

ALBERTA HERITAGE SAVINGS TRUST FUND
ANNUAL REPORT
2003

FOR THE YEAR ENDED MARCH 31, 2003



Heritage Fund

Alberta
REVENUE

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

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Minister of Revenue's Report to Albertans on the Alberta Heritage Savings Trust Fund

Fiscal 2002-03 marked the 27th year of the Alberta Heritage Savings Trust Fund. The Fund is a source of pride to all Albertans. Over the past 27 years, the Fund has generated approximately \$25 billion dollars in investment income. The Fund's income is transferred to the Province's main operating account, the General Revenue Fund, where it is used for Albertans' priorities such as health care, education, roads, tax reductions and debt repayment.

The Heritage Fund has investments around the world including Canada, the United States, Europe, Australia, Asia and the Far East. The Fund is comprised of investments in bonds, mortgages, public and private equities, real estate, derivative products and absolute return strategies.

An atmosphere of uncertainty prevailed in public equity markets throughout 2002-03. Few investors escaped the effects of significant declines in stock values. Tensions in the Middle East, fears of a slowing world economy, unwinding of excess capacity in the technology sector and concerns over corporate governance all contributed to a general loss of investor confidence in the stock market. The decline in the value of the Fund's equity holdings was partially offset by solid performance from the Fund's bond, mortgage and real estate portfolios.

As of March 31, 2003, the Heritage Fund closed out the year with a fair value of \$11.1 billion, a decrease of \$1.3 billion from the previous year. On a fair value basis, the Fund recorded a negative rate of return of 11.0% over the year and a positive annualized return of 0.3% over four years.

On a cost basis, after writedowns of equity investments, the value of the Heritage Fund at March 31, 2003 was \$11.4 billion compared to \$12.3 billion one year earlier. The Fund's investment loss for the year was \$894 million; however, over the previous four years the Fund had contributed over \$3 billion of income to pay for priority programs for Albertans. A return to positive income is forecast for 2003-04.

The key to achieving long-term, sustainable performance is to maintain a prudent, diversified portfolio, long-term focus, and investment discipline. As a result, the policy asset mix for 2003-06 increases investments in real estate, private equities and absolute return strategies and reduces modestly the Fund's exposure to public equities. The performance of the fund is assessed over the long term since volatility in markets can produce significant fluctuations in performance from year to year. Management is cautiously optimistic that stock markets will rebound over the next year.

Albertans feel strongly about the Alberta Heritage Savings Trust Fund. In the fall 2002 survey, *"Looking Forward: Planning for the Future With the Alberta Heritage Savings Trust Fund"*, the majority of the 77,000 respondents favored a strong, healthy Heritage Fund that continues as an endowment. Albertans look forward to the future with the Heritage Fund further strengthened to ensure the Fund continues to benefit Albertans, just like it has over the last 27 years.

[Original Signed]

Honourable Greg Melchin, CA
Minister of Revenue

Fund Governance

- ◆ The Heritage Fund was established in 1976 and operates under the authority of the *Alberta Heritage Savings Trust Fund Act*. On January 1, 1997, a new *Act* came into effect that sets out a revised investment framework for the Fund.
- ◆ The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan and annual report of the Fund. The Standing Committee has representation from the major parties of the legislature. The Standing Committee receives regular reports on the performance of the Fund and conducts public meetings on an annual basis in different locations in the Province. The purpose of these meetings is to update Albertans on the management of the Fund and to solicit input from Albertans.
- ◆ The Ministry of Revenue is responsible for the Fund and its investments. The Minister of Revenue is required to report on the performance of the Fund quarterly within 60 days of the end of the quarter and make public the annual report within 90 days of the end of the fiscal year.
- ◆ The business plan of the Heritage Fund is published as part of the provincial budget and the income of the Fund is consolidated into the revenue of the Province.
- ◆ An Investment Operations Committee (IOC) was established to add private sector financial and business oversight of the Fund's investment policies and operation. The IOC is chaired by the Deputy Minister of Revenue and consists of private sector members. The Committee reviews and makes recommendations with respect to the business plan, annual report and investment policy statements for the Fund. The Committee meets at least quarterly to review performance and fund management.
- ◆ The investment portfolio of the Heritage Fund is managed by a group of highly qualified and experienced professionals in Alberta Revenue's Investment Management Division (IMD). External managers (specialized private sector investment managers) are used to manage specific investment mandates.

Business Plan

PURPOSE

The business plan for the Heritage Fund describes the mission, goals, investment objectives, and how the Fund's performance will be measured. The business plan is reviewed annually and is published as part of the Provincial budget. The Investment Operations Committee (IOC) reviews and makes recommendations regarding the business plan and the investment policies for the Fund. The business plan is then reviewed and approved by the Minister of Revenue, the Treasury Board and the Legislature's Standing Committee on the Alberta Heritage Savings Trust Fund.

MISSION

The statutory mission of the Fund is:

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

GOALS

The three goals of the Fund, as outlined in the 2002-05 business plan, remain as follows:

1. Earn income to support the Government's consolidated fiscal plan.
2. Make investments to maximize long-term financial returns. The Heritage Fund is expected to generate an annualized real rate of return of 5.0% at an acceptable level of risk over a four-year period.
3. Improve Albertans' understanding and the transparency of the Heritage Fund.

INVESTMENT OBJECTIVE

The investment objective of the Fund is to optimize long-term financial returns subject to an acceptable level of risk. By legislation, Alberta Revenue operates under the "Prudent Person Rule". This assigns to the investment manager the responsibility to restrict investments to assets that would be approved by a prudent person. Investment funds with long-term investment horizons, and an objective to optimize long-term returns, invest a significant amount of their assets in equities since equities have historically provided investors with higher total returns (dividends and capital gains) than interest bearing securities. The Heritage Fund follows a similar strategy to achieve higher financial returns. However, as witnessed in recent years, this can result in volatility in income.

PERFORMANCE MEASURES

The Heritage Fund business plan outlines various performance measures and benchmarks which are reviewed annually to determine ongoing suitability.

The 2002-05 business plan incorporated the following major changes:

- ◆ Increased investments in private equities, absolute return strategies and real estate.
- ◆ Reduced investments in public equities to accommodate the increase in private equities, real estate and absolute return strategies.

The following table summarizes the 2002-05 business plan performance measures, including the long-term investment policy weights and benchmark return indices by asset class.

ASSET CLASS	Policy Allocation		Benchmark Return Index
	2002-03	2001-02	
Fixed income:			
Money market	2.0%	2.0%	Scotia Captial 91-Day T-Bill
Bonds	33.0%	33.0%	Scotia Captial Universe Bond Index
	<u>35.0%</u>	<u>35.0%</u>	
Public equities			
Canadian	20.0%	23.0%	Toronto Stock Exchange (S&P/TSX) Index
United States	15.0%	17.5%	Standard & Poor's (S&P) 500 Index
Non-north American	15.0%	17.5%	Morgan Stanley Capital International (MSCI) EAFE Index
	<u>50.0%</u>	<u>58.0%</u>	
Private equities	<u>2.0%</u>	-	Consumer Price Index (CPI) plus 8%
Absolute Return Strategies	<u>3.0%</u>	-	Consumer Price Index (CPI) plus 6%
Real Estate	<u>10.0%</u>	<u>7.0%</u>	Consumer Price Index (CPI) plus 5%
	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>	

The Year in Review

YEAR IN REVIEW

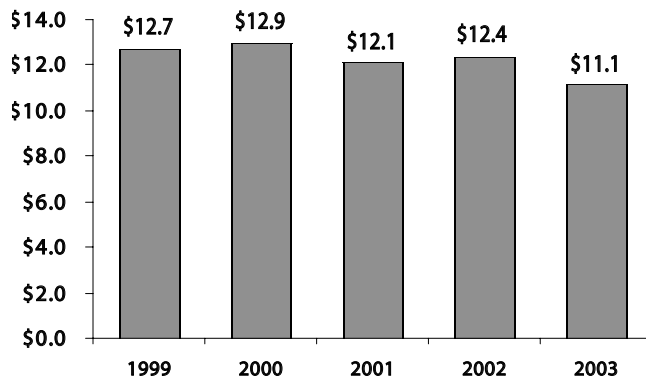
The first and second quarters of 2002-03 saw great uncertainty regarding the future path of the world economy. World equity markets continued to experience significant declines in stock values. The information technology sector led the decline in value of share prices. The decline in the equity markets was attributed to a number of factors including the slowing world economy, tensions in the Middle East, corporate governance concerns, unwinding of excess capacity in the technology sector and the general loss of investor confidence. Investor confidence stabilized in the third quarter as the outlook for corporate earnings improved and reports of accounting irregularities subsided. In the fourth quarter, the beginning of the US led war with Iraq resulted in greater uncertainty in the stock market and a corresponding decline in share prices.

	Actual Return (%)	Change in Fair Value (\$ millions)
First Quarter	-4.8%	\$ (582)
Second Quarter	-6.5%	(762)
Third Quarter	4.8%	522
Fourth Quarter	-4.5%	(517)
2002-03 Year	-11.0%	\$ (1,339)

At March 31, 2003, the fair value of the Heritage Fund stood at \$11.1 billion, down \$1.3 billion from \$12.4 billion at the beginning of the year.

HERITAGE FUND - FAIR VALUE

As at March 31 (billions)



INVESTMENT INCOME

The Fund recorded a net loss of \$894 million during fiscal year 2002-03. Over the year, income of \$286 million from investments in bonds, notes, short term paper, \$39 million from real estate investments and \$5 million from absolute return strategies was offset by losses of \$1,224 million from investments in equity markets. Realized capital losses from declining world stock markets, primarily in the information technology and telecommunication services sectors, contributed to the net loss for the year.

