchased at a price of 99 per cent of par value for \$49.5 million, and will yield to the Fund an annual return of 10.12 per cent to maturity.

THESE SECURITIES HAVING BEEN PLACED PRIVATELY,
THIS ANNOUNCEMENT APPEARS AS A MATTER OF
RECORD ONLY

PRIVATE PLACEMENT

March 9, 1977



PROVINCE OF NEWFOUNDLAND (CANADA)

\$50,000,000 Canadian Dollars

10 Percent, 1977-1998

ARRANGED AND PLACED WITH



PROVINCE OF ALBERTA

THE ALBERTA HERITAGE SAVINGS TRUST FUND

ALBERTA INVESTMENT DIVISION

The Alberta Investment Division is composed of investments which, in the opinion of the Investment Committee or

the Legislative Assembly as expressed in a resolution of the Assembly, will yield a reasonable return or profit to the Heritage Fund and will tend to strengthen and diversify the economy of Alberta. The Alberta Investment Division ensures a reasonable return to the Heritage Fund and provides investment capital necessary to strengthen and diversify the economy of Alberta so that meaningful jobs are created and high incomes maintained for Albertans in future years.

SUMMARY OF ALBERTA INVESTMENT DIVISION INVESTMENTS AS AT MARCH 31, 1977

(millions of dollars)

HOUSING INVESTMENTS

Alberta Home Mortgage Corporation debentures
\$227.2

Alberta Housing Corporation debentures
\$155.0

ENERGY RESOURCES INVESTMENTS

Alberta Syncrude Equity
\$120.2

Alberta Energy Company shares
\$75.5

Gulf Oil Canada Limited convertible debenture
\$63.7

Canada-Cities Service Ltd. convertible debenture
\$57.1

Accrued Interest Receivable on convertible debentures
\$4.9



The investments in this division are not limited to a specific percentage of the Fund owing to the major importance of their purpose. Investments in the Alberta Investment Division are made or approved by the Investment Committee in accordance with any resolutions of the Legislative Assembly. The total investments in this division were \$703.6 million as at March 31, 1977.

Housing Investments

The Alberta Heritage Savings Trust Fund has major investments in housing through its financing of the capital requirements of the Alberta Housing Corporation and the Alberta Home Mortgage Corporation. As at March 31, 1977, the Heritage Fund held debentures of \$155 million and \$227.2 million of the Alberta Housing Corporation and the Alberta Home Mortgage Corporation, respectively. Of these amounts, \$289.2 million was included in the assets transferred to the Heritage Fund on August 30, 1976. During the remainder of the 1976-77 fiscal year, \$93 million was invested under approval given by the Investment Committee to purchase debentures of the Alberta Housing Corporation of an amount not to exceed \$85.9 million and debentures of the Alberta Home Mortgage Corporation of an amount not to exceed \$202 million.



The Alberta Housing Corporation provides various types of staff and social housing and land assembly programmes to the people of Alberta and the Alberta Home Mortgage Corporation is primarily a lender of mortgage funds for homeownership and rental programmes. The tables outline the amount and type of housing activity undertaken by the Corporations in 1976-77. In addition, the Alberta Housing Corporation provided \$10.3 million for various Land Banking and Land Development projects and \$18.2 million was applied to the Fort McMurray Development Programme.

The Heritage Fund financed approximately 44 per cent of the total capital requirements of the Alberta Housing Corporation and nearly all of the net capital requirements of the Alberta Home Mortgage Corporation during the 1976-77 fiscal year.

ALBERTA INVESTMENT DIVISION

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SUMMARY OF ALBERTA INVESTMENT DIVISION INVESTMENTS AS AT MARCH 31, 1977

(millions of dollars)

