ALBERTA REVENUE ANNUAL REPORT

2004

FOR THE FISCAL YEAR ENDED MARCH 31, 2004 | PUBLISHED SEPTEMBER 2004

ALBERTA REVENUE

Alberta

Published by Alberta Revenue

ISBN 0-7785-3376-X
ISSN 0702-9621

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PREFACE

Public Accounts 2003-04

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 Ministries.

The annual report of the Government of Alberta released June 29, 2004 contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the *Measuring Up* report.

This annual report of the Ministry of Revenue contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This Ministry annual report also includes:

- **the financial statements of entities making up the Ministry including the Department of Revenue, regulated funds and provincial agencies for which the Minister is responsible,**
- **other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report.**

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 2004, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at September 20, 2004 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original Signed]

Honourable Greg Melchin, FCA
Minister of Revenue
September 20, 2004

MESSAGE FROM THE MINISTER

The release of the 2004 Annual Report marks the third anniversary of the Ministry of Revenue. Our ministry has faced challenges and celebrated many successes in the past year. We worked towards fulfilling our mandate and took a long-term strategic look at collecting revenues and investing provincial assets.

One of Alberta Revenue's goals is to have a revenue structure that meets Alberta's needs and is consistent with Albertans' values. The Ministry continued its work on the development of a long-term revenue management framework that will contribute to sound strategic decisions about Alberta's revenue structure and policy. Working with other ministries on key issues and initiatives that would affect the overall revenue picture helped to ensure there is a coordinated approach to revenue management.

The Investment Management Division of Alberta Revenue manages investments comprised of provincial endowment funds, public sector pension funds and other government-related funds. Alberta's single largest asset, the Alberta Heritage Savings Trust Fund recorded its first net loss in 2002-03 due to unprecedented volatility in world equity markets. However, the Heritage Fund made strong gains in 2003-04, recording a net increase in fair value of nearly $1.3 billion, completely reversing the loss from the previous fiscal year. This reflects the overall soundness of our investment strategies and policies adopted by Alberta Investment Management.

Alberta has built its tax advantage on a low rate broad-based tax policy. To support this philosophy, the general corporate tax rate was reduced in 2003-04 from 13.0 to 12.5 per cent. This resulted in an overall saving of $94 million in taxes for Alberta businesses in 2003-04.

Alberta Revenue strives to maximize taxpayer self-compliance with corporate and commodity tax programs. In 2003-04, total revenue (net of refunds) collected by Tax and Revenue Administration was $3.368 billion, of which 91.6% was a result of self-compliance. The balance of 8.4% ($282 million) was obtained through the direct efforts of Alberta Revenue staff.

The department broadened its penalty and interest waiver policy to include Canadian corporations that were adversely affected by BSE. In addition, the Tax and Revenue Administration Division implemented an Internet payment service for Corporate Income Tax, Insurance Corporations Tax, International Fuel Tax, Fuel Taxes, Propane Tax, Health Cost Recovery Levy, Tobacco Tax and Hotel Room Tax.

Securities regulation is currently in the midst of a healthy debate across this country. My provincial colleagues and I acknowledge that there is a need to develop a national and international approach to securities regulation, while respecting provinces' responsibilities in this area. The Inter-Provincial Ministerial Steering Committee, which I am pleased to chair, has been working for about 15 months to find common ground and seek innovative solutions.

Alberta Revenue continues to benefit from a strong team of dedicated professionals who are committed to excellence, to the service of all Albertans and to ensuring revenue policies reflect Albertans' values as our province grows and evolves.

[Original Signed]

Honourable Greg Melchin, FCA
Minister of Revenue

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

The Ministry of Revenue includes:

- ***Department of Revenue***
- ***Alberta Heritage Savings Trust Fund***
- ***Alberta Heritage Foundation for Medical Research Endowment Fund***
- ***Alberta Heritage Scholarship Fund***
- ***Alberta Heritage Science and Engineering Research Endowment Fund***
- ***Alberta Risk Management Fund***
- ***Alberta Securities Commission***

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies. Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting. Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Revenue. Under the direction of the Minister, I oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

As Deputy Minister, in addition to program responsibilities, I establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money,
- provide information to manage and report on performance,
- safeguard the assets and properties of the Province under Ministry administration,
- provide Executive Council, Treasury Board, the Minister of Finance and the Minister of Revenue any information needed to fulfill their responsibilities, and
- facilitate preparation of Ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling my responsibilities for the Ministry, I have relied, as necessary, on the executives of the individual entities within the Ministry.

[Original Signed]

Robert Bhatia
Deputy Minister
September 20, 2004

OVERVIEW 2004

- MINISTRY VISION, MISSION AND CORE BUSINESSES
- RELATIONSHIP OF REVENUE DEPARTMENT AND REPORTING ENTITIES TO CORE BUSINESSES
- OPERATIONAL OVERVIEW
- SUMMARY OF KEY ACTIVITIES IN THE PAST YEAR

MINISTRY VISION, MISSION AND CORE BUSINESSES

Our vision of the future

"A province where government revenue policy and administration reflect the values of Albertans, balance present and future needs, and contribute to a stable environment for the generation of wealth for all Albertans."

Our mission

"To provide prudent and innovative revenue, investment and risk management and to regulate and foster capital markets in Alberta."

Revenue's core businesses

1. Manage tax and revenue programs.
2. Manage and invest financial assets.
3. Manage risk associated with the loss of public assets.
4. Regulate and foster Alberta's capital market.

RELATIONSHIP OF REVENUE DEPARTMENT AND REPORTING ENTITIES TO CORE BUSINESSES

Ministry of Revenue

Ministry Support Services

Manage and invest financial assets.

DEPARTMENT
- Investment Management Division
- Investment Administration Division
- Policy and Strategic Planning

FUNDS
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund

Manage tax and revenue programs.

DEPARTMENT
- Tax and Revenue Administration Division
- Policy and Strategic Planning

Manage risk associated with the loss of public assets.

DEPARTMENT
- Risk Management and Insurance Division

FUNDS
- Alberta Risk Management Fund

Regulate and foster Alberta's capital market.

DEPARTMENT
- Policy and Strategic Planning

AGENCIES
- Alberta Securities Commission

OPERATIONAL OVERVIEW

Department of Revenue		www.revenue.gov.ab.ca
9515 - 107 Street Edmonton, Alberta T5K 2C3	Tax and Revenue Administration Haultain Building, 9811 - 109 Street Edmonton, Alberta T5K 2L5	1100 - 715 - 5th Avenue SW Calgary, Alberta T2P 2X6

Alberta Investment Management

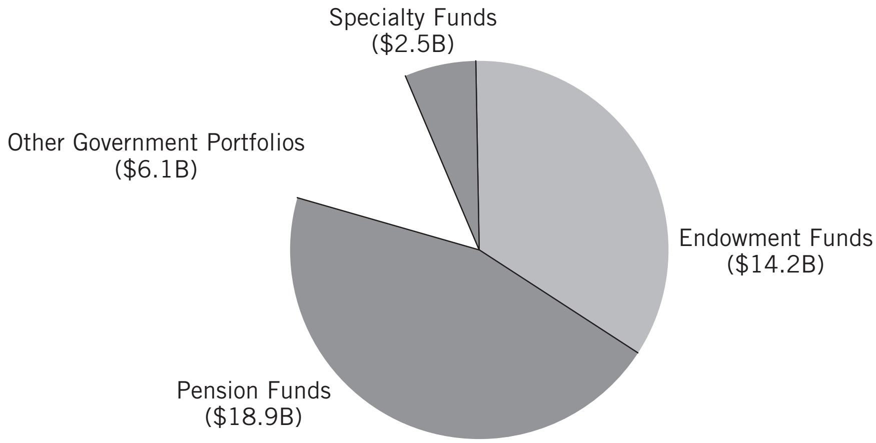
Together the Investment Management Division and the Investment Administration Division comprise Alberta Investment Management.

Investment Management Division

The Investment Management Division (IMD) was established to act as the investment manager for pools of capital assigned by statute to the Minister of Revenue and for investments of other provincial public sector bodies, where specific agreements have been made. With approximately $41.7 billion under management, Alberta Revenue is one of the largest fund managers in the country. Assets under management include:

- Endowment funds (totaling $14.2 billion) including the Alberta Heritage Savings Trust Fund (Heritage Fund), the Alberta Heritage Foundation for Medical Research Endowment Fund (Medical Research Fund), the Alberta Heritage Scholarship Fund (Scholarship Fund) and the Alberta Heritage Science and Engineering Research Endowment Fund (Ingenuity Fund).
- Public sector pension funds (totaling $18.9 billion).
- Other Government portfolios including the General Revenue Investment Account, the General Revenue Fund, the General Revenue Capital Account and the General Revenue Sustainability Fund (totaling $6.1 billion).
- Specialty funds including the Balancing Pool Corporation and funds managed on behalf of the Workers' Compensation Board (totaling $2.5 billion).

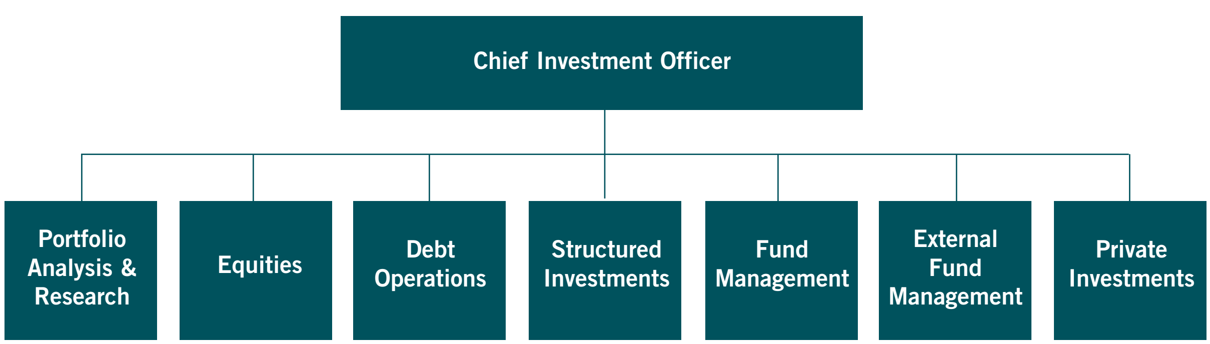
ASSETS UNDER MANAGEMENT BY IMD



Investment objectives vary for the funds, reflecting different financial requirements and risk tolerances for each fund and its respective stakeholders. To meet these investment policies and goals, IMD has developed a wide range of investment products, which can be combined to meet specific financial goals and risk tolerances. This multi-product approach is implemented on a pooled basis. Each product is defined in terms of its return objective and risk profile. Clients buy into the pools by purchasing units based on the current market value of the pools' investments. This approach is important to managing the funds efficiently and to ensuring that each client is treated fairly.

Considering the volatility of the financial markets, it is expected that the majority of the funds' returns will come from the long-term asset allocation decisions. Generally, fixed income securities are less volatile and provide a steady stream of interest income, while equities are more volatile and produce capital gains or losses. Over the long term, equities produce higher rates of return than fixed income securities. The diversification effect of combining fixed income with equities and other asset classes reduces overall risk to the fund. An incremental return is added through tactical asset allocation and security selection decisions. These decisions reflect the shorter-term market expectations with consideration of both the risk and return. Both internal and third party external manager expertise are used, ensuring the necessary specialized investment knowledge and skills are utilized in the most cost effective manner. External managers are used primarily for investing in foreign equity and certain domestic equity markets. Managers are chosen through a rigorous selection process and their performance is reviewed on a quarterly basis.

Investment Management Division Organizational Structure



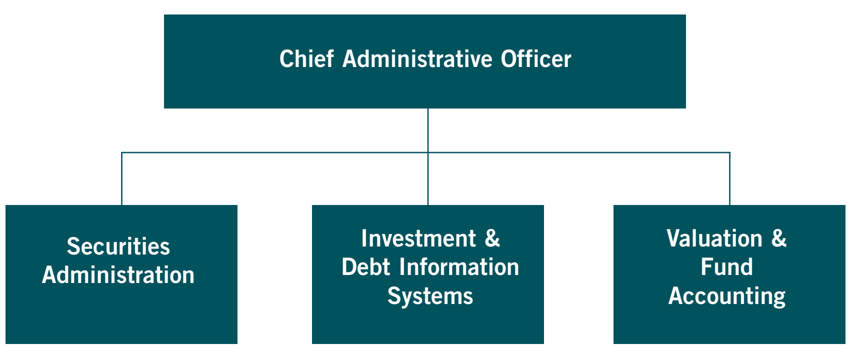
Investment Administration Division

The Investment Administration Division (IAD) has three branches: Securities Administration, Investment and Debt Information Systems, and Valuation and Fund Accounting. IAD provides support for investment operations including:

- trade transaction monitoring and processing,
- fund and portfolio valuation and performance measurement,
- investment systems oversight,
- support systems development and maintenance, and
- custodial interface and oversight.

Securities Administration works with IMD to ensure investment data is captured appropriately in the systems and that the financial transactions are settled with the corresponding brokers and financial institutions. Investment and Debt Information Systems is responsible for all of the software and system development and support required within IAD and IMD. Valuation and Fund Accounting prepares the weekly valuation of investment portfolios, measures investment performance, and processes pool unit transactions.

Investment Administration Division Organizational Structure



Tax and Revenue Administration Division

Tax and Revenue Administration (TRA) is responsible for the collection of revenue and the administration of Alberta Revenue's tax, revenue and related benefit programs. TRA also works with Policy and Strategic Planning on the development of tax policy within the Province. The focus is a fair, competitive, simple and efficient provincial tax and revenue system.

The Division has four branches: Revenue Operations, Audit, Tax Services and Business Technology Management. Each branch is responsible for specific business processes. TRA's branches are designed so that business processes that are similar in nature and require similar knowledge and skills are grouped into one area.