INVESTMENT INCOME (LOSS)

(millions)

	Fixed Income	Equity Income	Real Estate	Absolute Return Strategies	Total
02-03	\$ 286	\$ (1,224)	\$ 39	\$ 5	\$ (894)
01-02	444	(276)	38	-	206
00-01	532	157	17	-	706
99-00	610	539	20	-	1,169
98-99	769	159	4	-	932
	<u>\$2,641</u>	<u>\$ (645)</u>	<u>\$ 118</u>	<u>\$ 5</u>	<u>\$ 2,119</u>

INVESTMENT VALUATION

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

The Fund's policy is to write down the cost of those securities where the decline in value below cost is not considered temporary. On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. The Fund's net loss of \$894 million for the year includes write downs of \$669 million, primarily against information technology stocks.

CHANGE IN NET ASSETS

The Heritage Fund accounts for its investments on a cost basis. Investment income on a cost basis excludes unrealized gains and losses. Investment income on a fair value basis includes unrealized gains and losses. The investment loss on a fair value basis for fiscal year 2002-03 is \$1,339 million.

CHANGES IN NET ASSETS

(millions)

	2003	2002
Fair value, beginning of year	\$12,414	\$12,124
Investment income (loss), cost basis*	(894)	206
Change in unrealized appreciation (depreciation) in value of investments	(445)	290
Investment income (loss), fair value basis	(1,339)	496
Transfers to the General Revenue Fund**	-	(206)
Fair value, end of year***	\$11,075	\$12,414

* includes interest, dividends, realized gains and losses, derivative income and administration expenses

** see financial statements (Note 6)

*** includes investments of \$11,059 million and net current assets of \$16 million.

INVESTMENT ASSET MIX

The investment strategy is to invest in a diversified portfolio to optimize long-term returns at an acceptable level of risk. The policy asset allocation in the Fund's 2002-05 business plan was as follows:

ASSET MIX POLICY

Percent of Fair Value

ASSET CLASS	2003		2002	
	Policy Target	Actual	Policy Target	Actual
Fixed income	35.0	35.8	35.0	43.0
Equities				
Public equities:				
Canadian	20.0	21.4	23.0	20.1
United States	15.0	15.8	17.5	15.8
Non-north American	15.0	15.7	17.5	15.8
	50.0	52.9	58.0	51.7
Private equities	2.0	0.8	-	0.6
Absolute Return Strategies	3.0	2.6	-	-
Real Estate	10.0	7.9	7.0	4.7
	100.0	100.0	100.0	100.0

For the 2002-03 fiscal year, the policy asset mix for fixed income securities remains the same as the previous year at 35%. The policy mix for public equity investments decreases from 58% to 50% while real estate investments were targeted to increase from 7% to 10%, private equities and absolute return strategies increased to 2.0% and 3.0% respectively.

The actual investment mix changed over the past year. Fixed income securities declined from 43.0% to 35.8%. Public equity investments increased from 51.7% to 52.9%. Actual public equities exceeded the target policy by 2.9% as a result of fewer than expected opportunities for investments in private equities, real estate and absolute return strategies. Nevertheless, real estate investments increased from 4.7% to 7.9% of the Fund's total investment portfolio. A new investment asset class called Absolute Return Strategies (see Glossary) was initiated in September 2002 and comprises 2.6% of the Fund's investment portfolio. Private equity investments increased from 0.6% to 0.8%.

TRANSFERS TO THE GENERAL REVENUE FUND

The Fund's net income is transferred to the Province's main operating fund, the General Revenue Fund (GRF), and used for Albertans' priorities like health care, education, roads, tax reductions and debt repayment. Changes in unrealized gains and losses are not included in amounts transferred to the General Revenue Fund. As a result of the Fund's net loss of \$894 million for the year, no transfers were made to the General Revenue Fund. The net loss reduces the equity of the Heritage Fund.

The Government of Alberta financial statements are prepared on a consolidated basis which eliminates the income the Heritage Fund earns from Alberta Government and Provincial Corporation securities totaling \$18 million for the year ending March 31, 2003. On a consolidated basis the Heritage Fund loss was \$912 million.

Performance Measurement

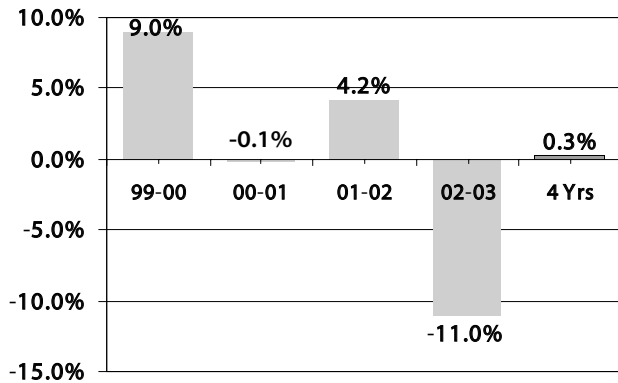
HERITAGE FUND RATE OF RETURN

The Heritage Fund posted an overall negative rate of return of 11.0% this year. Negative returns from Canadian, US, and non-North American public equity investments were partially offset by positive returns from the fixed income investments, real estate and absolute return strategies.

Over the past four-year period, the fund generated an annualized return of 0.3%.

HERITAGE FUND ANNUAL RETURNS

At Fair Value (percent)

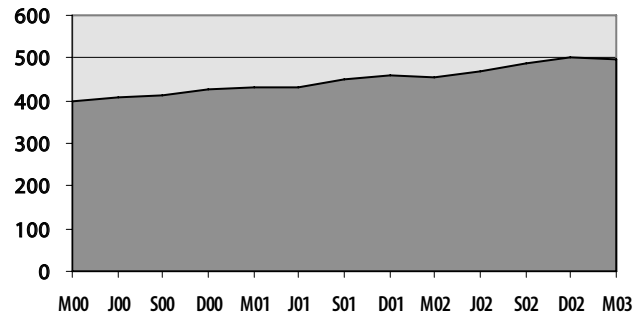


The performance of Heritage Fund investments is measured against various market-based indices. Value added by investment management is accomplished through asset mix decisions and security selection. The following sections describe the performance of the Fund's major asset classes in relation to their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

FIXED INCOME INVESTMENTS

The Canadian bond market performed well this year reflecting the deep bear market in equities, concerns about the US economic recovery and problems in the Middle East. The Scotia Capital (SC) Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past year, the SC Universe Bond Index increased by 9.2% while the short term SC 91-Day T-Bill Index increased by 2.7%.

SC UNIVERSE BOND INDEX



	Actual Return (%)	SC Universe Bond Index (%)	Over (Under)
LT Fixed income			
One year	9.5	9.2	30 bps
Four Years (annualized)	6.6	6.0	60 bps

	Actual Return (%)	Benchmark SC 91-Day T-Bill Index (%)	Over (Under)
ST Fixed Income			
One year	3.0	2.7	30 bps
Four Years (annualized)	4.5	4.2	30 bps

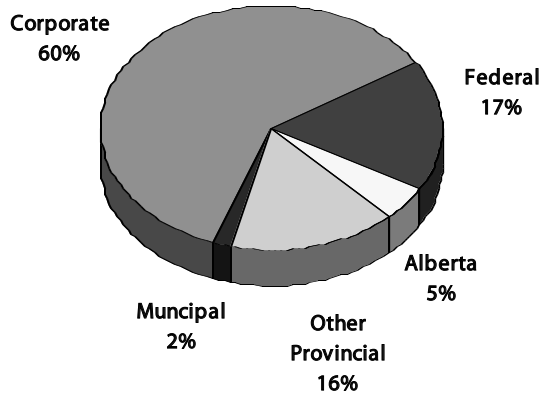
The Fund's actual rate of return over the year from Canadian bonds was 9.5%, 30 basis points better than the benchmark SC Universe Bond Index. The outperformance was primarily due to overweight in high quality corporate bonds relative to government bonds and the strong performance of private mortgages.

The Fund's return from short-term securities was 3.0% or 30 basis points better than the benchmark SC 91-Day T-Bill Index. Over the year, investments in bonds, notes, short term paper, provincial corporation debentures and loans declined from 43.0% to 35.8% of total investments. Fixed income securities now total \$4.0 billion down from \$5.4 billion the previous year.

The Fund's Canadian fixed-income portfolio is comprised of diversified holdings in corporate, federal, provincial and municipal bonds, notes and short-term paper.

SUMMARY OF FIXED INCOME HOLDINGS

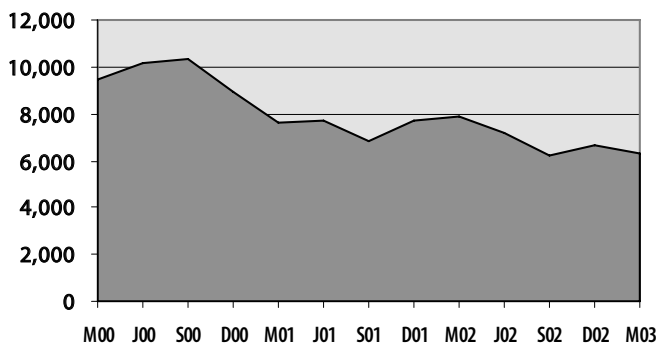
(issued and guaranteed by)



CANADIAN EQUITY INVESTMENTS

The Canadian stock market struggled through a very volatile year as investors worried about a lackluster economic recovery, geopolitical risks and highly publicized corporate scandals in the US. The S&P/TSX Composite Index which measures the performance of Canada's top companies in ten industrial sectors, decreased by 17.6% for the year ending March 31, 2003.