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\$4.9

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Housing Investments

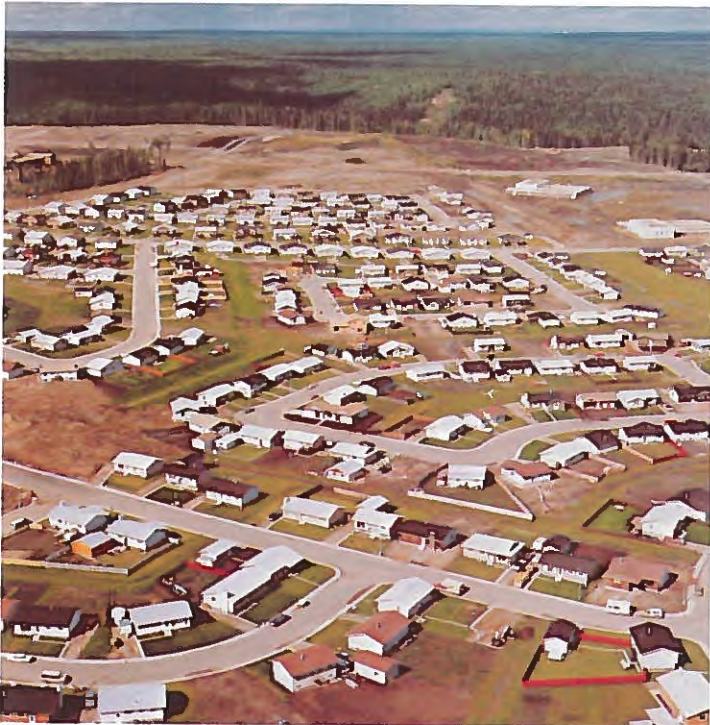
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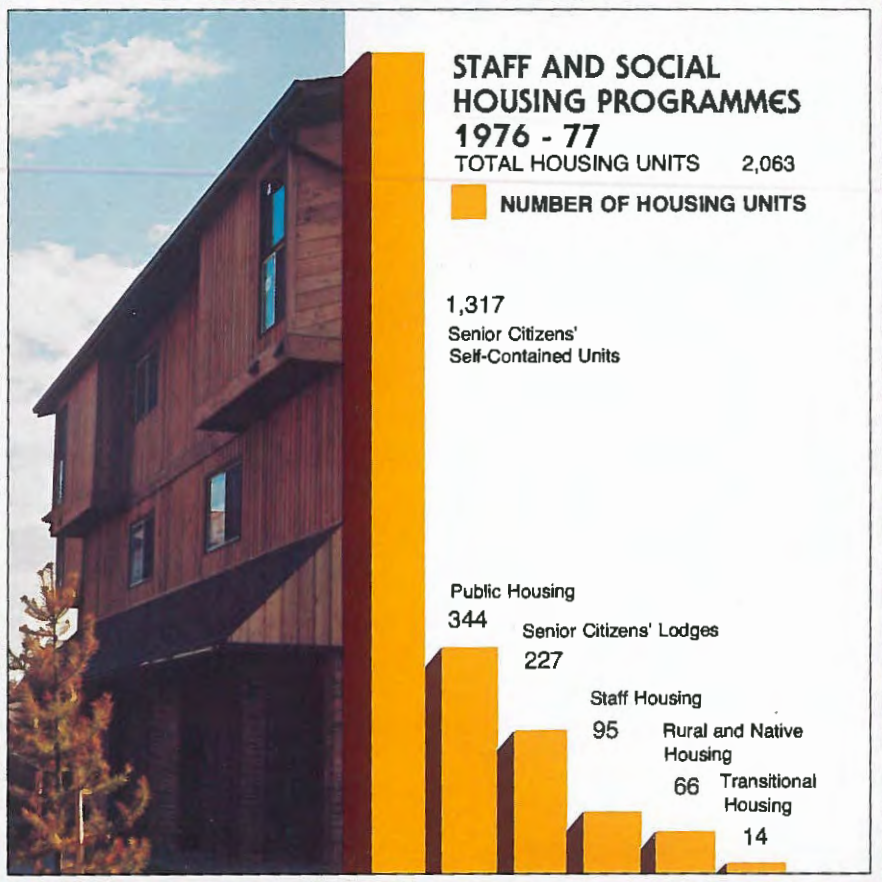
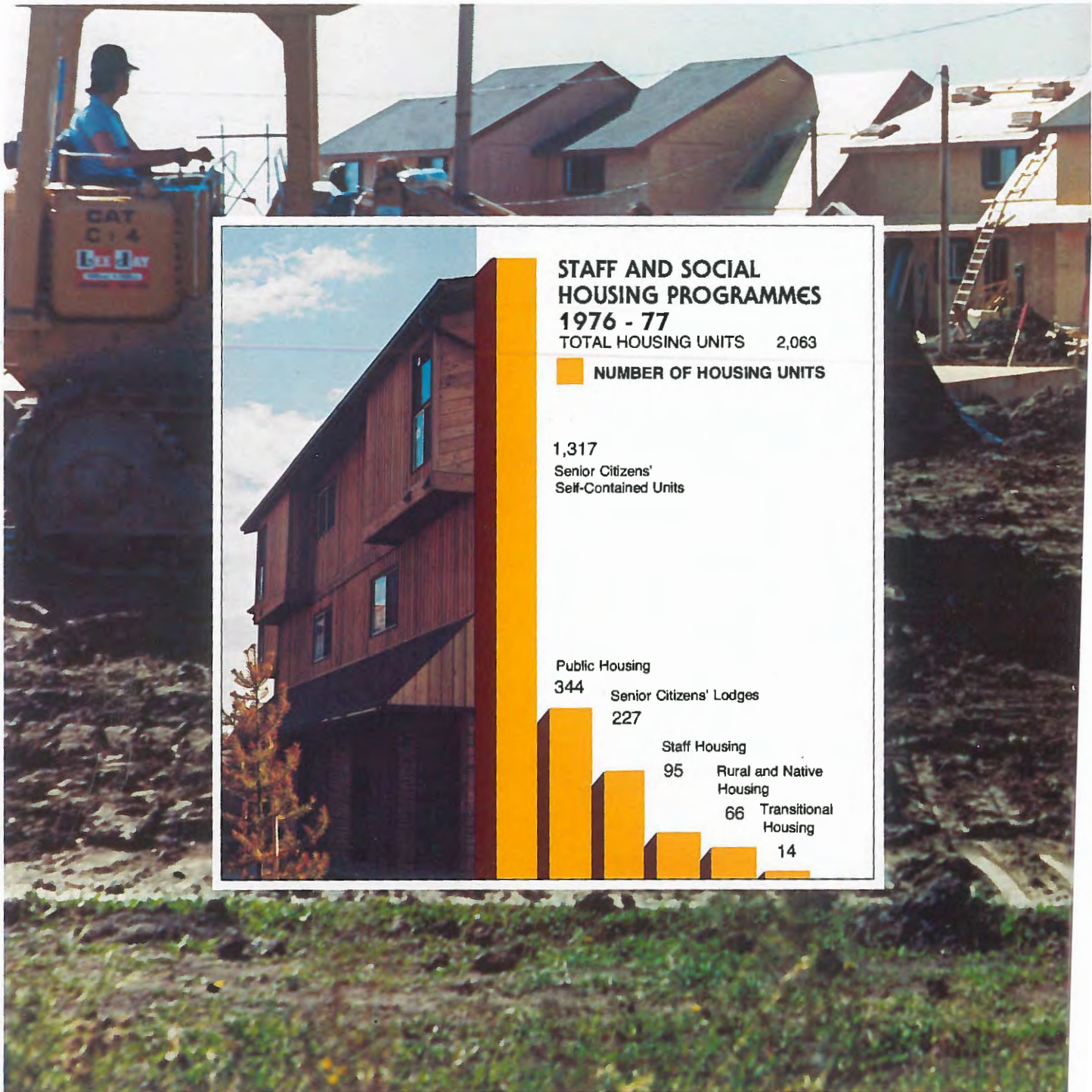