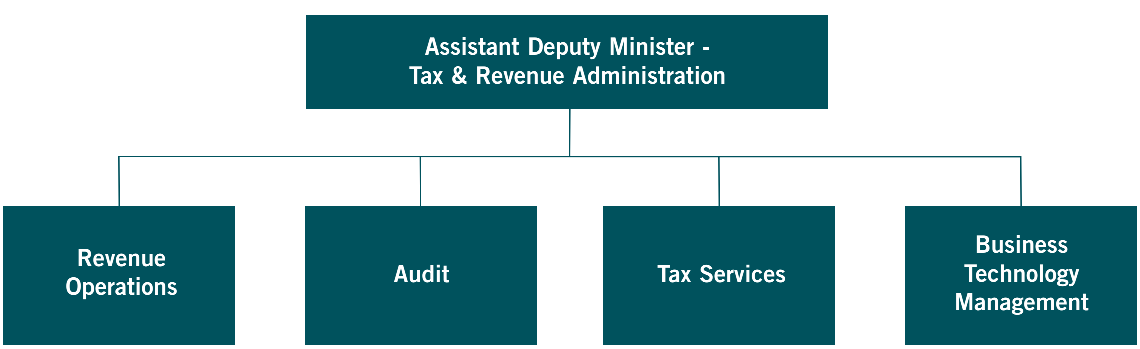
Revenue Operations is responsible for registering corporations, individuals, trusts, fuel tax clients, tobacco tax and other clients under the applicable acts or programs, maintaining client accounts, validating and processing returns and claims and processing remittances and providing refunds to TRA's clients.

Audit is responsible for ensuring the compliance of TRA's clients with the tax acts by auditing the clients' books and records. Audit also works with other tax administrations and other Government of Alberta ministries on initiatives to develop policies, improve compliance and implement educational strategies required for the proper administration of tax and revenue programs.

Tax Services is responsible for providing information and technical ruling services to TRA's clients and staff and the administration of dispute resolution mechanisms with respect to TRA actions. Tax Services works with the Policy and Strategic Planning group, as well as the Tax Policy group in Finance, to develop tax policies and legislation. Tax Services also provides central services to other ministries and their agencies with respect to the federal GST.

Business Technology Management provides planning, business systems and quality improvement services to TRA. This Branch has the lead responsibility for managing TRA's product development (e.g. electronic commerce, forms, etc.), change management, budgeting/forecasting and management reporting functions.

Tax and Revenue Administration Division Organizational Structure

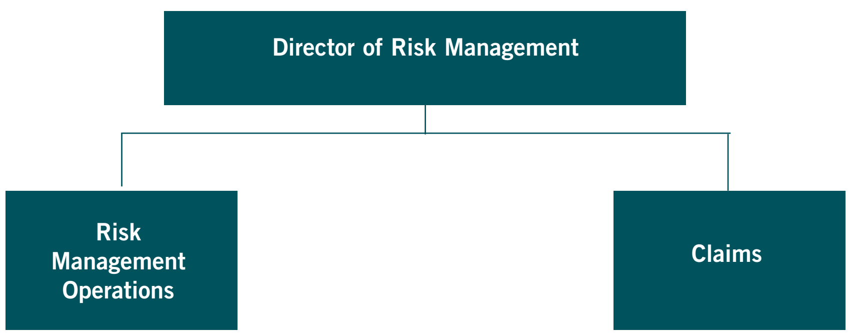


Risk Management and Insurance Division

The Risk Management and Insurance Division (RMI) administers a program to protect, secure and preserve public assets against risk of significant accidental loss. RMI provides services to client ministries and agencies throughout government to help identify, measure, control and finance risk. The program is responsible for all "participants" subject to the *Financial Administration Act*.

There are two branches within this division, Risk Management Operations and Claims. Risk Management Operations assists the Crown to identify, minimize and, where appropriate, finance adverse effects of accidental loss. The Claims Branch administers all claims covered under the government's Risk Management Fund and makes recommendations aimed at reducing risk.

Risk Management and Insurance Division Organizational Structure



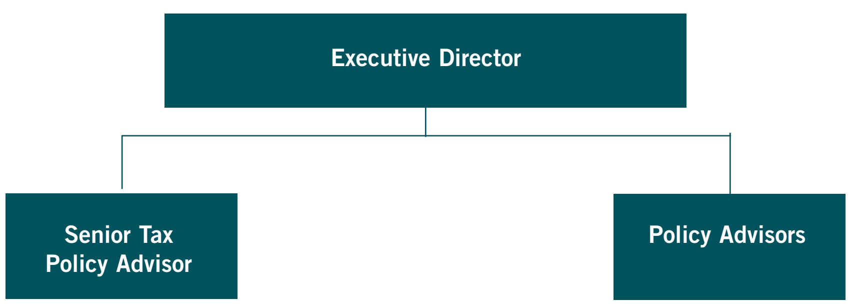
Policy and Strategic Planning Division

Policy and Strategic Planning (PSP) is a new division in Alberta Revenue established in July 2003 to centralize the policy functions within Alberta Revenue. Staff from the policy group responsible for developing tax and revenue policy in Tax and Revenue Administration Division and policy staff from Alberta Finance's Pensions, Insurance and Financial Institutions Division who had been providing support to Alberta Revenue with respect to capital markets policy were combined to form PSP.

The division is responsible for short and long-term revenue analysis, and for policy development to support the Ministry's core businesses and goals.

In 2003-04, significant policy support was provided by PSP for a number of issues related to the goal of fair and competitive provincial tax and revenue systems and a savings policy that contributes to a stable fiscal environment. PSP's activities also focused on supporting the core business of regulating and fostering Alberta's capital market, particularly in supporting the Minister's role as Chair of the Inter-Provincial Steering Committee of Ministers responsible for securities regulation. Finally, the division provided support to the Endowment Fund Policy Committee, which was established in August 2003 to provide advice on appropriate investment policies for Alberta's endowment funds.

Policy and Strategic Planning Division Organizational Structure



Alberta Securities Commission	www.albertasecurities.com
4th Floor, 300 - 5th Avenue SW Calgary, Alberta T2P 3C4	

The Alberta Securities Commission (ASC) is an industry-funded provincial corporation responsible for maintaining the efficiency and integrity of the capital market in Alberta through the administration of the *Alberta Securities Act*, the Securities Regulation and the Alberta Securities Commission Rules. As a member of the Canadian Securities Administrators (CSA), an organization consisting of the 13 provincial and territorial securities regulators, the ASC plays a vital role in developing and operating a national system of harmonized securities regulation, policy and practice.

The ASC is an administrative tribunal with quasi-judicial powers. Panels of members hear enforcement proceedings and consider applications for discretionary exemptions from the requirements of the securities legislation. The ASC also sits as an appeal body to hear appeals from decisions of the Executive Director, TSX Venture Exchange and the Alberta District Council of the Investment Dealers Association of Canada.

SUMMARY OF KEY ACTIVITIES IN THE PAST YEAR

Revenue Management Framework

Revenue continues to work on developing a Revenue Management Framework that considers broad characteristics, trends and issues in the province's revenue structure. This framework will enable this government to make decisions that will benefit all Albertans over the long term. Revenue is working with all departments with significant revenues to develop recommendations that will ensure a consistent provincial approach to revenue management.

Endowment Funds

One of Revenue's strategic priorities is to address and enhance the governance, objectives and investment policies, risk management and investment opportunities for the endowment funds. The funds include: The Alberta Heritage Savings Trust Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund and the Alberta Heritage Science and Engineering Research Endowment Fund. Revenue has committed to focus on strengthening the Funds as endowments and preserving their value over the long-term.

To improve the governance structure supporting this priority, the policy and administrative oversight functions previously performed by a single advisory committee were split into two advisory committees - the Endowment Fund Policy Committee (EFPC) and the Investment Operations Committee (IOC). The Minister of Revenue chairs the EFPC and the Deputy Minister of Revenue chairs the IOC. Members on both committees are chosen from outside government to provide independent, expert advice to the Ministry on appropriate investment policies, and on the operations of Alberta Investment Management as it carries out its mandate to invest assets under management.

Alberta Investment Management

The Investment Management Division's major initiatives over the 2003-04 fiscal year included the material enhancement to the investment operation's governance structure.

Also created during the year was an Internal Audit and Compliance group, providing additional resources and focus on the internal audit function. Several other important initiatives were completed. The Fund Management Group was developed and staffed to work in conjunction with clients on fund-specific policy setting and issue resolution. With the assistance of an external consultant, a full review of investment policy of the provincial endowments was undertaken.

The Investment Administration Division coordinated several investment information technology initiatives during the 2003-04 fiscal year. The implementation of an enterprise wide trade order management system occurred in July 2003. This was followed by the completion of an enterprise wide data hub implementation in April 2004. The implementation of a new performance measurement system and a risk measurement system are in progress. These systems contribute to the Straight Through Processing (STP) infrastructure and capability of Alberta Investment Management.

Securities Regulation

Alberta is strongly committed to efforts to increase efficiency in securities regulation and promote the Alberta capital market. Revenue is leading and participating in a number of initiatives that will streamline regulation nationally while meeting regional needs.

Aviation Fuel Tax

Effective March 1, 2004, the 1.5 cents per litre Alberta aviation fuel tax was eliminated on eligible international passenger and cargo flights, including flights to the United States. A competitive tax environment is vital to Alberta's economy and eliminating the Alberta aviation fuel tax on international air traffic at Alberta's two international airports will allow them to compete on a more level playing field with similar jurisdictions. This change will result in the provision of approximately $3 million annually in fuel tax rebates.

Knowledge-based Industry Roundtable

Revenue hosted a roundtable event at which participants shared their views on issues related to entrepreneurs' ability to commercialize ideas, access capital and build businesses, with a particular focus on knowledge-based industries. A broad range of representatives attended, including tax and economic policy experts, business leaders, entrepreneurs, venture financing professionals and technology commercialization experts. Revenue, in collaboration with other ministries, is assessing ideas that came out of the roundtable that are consistent with Alberta's Long Term Strategic Plan *"Today's Opportunities, Tomorrow's Promise"* and its Economic Strategy *"Securing Tomorrow's Prosperity"*.

Corporate Income Tax

Effective April 1, 2003, the general corporate income tax rate was reduced from 13 per cent to 12.5 per cent, and the small business rate was reduced from 4.5 per cent to 4 per cent. The small business income threshold was increased from $350,000 to $400,000. These measures were undertaken to ensure that Alberta continues to have among the lowest business taxes in Canada. This resulted in an overall saving of $94 million in taxes for Alberta businesses in 2003-04.

Internet Payment Option

Effective December 1, 2003, an Internet payment service was made available. To provide Albertans with more flexibility and convenience, Internet payments can be made for the following: Corporate Income Tax, Insurance Corporations Tax, International Fuel Tax, Fuel Taxes, Propane Tax, Health Cost Recovery Levy, Hotel Room Tax, and Tobacco Tax.

RESULTS ANALYSIS 2004

- CORE BUSINESSES AND GOALS
- FINANCIAL HIGHLIGHTS
- REPORT OF THE AUDITOR GENERAL ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO PERFORMANCE INFORMATION
- PREFORMANCE MEASURES, TARGETS AND RESULTS
- KEY PERFORMANCE MEASURE METHODOLOGY APPENDIX

CORE BUSINESSES AND GOALS

CORE BUSINESS	GOAL
Manage Tax and Revenue Programs *What it means: The Revenue Department establishes processes to ensure that Alberta's revenue structure meets the Province's long-term needs and contributes to the development of tax and revenue policies and strategies. The Department is also responsible for the administration of Alberta Revenue's tax, revenue and related benefit programs.*	• A revenue structure that meets Alberta's needs and is consistent with Albertans' values. • Fair and competitive provincial tax and revenue systems. • Tax and revenue programs that are administered fairly and efficiently.
Manage and Invest Financial Assets *What it means: The Revenue Department manages approximately $41.7 billion (as at March 31, 2004) consisting of a number of endowment funds, including the Alberta Heritage Savings Trust Fund, the public sector pension funds and other related funds.*	• A savings policy for Alberta that balances present and future needs and contributes to a stable fiscal environment. • An effective investment management organization. • Superior investment returns subject to client-defined objectives and policies. • Quality client service.
Manage Risk Associated with the Loss of Public Assets *What it means: The Risk Management and Insurance Division (RMI) administers a program to protect, secure and preserve public assets against risk of significant accidental loss. RMI provides services to ministries to help them identify, measure, control and finance their risk. The program serves all entities subject to the Financial Administration Act.*	• Proactively manage risk. • Stable Risk Management Fund. • Corporate risk identified and prioritized.
Regulate and Foster Alberta's Capital Market *What it means: The mission of the Alberta Securites Commission is to foster the development of a fair and efficient capital market in Alberta and confidence in that market.*	• A regulatory environment that promotes confidence in the Alberta capital market. • An effective national securities regulatory system. • Foster further development and growth of the Alberta capital market.

FINANCIAL HIGHLIGHTS

Changes from Budget

Revenue	Expenses
$167 million above budget (2%)	$19.5 million below budget (10%)

Changes from Previous Fiscal Year - Actuals

Revenue

Change from 2002 - 2003

Income Taxes	($544 m)

Personal Taxes ($222 m)

- The decline in personal income tax was due to a net decrease of $386 million related to final assessments for 2002 tax year being lower than estimated.
- This decline was partially offset by increased revenues of $124 million attributed to continued strong growth in personal income, estimated at 6.3% for 2003-04, a one-time Revenue Guarantee payment of $44 million from the federal government with respect to the 2000 tax year, and a $4 million refund from the Energy Tax Refund Program reflected in 2002-03.

Corporate Taxes ($322 m)

- Despite corporate profits increasing by an estimated 16.4% in 2003-04, corporate income tax declined by $322 million due to a reduction in corporate tax rates and reduced installment payments, and unusually high refunds in 2003 as a result of a decline in net corporate income tax payable in prior years.