S&P / TSX



Canadian Public Equities	Actual	Benchmark	Over
	Return	S&P/TSX	(Under)
	%	Index	(Under)
One year	(16.6)	(17.6)	100 bps
Four Years (annualized)	0.1	0.6	(50) bps

The Heritage Fund's Canadian equity portfolio is held in various investment pools which are managed by internal and external managers. Over the year, the Fund's actual return from Canadian equities was negative 16.6%. The fund outperformed the S&P/TSX benchmark by 100 bps due to a higher allocation of small capitalization securities. Over four years, the fund's return from Canadian equities was 50 basis points less than the benchmark S&P/TSX due to an overweight position in growth oriented securities.

At March 31, 2003, investments in Canadian public equities totaled \$2.4 billion or 21.4% of the Heritage Fund investment portfolio compared to \$2.5 billion or 20.1% a year earlier.

TOP TEN HOLDINGS IN THE CANADIAN EQUITY PORTFOLIO

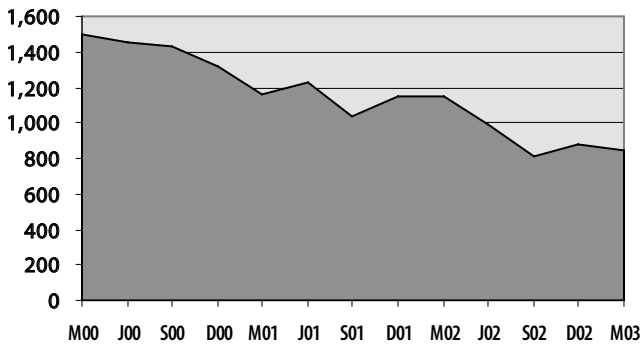
March 31, 2003

Company	%
Royal Bank of Canada	6.0%
Bank of Nova Scotia	4.5%
Encana Corp	3.7%
Toronto Dominion Bank	3.5%
BCE Inc.	3.4%
Bank of Montreal	3.4%
Sun Life Financial Services	3.3%
Petro Canada	2.8%
Manulife Financial Corp.	2.4%
Canadian Imperial Bank of Commerce	2.3%

UNITED STATES EQUITY INVESTMENTS

The United States equity market closed out the fiscal year in a bear market due to a combination of corporate scandals, a weak economy and poor profits. Aggressive action to improve corporate governance and interest rate cuts by the US Federal Reserve restored investor confidence in the fall. But the stock recovery was short lived due to tensions in the Middle East. The Standard & Poor's 500 Index (S&P 500) which measures the performance of the top 500 American companies, decreased by 30.7% over the year in Canadian dollars.

S&P 500



The Fund's actual rate of return over the year from US equities was negative 30.6%. The negative impact of the strengthening Canadian dollar was partially offset through currency hedges. Over four years, the Fund's US equity portfolio returned a negative 9.2%. The fund outperformed the S&P 500 benchmark by 10 bps on both the short term and long term from an overweight position in small cap securities.

	Actual Return %	Benchmark	
		S&P 500 Index %	Over (Under) bps
US Public Equities			
One year	(30.6)	(30.7)	10 bps
Four Years (annualized)	(9.2)	(9.3)	10 bps

At March 31, 2003, investments in US equities totaled 15.8% or \$1.8 billion of the Heritage Fund investment portfolio compared to 15.8% or \$2.0 billion a year earlier.

TOP TEN HOLDINGS IN THE U.S. EQUITY HOLDINGS

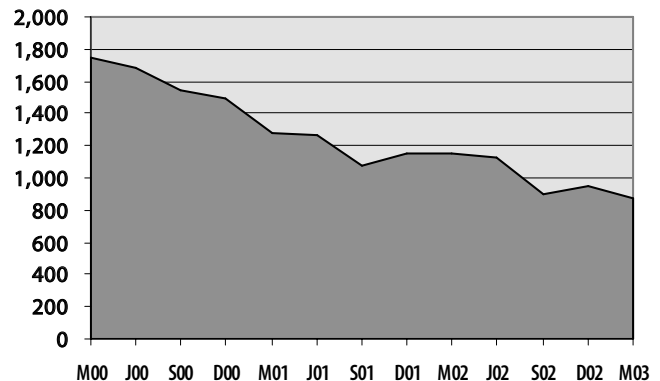
March 31, 2003

Company	%
Microsoft Inc.	2.8%
Pfizer Inc.	2.4%
Citigroup Inc.	2.1%
Exxon Mobil Corp.	2.1%
Johnson & Johnson	2.0%
General Electric Co.	1.9%
Pepsico	1.5%
American International Group Inc.	1.4%
Wal-Mart Stores	1.4%
Viacom Inc	1.3%

NON-NORTH AMERICAN EQUITY INVESTMENTS

The non-North American equity market declined for the 3rd consecutive year. The Morgan Stanley Capital International Index for Europe, Australasia and the Far East, MSCI EAFE Index, measures the performance of approximately 1000 companies on 21 stock exchanges around the world. The index decreased by 29.3% over the year in Canadian Dollars.

MSCI EAFE

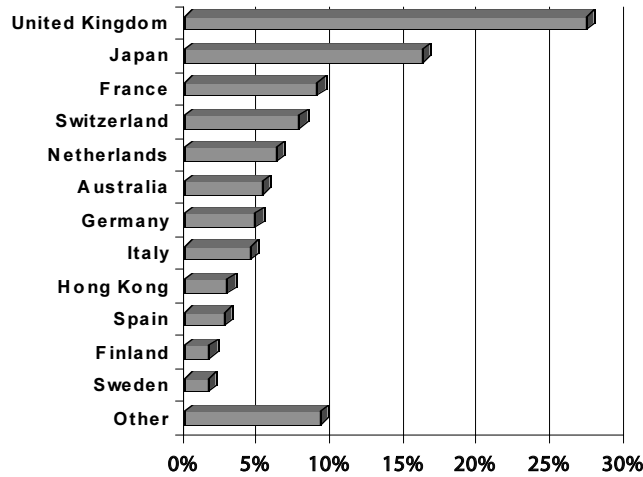


	Actual Return %	Benchmark	
		MSCI EAFE Index %	Over (Under) bps
EAFE Public Equities			
One year	(29.1)	(29.3)	20 bps
Four Years (annualized)	(8.2)	(10.8)	260 bps

The Fund's actual return from non-North American equities was negative 29.1%. Over four years the Fund's non-North American equity portfolio returned a negative 8.2%, 260 basis points better than the benchmark MSCI EAFE due to superior stock selection and country allocation in Asia-Pacific region investments.

NON-NORTH AMERICAN EQUITIES BY COUNTRY

Percent of Fair Value



At March 31, 2003, investments in non-North American equities totaled 15.7% or \$1.7 billion of the Heritage Fund investment portfolio compared to 15.8% or \$2.0 billion a year earlier.

TOP TEN NON-NORTH AMERICAN EQUITY HOLDINGS

March 31, 2003

Company	%
Vodafone Group	2.5%
Glaxosmithkline	2.0%
Total Fina Elf	1.9%
UBS AG	1.5%
Novartis AG	1.5%
ENI	1.5%
BP PLC	1.5%
Royal Dutch Petroleum	1.4%
Nestle	1.4%
Nokia (AB) OY	1.2%

REAL ESTATE INVESTMENTS

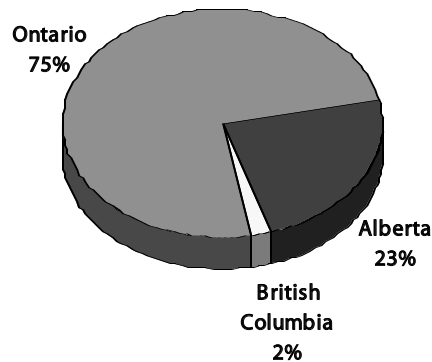
The real estate market in Canada continued in a positive trend this quarter.

Real estate	Actual Return %	CPI plus 5%* %	Over (Under)
One year	9.8	9.6	20 bps
Four Years (annualized)	8.1	10.3	(220) bps

* Effective April 1, 2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI plus 5%. Therefore, the benchmark for four years is a combination of RCPI and CPI plus 5%.

The Fund's real estate investments are held in the internally managed Private Real Estate Pool. Nearly half of the real estate portfolio is invested in retail, half in office and a small portion in industrial and residential. The Fund's real estate portfolio earned 9.8% this year and 8.1% over 4 years. Over the long term, the portfolio underperformed the benchmark by 220 bps due to the underperformance of Alberta retail properties and below average performance from Ontario retail and Alberta office properties.

REAL ESTATE BY GEOGRAPHIC DISTRIBUTION



At March 31, 2003, investments in real estate totaled 7.9% or \$870 million of the Heritage Fund investment portfolio compared to 4.7% or \$594 million a year earlier.

Administrative Expenses

Administrative expenses include investment management, cash management, custodial and other expenses. External management and custodial fees are deducted directly from the income of externally managed investment pools. Internal administrative expenses are deducted from the internally managed pooled funds and also directly from the Fund.

In the 2002-03 year, the administrative expenses charged directly to the Fund were \$1.8 million compared to \$1.5 million in 2001-02. The Fund's total administrative expense for the year ending 2002-03, including amounts deducted from the investment income of the pooled funds, amounted to \$15.9 million or 0.144% of the Funds net assets at fair value compared to \$11.5 million or 0.092% of net assets the previous year. According to the 2001 CEM (Cost Effectiveness Measurement) report, the average fund had investment management and administration expenses of 0.31% of total market value or the equivalent of approximately \$34.3 million.