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The Heritage Fund financed approximately 44 per cent of the total capital requirements of the Alberta Housing Corporation and nearly all of the net capital requirements of the Alberta Home Mortgage Corporation during the 1976-77 fiscal year.







MORTGAGE LENDING PROGRAMMES

1976 - 77

TOTAL HOUSING UNITS 7,905

NUMBER OF HOUSING UNITS

Home Ownership -
New Construction
4,200

Rental Housing
2,535

Syncrude Housing

Mobile Home
Park Stalls

Home Ownership -
Existing
Construction
300

470

400

300

Alberta Syncrude Equity

The Alberta Heritage Savings Trust Fund holds the Province of Alberta's 10 per cent equity investment in the Syncrude Project, Syncrude Canada Ltd., and Northward Developments Ltd. As at March 31, 1977, Alberta's equity contribution amounted to \$120.2 million.

Syncrude Canada Ltd. is a corporate body constituted for the purpose of a joint venture development of the Syncrude Project. The shares of Syncrude Canada Ltd. are held by the participants in the Syncrude Project in the following relative proportions:

Imperial Oil Canada Ltd.	31.25%
Canada-Cities Service Ltd.	22.00
Gulf Oil Canada Limited	16.75
Petro-Canada Explorations Inc. as the assignee of the Government of Canada	15.0
Government of Alberta	10.0
Ontario Energy Corporation as the assignee of the Government of Ontario	5.0

The Syncrude Project is located at Mildred Lake, 25 miles north of Fort McMurray. The plant is the largest industrial facility ever built in Alberta and will cost an estimated \$2.2 billion. At March 31, 1977, the plant was 68 per cent complete and on schedule for start-up of production





on April 1, 1978. The onsite construction workforce, the bulk of whom are employed by the managing contractor, Canadian Bechtel Limited, reached 7,500 men and women in March, 1977 making the project the second largest construction project in Canada, next only to the James Bay Hydroelectric Project. Taking into account the workforce at the Syncrude Project site, the three Edmonton pre-assembly yards, and the headquarters of both Syncrude and the Edmonton office of Canadian Bechtel, about 10,300 people were directly employed on the Syncrude Project at March 31, 1977. With the plant rapidly approaching completion, Syncrude is actively recruiting staff to fill approximately 2,600 permanent operations positions, as well as about 600 head office positions in Edmonton, required by 1981.

The production of synthetic crude oil at the Syncrude Plant will help to reduce Canada's dependency on imported oil. With additional capacity expected to be gained by debottlenecking procedures, the plant is expected to operate at a

production level of at least 125,000 barrels per day by 1984. In addition, since approximately 70 per cent of the total capital costs of the project will be spent in Alberta and the majority of the people employed in both the construction and operation of the project will be Albertans, the project generates a significant positive impact on the economy of Alberta. Of the approximate \$1.5 billion committed on the project as at March 31, 1977, 59 per cent is being spent in Alberta, 15 per cent in Ontario, 5 per cent in other parts of Canada, and 21 per cent outside of Canada.

Northward Developments Ltd. is responsible for providing housing for Syncrude Canada Ltd. employees. The housing construction programme in Fort McMurray has proceeded well over the past year with some 450 units being completed and an additional 1,800 units under construction at March 31, 1977. The programme is on schedule and will provide sufficient housing units to support the build-up of operations personnel.



Convertible Debentures

Pursuant to the Memorandum of Agreement signed by the participants of the Syncrude Project in Winnipeg on February 3, 1975, the Province of Alberta agreed to make loans to Gulf Oil Canada Limited and Canada-Cities Service Ltd., two other participants in the Project, of \$100 million each by way of convertible debentures. Any part of the debentures not converted is repayable in ten equal annual instalments commencing five years after the start of production or July 1, 1982, whichever comes first. The rates of interest earned on the Gulf Oil Canada Limited and the Canada-Cities Service Ltd. convertible debentures are 8 1/8 per cent and 8 3/8 per cent, respectively, which reflected the market rates at the time of negotiating the loan agreements for debentures with similar terms and conditions.

The initial draw-downs of these debentures were financed from the General Revenue Fund of the Province. However, these debentures were included as part of the \$1.5 billion of assets

transferred to the Heritage Fund on August 30, 1976 and subsequent draw-downs have been financed from the Heritage Fund. The draw-downs on the debentures are based on the net monthly payments by the individual participants for the cost of the Syncrude Project and as at March 31, 1977, \$63.7 million had been advanced to Gulf Oil Canada Limited and \$57.1 million had been advanced to Canada-Cities Service Ltd.