Other Taxes	$117 m

- Fuel tax increases are attributed to economic and population growth, offset by the impact of BSE. $23 m
- Tobacco taxes increased because of tax collection at borders, the tightening of the Alberta Indian Tax Exemption, higher tobacco consumption due to population growth and the removal of the impact of stockpiling that took place prior to the tax increase. $52 m
- The increase in insurance corporation tax revenue was due to a prior period adjustment of $20 million, based primarily on updated historical data released in a report by the Superintendent of Insurance. The remaining $23 million was due to economic growth and a revised forecast of growth in premiums written in 2003 and 2004. $43 m
- Hotel room tax decreased due to a decline in tourism stemming from the impact of SARS and BSE. ($1 m)

	Change from 2002 - 2003
Investment Income	**$2,305 m**
• Increased investment income realized from equities due to a strong recovery in the world stock markets compared to writedowns in 2002-03.	$2,231 m
• Investments in Absolute Return Strategies commenced in the second half of 2002-03, so 2003-04 represents income for a twelve month period.	$38 m
• Increase in investments in mortgages, bonds and real estate.	$36 m
Miscellaneous	**$18 m**
• Internal Government Transfer related to a one-time contribution to the Alberta Heritage Science and Engineering Research Fund from Alberta Innovation and Science amounting to $21 million, partially offset by a decrease in contributions to the Alberta Heritage Scholarship Fund from Alberta Learning and Community Development of $5 million.	$16 m
• Alberta Securities Commission increased fees.	$1 m
• Investment services cost recovery revenue increased as a result of new system development costs being passed on to clients.	$1 m
NET INCREASE IN REVENUE	**$1,896 m**

Expenses

	Change from 2002 - 2003
Corporate tax refund interest	**($49 m)**
• In 2002-03, the Canada Customs and Revenue Agency reached settlements on a number of large objection files. These settlements triggered parallel reassessments for Alberta resulting in a substantial increase in refund interest being paid out. The refund interest paid on assessments returned to normal in 2003-04.	($49 m)
Valuation Adjustments and Other Provisions	**$4 m**
• Increase in provision for doubtful accounts.	$4 m
Transfers from Endowment Funds	**$4 m**
• Alberta Heritage Foundation for Medical Research	($1 m)
• Alberta Heritage Scholarship Fund	$1 m
• Alberta Heritage Foundation for Science and Engineering Research	$4 m

Change from 2002 - 2003

Risk Management Fund $6 m

- The increase relates to a provision for growth in claims and losses incurred but not reported. This information came from a recent actuarial review.

Miscellaneous $3 m

- Revenue collection and rebates increase attributed primarily to increased manpower requirements. $2 m
- Investment services increases attributed to staff increases to manage diversification of investments and for IT enhancements. $2 m
- Decrease in costs for the Alberta Securities Commission is attributed to non-recurring expenses for the closure of the Edmonton Office. ($1 m)

NET DECREASE IN EXPENSES ($32)

MINISTRY EXPENSE BY CORE BUSINESS

(thousands of dollars)

Core Business	2003-04 Budget	2003-04 Actual	2002-03 Comparable Actual
Manage tax and revenue programs	43,260	41,858	84,970
Manage and invest financial assets	122,188	96,436	90,364
Manage risk associated with loss of public assets	9,005	18,542	12,680
Regulate and foster Alberta's capital market	19,423	17,510	19,013
Total Expenses	**193,876**	**174,346**	**207,027**

MINISTRY EXPENSE BY FUNCTION

Function	2003-04 Budget	2003-04 Actual	2002-03 Comparable Actual
Health	70,207	50,157	51,136
Education	21,297	22,329	21,096
Agriculture, Resource Management and Economic Development	14,140	10,521	6,410
Protection of Persons and Property	19,423	17,510	19,013
General Government	68,809	73,829	109,372
Total Expenses	**193,876**	**174,346**	**207,027**

AUDITOR GENERAL Alberta

REPORT OF THE AUDITOR GENERAL ON THE RESULTS OF APPLYING SPECIFIED AUDITING PROCEDURES TO PERFORMANCE INFORMATION

To the Members of the Legislative Assembly:

In connection with the Ministry of Revenue's key and supplemental performance measures included in the *2003-2004 Annual Report of the Ministry of Revenue* for the year ended March 31, 2004, I have:

Key Performance Measures

1. Agreed information from an external organization to reports from the organization.
2. Agreed information from reports that originated from organizations included in the consolidated financial statements of the Ministry to source reports. In addition, I tested the procedures used to compile the underlying data into source reports.
3. Checked that the presentation of results is consistent with the stated methodology.
4. Checked that the results presented are comparable to stated targets, and information presented in prior years.
5. Checked that the key performance measures, as well as targets, agree to and include results for all of the measures presented in *Budget 2003*.

Supplemental Performance Measures

6. Agreed the information to source reports. In addition, I checked that the supporting narrative is consistent with the information.

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit, and therefore I express no opinion on the key and supplemental performance measures included in the *2003-2004 Annual Report of the Ministry of Revenue*.

[Original Signed]

Edmonton, Alberta
August 27, 2004

Fred J. Dunn, FCA
Auditor General

PERFORMANCE MEASURES, TARGETS AND RESULTS

Core Business #1 – Manage tax and revenue programs

Consistently low taxes have become one of the defining features of living and doing business in Alberta, and will continue to be a key feature of the new fiscal framework, which was adopted in 2003-04. Albertans enjoy the advantages of an innovative single-rate personal tax system, continued corporate tax reductions, the lowest fuel tax in Canada, and no general sales tax, payroll tax, or corporate capital tax.

Alberta's low rate, broad-based approach to taxes is fairer and simpler for all taxpayers. It is part of the solid foundation for a dynamic and vibrant provincial economy, and means more opportunities, greater rewards for work and investment, and more wealth to support public services and quality of life.

A revenue management framework was identified as a strategic priority in the Ministry 2003-06 business plan. In 2003-04, Revenue worked with other ministries with significant revenues to develop recommendations for a revenue management framework.

Goals

1.1 A revenue structure that meets Alberta's needs and is consistent with Albertans' values
1.2 Fair and competitive provincial tax and revenue systems
1.3 Tax and revenue programs that are administered fairly and efficiently

Financial Information

(thousands of dollars)

Core Business Expense

2003-04 Comparable Budget	2003-04 Actual	Variance
43,260	41,858	1,402

The variance resulted from less than anticipated statutory payments for interest payments on corporate tax refunds and valuation adjustments and reduced spending in Revenue Collection and Rebates and Policy and Strategic Planning related to staff vacancies and unused contingency funds. The variance did not impact the department’s preformance on its targets.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT
Provincial tax load for a family of four.	• **Lowest in Canada**	• **Lowest in Canada** • **Lowest in Canada (2002-03)**

(shared measure with Alberta Finance)

Alberta continues to have the lowest provincial tax load for a family of four (see chart). Alberta's single-rate personal tax system has two key components that advance fairness and competitiveness. First, the largest personal and spousal exemptions in the country promote fairness by allowing Albertans to earn more tax-free income. Provincial non-refundable credits are indexed to inflation so their value is not eroded over time. Second, the 10 per cent single rate is the lowest top marginal tax rate in Canada. This promotes competitiveness and encourages people to live, work and invest in Alberta.

PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR*

	One-income family with two children earning $30,000	Two-income family with two children earning $60,000	Two-income family with two children earning $100,000
Alberta	$431	$3,968	$7,261
Ontario	$1,809	$4,606	$8,774
Saskatchewan	$2,328	$5,199	$9,533
British Columbia	$2,914	$5,447	$8,658
New Brunswick	$3,144	$5,938	$11,018
Nova Scotia	$3,144	$5,956	$10,849
Manitoba	$2,671	$6,018	$11,468
Quebec	$2,135	$6,393	$14,410
Prince Edward Island	$3,522	$6,509	$11,626
Newfoundland and Labrador	$4,109	$7,324	$13,368

* Includes provincial income, sales, payroll, tobacco and fuel taxes and health care premiums
Source: Alberta Finance (See Key Performance Measure Methodology Appendix at the end of this section.)

In addition, Alberta's personal tax load was the lowest in Canada at 52.4 per cent of the provincial average, far ahead of its nearest competitor British Columbia, which is at 94.5 per cent of the provincial average.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT
Provincial tax load on business.	• **Lowest in Canada.**	• **Third lowest in Canada.** • **Second lowest in Canada (revised)(2002-03)**

(shared measure with Alberta Finance)

In 2003-04, Alberta's provincial tax load on business was the third lowest in Canada following Prince Edward Island and British Columbia. The outcome of this measure depends on how the business income is structured. A province where the economy is struggling will appear to have a low tax burden, since money-losing corporations do not pay income tax. Also, provinces dominated by small business will appear to have a low tax burden, since the small business rate is much lower than the general rate in all provinces.

Corporate tax regimes vary significantly across provinces, and comparisons are therefore difficult to make since an effective tax rate varies depending on special tax rates and incentives provided. Alberta Revenue and Alberta Finance are attempting to identify a measure to better reflect the comparative tax burden that would apply to various types of corporations that operate in Alberta.

Alberta's general corporate tax rate and small business rate, at 12.5% and 4.0% respectively, are the second lowest among all the provinces. Alberta does not have any capital taxes. Low overall taxes in Alberta encourage entrepreneurs to start new businesses in Alberta, or move them here from other provinces.

TAX LOAD ON BUSINESS*

	2003-04	2002-03 (revised percentage of provincial average)
British Columbia	71.6	75.6
New Brunswick	76.1	98.3
Alberta	87.2	79.5
Ontario	95.7	96.9
Prince Edward Island	106.5	86.6
Quebec	111.0	113.3
Manitoba	116.7	142.5
Newfoundland and Labrador	123.8	128.1
Nova Scotia	124.5	97.5
Saskatchewan	253.1	230.9

* Includes business income taxes, capital taxes and insurance corporation taxes.
Tax load relative to provincial average=100
Source: Federal Department of Finance, February 2004 Third Estimate for 2003-04; February 2004 Fifth Estimate for 2002-03: Alberta Finance (See Key Performance Measure Methodology Appendix at the end of this section.)

The government continued its plan of corporate income tax reductions in 2003-04.

Effective March 1, 2004, the 1.5 cents per litre Alberta aviation fuel tax was eliminated on eligible international passenger and cargo flights, including those to the United States of America. Effective April 1, 2003, the general corporate tax rate was reduced to 12.5%, the small business rate was reduced to 4.0%, and the small business threshold was increased to $400,000. The tax cuts continued in 2004.

IMPLEMENTATION SCHEDULE FOR THE BUSINESS TAX PLAN

(Effective April 1st each year)

	2003-04	2004-05
General rate (%)	12.5	11.5
Small business rate (%)	4	3
Small business threshold ($)	400,000	400,000
Capital gains inclusion rate (%)	50	50
Railway fuel tax (c/litre)	1.5	1.5
Capital tax	-	-

Supplemental Measures

PERFORMANCE MEASURE: Percentage of tax accounts with no monies owing.
Target: 96%

For 2003-04, the target was set at 96 percent. The actual percentage of accounts with no overdue amounts owing as at March 31, 2004 was 95.74 percent, up from 95.62 percent in 2002-03. This consistently high performance demonstrates that Alberta's tax collection efforts are successful.

Source: Alberta Revenue, TRA Oracle database.

PERFORMANCE MEASURE: Client satisfaction with tax administration.
Target: 85% satisfied or better

Clients' overall satisfaction with tax administration (88.7 percent) exceeded the minimum 85 percent performance target. In comparison to the 2002-03 results, the clients' overall satisfaction with tax administration has remained at 88.7 percent.

Source: Alberta Revenue.

PERFORMANCE MEASURE: Ratio of amounts added to net revenue to costs of administration.
Target: Determined after the benchmark year 2002-03

The calculation is based on the total additional revenue obtained through TRA's efforts, shown as a ratio of the total costs of TRA's operating budget. TRA, through the revision of returns and claims, and the collection of overdue accounts, recovers revenues that may otherwise be lost. An increasing value-added ratio can indicate that the relative degree of self-compliance is decreasing, and that more effort is required to detect and address non-compliance.

The total amount added to net revenue for 2003-04 was $282.3 million, and the associated costs were $20.1 million, so the value added ratio is 14 to 1 - that is, recoveries of $14.04 for every $1 spent. This was up from the 12.3 to 1 results in 2002-03. The 2002-03 result established the benchmark, and the target was set for 12 to 1 in 2004-05. Plans are in place to expand audit coverage, which should result in progress toward better self-compliance.

Core Business #2 – Manage and invest financial assets

The Investment Management Division's primary objective is to maximize long-term financial returns. Meeting this objective means managing the balance between risk and return. The strategic priority and strategies outlined in the Ministry's Business Plan support this objective by using a prudent mix of internal investment resources and external investment management firms, and by developing and implementing new products to meet client needs.

Goals

2.1 A savings policy for Alberta that balances present and future needs and contributes to a stable fiscal environment

2.2 An effective investment management organization

2.3 Superior investment returns subject to client-defined objectives and policies

2.4 Quality client service

Financial Information

(thousands of dollars)

Core Business Expense

2003-04 Comparable Budget	2003-04 Actual	Variance
122,188	96,436	(25,752)

The variance can be attributed to:

- reduced draws from the Alberta Heritage Medical Research Fund amounting to $20 million due to delays in the building of health research facilities in Edmonton and Calgary;
- reduction in the funding request from the Alberta Heritage Foundation for Science and Engineering Research Fund amounting to $3.6 million for research grants and awards;
- the department's Investment Management Division lapsed funds in the amount of $2.6 million due to delays in recruiting skilled employees. This did not impact the department's performance on its targets;
- reduced management fees charged to Alberta Heritage Savings and Trust fund amounting to $0.5 million;
- the Alberta Heritage Scholarship Fund increased their draws by $1 million, as there is an increase in the number of students eligible to receive awards.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT
Four year annualized market value rates of return (ROR) measured against benchmarks established by clients.	• ROR for the endowment funds (including the Heritage Fund) exceeds the policy benchmark.	All but one exceeded policy benchmark.