ADMINISTRATIVE EXPENSE BREAKDOWN

Year ended March 31, 2003

	2003	2002
	<i>(thousands)</i>	
Direct fund expenses	\$ 1,778	\$ 1,455
Externally managed investment pools	11,436	8,291
Internally managed investment pools	2,733	1,722
Total	\$15,947	\$ 11,468
Expenses as a percent of net assets at fair value	<u>0.144%</u>	<u>0.092%</u>

The increase in administrative expense is primarily related to an increase in US and non-North American equity investments which are externally managed and more expensive to administer.

BUSINESS PLAN PERFORMANCE MEASURES

HERITAGE FUND (COMBINED) (1)	2003	2002	2001	2000	Four Years(2)
Actual return (%)	(11.0)	4.2	(0.1)	9.0	0.3

ENDOWMENT PORTFOLIO	2003	2002	2001	2000	Four Years(2)
Actual return (%)	(11.3)	3.3	(6.1)	18.0	0.4
Benchmark return (%)	(11.7)	3.4	(6.2)	15.9	(0.2)
Over (under) benchmark	0.4	(0.1)	0.1	2.1	0.6

	Actual Weight	Actual return (%)				Four Years(2)
		2003	2002	2001	2000	
ST Fixed income	2.3	3.0	3.8	5.7	5.3	4.5
LT Fixed income	33.5	9.5	5.9	9.5	1.7	6.6
Canadian public equities	21.4	(16.6)	4.2	(16.0)	37.8	0.1
US public equities	15.8	(30.6)	1.4	(14.4)	13.1	(9.2)
EAFE public equities	15.7	(29.1)	(5.8)	(22.6)	37.3	(8.2)
Private equities (3)	0.8	(3.3)	n/a	n/a	n/a	n/a
Real Estate	7.9	9.8	7.3	9.7	5.8	8.1
Absolute Return Strategies (3)	2.6	1.6	n/a	n/a	n/a	n/a
Total	100.0	(11.3)	3.3	(6.1)	18.0	0.4

	Policy Weight	Benchmark return (%)				Four Years(2)
		2003	2002	2001	2000	
ST Fixed Income	2.0	2.7	3.7	5.7	4.7	4.2
LT Fixed Income	33.0	9.2	5.1	8.7	1.3	6.0
Canadian Equities	20.0	(17.6)	4.9	(18.6)	45.5	0.6
US Equities	15.0	(30.7)	1.6	(15.1)	13.2	(9.3)
EAFE Equities	15.0	(29.3)	(7.3)	(19.6)	20.1	(10.8)
Private Equities (3)	2.0	5.7	n/a	n/a	n/a	n/a
Real Estate	10.0	9.6	9.9	11.9	9.9	10.3
Absolute Return Strategies (3)	3.0	4.7	n/a	n/a	n/a	n/a
Total	100.0	(11.7)	3.4	(6.2)	15.9	(0.2)

TRANSITION PORTFOLIO (1)	Six Months				Four Years(2)
	2003	2002	2001	2000	
Actual return (%)	0.5	5.3	8.2	3.0	n/a

(1) The Transition Portfolio was wound up in the first half of the year. The combined Heritage Fund return includes the past performance of the Transition Portfolio.

(2) Annualized

(3) Six months returns

HISTORICAL SUMMARY OF OPERATIONSMay 19, 1976 to March 31, 2003 (*millions*)

	Net Income (Loss)	Transfers From GRF	Transfers To GRF	Capital Expenditures	Fund Equity (a)
1976/77	\$88	\$2,120	-	(\$36)	\$2,172
1977/78	194	931	-	(87)	3,210
1978/79	294	1,059	-	(132)	4,431
1979/80	343	1,332	-	(478)	5,628
1980/81	724	1,445	-	(227)	7,570
1981/82	1,007	1,433	-	(349)	9,661
1982/83	1,482	1,370	(866)	(296)	11,351
1983/84	1,467	720	(1,469)	(330)	11,739
1984/85	1,575	736	(1,575)	(228)	12,247
1985/86	1,667	685	(1,667)	(240)	12,692
1986/87	1,445	216	(1,445)	(227)	12,681
1987/88	1,353	-	(1,353)	(129)	12,552
1988/89	1,252	-	(1,252)	(155)	12,397
1989/90	1,244	-	(1,244)	(134)	12,263
1990/91	1,337	-	(1,337)	(150)	12,113
1991/92	1,382	-	(1,382)	(84)	12,029
1992/93	785	-	(785)	(84)	11,945
1993/94	1,103	-	(1,103)	(71)	11,874
1994/95	914	-	(914)	(49)	11,825
1995/96	1,046	-	(1,046)	-	11,825
1996/97	932	-	(756)	-	12,001
1997/98	947	-	(922)	-	12,026
1998/99	932	-	(932)	-	12,026
1999/2000	1,169	-	(939)	-	12,256
2000/01	706	-	(706)	-	12,256
2001/02	206	-	(206)	-	12,256
2002/03	(894)	-	-	-	11,362
TOTAL	\$24,700	\$12,047	(\$21,899)	(\$3,486)	\$11,362

(a) at cost

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MARCH 31, 2003

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Auditor's Report

TO THE MINISTER OF REVENUE

I have audited the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 2003 and the statements of operations 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 Canadian 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, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
May 22, 2003

FINANCIAL STATEMENTS

BALANCE SHEET

March 31, 2003 (thousands)

	2003	2002
Assets		
Portfolio investments (Note 3)	\$ 11,346,295	\$ 12,501,716
Accrued interest income	16,145	20,617
Receivable from sale of investments	–	16,163
Administration expense receivable	2	7
	<u>\$ 11,362,442</u>	<u>\$ 12,538,503</u>
Liabilities and Fund Equity		
Liabilities		
Liabilities for investment purchases	\$ –	\$ 269,287
Due to the General Revenue Fund	–	12,897
	–	282,184
Fund equity (Note 6)	<u>11,362,442</u>	<u>12,256,319</u>
	<u>\$ 11,362,442</u>	<u>\$ 12,538,503</u>

STATEMENT OF OPERATIONS

For the Year Ended March 31, 2003 (thousands)

	2003		2002
	Budget	Actual	Actual
Net income (loss) (Note 7)	\$ 590,500	\$ (893,877)	\$ 205,772
Transfers to the General Revenue Fund (Note 6)	590,500	–	205,772
Net change in fund equity (Note 6)	<u>\$ –</u>	(893,877)	–
Fund equity at beginning of year		<u>12,256,319</u>	<u>12,256,319</u>
Fund equity at end of year		<u>\$ 11,362,442</u>	<u>\$ 12,256,319</u>

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

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended March 31, 2003 (thousands)

	<u>2003</u>	<u>2002</u>
Operating transactions		
Net income (loss)	\$ (893,877)	\$ 205,772
Non-cash items included in net income	58,636	(56,841)
	(835,241)	148,931
Decrease in accounts receivable	20,640	82,423
Increase (decrease) in accounts payable	(269,287)	124,272
Cash provided by (applied to) operating transactions	<u>(1,083,888)</u>	<u>355,626</u>
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	5,524,009	12,881,740
Purchase of investments	<u>(4,228,530)</u>	<u>(13,338,370)</u>
Cash provided by (applied to) investing transactions	<u>1,295,479</u>	<u>(456,630)</u>
Transfers		
Transfers to the General Revenue Fund	–	(205,772)
Increase (decrease) in amounts due to the General Revenue Fund	<u>(12,897)</u>	<u>94,721</u>
Cash applied to transfers	<u>(12,897)</u>	<u>(111,051)</u>
Increase (decrease) in cash	198,694	(212,055)
Cash at beginning of year	<u>51,820</u>	<u>263,875</u>
Cash at end of year	<u>\$ 250,514</u>	<u>\$ 51,820</u>
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	<u>\$ 250,514</u>	<u>\$ 51,820</u>

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

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NOTES TO THE FINANCIAL STATEMENTS March 31, 2003

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with generally accepted accounting principles.

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

(a) Portfolio investments

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

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

Investments are recorded as of the trade date.

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

Where there has been a loss in value of an investment in fixed-income securities, mortgages, equities, real estate and absolute return strategies that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability. When a loan becomes impaired, recognition of interest income in accordance with the terms of the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the loan's book value.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income. Income and expense from derivative contracts are included in investment income.