As the debentureholder, the Province of Alberta has the option to convert the whole or any part of the principal, of at least \$20 million, of each debenture into a percentage equity interest in the Syncrude Project. Although interest was not received during 1976-77 because of the conversion option, interest was earned during the period and has been included in the investment income of the Heritage Fund and as part of the Alberta Investment Division, as interest to be capitalized. This interest amounted to \$4.9 million in 1976-77.

Alberta Energy Company

The Heritage Fund holds and maintains the Alberta Government's 50 per cent ownership in the Alberta Energy Company. Although the Alberta Government is the largest single shareholder, it does not participate directly

in the day-to-day management of the company. In accordance with the option provided to the Government of Alberta under The Alberta Energy Company Act, the Government has appointed three of the present ten members of the Board of

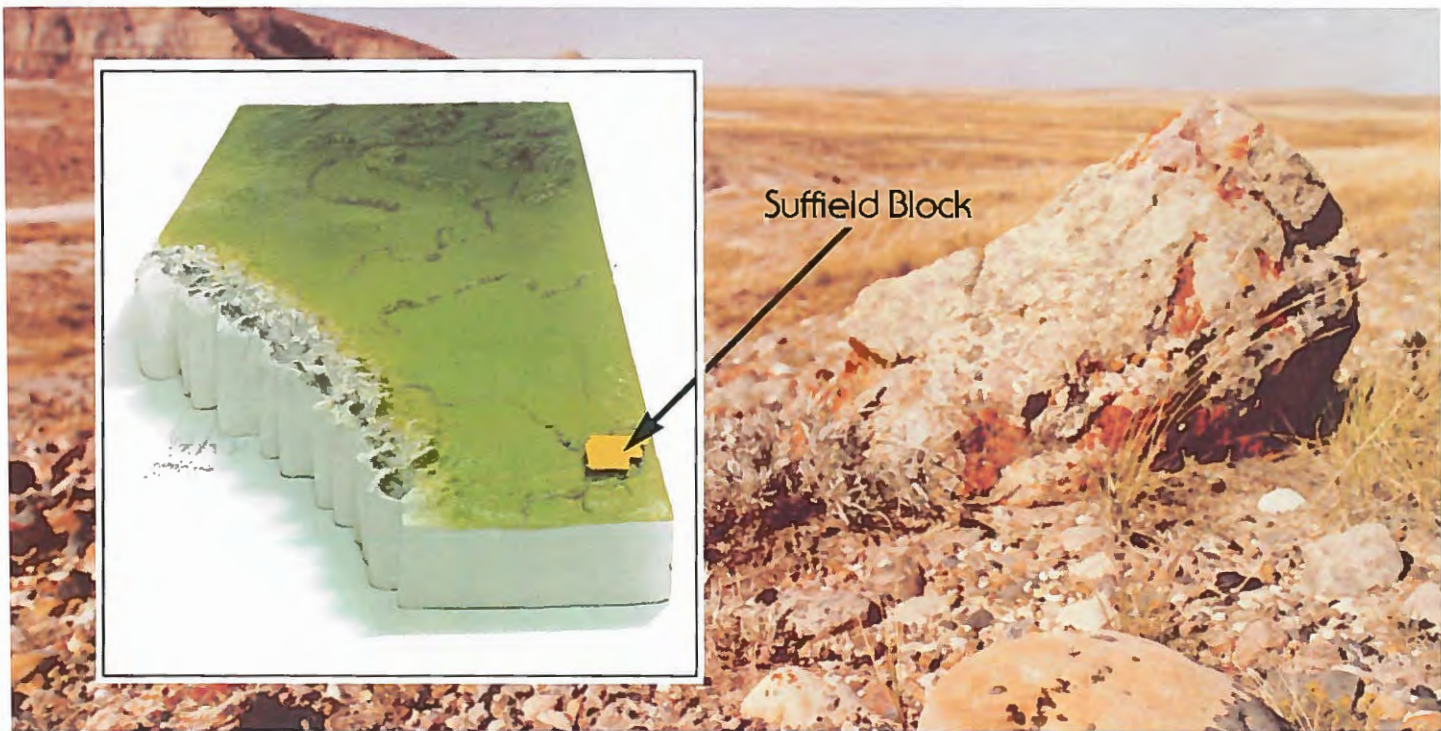


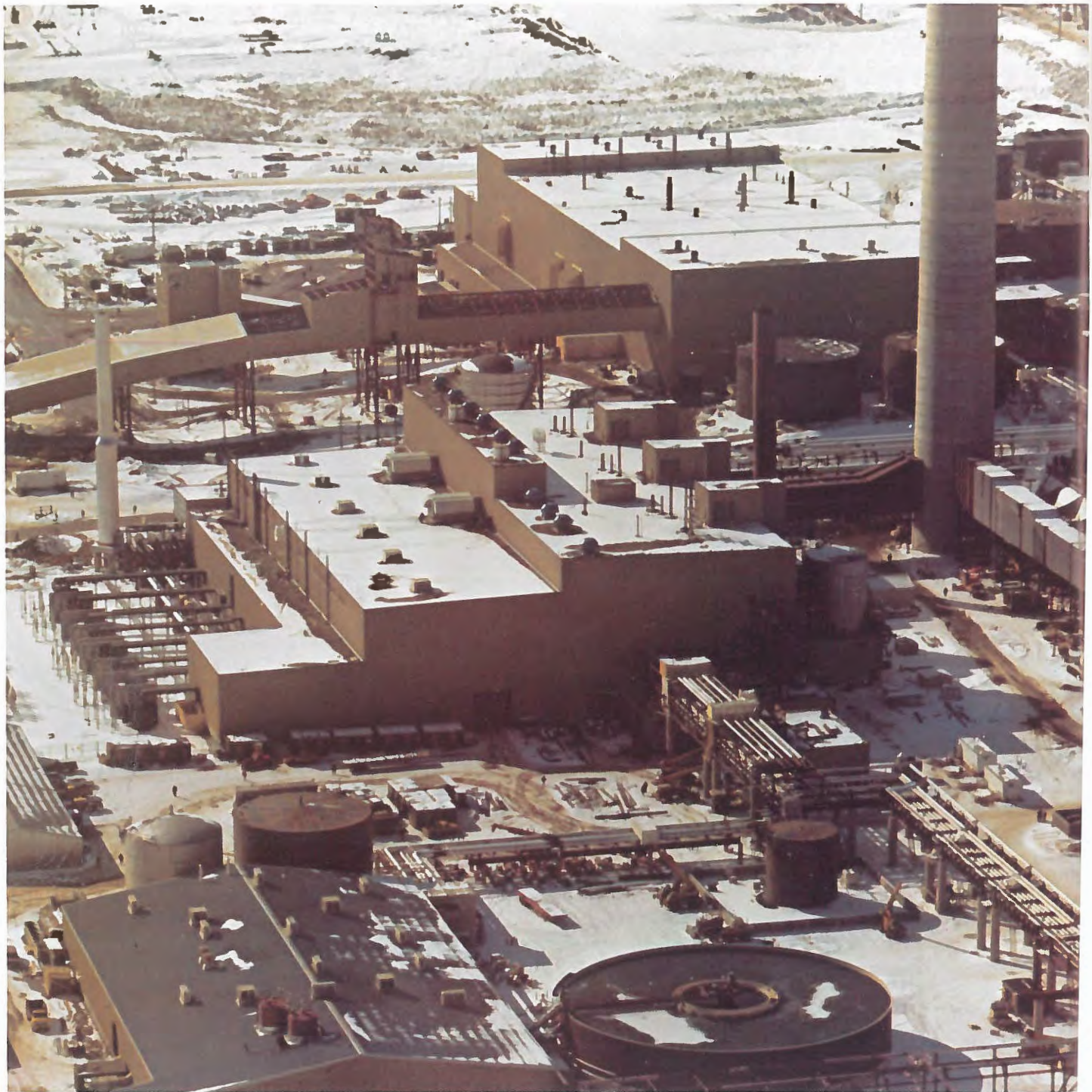
Directors of AEC. For all other purposes the Government has given the President of AEC the right to vote the shares owned by the Government.

Like other shareholders, the Heritage Fund will share in any increase in the net value of AEC and in any dividends paid by the company. For the year ended December 31, 1976, AEC earned net income of \$8.5 million largely as a result of significant interest income on working capital invested in short term securities pending investment in longer term capital projects.

In 1976, AEC invested \$17.7 million in the development of the shallow gas reserves of the Suffield Block,

commenced construction on the Alberta Oil Sands Pipeline, entered into a joint venture with Simpson Timber Co. (Alberta) for the development of a forestry complex in the Whitecourt region of Alberta, and continued construction on the Syncrude Utilities Plant which was 56 per cent complete as at the end of 1976. In addition to these investments, AEC has an option to acquire a participating interest of between 5 per cent and 20 per cent in the entire Syncrude Project, and through its 50 per cent interest in Steel Alberta Ltd., AEC holds a net 10 per cent ownership in Interprovincial Steel and Pipe Corporation Ltd.