Source: Alberta Revenue, Persys module.

In 1997, the Alberta government adopted a new investment strategy for the Alberta Heritage Savings Trust Fund (Heritage Fund). This new strategy focuses on earning the greatest long-term returns for Albertans, within an acceptable level of risk.

ENDOWMENT FUNDS EXCEEDING THE POLICY BENCHMARK

Endowment Fund	Four Year Annualized Rate of Return	Four Year Annualized Policy Benchmark Return
Alberta Heritage Savings Trust Fund*	1.31%	1.05%
Alberta Heritage Foundation for Medical Research Endowment Fund	-0.02%	-0.28%
Alberta Heritage Scholarship Fund	0.06%	-0.25%
Alberta Heritage Science and Engineering Research Endowment Fund**	4.21%	3.92%

* Refer to the 2003-04 Alberta Heritage Endowment Fund annual report for the actual and benchmark returns as well as the actual and benchmark weighting in each asset category.

** Figures for the Science and Engineering Research Endowment Fund are three year annualized ROR over the period ending March 31, 2004.

ENDOWMENT FUND THAT DID NOT EXCEED ITS POLICY BENCHMARK

Endowment Fund	Four Year Annualized Rate of Return	Four Year Annualized Policy Benchmark Return
Ultimate Heir Trust "B" Endowment	-0.05%	-0.02%

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT
Four year annualized market value rates of return (ROR) measured against benchmarks established by clients.	• ROR on other client funds exceeds the policy benchmark.	All exceeded policy benchmark.

OTHER CLIENT FUNDS EXCEEDING THE POLICY BENCHMARK

Fund	Four Year Annualized Rate of Return	Four Year Annualized Policy Benchmark Return
Local Authorities Pension	1.31%	1.15%
Public Service Pension	1.92%	1.56%
Management Employees Pension	2.18%	1.89%
Universities Academic Pension	1.41%	0.87%
Special Forces Pension	2.04%	1.24%
Special Forces Index Pension	2.26%	1.24%
Judges Pension	2.11%	1.88%
Long-term Disability - Bargaining Unit	1.28%	1.02%
Long-term Disability - Management	1.21%	1.02%
Alberta Securities Commission*	8.09%	N/A

* Alberta Securities Commission Fund does not have a four year annualized policy benchmark return. The two year annualized rate of return is 9.77% and two year annualized policy benchmark return is 7.90%. Both returns are as at March 31, 2004.

Supplemental Measures

PERFORMANCE MEASURE: Straight Through Processing (STP) System implemented by June 2005.

Alberta Investment Management met 2003-04 targets established in its multi-year straight through processing (STP) plan to establish processes capable of settling trades on a same day or next day basis. The implementation of a trade order management system was completed. Implementation of a data hub began during the year. This implementation will assist Alberta Investment Management with consolidating investment data sources. After an extensive vendor selection process, a risk management system was selected. This system will be implemented in the 2004-05 fiscal year.

Source: Alberta Revenue, Omega One.

PERFORMANCE MEASURE: Straight Through Processing (STP) of investment transactions.
Target: 80%

The investment operation achieved an internal STP rate of 87.4 percent for the 2003-04 fiscal year against its target rate of 80 percent.

Source: Alberta Revenue.

PERFORMANCE MEASURE: Client satisfaction with services provided.
Target: 80%

In January of each year, a client satisfaction survey is sent to clients of the Investment Management Division. Respondents include board members representing client funds as well as other service recipients of the Investment Management Division.

Clients are asked to answer a series of questions aimed at determining their level of satisfaction with service received. They respond on a five-point scale that is translated by Statistics into a percentage satisfaction and aggregated with other clients into a composite client satisfaction level.

In the fiscal year 2003-04, client satisfaction with services provided was 69 percent, which is a 3 percent improvement over the fiscal year 2002-03, but below the 80 percent target. The improved client rating results come mainly from increased satisfaction with the overall quality of IMD's investment strategies, the value added performance of individual products, IMD's understanding of client funds' investment objectives and the value added by IMD relative to the fund benchmark. The largest decreases in client rating are recorded in the following areas: the clarity of IMD's information on performance, the overall quality of IMD's communications and understanding of IMD's investment strategies.

Source: Alberta Revenue and Alberta Finance, Statistics.

Other Highlights

Other key strategic highlights for the year include ongoing business continuity preparation, e.g., participation in one of Alberta Investment Management's major software vendors disaster recovery test and a comprehensive scenario test of Alberta Investment Management's business continuity site.

Core Business #3 – Manage risk associated with loss of public assets

The main strategy for the Risk Management Division is to control the cost of risk. Through the Risk Management Fund, coverage is provided to ministries and appropriate insurance services are purchased to protect some of the Fund's financial responsibilities. Recent natural and economic events have had a serious impact on the insurance industry, significantly increasing costs and reducing the availability of purchased insurance.

Goals

3.1 Proactively managed risk
3.2 Stable Risk Management Fund
3.3 Corporate risk identified and prioritized

Financial Information

(thousands of dollars)

Core Business Expense

2003-04 Comparable Budget	2003-04 Actual	Variance
9,005	18,542	(9,537)

A recent actuarial review was conducted requiring that the allowances for IBNR (incurred but not reported) losses be increased by $6.2 million. Of the $3.3 million balance of the variance, $300,000 stems from insurance premiums higher than budgeted, $1 million from a major fire loss claim and $2 million due to general liability claims being higher than budgeted.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT
Value of the net assets of the Risk Management Fund.	• Net asset value between $0-1 million.	Net liability for the year ending March 31, 2004 was $6.2 million.

Source: Alberta Revenue, Risk Management.

Risk Management and Insurance strives to keep Fund participants' costs at a minimum. Therefore, the Fund is managed such that the net asset value does not exceed $1 million. The net liability for the year ending March 31, 2004 was $6.2 million.

This target was not met because of the increased cost of insurance plus higher reserves for new claims and the IBNR claims.

Supplemental Measures

PERFORMANCE MEASURE: Cost of Claims (insurance premiums plus self-insured losses)
Target: $6.5 million

Due to significant reduction of available coverage, even at an increased cost, insurance was purchased with additional exclusions at a cost of $2.3 million, $300,000 more than budgeted. The actual cost of claims in 2003-04 was $15.8 million, which exceeded the $6.5 million target.

Source: Alberta Revenue.

PERFORMANCE MEASURE: Satisfaction with the services provided by the division
Target: 80%

Clients' overall satisfaction with Risk Management and Insurance exceeded the 80% minimum performance target. Overall, 84% of respondents were either satisfied or very satisfied with the services provided by RMI and there was a 17% increase in the number of responses received compared to the 2001 survey.

Source: Alberta Finance, Statistics.

Core Business #4 – Regulate and foster Alberta's capital market

Alberta Revenue identified securities regulation as a strategic priority and recognizes that effective securities regulation is vitally important to investor protection and efficient, vibrant and competitive local and national capital markets. Since early 2003, provincial and territorial ministers responsible for securities regulation have been working together to identify practical and timely improvements that will provide significant reforms to Canada's securities regulatory framework. The Alberta Minister of Revenue chairs this initiative.

The Alberta Securities Commission (ASC) is responsible for maintaining the efficiency and integrity of the capital market in Alberta through the administration of the *Alberta Securities Act*.

Goals

4.1 A regulatory environment that promotes confidence in the Alberta capital market
4.2 An effective national securities regulatory system
4.3 Foster further development and growth of the Alberta capital market

Financial Information

(thousands of dollars)

Core Business Expense

2003-04 Comparable Budget	2003-04 Actual	Variance
19,423	17,510	1,913

The variance can be attributed to an unused budget contingency.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT
Stakeholder satisfaction with service levels.	**• 80% satisfied or better.**	**87%**

Source: ASC on-line survey.

An on-line survey was conducted by the ASC in January 2004 to assess the extent to which stakeholders were satisfied with the service they had received from the ASC in response to enquiries regarding ASC operations and policy matters. Out of the 67 respondents, 87% either agreed or strongly agreed with the statement that they were satisfied with the quality of service they received. Ratings exceeded 80% in all categories dealing with promptness, accuracy and clarity of information provided, and professionalism of staff. The February 16, 2004 survey results will be assessed by the ASC to maintain and/or improve stakeholder satisfaction.

Supplemental Measures

PERFORMANCE MEASURE: Investor education program.
Target: minimum of four education seminars

Educated investors are more likely to make wise investment decisions, which is, in turn, beneficial for Alberta's capital markets. During the 2003-04 fiscal year, the ASC implemented a comprehensive investor education program. ASC staff made presentations to four regional teachers' conventions in Alberta, 18 high school classes and nine other groups (seniors, women's groups and post-secondary students). As part of the 2003-04 programs, ASC participated in several education initiatives, including an event during Investor Education Month (April 2003) to alert the public to the risks of investment fraud.

In addition to these activities aimed at the general public, the ASC also organized and/or played a key role in a number of educational workshops and seminars for industry professionals (e.g. lawyers, accountants and other advisors). Topics included new oil and gas reserve reporting standards, continuous disclosure obligations and new accounting standards.

Source: ASC.

PERFORMANCE MEASURE: Number of annual examinations.
Target: 40% subject to examination

Examinations are conducted on selected mutual fund dealers, portfolio managers and scholarship plan dealers each fiscal year to ensure compliance with the *Alberta Securities Act*. In 2003-04, out of an overall 400 registrants, 35 were examined and 135 were subject to review, exceeding the goal of 40%.

Source: ASC.

PERFORMANCE MEASURE: Legislation for a Uniform Securities Act.
Target: June 30, 2004

Staff from the ASC are heavily involved in projects at a national level through the Canadian Securities Administrators (CSA), the organization under which Canada's 13 securities regulators work towards a harmonized system of securities regulation. The Chair of the ASC is also the current chair of the CSA.

Work at a national level allows securities regulators to leverage their individual strengths to form a consistent and strong cross-Canada regulatory presence. The most significant and ambitious harmonization initiative is the development of a draft Uniform Securities Act and Model Securities Administration Act. Consultation drafts of these Acts were published in December 2003 and public comments were requested by May 2004. Due to the length of the consultation process, the target date of June 30, 2004 was not met. A new target date is currently under review.

Source: *Draft Uniform Securities Act* and *Model Securities Administration Act*.

KEY PERFORMANCE MEASURE METHODOLOGY APPENDIX

Taxation load for a family of four (shared performance measure with Ministry of Finance)

Calculations are based on the following assumptions:

- Business is assumed to bear between 25 percent and 60 percent of the provincial sales tax, depending upon the provincial tax regime.
- In provinces that impose payroll taxes, 75 percent is assumed to be borne by employees and 25 percent by employers. The same 75/25 split is assumed for health care insurance premiums.
- Fuel tax is based on estimated consumption of 3,000 litres per year for one income families and 4,500 litres for two income families.
- Tobacco tax is based on estimated consumption of 100 packs per adult per year.
- RRSP/RPP contributions of $1,000, $7,800 and $13,500 are included in the calculation of personal income tax for the $30,000, $60,000 and $100,000 families, respectively.
- For two income families, income and RRSP/RPP contributions are split 60/40 between the two spouses.
- The children in each family are assumed to be 6 and 12 years old.

Tax load on business (shared performance measure with Ministry of Finance)

Provincial tax load, or tax effort, compares actual tax revenues generated within a province to the revenue that the province would generate if it taxed at national-average tax rates. Business taxes examined include business income taxes, capital taxes and insurance corporation taxes.

Each year, the provinces report their tax revenues by these categories to the federal government as part of the reporting requirements for the Equalization Program. The steps to calculate provincial tax loads are:

1. National-average tax rates are calculated by dividing total national tax revenues by the national tax base. The tax base for business income taxes, for example, is corporate profits.
2. The revenue that the province would generate if it taxed at national rates is equal to the national average tax rate multiplied by the provincial tax base for each of the tax categories.
3. Provincial tax load is equal to the ratio of actual provincial revenues divided by the results of the previous calculation multiplied by 100.

The latest available data are used in these calculations:

- February 2004 Fifth Estimate for 2002-03, except for Alberta corporate income tax, which has been adjusted from budget to actual.
- February 2004 Third Estimate for 2003-04.

As a result, the 2002-03 business tax load is restated from what was reported in the Alberta Revenue Annual Report for 2002-03.

Four year annualized market value rate of return (ROR) measured against benchmarks established by clients

The performance measurement system employed by Investment Management Division (IMD) calculates a total return for each of the investment funds, including both endowment and other client funds. Investment clients select indices for various asset classes making up their fund policy benchmark composition. IMD aggregates published returns for these indices into a policy benchmark composite return for each client fund.

A comparison between the four year annualized total rate of return of the fund and its benchmark is made. This comparison is calculated by subtracting the difference of the time-weighted return of the fund versus the time-weighted return of the policy benchmark.

Fund returns are calculated within the Persys module of FMC by the Valuations Group of the Investment Administration Division.

Benchmark returns are calculated using policy benchmark weights provided by client statement of policy and goals. Return series of indices used to calculate the policy benchmark are sourced from IMD's custodian and benchmark providers.

Value of the net assets of the Risk Management Fund

The actual cost of premiums and claims in 2003-04 was $15.8 million, which exceeded the $6.5 million target. This resulted from an increased cost of insurance plus higher reserves for new claims and Incurred But Not Reported (IBNR) claims. The substantial increase in IBNR, since the prior actuarial report of March 31, 2001, resulted from major changes with respect to both legislation and court awards that affect claims. To avoid future large adjustments actuarial reports are now completed on an annual basis as compared to bi-annually as in the past.