(c) Foreign Currency

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

(d) Investment Valuation

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

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Note 2 (continued)

compulsion to act. Fair values of investments held either directly by the Fund or by pooled investment funds are determined as follows:

- (i) Public fixed-income securities and equities are valued at the period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.
- (ii) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- (iii) The fair value of private equities is estimated by management.
- (iv) Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.
- (v) The fair value of Absolute Strategy Pool investments are estimated by external managers.
- (vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.
- (vii) The fair value of deposits, receivables, accrued interest and payables are estimated to approximate their book values.
- (viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

(e) Valuation of Derivative Contracts

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

- (i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.
- (ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields. The fair value of cross-currency interest rate swaps was not available in prior years. Consequently, no amount is provided for comparative purposes.
- (iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

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NOTE 3 PORTFOLIO INVESTMENTS

	2003			2002		
	Cost	Fair Value	%	Cost	Fair Value	%
	<i>(thousands)</i>			<i>(thousands)</i>		
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	\$ 250,514	\$ 250,514	2.3	\$ 51,820	\$ 51,820	0.4
Canadian Dollar Public Bond Pool (b)	3,012,610	2,996,258	27.1	3,372,717	3,291,655	26.0
Bonds, notes & short-term paper, directly held (c)	24,515	25,470	0.2	1,440,792	1,445,674	11.4
Private Mortgage Pool (d)	432,916	429,077	3.9	404,966	389,516	3.1
Provincial corporation debentures, directly held (e)	100,037	158,018	1.4	104,622	165,178	1.3
Loans, directly held (f)	97,359	97,359	0.9	97,359	97,359	0.8
	3,917,951	3,956,696	35.8	5,472,276	5,441,202	43.0
Canadian equities (Schedule B)						
Public equities:						
Domestic Passive Equity Pooled Fund (g)	907,115	1,050,459	9.5	886,167	1,097,763	8.7
External Managers Canadian Large Cap Equity Pool (h)	672,938	638,043	5.8	380,554	406,097	3.2
Canadian Pooled Equity Fund (i)	647,209	596,641	5.4	931,972	945,662	7.5
External Managers Canadian Small Cap Equity Pool (j)	72,655	80,751	0.7	67,471	88,027	0.7
Public equities, directly held	–	–	–	1,526	2,716	–
	2,299,917	2,365,894	21.4	2,267,690	2,540,265	20.1
Private Equity Pools (k)	93,047	83,160	0.7	86,069	83,047	0.6
	2,392,964	2,449,054	22.1	2,353,759	2,623,312	20.7
United States equities (Schedule C)						
Public equities:						
External Managers US Large Cap Equity Pool (l)	894,835	753,677	6.8	891,430	879,969	6.9
External Manager US Passive Equity Pool (m)	505,192	462,155	4.2	1,104,863	994,944	7.9
S&P 500 Index Fund (n)	443,426	429,631	3.9	–	–	–
External Manager US Small/Mid Cap Equity Pool (o)	111,304	106,645	0.9	102,321	122,653	1.0
United States Pooled Equity Fund	255	105	–	803	640	–
	1,955,012	1,752,213	15.8	2,099,417	1,998,206	15.8
Private Equity Pool (k)	7,155	6,839	0.1	–	–	–
	1,962,167	1,759,052	15.9	2,099,417	1,998,206	15.8
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (p)	1,054,819	876,238	7.9	1,013,353	994,087	7.8
External Managers EAFE Plus Equity Pool (p)	518,725	437,568	3.9	488,475	499,732	4.0
External Manager EAFE Passive Equity Pool (q)	411,772	427,300	3.9	505,888	507,434	4.0
EAFE Structured Equity Pool	–	–	–	803	818	–
	1,985,316	1,741,106	15.7	2,008,519	2,002,071	15.8
Real estate						
Private Real Estate Pool (r)	804,855	869,948	7.9	567,745	594,463	4.7
Absolute Return Strategies						
Absolute Return Strategy Pool (s)	283,042	282,967	2.6	–	–	–
Total equities, real estate and absolute return strategies	7,428,344	7,102,127	64.2	7,029,440	7,218,052	57.0
Total investments (t)	\$ 11,346,295	\$ 11,058,823	100.0	\$ 12,501,716	\$ 12,659,254	100.0

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The majority of the Fund's investments are held in pooled investment funds established and administered by Alberta Revenue. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2003, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2003	2002
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	38.1	36.9
Canadian Pooled Equity Fund	55.0	47.0
Domestic Passive Equity Pooled Fund	47.7	41.3
EAFE Structured Equity Pool	–	0.2
Foreign Private Equity Pool (02)	43.8	–
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Equity Pool (02)	62.1	–
Private Mortgage Pool	42.8	43.2
Private Real Estate Pool	42.8	36.3
S&P 500 Index Fund	87.2	–
United States Pooled Equity Fund	18.0	18.0
Externally Managed Investment Pools		
Absolute Return Strategy Pool	88.2	–
Canadian Large Cap Equity Pool	25.5	18.8
Canadian Small Cap Equity Pool	18.6	18.7
EAFE Core Equity Pool	35.6	36.2
EAFE Passive Equity Pool	74.0	56.6
EAFE Plus Equity Pool	37.1	35.4
US Large Cap Equity Pool	41.6	37.0
US Passive Equity Pool	73.3	68.9
US Small/Mid Cap Equity Pool	26.9	30.2

- (a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2003, securities held by the Fund have an average effective market yield of 3.23% per annum (2002: 2.57% per annum).
- (b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a

four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at March 31, 2003, securities held by the Pool have an average effective market yield of 5.41% per annum (2002: 5.80% per annum) and the following term structure based on principal amount: under 1 year: 2% (2002: 7%); 1 to 5 years: 37% (2002: 34%); 5 to 10 years: 31% (2002: 31%); 10 to 20 years: 11% (2002: 10%); over 20 years: 19% (2002: 18%).

- (c) As at March 31, 2003, fixed-income securities held directly by the Fund have an average effective market yield of 4.36% per annum (2002: 4.02% per annum). As at March 31, 2003, fixed-income securities have the following term structure based on principal amount: under 1 year: Nil % (2002: 91%); 1 to 5 years: 100% (2002: 9%).
- (d) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.6%) and provincial bond residuals (5.4%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2003, securities held by the Pool have an average effective market yield of 6.43% per annum (2002: 7.01% per annum) and the following term structure based on principal amount: under 1 year: 5% (2002: 10%); 1 to 5 years: 31% (2002: 21%); 5 to 10 years: 20% (2002: 23%); 10 to 20 years: 24% (2002: 26%); and over 20 years: 20% (2002: 20%).

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- (e) As at March 31, 2003, Provincial corporation debentures have an average effective market yield of 7.83% per annum (2002: 8.35% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100%.
- (f) Investment in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at March 31, 2003, investment in loans, at cost, include the Ridley Grain loan amounting to \$91,245,000 (2002: \$91,245,000) and the Vencap loan amounting to \$6,114,000 (2002: \$6,114,000).
- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of \$91,245,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2003 amounted to \$76,189,320 (2002: \$60,049,081). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
 - The principal amount of the Vencap loan, amounting to \$52,588,000, is due July 2046 and bears no interest. Amortization ceased being recorded on the loan from December 31, 2000 onward.
- (g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the S&P/TSX Index. A portion of the portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX 100 Index and the S&P/TSX 60 Index. The other portion of the portfolio fully replicates the S&P/TSX. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of ten years or less.
- (h) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.
- (i) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.
- (j) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the S&P/TSX Index total market capitalization at time of purchase. Each portfolio is actively managed by an external

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- manager with expertise in the Canadian small cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX index over a four-year period and returns higher than the Nesbitt Burns Small Cap Index over shorter time periods. Return volatility is reduced through multiple manager investment style and small capitalization focus.
- (k) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02 and the Foreign Private Equity Pool 2002. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.
- (l) The US Large Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap equity market. The performance objective is to provide returns higher than the total return of the Standard & Poor's (S&P) 500 index over a four-year period. Return volatility is reduced through multiple manager investment style and large capitalization focus.
- (m) Publicly traded US equities held in the externally managed US Passive Equity Pool replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period.
- (n) Publicly traded US equities held in the S & P 500 Index Fund replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool (see Note 3g).
- (o) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap US equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 index over a four-year period.
- (p) The Europe, Australasia and Far East (EAFE) Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. EAFE Core portfolios are actively managed by external managers with European and Pacific Basin mandates. EAFE core managers have constraints on foreign currency management and deviations from the MSCI EAFE index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE index over a four-year period.
- (q) The externally managed EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicate the MSCI EAFE index. The performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period.
- (r) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Consumer Price Index plus 5%. Real estate is held through intermediary

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companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

- (s) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6%. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.
- (t) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short term market trends and are temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Fund uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

- (i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.
- (ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.
- (iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

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The following is a summary of the fund's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at March 31, 2003.

	Maturity			2003		2002	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
	<i>(thousands)</i>						
Equity index swap contracts	91%	9%	–	\$ 575,028	\$ (13,298)	\$ 510,859	\$ 7,733
Bond index swap contracts	100%	–	–	52,107	(173)	55,553	(491)
Forward foreign exchange contracts	100%	–	–	616,346	21,069	260,664	182
Interest rate swap contracts	33%	64%	3%	404,230	(13,765)	230,634	(8,479)
Equity index futures contracts	100%	–	–	13,754	421	–	–
Cross-currency interest rate swaps	21%	16%	63%	275,384	(52,399)	380,982	(b)
				<u>\$ 1,936,849</u>	<u>\$ (58,145)</u>	<u>\$ 1,438,692</u>	<u>\$ (1,055)</u>

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

(b) Comparative figures at March 31, 2002 are not provided as the fair value of cross-currency interest rate swaps was not available in prior years.

NOTE 5 INVESTMENT RISK MANAGEMENT

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

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2002-2003 business plan proposes the following asset mix policy for the Endowment Portfolio.

Fixed income securities	25% to 45%
Equities	75% to 55%

Risk is reduced through asset class diversification, diversification within each asset class, quality and duration constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 4). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 4).

NOTE 6 FUND EQUITY

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

Section 11(5) of the Act states that for fiscal years subsequent to 1999 and until the accumulated debt is eliminated in accordance with the *Fiscal Responsibility Act*, the Minister of Revenue is not required to retain any income in the Heritage Fund to maintain its value, but may retain such amounts as the Minister of Revenue considers advisable.

FINANCIAL STATEMENTS

NOTE 7 NET INCOME (LOSS)

	<u>2003</u>	<u>2002</u>
	<i>(thousands)</i>	
Deposit and fixed-income securities	\$ 286,427	\$ 444,884
Canadian equities	(240,581)	(54,112)
United States equities	(591,448)	(8,065)
Non-North American equities	(390,325)	(213,481)
Real estate	39,265	38,001
Absolute Return Strategies	4,563	—
Investment income (loss)	<u>(892,099)</u>	<u>207,227</u>
Direct administrative expenses (Note 8)	(1,778)	(1,455)
Net income (loss)	<u><u>\$ (893,877)</u></u>	<u><u>\$ 205,772</u></u>

Investment income (loss) is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools. (see Note 8).