INVESTMENT IN MARKETABLE SECURITIES

Funds which have not been used to make investments for the Capital Projects Division, the Canada Investment Division, or the Alberta Investment Division are invested by the Provincial Treasurer in marketable securities which provide interest income to the Heritage Fund but which can be sold readily in order to make investments for the three Divisions. The type of securities which the Provincial Treasurer can purchase are prescribed by The Alberta Heritage Savings Trust Fund Act

and generally include the debt instruments of governments and their agencies, chartered banks, the Alberta Treasury Branches, and corporations with high credit ratings, as well as mortgages. Investments in common shares and other equity instruments are specifically excluded.

The marketable securities of the Heritage Fund as at the end of the 1976-77 fiscal year totalled \$1,368 million.

PORTFOLIO OF MARKETABLE SECURITIES AS AT MARCH 31, 1977

	(millions of dollars)	Average Term	Average Yield (%)
BONDS AND DEBENTURES:			
Government of Canada, Direct and Guaranteed	\$ 7	16 yrs.	8.4
Corporates	\$ 23	10 yrs.	10.0
Other Provinces, Direct and Guaranteed	\$ 42	12 yrs.	9.6
Alberta Municipal Financing Corporation	\$363	7 yrs.	9.3
Alberta Government Telephones Commission	\$509	5 yrs.	9.1
SHORT TERM INVESTMENTS	\$222	120 days	8.3
DEPOSITS IN THE CONSOLIDATED CASH INVESTMENT TRUST FUND	\$202	demand	9.6
TOTAL	\$1,368		

ALBERTA HERITAGE SAVINGS TRUST FUND
FINANCIAL STATEMENTS
MARCH 31, 1977

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OFFICE OF THE PROVINCIAL AUDITOR

AUDITOR'S REPORT

To the Provincial Treasurer

I have examined the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 1977 and the statements of transfers from the General Revenue Fund of the Province of Alberta, income, expenditure and retained earnings and changes in financial position for the period then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Trust Fund as at March 31, 1977 and the results of its operations and the changes in its financial position for the period then ended in accordance with the disclosed basis of accounting described in Note 2 to the financial statements.