Stakeholder satisfaction with service levels

The Alberta Securities Commission (ASC) conducted an on-line survey in January 2004 to assess the extent to which stakeholders were satisfied with the service they had received from the ASC in response to enquiries regarding ASC operations and policy matters.

The survey was distributed electronically to stakeholders who had contacted one of three ASC departments (Legal Services and Policy Development, Capital Markets or Public Information) with information requests during the previous 12 months.

Surveys were distributed to 602 stakeholders. This produced a total of 67 responses. Stakeholders were asked to respond to 9 questions about various aspects of the ASC's services. Results were compiled by staff at the ASC and is being used to identify potential areas of improvement and to develop initiatives to enhance overall service levels.

FINANCIAL INFORMATION 2004

- FINANCIAL STATEMENTS OF THE MINISTRY AND ITS ENTITIES
- SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION OR BY DIRECTION OF THE MINISTER OF FINANCE

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FINANCIAL STATEMENTS OF THE MINISTRY AND ITS ENTITIES

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION OR BY DIRECTION OF THE MINISTER OF FINANCE

MINISTRY OF REVENUE

Consolidated Financial Statements

YEAR ENDED MARCH 31, 2004

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Revenue as at March 31, 2004 and the consolidated statements of operations and cash flow for the year then ended. These financial statements are the responsibility of the management of the Ministry. 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 consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Edmonton, Alberta
May 27, 2004

Fred J. Dunn, FCA
Auditor General

MINISTRY OF REVENUE

CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended March 31, 2004 *(thousands)*

	Budget (Schedule 2)	2004 Actual	2003 Actual
Revenues (Schedule 1)			
Income taxes	$ 7,050,799	$ 6,308,958	$ 6,852,823
Other taxes	1,431,692	1,547,419	1,430,255
Net investment income (loss)	496,170	1,270,813	(1,034,089)
Fees, permits and licences	17,100	16,568	14,813
Internal government transfers	200	21,534	5,030
Other	19,673	17,479	17,340
	9,015,634	9,182,771	7,286,172
Expenses (Schedule 3)			
Investment	120,868	95,066	89,068
Tax and revenue collection	41,939	40,489	83,673
Regulation of capital markets	19,423	17,510	19,013
Government risk management and insurance	7,684	17,172	11,384
Ministry support services	3,962	4,109	3,889
	193,876	174,346	207,027
Net operating results	$ 8,821,758	$ 9,008,425	$ 7,079,145

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

MINISTRY OF REVENUE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2004 *(thousands)*

	2004	2003
Assets		
Cash and temporary investments (Schedule 5)	$ 277,271	$ 430,843
Accrued interest and accounts receivable (Schedule 6)	767,462	641,438
Portfolio investments (Schedule 7)	12,808,378	12,411,632
Loans and advances to government entities (Schedule 8)	94,656	100,037
Other loans and advances (Schedule 9)	93,535	98,362
Capital assets (Schedule 10)	10,989	8,550
	$ 14,052,291	$ 13,690,862
Liabilities		
Accounts payable (Schedule 11)	$ 378,265	$ 360,217
Vacation entitlements	3,283	2,880
	381,548	363,097
Net Assets		
Net assets at beginning of year	13,327,765	14,480,299
Net operating results	9,008,425	7,079,145
Net transfer to general revenues	(8,665,447)	(8,231,679)
Net assets at end of year	13,670,743	13,327,765
	$ 14,052,291	$ 13,690,862

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

MINISTRY OF REVENUE

CONSOLIDATED STATEMENT OF CASH FLOW

Year Ended March 31, 2004 *(thousands)*

	2004	2003
Operating activities		
Net operating results	$ 9,008,425	$ 7,079,145
Non-cash items included in net operating results	(161,185)	77,075
	8,847,240	7,156,220
Other	(111,680)	(278,589)
Cash provided by operating activities	8,735,560	6,877,631
Capital activities		
Purchase of capital assets	(5,235)	(4,498)
Proceeds from disposals of capital assets	6	–
Cash used for capital activities	(5,229)	(4,498)
Investing activities		
Disposals of portfolio investments	1,747,026	5,821,281
Purchase of portfolio investments	(1,971,476)	(4,323,377)
Repayments of loans and advances	5,994	4,702
Cash (used for) provided by investing activities	(218,456)	1,502,606
Financing activities		
Net transfer to general revenues	(8,665,447)	(8,231,679)
Cash used for financing activities	(8,665,447)	(8,231,679)
Net cash (used) provided	(153,572)	144,060
Cash and temporary investments at beginning of year	430,843	286,783
Cash and temporary investments at end of year	$ 277,271	$ 430,843

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

MINISTRY OF REVENUE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004

NOTE 1 AUTHORITY

The Minister of Revenue has been designated as responsible for various Acts by the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000, and its regulations. To fulfil these responsibilities, the Minister of Revenue administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Revenue (the Ministry).

Department of Revenue (the Department)	*Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000
Alberta Heritage Foundation for Medical Research Endowment Fund	*Alberta Heritage Foundation for Medical Research Act*, Chapter A-21, Revised Statutes of Alberta 2000
Alberta Heritage Savings Trust Fund	*Alberta Heritage Savings Trust Fund Act*, Chapter A-23, Revised Statutes of Alberta 2000
Alberta Heritage Scholarship Fund	*Alberta Heritage Scholarship Act*, Chapter A-24, Revised Statutes of Alberta 2000
Alberta Heritage Science and Engineering Research Endowment Fund	*Alberta Heritage Foundation for Science and Research Engineering Research Act*, Chapter A-22, Revised Statutes of Alberta 2000
Alberta Risk Management Fund	*Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000
Alberta Securities Commission	Incorporated June 1, 1995 under the *Securities Act*, Chapter S-4, Revised Statutes of Alberta 2000

NOTE 2 PURPOSE

The Ministry's core businesses are to:

a) Manage tax and revenue programs,
b) Manage and invest financial assets,
c) Manage risk associated with the loss of public assets, and
d) Regulate and foster Alberta's capital market.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

These financial statements are prepared in accordance with the following accounting policies.

a) Method of Consolidation

The accounts of the Department, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Risk Management Fund, and Alberta Securities Commission are consolidated after adjusting them to a basis consistent with the accounting policies described below. Intra-ministry transactions (revenues, expenses, capital, investing and financing transactions, and related asset and liability accounts) have been eliminated.

b) Basis of Financial Reporting

REVENUES

All revenues are reported on the accrual method of accounting. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable.

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized on an accrual basis with gains and losses recognized in income to the extent realized.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps and equity index futures contracts, are recorded at fair value

EXPENSES

Expenses represent the cost of resources consumed during the year on Ministry operations. Expenses include amortization of capital assets.

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year.

Certain expenses, primarily for office space and legal advice, incurred on behalf of the Ministry by other Ministries are not reflected in the consolidated statement of operations. Schedule 12 discloses information on these related party transactions.

NOTE 3 (continued)

VALUATION ADJUSTMENTS
Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from accrued employee vacation entitlements.

ASSETS
Financial assets are limited to financial claims on outside organizations and individuals and inventories held for resale at the year end.

Portfolio investments are carried at cost. Cost includes amortization of discount or premium using the straight line method over the life of the investments. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

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 provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Capital assets of the Ministry are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets (see Schedule 10). The threshold for capitalizing new systems development is $100,000 and the threshold for all other capital assets is $15,000.

LIABILITIES
Liabilities include all financial claims payable by the Ministry at the year end.

FOREIGN CURRENCY
Assets denominated in foreign currency are translated at the year end rate of exchange.

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.

MEASUREMENT UNCERTAINTY
Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes, and provisions for loans and advances. The nature of the uncertainty in these items arises from several factors such as the effect on accrued taxes of the verification of taxable income, and the effect on loans and advances of actual collectibility and changes in economic conditions. Personal income tax, recorded as $4,612,531,000 (2003 $4,834,080,000) in these consolidated financial statements, is subject to measurement uncertainty due to the use of economic estimates of personal income growth. Use of

NOTE 3 (continued)

this information in the past has resulted in a number that differs from final results by a geometric average of plus or minus $200 million over the last four years.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 4 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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.

The fair values of cash and temporary investments, accrued interest and accounts receivable, and liabilities are estimated to approximate their book values.

The methods used to determine the fair values of portfolio investments and derivative contracts in Schedule 7 are explained in the following paragraphs.

Public fixed-income securities and equities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

The value of derivative contracts is included in the fair value of portfolio investments. Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

Mortgages and certain non-public provincial debentures 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.

The fair value of private equities is estimated by management using methods such as cost, discounted cash flows, earnings multipliers, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.

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 using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

Loans and advances to government entities in Schedule 8 are valued based on the net present value of future cash flows. The fair value of other loans and advances in Schedule 9 is estimated by management based on the present value of discounted cash flows.

At the year end, the fair values of investments denominated in a foreign currency are translated at the year end exchange rate.

NOTE 5 ASSET RISK MANAGEMENT

The majority of the Ministry's portfolio investments are in the Alberta Heritage Savings Trust Fund (Heritage Fund). Income and financial returns are exposed to credit risk and price risk. Price risk is comprised of currency risk, interest rate risk and market risk. Risk is reduced through asset class diversification, quality constraints on fixed-income instruments, and restrictions on amounts exposed to countries designated as emerging markets.

The investment objective is to invest in a diversified portfolio to maximize long-term returns at an acceptable level of risk. The policy asset mix for fixed income securities is 35%. The policy mix for public equity investment is 45%. The remainder of the portfolio is invested in real estate, private equities and absolute return strategies.

The investments in the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund and the Alberta Heritage Science and Engineering Research Endowment Fund are managed to preserve the capital of the funds over the long term and to provide an annual level of income for the purpose of making grants to researchers in the fields of medicine, science and engineering, and to students.

NOTE 6 COMMITMENTS AND CONTINGENCIES

Set out below are details of commitments to organizations outside the Ministry and contingencies resulting from guarantees. Any losses arising from the settlement of contingencies are treated as current year expenses in the year of settlement.

a) Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2004 amounted to $15,280,000 (2003 $18,439,000). These commitments will become expenses of the Ministry when terms of the contracts are met. These amounts include obligations under operating leases which expire on various dates. The aggregate amounts payable for the unexpired terms of these leases are as follows:

(thousands)

2004-05	$ 4,436
2005-06	2,123
2006-07	1,810
2007-08	1,757
2008-09	1,729
Thereafter	3,425
	$ 15,280

b) Guarantees

The Ministry, through the Alberta Securities Commission along with the Ontario Securities Commission and the British Columbia Securities Commission, entered into a Continuing Guarantee Agreement to guarantee the liabilities of the Mutual Fund Dealers Association of Canada with a Canadian chartered bank. The obligation of the Ministry to the bank is limited to $2,160,000.

c) Legal Actions

At March 31, 2004, the Ministry is a defendant in various legal actions, including legal actions relating to insurance claims. The total claimed in specific legal actions amounts to approximately $5,715,000 (2003 $22,452,000). Included in this amount are claims for $3,784,000 (2003 $19,677,000) in which the Ministry has been jointly named with other entities. The resulting loss, if any, from these claims cannot be determined.

NOTE 7 TRUST FUNDS UNDER ADMINISTRATION

The Ministry administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Ministry has no equity in the funds and administers them for the purposes of the various trusts, they are not included in the Ministry's consolidated financial statements. The operations of the funds' beneficial owners are reported separately in their annual reports.

At March 31, 2004, trust funds under administration were as follows:

(thousands)

	2004	2003
The Workers' Compensation Board Accident Fund	$ 2,328,797	$ 2,025,400
Power Pool of Alberta Balancing Pool	115,892	146,085
	$ 2,444,689	$ 2,171,485

NOTE 8 DEFINED BENEFIT PLANS

The Ministry participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $1,975,000 for the year ended March 31, 2004 (2003 $1,612,000).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014,000 (2002 $301,968,000) and the Public Service Pension Plan reported an actuarial deficiency of $596,213,000 (2002 $175,528,000). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312,000 (2002 $6,472,000).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2004, the Bargaining Unit Plan reported an actuarial deficiency of $9,766,000 (2003 $14,434,000) and the Management, Opted Out and Excluded Plan an actuarial surplus of $1,298,000 (2003 actuarial deficiency of $3,053,000). The expense for these two plans is limited to employer's annual contributions for the year.

NOTE 9 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Senior Financial Officer and the Deputy Minister of Revenue.

MINISTRY OF REVENUE

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REVENUES **Schedule 1**

Year Ended March 31, 2004 *(thousands)*

	2004 Budget	2004 Actual	2003 Actual
Income taxes			
Personal income tax	$ 5,034,966	$ 4,612,531	$ 4,834,080
Corporate income tax	2,015,833	1,696,427	2,018,743
	7,050,799	6,308,958	6,852,823
Other taxes			
Tobacco tax	624,000	670,502	618,474
Fuel tax	602,000	619,585	596,953
Insurance taxes	147,692	203,492	160,305
Hotel room tax	58,000	53,325	54,494
Financial institutions capital tax	-	515	29
	1,431,692	1,547,419	1,430,255
Net investment income (loss)	496,170	1,270,813	(1,034,089)
Fees, permits and licences	17,100	16,568	14,813
Internal government transfers	200	21,534	5,030
Other			
Insurance services	6,704	6,603	7,061
Other services	12,589	10,058	8,710
Refunds of expenditure	300	20	342
Miscellaneous	80	798	1,227
	19,673	17,479	17,340
	$ 9,015,634	$ 9,182,771	$ 7,286,172

MINISTRY OF REVENUE

BUDGET

Schedule 2

Year Ended March 31, 2004 *(thousands)*

	2003-04 Budget	Authorized Supplementary and Adjustments	2003-04 Authorized Budget
Revenues			
Income taxes	$ 7,050,799	$ -	$ 7,050,799
Other taxes	1,431,692	-	1,431,692
Investment income	496,170	-	496,170
Fees, permits and licences	17,100	-	17,100
Internal government transfers	200	21,430 (a)	21,630
Other	19,673	-	19,673
	9,015,634	21,430	9,037,064
Expenses			
Investment	120,868	-	120,868
Tax and revenue collection	41,939	-	41,939
Regulation of capital markets	19,423	-	19,423
Government risk management and insurance	7,684	-	7,684
Ministry support services	3,962	-	3,962
	193,876	-	193,876
Net Operating Results	$ 8,821,758	$ 21,430	$ 8,843,188
Capital Investment	$ 5,045	$ 875 (b)	$ 5,920

a) Contributions from the Department of Innovation and Science to the Alberta Heritage Science and Engineering Research Endowment Fund have been adjusted to reflect the actual accounting method used.

b) Supplementary Estimates were approved on March 11, 2004.