The investment loss for the year ended March 31, 2003 includes writedowns totalling \$668,553,000 (March 31, 2002: \$269,283,000).

NOTE 8 ADMINISTRATIVE EXPENSES

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

	<u>2003</u>	<u>2002</u>
	<i>(thousands)</i>	
Direct fund expenses, (Note 7)	\$ 1,778	\$ 1,455
Externally managed investment pools	11,436	8,291
Internally managed investment pools	2,733	1,722
Total	<u><u>\$ 15,947</u></u>	<u><u>\$ 11,468</u></u>
Percent of net assets at fair value	<u><u>0.144%</u></u>	<u><u>0.092%</u></u>

NOTE 9 COMPARATIVE FIGURES

Certain 2002 figures have been reclassified to conform to 2003 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Revenue.

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2003 (thousands)

	Fund's share			
	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	\$ 258,716	\$ 258,716	\$ 90,252	\$ 90,252
Fixed Income Securities (a)				
Corporate, public and private	2,134,498	2,115,369	3,161,066	3,116,173
Government of Canada, direct and guaranteed	639,630	640,529	1,181,806	1,157,039
Provincial, direct and guaranteed:				
Alberta	6,786	7,370	9,861	10,271
Other provinces	584,015	581,516	744,038	722,116
Municipal	62,260	63,169	49,249	48,791
Provincial corporation debentures	100,037	158,018	104,622	165,178
Loans	97,359	97,359	97,359	97,359
	<u>3,624,585</u>	<u>3,663,330</u>	<u>5,348,001</u>	<u>5,316,927</u>
Receivable from sale of investments and accrued investment income	41,239	41,239	78,837	78,837
Accounts payable and accrued liabilities	(6,589)	(6,589)	(44,814)	(44,814)
	<u>34,650</u>	<u>34,650</u>	<u>34,023</u>	<u>34,023</u>
	<u>\$ 3,917,951</u>	<u>\$ 3,956,696</u>	<u>\$ 5,472,276</u>	<u>\$ 5,441,202</u>

(a) Fixed income securities held as at March 31, 2003 have an average effective market yield of 5.68% per annum (2002: 5.41% per annum) and the following term structure based on principal amount:

	2003	2002
	%	%
under 1 year	2	31
1 to 5 years	36	26
5 to 10 years	31	21
10 to 20 years	13	9
over 20 years	18	13
	<u>100</u>	<u>100</u>

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2003 (thousands)

	Fund's share			
	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	\$ 23,056	\$ 23,056	\$ 34,647	\$ 34,647
Public equities (a)(b)				
Financial	717,653	759,882	643,536	746,185
Energy	297,762	368,554	233,727	328,373
Materials	363,479	359,403	341,579	368,738
Industrials	174,582	172,681	222,834	243,199
Consumer discretionary	193,152	171,206	210,139	207,260
Information technology	151,830	122,174	218,158	209,338
Telecommunication services	126,947	120,503	91,633	92,381
Consumer staples	88,729	101,180	78,482	98,663
Utilities	76,729	83,199	57,570	69,157
Health Care	86,322	80,995	96,768	100,588
	2,277,185	2,339,777	2,194,426	2,463,882
Passive index	16,456	16,680	30,234	32,015
	2,293,641	2,356,457	2,224,660	2,495,897
Private equities	88,295	81,569	81,175	79,491
Receivable from sale of investments and accrued investment income	6,579	6,579	21,319	21,319
Accounts payable and accrued liabilities	(18,607)	(18,607)	(8,042)	(8,042)
	(12,028)	(12,028)	13,277	13,277
	\$ 2,392,964	\$ 2,449,054	\$ 2,353,759	\$ 2,623,312

(a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling \$550,918,000 (2002: \$510,081,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.

(b) The industrial classifications are those used by the S&P/TSX Index.

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2003 (thousands)

	Fund's share			
	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	\$ 23,198	\$ 23,198	\$ 13,110	\$ 13,110
Public equities (a) (b)				
Financial	386,731	338,718	368,148	357,170
Consumer discretionary	326,894	291,626	290,523	274,590
Health Care	270,831	257,348	256,430	248,791
Information Technology	262,253	235,478	354,595	319,543
Industrials	218,911	191,605	226,164	223,369
Consumer staples	179,069	161,325	197,674	193,818
Energy	128,498	111,492	145,227	140,838
Telecommunication services	54,907	49,260	87,524	72,109
Materials	57,080	48,294	70,355	69,309
Utilities	45,953	43,141	79,384	75,298
	1,931,127	1,728,287	2,076,024	1,974,835
Passive index	132	174	313	291
	1,931,259	1,728,461	2,076,337	1,975,126
Private Equities	6,811	6,494	-	-
Receivable from sale of investments and accrued investment income	4,254	4,254	18,938	18,938
Accounts payable and accrued liabilities	(3,355)	(3,355)	(8,968)	(8,968)
	899	899	9,970	9,970
	\$ 1,962,167	\$ 1,759,052	\$ 2,099,417	\$ 1,998,206

(a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling \$37,384,000 (2002: \$Nil) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

(b) The industrial classifications are those used by the Standard & Poor's indices.

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2003 (thousands)

	Fund's share			
	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	\$ 64,941	\$ 64,941	\$ 31,001	\$ 31,001
Public equities (a)				
United Kingdom	538,441	462,446	491,588	494,816
Japan	320,114	273,788	386,408	340,718
France	179,921	153,954	218,911	220,626
Switzerland	150,805	131,937	156,183	159,836
Netherlands	127,664	105,851	156,839	158,483
Australia	87,877	90,362	72,150	80,516
Germany	101,305	82,318	133,246	130,791
Italy	85,869	76,510	63,398	66,291
Hong Kong	56,369	50,019	51,803	55,963
Spain	52,331	46,591	55,380	52,077
Finland	34,540	29,649	33,728	37,807
Sweden	28,607	28,528	27,574	33,577
Other	169,376	156,056	132,306	141,565
	<u>1,933,219</u>	<u>1,689,009</u>	<u>1,979,514</u>	<u>1,973,066</u>
Receivable from sale of investments and accrued investment income	13,595	13,595	33,857	33,857
Accounts payable and accrued liabilities	(26,439)	(26,439)	(35,853)	(35,853)
	<u>(12,844)</u>	<u>(12,844)</u>	<u>(1,996)</u>	<u>(1,996)</u>
	<u>\$ 1,985,316</u>	<u>\$ 1,741,106</u>	<u>\$ 2,008,519</u>	<u>\$ 2,002,071</u>

(a) The Fund's effective net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling \$Nil (2002: \$779,000), which are used as underlying securities to support the notional amount of Non-North American equity index swap contracts.

FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENT RETURNS

Schedule E

Year Ended March 31, 2003

The Fund uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

	One Year Return				4 Year Compound Annualized Return
	2003	2002	2001	2000	
Time-weighted rates of return					
Short-term fixed income	3.0	3.8	5.7	5.3	4.5
<i>Scotia Capital 91-day T-Bill Index</i>	2.7	3.7	5.7	4.7	4.2
Long-term fixed income	9.5	5.9	9.5	1.7	6.6
<i>Scotia Capital Universe Bond Index</i>	9.2	5.1	8.7	1.3	6.0
Canadian equities	(16.6)	4.2	(16.0)	37.8	0.1
<i>S&P/TSX</i>	(17.6)	4.9	(18.6)	45.5	0.6
United States equities	(30.6)	1.4	(14.4)	13.1	(9.2)
<i>S&P 500 Index</i>	(30.7)	1.6	(15.1)	13.2	(9.3)
Non-North American equities	(29.1)	(5.8)	(22.6)	37.3	(8.2)
<i>MSCI EAFE Index</i>	(29.3)	(7.3)	(19.6)	20.1	(10.8)
Private equities (1)	(3.3)	n/a	n/a	n/a	n/a
<i>Consumer Price Index plus 8% (1)</i>	5.7	n/a	n/a	n/a	n/a
Real estate	9.8	7.3	9.7	5.8	8.1
<i>Consumer Price Index plus 5% (2)</i>	9.6	9.9	11.9	9.9	10.3
Absolute Return Strategies	1.6	n/a	n/a	n/a	n/a
<i>Consumer Price Index plus 6% (1)</i>	4.7	n/a	n/a	n/a	n/a
Endowment portfolio	(11.3)	3.3	(6.1)	18.0	0.4
<i>Policy Benchmark</i>	(11.7)	3.4	(6.2)	15.9	(0.2)
Transition portfolio (3)	0.5	5.3	8.2	3.0	n/a
Overall Return	(11.0)	4.2	(0.1)	9.0	0.3

(1) Actual and benchmark returns are for six months.

(2) Effective April 1, 2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI plus 5%. Therefore, the benchmark for four years is a combination of RCPI and CPI plus 5%.

(3) The Transition Portfolio was wound up in the first half of the year. The actual return of 0.5% is for six months.

List of Investments (unaudited)

The following unaudited schedules present the Heritage Fund's proportionate share of the ten largest public securities held in pooled funds administered by Alberta Revenue. For a detailed listing of all investments, please call (780) 427-3035.