C.A.
Provincial Auditor

Edmonton, Alberta
August 15, 1977

ALBERTA HERITAGE SAVINGS TRUST FUND

BALANCE SHEET AS AT MARCH 31, 1977

STATEMENT A

ASSETS

Current:

Deposit in the Consolidated Cash Investment Trust Fund of the Province of Alberta	\$ 201,888,796
Accounts receivable net, General Revenue Fund of the Province of Alberta (Note 3)	3,585,890
Accrued interest receivable	56,684,994
Marketable securities, at aggregate cost or market value whichever is lower (Note 4)	1,166,261,637
	<u>1,428,421,317</u>
Capital Projects Division investments, at cost (Schedule 1 and Note 2)	35,961,009
Canada Investment Division investments, at cost (Note 5)	49,501,984
Alberta Investment Division investments, at cost including interest to be capitalized (Schedule 2 and Note 2)	703,631,160
	<u>\$2,217,515,470</u>

LIABILITIES AND FUND EQUITY

Current:

Accounts payable	\$ 9,644,407
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Fund equity:

Transfers from the General Revenue Fund of the Province of Alberta, Statement B	2,120,181,763
Retained earnings, Statement C	87,689,300
	<u>2,207,871,063</u>
	<u>\$2,217,515,470</u>

The accompanying notes are part of these financial statements.

ALBERTA HERITAGE SAVINGS TRUST FUND
**STATEMENT OF TRANSFERS FROM THE
GENERAL REVENUE FUND OF THE PROVINCE OF ALBERTA
FOR THE PERIOD MAY 19, 1976 TO MARCH 31, 1977**

STATEMENT B

Assets transferred on August 30, 1976:

Cash	<u>\$ 254,434,740</u>
Marketable securities:	
Alberta Government Telephones Commission:	
Notes	75,000,000
Debentures	377,868,640
Alberta Municipal Financing Corporation debentures	238,588,486
Accrued interest receivable	<u>15,102,043</u>
	<u>706,559,169</u>
Alberta Investment Division investments:	
Alberta Housing Corporation debentures	122,015,008
Alberta Home Mortgage Corporation debentures	167,237,645
Alberta Energy Company common shares	75,307,437
Equity in Syncrude Project	83,226,458
Gulf Oil Canada Limited debenture	42,900,000
Canada-Cities Service Ltd. debenture	38,507,000
Accrued interest receivable	<u>9,812,543</u>
	<u>539,006,091</u>
Total assets transferred	1,500,000,000
Non-renewable resource revenue transferred	<u>620,181,763</u>
	<u>\$2,120,181,763</u>

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF INCOME, EXPENDITURE AND RETAINED EARNINGS FOR THE PERIOD MAY 19, 1976 TO MARCH 31, 1977

STATEMENT C

Income:	
Interest on investments	\$87,075,502
Gain on sale of investments	<u>896,584</u>
	87,972,086
Expenditure:	
Administration (Note 6)	<u>282,786</u>
Net income to retained earnings	<u>\$87,689,300</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE PERIOD MAY 19, 1976 TO MARCH 31, 1977

STATEMENT D

Funds were provided from:	
Transfers from the General Revenue Fund of the Province of Alberta, Statement B	<u>\$2,120,181,763</u>
Net income for the period, Statement C	87,689,300
Less: Adjustments for items not affecting working capital:	
Accrued interest added to Alberta Investment Division	\$4,861,725
Amortization of discount	<u>1,984</u>
	4,863,709
	<u>82,825,591</u>
	<u>2,203,007,354</u>
Funds were applied to:	
Capital Projects Division investments	35,961,009
Canada Investment Division investments	49,500,000
Alberta Investment Division investments	<u>698,769,435</u>
	784,230,444
Working capital	<u>\$1,418,776,910</u>
Represented by:	
Current assets	1,428,421,317
Less: Current liabilities	<u>9,644,407</u>
	<u>\$1,418,776,910</u>

ALBERTA HERITAGE SAVINGS TRUST FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1977

NOTE 1 Authority

The Alberta Heritage Savings Trust Fund operates under the authority of The Alberta Heritage Savings Trust Fund Act, Chapter 2, Statutes of Alberta 1976.

NOTE 2 Accounting Policies

Capital Projects Division:

Pursuant to Section 6 (5) (a) of the Act, investments in the Capital Projects Division are deemed to be assets of the Fund with a value equal to the amounts expended.

Alberta Investment Division:

The investment in Alberta Energy Company, which represents 50% of the outstanding voting shares of the Company, has not been adjusted for the Fund's share of retained earnings. The Company reported retained earnings of \$12,199,000 at December 31, 1976.

Gulf Oil Canada Limited and Canada-Cities Service Ltd. convertible debentures are stated at cost. Interest accrued from August 30, 1976, the date of acquisition by the Fund, to March 31, 1977 has been added to the Alberta Investment Division as, in the event of conversion to equity, earned interest to date of conversion becomes part of the cost of equity.

Non-Renewable Resource Revenue Transferred:

Non-renewable resource revenue transferred comprises 30% of the non-renewable resource revenue received by the Province in the 1976-77 fiscal year.