MINISTRY OF REVENUE

EXPENSES BY OBJECT
Schedule 3

(thousands)

	Budget	2004 Actual	2003 Actual
Salaries, wages and employee benefits	$ 32,997	$ 34,426	$ 30,868
Supplies and services	32,631	34,781	31,119
Grants	105,222	82,701	78,370
Corporate tax interest refunds	20,000	15,641	64,197
Other financial transactions	69	163	105
Amortization of capital assets	2,657	2,729	2,284
Valuation adjustments (Schedule 4)	500	4,105	284
	194,076	174,546	207,227
Less recovery from support services arrangements with related parties (a)	200	200	200
	$ 193,876	$ 174,346	$ 207,027

a) The Ministry provides information technology to various public sector entities. Costs incurred by the Ministry are recovered from the recipients of the services.

VALUATION ADJUSTMENTS
Schedule 4

(thousands)

	Budget	2004 Actual	2003 Actual
Provision for doubtful accounts, loans and write-offs	$ 500	$ 3,762	$ 12
Provision for employee benefits other than pensions	–	343	272
	$ 500	$ 4,105	$ 284

MINISTRY OF REVENUE

CASH AND TEMPORARY INVESTMENTS — Schedule 5

(thousands)

	2004	2003
Pooled investment funds		
Fixed-income securities (a)	$ 12,386	$ 8,755
Canadian equities	4,818	2,859
	17,204	11,614
Deposit in the Consolidated Cash Investment Trust Fund	154,065	311,184
Cash in bank and in transit	106,002	108,045
	$ 277,271	$ 430,843

a) Fixed-income securities held had an average effective yield of 4.20% (2003 5.41%) per annum as at March 31, 2004. 98% (2003 98%) of the securities had terms to maturity of over one year.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE — Schedule 6

(thousands)

	2004	2003
Personal income tax	$ 346,065	$ 326,948
Corporate income tax	291,935	204,809
Fuel tax	56,911	54,149
Insurance taxes	39,573	19,359
Tobacco tax	16,992	4,851
Accrued interest receivable	11,904	19,690
Hotel room tax	4,851	5,031
Financial institutions capital tax	1,855	3,516
Other	766	4,234
	770,852	642,587
Less allowance for doubtful accounts	3,390	1,149
	$ 767,462	$ 641,438

PORTFOLIO INVESTMENTS

Schedule 7

(thousands)

	2004 Book Value	2004 Fair Value	2003 Book Value	2003 Fair Value
Fixed-income securities (a) (b)				
Pooled investment funds	$ 4,149,557	$ 4,270,161	$ 3,859,557	$ 3,842,060
Government of Canada, guaranteed	23,799	25,304	24,515	25,470
	4,173,356	4,295,465	3,884,072	3,867,530
Equities (b)				
Canadian	2,938,732	3,342,362	2,809,922	2,817,748
Foreign	4,142,886	4,582,056	4,498,155	3,960,128
Real estate	974,955	1,062,957	898,913	972,689
Absolute return strategies	578,449	573,532	320,570	320,485
	8,635,022	9,560,907	8,527,560	8,071,050
	$ 12,808,378	$ 13,856,372	$ 12,411,632	$ 11,938,580

a) The majority of the Ministry's fixed-income securities are in the Alberta Heritage Savings Trust Fund (Heritage Fund). As at March 31, 2004, the Heritage Fund held $3,702,874,000 (2003 $3,470,041,000) of public fixed-income securities at cost (Fair value $3,807,292,000 (2003 $3,450,805,000)). The securities held have an average effective market yield of 4.4% (2003 5.5%) per annum and the following term structure based on principal amount:

	2004 %	2003 %
under 1 year	3	2
1 to 5 years	38	37
6 to 10 years	29	29
11 to 20 years	11	13
over 20 years	19	19
	100	100

b) The Ministry uses derivative contracts to enhance return, hedge risks, and manage asset mix. As at March 31, 2004, the notional amount of all derivative contracts issued by the Ministry amounted to $3,308,100,000 (2003 $2,201,700,000). 68% (2003 72%) of these contracts mature within one year. As at March 31, 2004, all derivative contracts taken together had a net negative fair value of $88,900,000 (2003 $65,600,000).

The following is a summary of the notional amount of derivative contracts held at March 31, 2004:

	2004	2003
Equity index swap contracts	$ 1,283,758	$ 657,353
Interest rate swap contracts	786,302	461,559
Forward foreign exchange contracts	667,717	697,753
Cross-currency interest rate swaps	452,545	310,941
Other	117,778	74,094
	$ 3,308,100	$ 2,201,700

LOANS AND ADVANCES TO GOVERNMENT ENTITIES — Schedule 8

(thousands)

	2004	2003
Alberta Social Housing Corporation	$ 94,656	$ 100,037
Fair value	$ 150,125	$ 158,018
Average effective market yield	7.10%	7.83%

OTHER LOANS AND ADVANCES — Schedule 9

(thousands)

	2004	2003
Alberta Heritage Savings Trust Fund Act	$ 181,559	$ 173,548
Accountable advances	391	1,003
	181,950	174,551
Less allowance for doubtful loans and advances	88,415	76,189
	$ 93,535	$ 98,362
Fair value	$ 93,535	$ 98,362

CAPITAL ASSETS — Schedule 10

(thousands)

	Estimated Useful Life	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Equipment	10 years	$ 497	$ 206	$ 291	$ 364
Computer hardware and software	5 years	19,427	10,172	9,255	7,171
Other	10 years	2,300	857	1,443	1,015
		$ 22,224	$ 11,235	$ 10,989	$ 8,550

ACCOUNTS PAYABLE — Schedule 11

(thousands)

	2004	2003
Corporate income tax receipts in abeyance	$ 345,925	$ 336,467
Other	32,340	23,750
	$ 378,265	$ 360,217

RELATED PARTY TRANSACTIONS — Schedule 12

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management of the Ministry.

The Ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Ministry had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties.

(thousands)

	2004	2003
Revenues		
Transfers	$ 21,534	$ 5,030
Interest	17,041	17,854
Charges for services	6,462	6,864
	$ 45,037	$ 29,748
Expenses		
Transfers	$ 22,264	$ 21,037
Costs of services	3,576	2,962
	$ 25,840	$ 23,999
Assets		
Accrued interest receivable	$ 7,403	$ 7,772
Accounts receivable	137	1,580
Loans and advances	94,656	100,037
	$ 102,196	$ 109,389

The above transactions do not include support service arrangement transactions disclosed in Schedule 3.

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

(thousands)

	2004	2003
Expenses - incurred by others		
Accommodation	$ 2,109	$ 1,782
Legal services	1,250	1,292
	$ 3,359	$ 3,074

DEPARTMENT OF REVENUE

Financial Statements

YEAR ENDED MARCH 31, 2004

AUDITOR'S REPORT

To the Minister of Revenue

I have audited the statement of financial position of the Department of Revenue as at March 31, 2004 and the statements of operations and cash flow for the year then ended. These financial statements are the responsibility of the management of the Department. 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 Department as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Edmonton, Alberta
May 27, 2004

Fred J. Dunn, FCA
Auditor General

DEPARTMENT OF REVENUE

STATEMENT OF OPERATIONS

Year Ended March 31, 2004 *(thousands)*

	Budget (Schedule 4)	2004 Actual	2003 Actual
Revenues (Schedules 1 and 2)			
Internal government transfers	$ 440,170	$ 1,133,484	$ –
Income taxes	7,050,799	6,308,958	6,852,823
Other taxes	1,431,692	1,547,419	1,430,255
Investment income	320	551	443
Fees, permits and licences	190	162	166
Other	16,602	13,653	11,845
	8,939,773	9,004,227	8,295,532
Expenses - directly incurred (Note 2b and Schedule 12)			
Voted (Schedules 3 and 5)			
Ministry support services	3,962	4,109	3,889
Revenue collection and rebates	21,439	20,743	19,193
Investment	15,408	12,201	10,538
Risk management and insurance	1,039	1,162	878
	41,848	38,215	34,498
Statutory (Schedules 3 and 5)			
Corporate tax interest refunds	20,000	15,641	64,197
Valuation adjustments (Schedule 6)	500	4,105	284
	20,500	19,746	64,481
	62,348	57,961	98,979
Loss on disposal of capital assets	–	62	–
	62,348	58,023	98,979
Net operating results	$ 8,877,425	$ 8,946,204	$ 8,196,553

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

DEPARTMENT OF REVENUE

STATEMENT OF FINANCIAL POSITION

March 31, 2004 *(thousands)*

	2004	2003
Assets		
Cash in transit	$ 105,643	$ 108,043
Accounts receivable (Schedule 8)	911,747	621,066
Accountable advances	390	1,003
Capital assets (Schedule 9)	8,771	6,825
	$ 1,026,551	$ 736,937
Liabilities		
Accounts payable (Schedule 10)	$ 349,795	$ 341,281
Vacation entitlements	2,617	2,274
	352,412	343,555
Net Assets		
Net asets at beginning of year	393,382	428,508
Net operating results	8,946,204	8,196,553
Net transfer to general revenues	(8,665,447)	(8,231,679)
Net assets at end of year	674,139	393,382
	$ 1,026,551	$ 736,937

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

DEPARTMENT OF REVENUE

STATEMENT OF CASH FLOW

Year Ended March 31, 2004 *(thousands)*

	2004	2003
Operating transactions		
Net operating results	$ 8,946,204	$ 8,196,553
Non-cash items included in net operating results		
Amortization of capital assets	2,210	1,728
Loss on disposal of capital assets	62	–
Valuation adjustments	4,105	284
	8,952,581	8,198,565
Increase in receivables	(294,442)	(94,116)
Increase in payables	8,514	74,654
Cash provided by operating transactions	8,666,653	8,179,103
Capital transactions		
Purchase of capital assets (Schedule 5)	(4,225)	(3,651)
Proceeds of disposal of capital assets	6	–
Cash used for capital transactions	(4,219)	(3,651)
Investing transactions		
Repayments of advances	613	117
Cash provided by investing transactions	613	117
Financing transactions		
Net transfer to general revenues	(8,665,447)	(8,231,679)
Cash used for financing transactions	(8,665,447)	(8,231,679)
Net cash used	(2,400)	(56,110)
Cash at beginning of year	108,043	164,153
Cash at end of year	$ 105,643	$ 108,043

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

DEPARTMENT OF REVENUE

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

NOTE 1 AUTHORITY AND PURPOSE

The Department of Revenue (the Department) operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

The Department's core businesses are to manage tax and revenue programs, manage and invest financial assets manage risk associated with the loss of public assets, and regulate and foster Alberta's capital market.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments.

a) Reporting Entity

The reporting entity is the Department, which is part of the Ministry of Revenue and for which the Minister of Revenue is accountable. Other entities reporting to the Minister of Revenue include the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Savings Trust Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund, the Alberta Risk Management Fund, and the Alberta Securities Commission. The activities of these organizations are not included in these financial statements.

The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of operations for which the Minister of Revenue is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net transfer to general revenues is the difference between all cash deposits by the Department and all cash disbursements made on its behalf by the Department of Finance.

NOTE 2 (continued)

b) Basis of Financial Reporting

REVENUES

All revenues are reported on the accrual method of accounting. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable.

INTERNAL GOVERNMENT TRANSFERS

Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

DEDICATED REVENUE

Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's expenses are encumbered. If actual dedicated revenues exceed budget, the Department may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program. Schedule 2 discloses information on the Department's dedicated revenue initiatives.

EXPENSES

Directly Incurred

Directly incurred expenses are those costs the Department has primary responsibility and accountability for, as reflected in the government's budget documents.

Directly incurred expenses include:

- amortization of capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to accrued employee vacation entitlements.

Incurred by Others

Services contributed by other entities in support of the Department's operations are disclosed in Schedule 12.

ASSETS

Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Capital assets of the Department are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $100,000 and the threshold for all other capital assets is $15,000.

NOTE 2 (continued)

LIABILITIES
Liabilities include all financial claims payable by the Department at fiscal year end.

NET ASSETS
Net assets represents the difference between the value of assets held by the Department and its liabilities.

MEASUREMENT UNCERTAINTY
Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes. The nature of the uncertainty in these items arises from several factors such as the effect on accrued taxes of the verification of taxable income. Personal income tax, recorded as $4,612,531,000 (2003 $4,834,080,000) in these financial statements, is subject to measurement uncertainty due to the use of economic estimates of personal income growth. Use of this information in the past has resulted in a number that differs from final results by a geometric average of plus or minus $200 million over the last four years.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 3 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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.

The fair values of cash in transit, receivables, accountable advances and liabilities are estimated to approximate their book values.

NOTE 4 COMMITMENTS AND CONTINGENCIES

a) Commitments
Commitments to outside organizations in respect of contracts entered into before March 31, 2004 amounted to $3,912,000 (2003 $5,915,000). These commitments will become expenses of the Department when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature.