CANADIAN DOLLAR PUBLIC BOND POOL

SCHEDULE 1

Schedule of Ten Largest Issues (based on fair value)

as at March 31, 2003 (thousands)

Security Name	Coupon % Maturity Date	Par Value	Heritage Fund Share	
			Cost	Fair Value
Toronto Dominion Centre	6.30 Feb 28 08	129,601	\$ 133,741	\$ 133,411
Bay-Wellington Tower	6.40 Apr 08 13	112,543	114,960	111,072
Province of Ontario	6.50 Mar 08 29	57,133	62,394	61,184
Province of Quebec	6.25 DEC 01 10	28,672	30,068	30,384
Province of Quebec	6.25 Jun 01 32	29,027	30,145	29,557
MBS-Bank of Nova Scotia	4.90 Dec 01 12	28,824	28,649	27,820
Bentall Centre	6.34 Nov 26 04	26,683	27,582	27,166
145 King Street	6.14 May 26 05	25,158	25,931	25,583
Province of Nova Scotia	6.25 Jun 01 11	23,643	24,734	25,007
MBS - TD Bank	4.25 Nov 01 07	25,219	25,671	24,718
Total Other Issues			2,508,735	2,500,356
Heritage Fund's Investment in the Canadian Dollar Public Bond Pool			\$ 3,012,610	\$ 2,996,258

DOMESTIC PASSIVE EQUITY POOL FUND**SCHEDULE 2****Schedule of Ten Largest Issues (based on fair value)***as at March 31, 2003 (thousands)*

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
Floating Rate Note Pool	FRNP Pool Unit	38,046	\$ 534,409	\$ 528,641
Encana Corporation	Energy	385	8,206	18,363
BCE Inc	Telecommunications	556	11,833	15,024
Sun Life Financial Services	Financials	496	9,847	13,771
Manulife Financial Corporation	Financials	373	7,813	13,121
CDA Life Financial	Financials	285	7,300	12,447
Alcan Inc	Materials	259	8,429	10,671
Petro-Canada	Energy	213	4,636	10,638
Barrick Gold Corporation	Materials	437	7,985	10,112
Power Corporation of Canada	Materials	274	5,119	10,103
Total Other Issues			301,538	407,568
Heritage Fund's Investment in the Domestic Passive Equity Pool			\$ 907,115	\$ 1,050,459

EXTERNAL MANAGERS CANADIAN LARGE CAP POOL**SCHEDULE 3****Schedule of Ten Largest Issues (based on fair value)***as at March 31, 2003 (thousands)*

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
Royal Bank Canada	Financials	799	\$ 39,722	\$ 45,647
Bank of Nova Scotia	Financials	760	35,839	39,432
Sun Life Financial Services Inc	Financials	1,058	34,656	29,359
Toronto Dominion Bank	Financials	904	32,844	29,278
Encana Corporation	Energy	576	25,076	27,486
Petro-Canada	Energy	537	19,885	26,827
Bank of Montreal	Financials	653	23,888	26,201
BCE Inc	Telecommunication Services	686	22,003	18,516
Talisman Energy Inc	Energy	281	15,866	16,435
Biovail Corporation	Health Care	274	15,844	16,065
Total Other Issues			407,315	362,797
Heritage Fund's Investment in the External Managers Canadian Large Cap Pool			\$ 672,938	\$ 638,043

CANADIAN POOLED EQUITY FUND**SCHEDULE 4****Schedule of Ten Largest Issues (based on fair value)***as at March 31, 2003 (thousands)*

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
Royal Bank Canada	Financials	593	\$ 24,704	\$ 33,889
Bank of Nova Scotia	Financials	473	18,360	24,536
Encana Corporation	Energy	494	20,241	23,577
Bank of Montreal	Financials	567	19,161	22,748
BCE Inc	Telecommunications	812	27,877	21,913
Sun Life Financial Services	Financials	785	25,819	21,784
Manulife Financial Corporation	Financials	572	23,220	20,092
Toronto Dominion Bank	Financials	618	21,057	20,012
Canadian Imperial Bank of Commerce	Financials	418	18,827	19,755
Petro-Canada	Energy	362	13,602	18,099
Total Other Issues			434,341	370,236
Heritage Fund's Investment in the Canadian Pooled Equity Fund			\$ 647,209	\$ 596,641

EXTERNAL MANAGERS CANADIAN SMALL CAP POOL**SCHEDULE 5****Schedule of Ten Largest Issues (based on fair value)***March 31, 2003 (thousands)*

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
Winpak Ltd	Materials	24	\$ 1,335	\$ 2,416
Vermilion Energy	Energy	172	2,169	2,112
Gildan Activewear Inc	Consumer Discretionary	46	986	1,666
UNI Select Inc	Consumer Discretionary	90	997	1,647
Cascades Inc	Materials	122	969	1,581
Ritchie Brothers Auctioneers Inc	Information Technology	33	1,334	1,527
CFM Corporation	Consumer Discretionary	111	1,074	1,526
Shermag Inc	Consumer Staples	134	1,512	1,469
BMTC Group Inc	Consumer Discretionary	91	539	1,319
Richelieu Hardware Ltd	Industrials	91	653	1,318
Total Other Issues			61,087	64,170
Heritage Fund's Investment in the External Managers Canadian Small Cap Pool			\$ 72,655	\$ 80,751

EXTERNAL MANAGERS US LARGE CAP POOL
Schedule of Ten Largest Issues (based on fair value)
as at March 31, 2003 (thousands)

SCHEDULE 6

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
Pfizer Inc	Health Care	456	\$ 25,792	\$ 20,887
Microsoft Corporation	Information Technology	577	27,813	20,524
Pepsico Inc	Consumer Staples	332	24,169	19,537
Citigroup	Financials	365	23,731	18,494
Johnson + Johnson	Health Care	199	16,697	16,895
Viacom Inc	Consumer Discretionary	294	18,789	15,773
Wyeth	Health Care	237	14,175	13,148
Colgate Palmolive Co	Consumer Staples	153	12,859	12,240
Qualcomm Inc	Information Technology	231	13,392	12,229
Federal National Mortgage Assn	Financials	122	13,810	11,702
Total Other Issues			703,608	592,248
Heritage Fund's Investment in the External Managers US Large Cap Pool			\$ 894,835	\$ 753,677

EXTERNAL MANAGERS US PASSIVE POOL
Schedule of Ten Largest Issues (based on fair value)
as at March 31, 2003 (thousands)

SCHEDULE 7

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
Microsoft Corporation	Information Technology	429	\$ 14,781	\$ 15,245
General Electric Co	Industrials	402	19,202	15,071
Exxon Mobil Corporation	Energy	270	15,620	13,850
Walmart Stores Inc	Consumer Discretionary	177	13,108	13,523
Pfizer Inc	Health Care	247	13,535	11,308
Johnson + Johnson	Health Care	121	8,712	10,323
Citigroup Inc	Financials	204	11,947	10,305
International Business Machines	Information Technology	68	9,236	7,806
American International Group Inc	Financials	107	9,459	7,750
Merck and Company Inc	Health Care	90	8,724	7,246
Total Other Issues			380,868	349,728
Heritage Fund's Investment in the External Managers US Passive Pool			\$ 505,192	\$ 462,155

S&P 500 INDEX FUND**SCHEDULE 8****Schedule of Ten Largest Issues (based on fair value)***as at March 31, 2003 (thousands)*

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
Floating Rate Note Pool	FRNP Pool Units	1,574	\$ 26,944	\$ 21,876
Microsoft Corporation	Information Technology	365	11,522	12,971
General Electric Co	Industrials	339	14,863	12,705
Exxon Mobil Corporation	Energy	229	12,343	11,768
Walmart Stores Inc	Consumer Discretionary	150	10,363	11,497
Pfizer Inc	Health Care	210	10,696	9,610
Citigroup Inc	Financials	175	9,557	8,867
Johnson + Johnson	Health Care	101	6,753	8,604
International Business Machines	Information Technology	58	7,300	6,635
American International Group Inc	Financials	89	7,159	6,459
Total Other Issues			325,926	318,639
Heritage Fund's Investment in the S&P 500 Index Fund			\$ 443,426	\$ 429,631

EXTERNAL MANAGERS US SMALL-MID CAP EQUITY POOL**SCHEDULE 9****Schedule of Top Ten Issues (based on fair value)***as at March 31, 2003 (thousands)*

Security Name	Major Industry Name	Heritage Fund Share		
		Shares	Cost	Fair Value
IDEXX Labs Inc	Health Care	35	\$ 1,523	\$ 1,818
Mid Atlantic Medical Services Inc	Health Care	30	1,403	1,775
UGI Corp New	Utilities	21	976	1,424
Storage Technology Corp	Information Technology	47	1,142	1,393
Hibernia Corp	Financials	48	1,421	1,207
Covernry Health Care Inc	Health Care	25	1,123	1,197
Renaissance Holdings Ltd	Financials	20	1,129	1,178
Thornburg Mtg Inc	Financials	38	1,079	1,158
Macerich Co	Financials	24	1,091	1,130
Sovereign Bancorp Inc	Financials	55	1,182	1,113
Total Other Issues			99,235	93,252
Heritage Fund's Investment in the External Managers US Small-Mid Cap Pool			\$ 111,304	\$ 106,645

EXTERNAL MANAGERS EAFE CORE POOL**SCHEDULE 10****Schedule of Ten Largest Issues (based on fair value)***as at March 31, 2003 (thousands)*