NOTE 3 Accounts Receivable net, General Revenue Fund of the Province of Alberta

The above receivable consists of the following:

Non-renewable resource revenue	\$3,862,174
Less: Payable to the General Revenue Fund	276,284
	\$3,585,890

NOTE 4 Marketable Securities

Marketable securities are summarized hereunder:

	Cost (including amortizations)	Market Value
Government of Canada bonds, direct and guaranteed	\$ 6,816,897	\$ 6,650,000
Province of Alberta guaranteed securities:		
Alberta Government Telephones Commission:		
Notes	25,000,000	25,000,000
Debentures	484,499,991	497,718,120
Alberta Municipal Financing Corporation debentures	362,653,000	369,153,616
Other provinces, direct and guaranteed securities	41,811,009	42,349,788
Corporate bonds	22,993,939	23,535,237
Short term securities	222,486,801	222,486,801
	\$1,166,261,637	\$1,186,893,562

NOTE 5 Canada Investment Division Investment

The investment in this division consists of Province of Newfoundland \$50,000,000, 10% Sinking Fund Debentures due March 15, 1998, redeemable in whole but not in part on March 15, 1996 or any time thereafter prior to maturity, saleable only to an agent of the Crown in Right of Alberta, unless otherwise consented to by the Province of Newfoundland.

NOTE 6 Administration Expenses

Costs directly attributable to the administration of the Fund have been charged thereto. Other costs and expenses in connection with the administration of the Fund, paid out of the General Revenue Fund, have been recorded at an estimated amount of \$276,284.

NOTE 7 Commitments

No provision has been made in the accounts for future costs of ongoing projects, commitments under construction or other contracts and agreements in force at the year end, or future commitments made by the Province.

**ALBERTA HERITAGE SAVINGS TRUST FUND
CAPITAL PROJECTS DIVISION INVESTMENTS
AS AT MARCH 31, 1977**

SCHEDULE 1

	Expenditure to March 31, 1977	Legislative Appropriation to March 31, 1978
Health Care Facilities and Applied Health Research:		
New Health Care Facilities		
Southern Alberta Children's Hospital	\$ 1,960,468	\$ 10,000,000
Alberta Health Sciences Centre	2,965,031	30,000,000
Southern Alberta Cancer Centre	893,625	7,500,000
Applied Health Research		
Cancer and heart disease research		
Cancer research	—	4,000,000
Heart disease research	—	6,000,000
Irrigation Rehabilitation and Expansion:		
Irrigation rehabilitation and expansion	5,056,326	14,000,000
Irrigation headworks improvement	17,405	9,500,000
Renewable Resources Improvement:		
Alberta Reforestation Nursery	1,045,179	9,000,000
Grazing reserves development	—	1,000,000
Land reclamation	129,812	2,500,000
Development of Oil Sands Technology:		
The Alberta Oil Sands Technology and Research Authority	9,497,220	44,000,000
Establishing and Improving Recreational Facilities:		
Capital City Park	10,365,269	28,000,000
Fish Creek Park (Department of Environment)	2,671,344	13,000,000
Fish Creek Park (Department of Recreation, Parks and Wildlife)	1,359,330	4,000,000
	<u>\$35,961,009</u>	<u>\$182,500,000</u>

ALBERTA HERITAGE SAVINGS TRUST FUND
ALBERTA INVESTMENT DIVISION INVESTMENTS
AS AT MARCH 31, 1977

SCHEDULE 2

Alberta Housing Corporation debentures, at cost (a)

9.45% April 1, 2006	\$112,015,008
10.14% August 30, 2006	10,000,000
9.9 % December 1, 2006	10,000,000
9.1 % January 15, 2007	<u>23,000,000</u>
	<u>155,015,008</u>

Alberta Home Mortgage Corporation debentures, at cost (b)

9.57% April 1, 2006	137,237,645
10.17% August 30, 2006	30,000,000
9.9 % December 1, 2006	25,000,000
9.1 % January 15, 2007	<u>35,000,000</u>
	<u>227,237,645</u>

Alberta Energy Company common shares, at cost (c) 75,474,826

Equity in Syncrude Project, at cost (d) 120,214,956

Gulf Oil Canada Limited

8½% convertible debenture, at cost (e) 63,700,000

Canada-Cities Service Ltd.

8% convertible debenture, at cost (e) 57,127,000

698,769,435

Accrued interest receivable, to be capitalized, from
August 30, 1976, the date of acquisition by the
Fund, to March 31, 1977, of Gulf Oil Canada Limited
and Canada-Cities Service Ltd. debentures

4,861,725

\$703,631,160

- (a) Authorization has been given to purchase additional Alberta Housing Corporation debentures to an aggregate amount of \$52.9 million.
- (b) Authorization has been given to purchase additional Alberta Home Mortgage Corporation debentures to an aggregate amount of \$142 million. Interest rates on the December 1, 2006 and January 15, 2007 debentures will be adjusted on the fifth anniversary and every five years thereafter, until maturity, in accordance with prevailing rates on the adjustment dates.
- (c) Authorization has been given to purchase and dispose of shares of the Company to maintain the percentage of voting shares held by the Fund at any one time at 50% of the total number of issued and outstanding voting shares of the Company.

Pursuant to Section 19 (1) of The Alberta Energy Company Act, the aggregate amount that the Province may have invested in the Company at any one time, or be committed to invest, in common shares shall not exceed \$250 million as the purchase price thereof.