NOTE 4 (continued)

b) Legal Actions

At March 31, 2004, the Department is a defendant in nine legal claims (2003 seven legal claims). Seven of the claims have specified amounts totalling approximately $5,715,000 and the remaining two have no specified amount (2003 all of the claims had specified amounts totalling $22,452,000). Included in the total legal claims are four amounting to $3,784,000 (2003 three amounting to $19,677,000) in which the Department has been jointly named with other entities. All of the claims with a specified amount of $5,715,000 (2003 four amounting to $18,043,000) are covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

NOTE 5 TRUST FUNDS UNDER ADMINISTRATION

The Department administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds and administers them for the purpose of the various trusts, they are not included in the Department's financial statements. The operations of the funds' beneficial owners are reported separately in their annual reports.

As at March 31, 2004, trust funds under administration were as follows:
(thousands)

	2004	2003
The Workers' Compensation Board Accident Fund	$ 2,328,797	$ 2,025,400
Power Pool of Alberta Balancing Pool	115,892	146,085
	$ 2,444,689	$ 2,171,485

NOTE 6 PAYMENTS UNDER AGREEMENT

The Department has entered into agreements to deliver programs and services that are funded by outside sponsors. Costs incurred under these agreements are paid by the Department under authority of the *Financial Administration Act*, section 25. Accounts payable includes $16,000 (2003 $59,000) relating to payments under agreement.

Amounts paid and payable under agreements with program sponsors are as follows:
(thousands)

	2004	2003
Canadian fuel tax uniformity project	$ 208	$ 141

NOTE 7 DEFINED BENEFIT PLANS

The Department participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,744,000 for the year ended March 31, 2004 (2003 $1,418,000).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014,000 (2002 $301,968,000) and the Public Service Pension Plan reported an actuarial deficiency of $596,213,000 (2002 $175,528,000). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312,000 (2002 $6,472,000).

The Department also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2004, the Bargaining Unit Plan reported an actuarial deficiency of $9,766,000 (2003 $14,434,000), and the Management, Opted Out and Excluded Plan an actuarial surplus of $1,298,000 (2003 actuarial deficiency of $3,053,000). The expense for these two plans is limited to employer's annual contributions for the year.

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Senior Financial Officer and the Deputy Minister of Revenue.

DEPARTMENT OF REVENUE

SCHEDULES TO THE FINANCIAL STATEMENTS

REVENUES **Schedule 1**
(thousands)

		2004	2003
	Budget	**Actual**	**Actual**
Internal government transfers			
Alberta Heritage Savings Trust Fund	$ 440,170	$ 1,133,484	$ –
Income taxes			
Personal income tax	5,034,966	4,612,531	4,834,080
Corporate income tax	2,015,833	1,696,427	2,018,743
	7,050,799	6,308,958	6,852,823
Other taxes			
Tobacco tax	624,000	670,502	618,474
Fuel tax	602,000	619,585	596,953
Insurance taxes	147,692	203,492	160,305
Hotel room tax	58,000	53,325	54,494
Financial institutions capital tax	–	515	29
	1,431,692	1,547,419	1,430,255
Investment income	320	551	443
Fees, permits and licences	190	162	166
Other			
Cost recovery from dedicated revenue initiatives (Schedule 2)	16,542	13,528	11,477
Refunds of expenditure	50	20	342
Sale of assets	–	5	5
Miscellaneous	10	100	21
	16,602	13,653	11,845
	$ 8,939,773	$ 9,004,227	$ 8,295,532

DEDICATED REVENUE INITIATIVES

Schedule 2

(thousands)

	2004		
	Authorized Dedicated Revenues	**Actual Dedicated Revenues**	**(Shortfall) (a)/ Excess**
Revenue collection and rebates	$ 208	$ 263	$ 55
Investment	15,295	12,104	(3,191)
Risk management and insurance	1,039	1,161	122
	$ 16,542	$ 13,528	$ (3,014)

Following is a brief description of each dedicated revenue initiative:

- Revenue collection and rebates: Recovers the costs associated with administration of the payment in lieu of tax program, related to municipally-owned utilities, from the Power Pool of Alberta Balancing Pool.
- Investment: Manages the investments of various public sector investment funds. Fees are based on cost recovery.
- Risk management and insurance: Recovers costs of risk management and insurance services from the Alberta Risk Management Fund.

The revenue of each initiative is reported in the statement of operations.

a) The shortfall is deducted from the current year's authorized budget, as disclosed in Schedules 4 and 5.

EXPENSES DETAILED BY OBJECT

Schedule 3

(thousands)

		2004	2003
	Budget	Actual	Actual
Voted			
Salaries, wages and employee benefits	$ 24,479	$ 23,063	$ 20,256
Supplies and services	15,385	12,963	12,639
Grants	–	22	8
Financial transactions and other	69	157	67
Amortization of capital assets	2,115	2,210	1,728
Total voted expenses before recoveries	42,048	38,415	34,698
Less recovery from support service arrangements with related parties (a)	200	200	200
	$ 41,848	$ 38,215	$ 34,498
Statutory			
Corporate tax interest refunds	$ 20,000	$ 15,641	$ 64,197
Valuation adjustments (Schedule 6)	500	4,105	284
	$ 20,500	$ 19,746	$ 64,481

a) The Department provides information technology services to the Department of Finance on a cost recovery basis.

DEPARTMENT OF REVENUE

BUDGET **Schedule 4**
(thousands)

	2003-04 Estimates	Adjustments (a)	2003-04 Budget	Authorized Supplementary (b)	2003-04 Authorized Budget
Revenues					
Internal government transfers	$ 440,170	$ –	$ 440,170	$ –	$ 440,170
Income taxes	7,050,799	–	7,050,799	–	7,050,799
Other taxes	1,431,692	–	1,431,692	–	1,431,692
Investment income	320	–	320	–	320
Fees, permits and licences	190	–	190	–	190
Other	16,602	–	16,602	–	16,602
	8,939,773	–	8,939,773	–	8,939,773
Expenses					
Voted					
Ministry support services	3,962	–	3,962	–	3,962
Revenue collection and rebates	21,439	–	21,439	–	21,439
Investment	15,408	–	15,408	–	15,408
Risk management and insurance	1,039	–	1,039	–	1,039
Dedicated revenue shortfall (Schedule 2)	–	(3,014)	(3,014)	–	(3,014)
	41,848	(3,014)	38,834	–	38,834
Statutory					
Corporate tax interest refunds	20,000	–	20,000	–	20,000
Valuation adjustments	500	–	500	–	500
	20,500	–	20,500	–	20,500
	62,348	(3,014)	59,334	–	59,334
Net operating results	$ 8,877,425	$ 3,014	$ 8,880,439	$ –	$ 8,880,439
Equipment/inventory purchases	$ 3,525	$ –	$ 3,525	$ 875	$ 4,400

a) Adjustments consist of dedicated revenue shortfalls.

b) Supplementary Estimates were approved on March 11, 2004.

DEPARTMENT OF REVENUE

COMPARISON OF EXPENSES AND EQUIPMENT/INVENTORY PURCHASES BY ELEMENT TO AUTHORIZED BUDGET

Schedule 5

(thousands)

	2003-04 Budget	Supplementary Estimates (a)	2003-04 Authorized Budget	2003-04 Actual Expense	Unexpended (Over Expended)
Voted Expenses and Equipment/Inventory Purchases					
Program 1 - Ministry Support Services					
1.0.1 Minister's Office	$ 275	$ –	$ 275	$ 336	$ (61)
1.0.2 Deputy Minister's Office	346	–	346	411	(65)
1.0.3 Corporate Services	3,062	–	3,062	3,105	(43)
1.0.4 Communications	279	–	279	257	22
	3,962	–	3,962	4,109	(147)
Program 2 - Revenue Collection and Rebates					
2.0.1 Tax and Revenue Administration					
- Operating Expense	21,439	–	21,439	20,743	696
- Equipment/Inventory Purchases	1,175	–	1,175	1,230	(55)
	22,614	–	22,614	21,973	641
Program 3 - Investment					
3.0.1 Investment Management	10,602	–	10,602	7,832	2,770
3.0.2 Securities Administration and Systems					
- Operating Expense	4,806	–	4,806	4,369	437
- Equipment/Inventory Purchases	2,350	875	3,225	2,995	230
	17,758	875	18,633	15,196	3,437
Program 4 - Risk Management and Insurance					
4.0.1 Risk Management and Insurance	1,039	–	1,039	1,162	(123)
	45,373	875	46,248	42,440	3,808
Dedicated revenue shortfall (Schedule 2)	(3,014)	–	(3,014)	–	(3,014)
	$ 42,359	$ 875	$ 43,234	$ 42,440	$ 794
Program Operating Expense	$ 38,834	$ –	$ 38,834	$ 38,215	$ 619
Equipment/Inventory Purchases	3,525	875	4,400	4,225	175
	$ 42,359	$ 875	$ 43,234	$ 42,440	$ 794
Statutory Expenses					
Corporate tax interest refunds	$ 20,000	$ –	$ 20,000	$ 15,641	$ 4,359
Valuation adjustments	500	–	500	4,105	(3,605)
	$ 20,500	$ –	$ 20,500	$ 19,746	$ 754

a) Supplementary Estimates were approved on March 11, 2004.

VALUATION ADJUSTMENTS Schedule 6

(thousands)

	Budget	2004 Actual	2003 Actual
Provision for doubtful accounts and loans	$ 500	$ 3,762	$ 12
Provision for employee benefits other than pensions	–	343	272
	$ 500	$ 4,105	$ 284

SALARY AND BENEFITS DISCLOSURE Schedule 7

(dollars)

	Salary (1)	Other Cash Benefits (2)	Other Non -cash Benefits (3)	2004 Total	2003 Total
Senior Officials					
Deputy Minister (4)	$ 152,808	$ 47,102	$ 36,324	$ 236,234	$ 226,061
Executives					
Chief Investment Officer (5) (6)	176,780	140,852	32,020	349,652	101,251
Acting Chief Investment Officer (6) (7)	53,220	-	23,310	76,530	362,030
Assistant Deputy Minister - Revenue	118,560	16,928	27,416	162,904	161,672
Chief Administrative Officer	122,820	18,798	28,467	170,085	166,854
Director, Risk Management and Insurance	101,784	11,179	22,206	135,169	131,411
Executive Director, Policy and Strategic Planning (8)	76,644	11,382	15,738	103,764	–
Executive Director, Strategic and Business Services (9) (10)	108,341	16,113	24,459	148,913	137,200

1) Base salary includes regular base pay.
2) Other cash benefits include bonuses, vacation payouts and lump sum payments.
3) Other non-cash benefits include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.
4) Automobile provided, no dollar amount included in benefits and allowances figures.
5) The current incumbent was appointed as the Chief Investment Officer on June 9, 2003. The previous incumbent resigned effective June 15, 2002.
6) Base salary includes regular base pay and a market modifier.
7) The position was occupied for the period May 1, 2002 to June 8, 2003.
8) New Executive position effective July 1, 2003.
9) Executive Director, Strategic and Business Services was formerly named Corporate Secretary.
10) The incumbent's services are shared with the Department of Finance and Executive Council which contributed their own share of the cost of salary and benefits. Full salary and benefits are disclosed in this Schedule.

DEPARTMENT OF REVENUE

ACCOUNTS RECEIVABLE — Schedule 8

(thousands)

	2004	2003
Personal income tax	$ 346,065	$ 326,948
Corporate income tax	291,935	204,809
Alberta Heritage Savings Trust Fund	152,484	–
Fuel tax	56,911	54,149
Insurance corporations tax	39,573	19,359
Tobacco tax	16,992	4,851
Hotel room tax	4,851	5,031
Other	4,456	3,516
Financial institutions capital tax	1,855	3,516
	915,122	622,179
Less allowance for doubtful accounts	3,375	1,113
	$ 911,747	$ 621,066

CAPITAL ASSETS — Schedule 9

(thousands)

	Estimated Useful Life	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Computer hardware and software	5 years	$ 17,705	$ 8,934	$ 8,771	$ 6,774
Equipment	10 years	–	–	–	51
		$ 17,705	$ 8,934	$ 8,771	$ 6,825

ACCOUNTS PAYABLE — Schedule 10

(thousands)

	2004	2003
Corporate income tax receipts in abeyance	$ 345,925	$ 336,467
Other	3,870	4,814
	$ 349,795	$ 341,281

DEPARTMENT OF REVENUE

RELATED PARTY TRANSACTIONS

Schedule 11

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Department had the following transactions with related parties recorded on the statement of operations at the amount of consideration agreed upon between the related parties.

(thousands)

	Entities in the Ministry		Other Entities	
	2004	**2003**	**2004**	**2003**
Revenues				
Transfers	$ 1,133,484	$ –	$ –	$ –
Charges for services	3,470	2,767	645	637
	$ 1,136,954	$ 2,767	$ 645	$ 637
Expenses				
Cost of services	$ 15	$ 16	$ 3,576	$ 2,962
Assets				
Accounts receivable	$ 426	$ 453	$ –	$ 3
Liabilities				
Accounts payable	$ 316	$ –	$ 1	$ –

The above transactions do not include support service arrangement transactions disclosed in Schedule 3.

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are disclosed in Schedule 12.