Security Name	Country	Heritage Fund Share		
		Shares	Cost	Fair Value
Vodafone Group	United Kingdom	8,946	\$ 29,700	\$ 23,457
ENI	Italy	956	20,248	18,735
Total Fina Elf	France	95	21,092	17,657
Nestle SA	Switzerland	58	18,925	16,856
Glaxosmithkline	United Kingdom	647	24,403	16,720
Aventis SA	France	240	22,151	15,462
British Petroleum PLC	United Kingdom	1,499	16,827	13,960
Novartis AG	Switzerland	237	14,524	12,870
Royal Dutch Petroleum	Netherlands	213	15,603	12,733
UBS AG	Switzerland	199	15,010	12,449
Total Other Issues			856,336	715,339
Heritage Fund's Investment in the External Managers EAFE Core Pool			\$ 1,054,819	\$ 876,238

EXTERNAL MANAGERS EAFE PLUS POOL**SCHEDULE 11****Schedule of Ten Largest Issues (based on fair value)***March 31, 2003 (thousands)*

Security Name	Country	Heritage Fund Share		
		Shares	Cost	Fair Value
Vodafone Group	United Kingdom	3,684	\$ 10,653	\$ 9,660
Takeda Chemical Inds	Japan	173	11,813	9,563
Royal Bank Scotia Group	United Kingdom	277	9,800	9,152
UBS AG	Switzerland	136	9,575	8,499
Glaxosmithkline	United Kingdom	316	11,300	8,149
Total Fina Elf	France	43	9,394	7,977
Barclays	United Kingdom	798	9,076	6,756
HBOS	United Kingdom	438	7,453	6,596
Astrazeneca	United Kingdom	128	6,602	6,426
HSBC Holdings	United Kingdom	426	7,600	6,415
Total Other Issues			425,459	358,375
Heritage Fund's Investment in the External Managers EAFE Plus Pool			\$ 518,725	\$ 437,568

EXTERNAL MANAGERS EAFE PASSIVE POOL
Schedule of Ten Largest Issues (based on fair value)
as at March 31, 2003 (thousands)

SCHEDULE 12

Security Name	Country	Heritage Fund Share		
		Shares	Cost	Fair Value
British Petroleum PLC	United Kingdom	1,332	\$ 12,562	\$ 12,398
Vodafone Group	United Kingdom	4,056	11,132	10,633
Glaxosmithkline	United Kingdom	358	9,877	9,255
Novartis AG	Switzerland	164	8,031	8,927
HSBC Holdings	United Kingdom	569	7,770	8,562
Royal Dutch Petroleum	Netherlands	126	7,744	7,523
Total Fina Elf	France	39	7,371	7,171
Nestle SA	Switzerland	24	6,615	6,893
Nokia (AB) OY	Finland	287	5,516	5,826
Royal Bank Scotia Group	United Kingdom	163	4,744	5,395
Total Other Issues			330,410	344,717
Heritage Fund's Investment in the External Managers EAFE Passive Pool			\$ 411,772	\$ 427,300

Glossary

ABSOLUTE RETURN STRATEGIES

Absolute Return Strategies encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Some of the major types of strategies include long/short equity, fixed income arbitrage, merger arbitrage, macroeconomic strategies, convertible arbitrage, distressed securities and short selling.

ACCRUED INTEREST

Interest income that has been earned but not paid in cash.

ACTIVE STRATEGIES

The strategies have two forms - security selection or market timing. Security selection is the buying and selling of securities to earn a return above a market index such as the S&P / TSX Index for Canadian Stocks. Market timing is based on shifting asset class weights to earn a return above that available from maintaining the asset class exposure of the policy asset mix.

ASSET MIX

The percentage of an investment fund's assets allocated to major asset classes (for example 60% equities, 5% real estate and 35% fixed income).

BEAR MARKET

A market in which prices are declining. A "bear" is a person who expects that the market or the price of a particular security will decline.

BENCHMARK

A standard against which others are measured. For the purposes of this report, benchmarks are established income indices used to measure the health of the Fund's investment income.

BOND/DEBENTURE

A financial instrument showing a debt where the issuer promises to pay interest and repay the principal by the maturity date.

BOOK VALUE

See Cost Value

BULL MARKET

A market in which prices are rising. A "bull" is a person who expects that the market or the price of a particular security will rise.

CAPITAL GAIN

The market value received on sale of an asset beyond its book value or purchase price. If the asset is bought for \$50 and sold for \$75, the realized capital gain (profit) is \$25.

COST VALUE

The value for which an asset was acquired.

DEPOSITS

Liquid, short term investments. A cash equivalent.

DERIVATIVE CONTRACT

Financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates.

DIVERSIFICATION

Spreading investment to reduce risk by buying different securities from various companies, businesses, locations and governments.

DURATION

A measure of price volatility of fixed income securities (i.e. bonds). It is the weighted average term-to-maturity of the security's cash flows (i.e., interest and principal). The greater the duration of a bond, the greater its percentage price volatility.

EMERGING MARKET

An economy in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

EQUITY

Stocks; the ownership interest in a company.

EXTERNAL MANAGER

A third-party firm contracted to provide investment management services.

FAIR VALUE

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

FIXED INCOME SECURITIES

Interest bearing investments such as bonds and debentures and money market investments such as treasury bills and discount notes (see "Bond" and "Money Market Security").

GENERAL REVENUE FUND (GRF)

The central operating account for the Province of Alberta. It is where most of the revenues received by the Province are deposited and from where most of the expenditures are made.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

These are accounting guidelines formulated by the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Committee (ASC), that govern how businesses report their financial statements to the public. They are the principles under which the financial statements of the Heritage Fund and other provincial funds are prepared. These principles help ensure fair presentation of the financial affairs of the Province.

INTEREST RATE SENSITIVE EQUITY

Equity whose return is expected to react to changes in interest rates.

INVESTMENT PORTFOLIO

A pool of securities held as an investment. Holdings of a diverse group of assets by an individual company or fund.

LARGE CAP

Investment in larger capitalized firms. Within Canada, companies with a market capitalization of greater than 0.15% of the total Toronto Stock Exchange market capitalization.

LIQUIDITY

The ease with which an asset can be turned into cash and the certainty of the value it will obtain.

MARKET VALUE

See fair value

MARKET (VALUE) RATE OF RETURN

The market value rate of return measures income (interest and dividends) and capital appreciation or depreciation (realized and unrealized). The method used to calculate the return is the time weighted method.

Time-weighted rates of return are designed to eliminate the effect that the size and timing of cash flows has on the internal rate of return since the pattern of cash flows vary significantly among funds. The investment industry uses time-weighted rates of return when comparing the returns of one fund to another fund or to an index.

MARKETABLE SECURITY

An investment for which there is usually a ready market.

MID-TERM INVESTMENT

A fixed income instrument (bonds, debentures, treasury bills or discount notes) that matures in one to five years from the date of acquisition.

MODIFIED DURATION

Modified duration is the weighted average term to maturity of the security's cash flows (i.e. interest and principal) and is the measure of price volatility; the greater the modified duration of a bond, the greater its percentage price volatility.

MONEY MARKET SECURITY

A fixed income security that matures within one year from the date of acquisition.

NET INCOME

The amount of earnings remaining after deducting expenses.

NET INVESTMENT INCOME

On a cost basis, includes realized capital gains, interest, dividends, security lending income, derivative income and administrative expenses. On a fair value basis, include, in addition to the above, current period changes in unrealized gains and losses.

NOMINAL RATE OF RETURN

A measure of return that does not exclude the effect of inflation (see Real Rate of Return).

PAR VALUE

A value set as the face or principal amount of a security, typically expressed as multiples of \$100 or \$1000. Bondholders receive par value for their bonds at maturity.

PASSIVE STRATEGIES

These strategies involve investing to replicate the performance of a given market index such as the S&P / TSX Index for Canadian stocks, or managing asset class exposure to match the performance of an established policy asset mix.

REAL VALUE OR REAL RATE OF RETURN

A measure of value or return after accounting for inflation. It is equal to the nominal value or return less an amount for inflation.

REALIZED AND UNREALIZED

Terms generally used to describe capital gains or losses. A gain or loss is realized when the asset is sold; prior to sale the gain or loss is unrealized and it is only a potential gain or loss.

SECURITY

Any investment instrument such as a bond, common stock, deed of trust on property, or any evidence of indebtedness or equity.

SHORT-TERM INVESTMENT

An investment with a maturity date of less than one year.

SMALL CAP

Investment in smaller capitalized firms. Within Canada, companies with a market capitalization of less than 0.15% of the total Toronto Stock Exchange market capitalization.

TERM-TO-MATURITY

The number of years left until a bond matures.

VOLATILITY

In financial matters, volatility of returns is the measurement used to define risk. The greater the volatility, the higher the risk.

Alberta Heritage Savings Trust Fund

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Alberta Heritage Savings Trust Fund Standing Committee

Chair: Drew Hutton, MLA Edmonton Glenora
Deputy Chair: Richard Magnus, MLA Calgary North Hill
Members: Bill Bonner, MLA Edmonton Glengarry
Dave Broda, MLA Redwater
Debby Carlson, MLA Edmonton Ellerslie
Mel Knight, MLA Grande Prairie-Smoky
Rob Lougheed, MLA Clover Bar-Fort Saskatchewan
Richard Marz, MLA Olds-Didsbury-Three Hills
George VanderBurg, MLA Whitecourt-Ste. Anne

Committee Clerk to the Standing Committee

Karen Sawchuk

Investment Operations Committee

Chair: Robert Bhatia, Deputy Minister of Revenue
Members: Carl H. Otto, Carl Otto Associates Inc.
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John Osborne, Director of Portfolio Analysis and Research, Investment Management Division, Alberta Revenue

Investment Manager

Jai Parihar, Acting Chief Investment Officer, Investment Management Division, Alberta Revenue

Auditor

Auditor General of Alberta