- (d) Authorization has been given to pay from the Fund the Province's 10% share of the construction and operating costs incurred under the Syncrude Project - Ownership and Management Agreement. As a 10% equity participant in the joint venture, the Fund will, as lessee, be entitled to 10% of all substances produced from the Syncrude Project subject to the liabilities to the Province of Alberta, as

lessor, in accordance with the Alberta Crown Agreement.

- (e) Authorization has been given to pay from the Fund, from time to time, monies required to meet the Province's obligations to advance funds under loan agreements with Gulf Oil Canada Limited to a maximum of \$100 million and Cities Service Company and Canada-Cities Service Ltd. to a maximum of \$100 million. The Province of Alberta has the option at any one time after Conversion Computation Date (the earlier of July 1, 1982 or the Date of Start of Production as defined in the Alberta Crown Agreement) and prior to the fifth anniversary of the Conversion Computation Date to convert the whole or any part of each debenture issued under the loan agreements amounting to at least \$20 million excluding capitalized interest, into a percentage equity interest in the Syncrude Project. Prior to the Conversion Computation Date the full amount of interest is to be capitalized on each successive anniversary of the Time of Closing as defined in the loan agreements. After Conversion Computation Date interest on the sum of the principal outstanding and interest capitalized is receivable semi-annually. In the event that the conversion option is not exercised the principal together with capitalized interest is to be repaid to the Fund in 10 equal annual payments beginning on the sixth anniversary of the Conversion Computation Date, subject to the right of the borrowers to redeem earlier in whole or in part after the fifth anniversary.

ALBERTA HERITAGE SAVINGS TRUST FUND
SUPPLEMENTARY INFORMATION ON
INVESTMENT TRANSACTIONS

Appendix I
Marketable Securities

Appendix II
Alberta Investment Division

ALBERTA HERITAGE SAVINGS TRUST FUND
MARKETABLE SECURITIES
STATEMENT OF INVESTMENT TRANSACTIONS
FOR THE PERIOD MAY 19, 1976 TO MARCH 31, 1977

APPENDIX I

	Transferred from the General Revenue Fund	Purchases	Amorti- zation of discount or (premium)	Sales and Redemptions at cost	Balance March 31, 1977, at cost	Market Value March 31, 1977
Government of Canada Bonds						
Direct and guaranteed		\$ 6,816,213	\$ 684		\$ 6,816,897	\$ 6,650,000
Province of Alberta guaranteed securities:						
Alberta Government Telephones Commission:						
Notes	\$ 75,000,000			\$ 50,000,000	25,000,000	25,000,000
Debentures	377,868,640	107,475,000	153,590	997,239	484,499,991	497,718,120
Alberta Municipal Financing Corporation debentures	238,588,486	225,000,000	431	100,935,917	362,653,000	369,153,616
Other Provinces, direct and guaranteed securities		41,843,838	(32,829)		41,811,009	42,349,788
Corporate bonds		24,225,053	(97,317)	1,133,797	22,993,939	23,535,237
Short term securities		568,498,628		346,011,827	222,486,801	222,486,801
	691,457,126	973,858,732	24,559	499,078,780	1,166,261,637	1,186,893,562
Accrued interest transferred	15,102,043			15,102,043		
	\$ 706,559,169	\$ 973,858,732	\$ 24,559	\$ 514,180,823	\$ 1,166,261,637	\$ 1,186,893,562

ALBERTA HERITAGE SAVINGS TRUST FUND
ALBERTA INVESTMENT DIVISION
STATEMENT OF INVESTMENT TRANSACTIONS
FOR THE PERIOD MAY 19, 1976 TO MARCH 31, 1977

APPENDIX II

	Transferred from the General Revenue Fund	Purchases	Transfers to Current Assets	Accrued Interest (1)	Cost plus Accrued Interest (1) March 31, 1977
Alberta Housing Corporation debentures					
9.45% April 1, 2006	\$ 112,015,008				\$ 112,015,008
10.14% August 30, 2006	10,000,000				10,000,000
9.9 % December 1, 2006		\$ 10,000,000			10,000,000
9.1 % January 15, 2007		23,000,000			23,000,000
	122,015,008	33,000,000			155,015,008
Alberta Home Mortgage Corporation debentures					
9.57% April 1, 2006	137,237,645				137,237,645
10.17% August 30, 2006	30,000,000				30,000,000
9.9 % December 1, 2006		25,000,000			25,000,000
9.1 % January 15, 2007		35,000,000			35,000,000
	167,237,645	60,000,000			227,237,645
Alberta Energy Company common shares	75,307,437	167,389			75,474,826
Equity in Syncrude Project	83,226,458	36,988,498			120,214,956
Gulf Oil Canada Limited 8½% convertible debenture	42,900,000	20,800,000		\$ 2,535,779	66,235,779
Canada-Cities Service Ltd. 8½% convertible debenture	38,507,000	18,620,000		2,325,946	59,452,946
	529,193,548	169,575,887		4,861,725	703,631,160
Accrued interest transferred	9,812,543		\$ 9,812,543		
	\$ 539,006,091	\$ 169,575,887	\$ 9,812,543	\$ 4,861,725	\$ 703,631,160

(1) Accrued interest on the Canada-Cities Service Ltd. and Gulf Oil Canada Limited convertible debentures is to be added to the principal of the debentures on April 30, 1977 and May 17, 1977, respectively, the first anniversary of the Time of Closing in each case. Consequently interest accrued for the period August 30, 1976 to March 31, 1977 is included in the Alberta Investment Division.