(thousands)

	Entities in the Ministry		Other Entities	
	2004	**2003**	**2004**	**2003**
Expenses - incurred by others				
Accommodation	$ -	$ -	$ 2,109	$ 1,782
Legal services	-	-	1,250	1,292
	$ -	$ -	$ 3,359	$ 3,074

DEPARTMENT OF REVENUE

ALLOCATED COSTS BY PROGRAM

Schedule 12

(thousands)

	Ministry Support Services	Revenue Collection and Rebates	Investment	Risk Management and Insurance	Other	Total
Expenses (1)	$ 4,109	$ 20,743	$ 12,201	$ 1,162	$ 15,641	$ 53,856
Expenses - incurred by others						
Accommodation	41	1,479	510	79	–	2,109
Legal services	2	269	54	925	–	1,250
	43	1,748	564	1,004	–	3,359
Valuation adjustments						
Vacation pay	5	161	192	(15)	–	343
Doubtful accounts	–	3,762	–	–	–	3,762
	5	3,923	192	(15)	–	4,105
2004 Total	$ 4,157	$ 26,414	$ 12,957	$ 2,151	$ 15,641	$ 61,320
2003 Total	$ 3,939	$ 20,948	$ 11,038	$ 1,930	$ 64,197	$ 102,052

1) Expenses - directly incurred as per statement of operations, excluding valuation adjustments.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

YEAR ENDED MARCH 31, 2004

AUDITOR'S REPORT

To the Minister of Revenue

I have audited the balance sheet of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2004 and the statements of income and retained earnings and cash flow 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Edmonton, Alberta
May 21, 2004

Fred J. Dunn, FCA
Auditor General

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

BALANCE SHEET

March 31, 2004 *(thousands)*

	2004	2003
Assets		
Portfolio investments (Note 3)	$ 848,503	$ 825,576
Administration expense receivable	26	–
Accrued investment income	–	590
	$ 848,529	$ 826,166
Liabilities, Endowment and Retained Earnings		
Administration expense payable	–	5
Endowment (Note 6)	300,000	300,000
Retained earnings (Note 6)	548,529	526,161
	$ 848,529	$ 826,166

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2004 *(thousands)*

	Budget	2004 Actual	2003 Actual
Income			
Net investment income (loss) (Note 7)	$ 30,593	$ 72,368	$ (82,751)
Expenses			
Transfers to the Alberta Heritage Foundation for Medical Research	70,000	50,000	51,000
Net income (loss)	$ (39,407)	22,368	(133,751)
Retained earnings at beginning of year		526,161	659,912
Retained earnings at end of year		$ 548,529	$ 526,161

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

STATEMENT OF CASH FLOW

Year Ended March 31, 2004 *(thousands)*

	2004	2003
Operating transactions		
Net income (loss)	$ 22,368	$ (133,751)
Non-cash items included in net income	(4,905)	8,725
	17,463	(125,026)
Decrease in receivables	564	30
Decrease in payables	(5)	(609)
Cash provided by (applied to) operating transactions	18,022	(125,605)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	103,394	163,165
Purchase of investments	(125,024)	(35,205)
Cash provided by (applied to) investing transactions	(21,630)	127,960
Increase (decrease) in cash	(3,608)	2,355
Cash at beginning of year	12,347	9,992
Cash at end of year	$ 8,739	$ 12,347
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 8,739	$ 12,347

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Foundation for Medical Research Endowment Fund ("the Fund") operates under the authority of the *Alberta Heritage Foundation for Medical Research Act*, Chapter A-21, Revised Statutes of Alberta 2000.

The purpose of the Fund is to invest the endowment made to the Fund. The Fund is managed with the objectives of providing an annual level of income for transfer to the Alberta Heritage Foundation for Medical Research while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

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 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.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

NOTE 2 (continued)

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps and equity index futures contracts are recorded at fair value.

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 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 managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

(iv) The fair value of real estate investments 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. Appraisers use a combination of methods to determine fair value including the replacement cost approach, direct comparison approach, direct capitalization of earnings approach and the discounted cash flows approach.

(v) The fair value of Absolute Return Strategy Pool investments are estimated by external managers.

(vi) The fair value of deposits, receivables, accrued interest and payables are estimated to approximate their book values.

(vii) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

NOTE 2 (continued)

e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 5, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS (Schedules A to E)

(thousands)

			2004			2003
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 8,739	$ 8,739	1.0	$ 12,347	$ 12,347	1.6
Canadian Dollar Public Bond Pool (b)	197,301	201,362	22.4	180,469	178,099	23.2
Private Mortgage Pool (c)	30,267	33,837	3.8	25,565	28,196	3.7
	236,307	243,938	27.2	218,381	218,642	28.5
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	97,158	97,110	10.8	92,349	86,976	11.3
External Managers Canadian Large Cap Pool (e)	51,900	59,112	6.6	69,892	64,192	8.4
Canadian Pooled Equity Fund (f)	50,693	58,917	6.6	57,684	51,305	6.7
Growing Equity Income Pool (g)	15,106	15,839	1.8	–	–	–
External Managers Canadian Small Cap Pool (h)	3,274	4,469	0.5	4,641	5,024	0.7
	218,131	235,447	26.3	224,566	207,497	27.1
United States equities (Schedule C)						
S&P 500 Index Fund (i)	74,100	75,931	8.5	37,725	33,824	4.4
External Managers US Large Cap Equity Pool (j)	56,944	56,892	6.3	61,680	52,027	6.8
External Manager US Small/Mid Cap Equity Pool (k)	16,026	18,370	2.0	9,219	9,357	1.2
External Manager US Passive Equity Pool	–	–	–	41,338	33,672	4.4
United States Pooled Equity Fund	–	–	–	56	29	–
	147,070	151,193	16.8	150,018	128,909	16.8
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (l)	78,090	79,261	8.8	83,613	64,852	8.4
External Managers EAFE Plus Equity Pool (l)	37,085	39,292	4.4	38,449	31,533	4.1
External Manager EAFE Passive Equity Pool (m)	32,512	41,746	4.6	34,332	31,889	4.2
	147,687	160,299	17.8	156,394	128,274	16.7
Real Estate (Schedule E)						
Private Real Estate Pool (n)	58,197	64,758	7.2	54,852	60,538	7.9
Absolute Return Strategies						
Absolute Return Strategy Pool (o)	36,819	36,453	4.1	20,304	20,299	2.6
Private Equities						
Private Equity and Income Pools (p)	4,292	5,116	0.6	1,061	2,955	0.4
Total investments (q)	$ 848,503	$ 897,204	100.0	$ 825,576	$ 767,114	100.0

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 3 (continued)

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, 2004, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2004	**2003**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	2.4	2.3
Canadian Pooled Equity Fund	5.7	4.7
Domestic Passive Equity Pooled Fund	4.1	4.0
Foreign Private Equity Pool (02)	3.5	3.5
Growing Equity Income Pool	6.2	–
Private Equity Pool	6.6	6.6
Private Equity Pool (02)	5.3	5.3
Private Income Pool	2.6	–
Private Mortgage Pool	2.8	2.8
Private Real Estate Pool	2.9	3.0
Standard & Poor's 500 Index Fund	6.0	6.9
United States Pooled Equity Fund	–	5.0
Externally Managed Investment Pools		
Absolute Return Strategy Pool	6.4	6.3
Canadian Large Cap Equity Pool	1.9	2.6
Canadian Small Cap Equity Pool	0.7	1.2
EAFE Core Equity Pool	2.6	2.6
EAFE Passive Equity Pool	6.2	5.5
EAFE Plus Equity Pool	2.6	2.7
US Large Cap Equity Pool	2.9	2.9
US Small/Mid Cap Equity Pool	2.7	2.4

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, 2004, securities held by the Fund have an average effective market yield of 2.11% per annum (2003: 3.23% 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, 2004, securities held by the Pool have an average effective market yield of 4.20% per annum (2003: 5.41% per annum) and the following term structure based on principal amount: under 1 year: 2% (2003: 2%); 1 to 5 years: 40% (2003: 37%); 5 to 10 years: 30% (2003: 31%); 10 to 20 years: 10% (2003: 11%); over 20 years: 18% (2003: 19%).

NOTE 3 (continued)

c) 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 (94.1%) and provincial bond residuals (5.9%). 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, 2004, securities held by the Pool have an average effective market yield of 5.50% per annum (2003: 6.43% per annum) and the following term structure based on principal amount: under 1 year: 7% (2003: 5%); 1 to 5 years: 23% (2003: 31%); 5 to 10 years: 26% (2003: 20%); 10 to 20 years: 20% (2003: 24%); and over 20 years: 24% (2003: 20%).

d) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) 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 five years or less.

e) 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 Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

f) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

g) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well capitalized companies. The performance of the pool is measured against the total return of the S&P/TSX Composite Index.

h) 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 Composite Index total market capitalization at time of purchase. Each portfolio is actively managed by an external 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 Composite 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.

i) 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 3d).

NOTE 3 (continued)

j) 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.

k) 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.

l) 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.

m) 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.

n) 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 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.

o) 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.

p) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8%. 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.

NOTE 3 (continued)

q) 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 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.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2003-2004 fiscal year:

Fixed-income securities	35% to 25%
Equities	65% to 75%

Risk is reduced through asset class diversification, diversification within each asset class, quality 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 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

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

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

NOTE 5 (continued)

(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.

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, 2004.

(thousands)

	Maturity			2004		2003	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	93%	7%	–	$ 90,928	$ (631)	$ 47,487	$ (1,101)
Interest rate swap contracts	42%	47%	11%	55,590	(2,473)	32,845	(1,110)
Forward foreign exchange contracts	100%	–	–	42,946	352	44,346	1,515
Cross-currency interest rate swaps	–	27%	73%	27,604	(2,869)	18,826	(3,290)
Credit default swap contracts	–	53%	47%	3,724	(31)	–	–
Bond index swap contracts	100%	–	–	2,849	70	3,097	(10)
Equity index futures contracts	100%	–	–	663	72	1,109	35
				$ 224,304	$ (5,510)	$ 147,710	$ (3,961)

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

NOTE 6 ENDOWMENT AND RETAINED EARNINGS

The endowment was received from the Alberta Heritage Savings Trust Fund on March 31, 1980. The Alberta Heritage Foundation for Medical Research Act provides that money required by the Foundation for the furtherance of its objectives shall be paid from the Fund, but no money shall be paid out of the Fund if the payment would result in the value of the assets of the Fund, at cost, being less than the endowment received by the Fund.

NOTE 7 NET INVESTMENT INCOME (LOSS)

(thousands)

	2004	2003
Deposits and fixed-income securities	$ 17,351	$ 16,573
Canadian equities	34,638	(29,253)
United States equities	2,985	(43,540)
Non-North American equities	9,892	(29,462)
Private equities	1,225	8
Real estate	3,721	2,732
Absolute return strategies	2,713	327
Investment income (loss)	72,525	(82,615)
Direct administrative expenses (Note 8)	(157)	(136)
Net investment income (loss)	$ 72,368	$ (82,751)

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

The investment income for the year ended March 31, 2004 includes writedowns of $245,000 (2003: $54,680,000).

NOTE 8 ADMINISTRATIVE EXPENSES

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

(thousands)

	2004	2003
Direct fund expenses	$ 157	$ 136
Externally managed investment pools	922	931
Internally managed investment pools	232	177
Total	$ 1,311	$ 1,244
Expenses as a percentage of net assets at fair value	0.146%	0.162%

NOTE 9 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2004 *(thousands)*

	2004 Cost	Fund's share 2004 Fair Value	2003 Cost	Fund's share 2003 Fair Value
Deposits and short-term securities	$ 9,058	$ 9,058	$ 12,852	$ 12,852
Fixed-income securities (a)				
Corporate, public and private	130,390	134,320	127,503	128,253
Government of Canada, direct and guaranteed	47,786	47,980	36,852	36,559
Provincial, direct and guaranteed:				
Alberta	136	149	407	438
Other provinces	46,649	50,025	34,963	34,711
Municipal	2,617	2,735	3,730	3,755
	227,578	235,209	203,455	203,716
Receivable from sale of investments and accrued investment income	2,523	2,523	2,466	2,466
Accounts payable and accrued liabilities	(2,852)	(2,852)	(392)	(392)
	(329)	(329)	2,074	2,074
	$ 236,307	$ 243,938	$ 218,381	$ 218,642

a) Fixed income securities held as at March 31, 2004 have an average effective market yield of 4.39% per annum (2003: 5.55% per annum) and the following term structure based on principal amount:

	2004 %	2003 %
under 1 year	3	2
1 to 5 years	37	36
5 to 10 years	30	29
10 to 20 years	11	13
over 20 years	19	20
	100	100

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 1,697	$ 1,697	$ 2,047	$ 2,047
Public equities (a) (b)				
Financials	68,423	76,603	67,777	66,976
Materials	36,023	38,450	36,512	31,714
Energy	29,005	34,413	29,098	32,419
Industrials	17,325	17,899	17,224	15,013
Information technology	15,472	17,388	15,304	10,684
Consumer discretionary	17,710	16,705	19,227	14,673
Telecommunications services	11,947	11,147	12,293	10,520
Consumer staples	8,751	9,431	8,676	8,715
Utilities	8,211	8,478	7,498	7,081
Health Care	5,168	4,841	8,261	7,136
	218,035	235,355	221,870	204,931
Passive index	56	52	1,642	1,512
Receivable from sale of investments and accrued investment income	926	926	604	604
Accounts payable and accrued liabilities	(2,583)	(2,583)	(1,597)	(1,597)
	(1,657)	(1,657)	(993)	(993)
	$ 218,131	$ 235,447	$ 224,566	$ 207,497

a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $68,220,000 (2003: $45,615,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.

b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES — Schedule C

March 31, 2004 *(thousands)*

	Fund's share 2004 Cost	Fund's share 2004 Fair Value	Fund's share 2003 Cost	Fund's share 2003 Fair Value
Deposits and short-term securities	$ 2,300	$ 2,300	$ 1,628	$ 1,628
Public equities (a) (b)				
Financials	28,828	30,775	29,791	25,003
Consumer discretionary	23,443	24,305	24,627	21,270
Information technology	22,595	23,998	20,274	17,418
Health Care	19,428	18,283	20,934	18,944
Industrials	16,424	17,042	16,909	14,180
Consumer staples	14,297	14,116	13,693	11,783
Energy	8,698	8,696	9,824	8,190
Materials	4,752	5,523	4,382	3,567
Telecommunications services	4,488	4,256	4,292	3,635
Utilities	3,478	3,560	3,607	3,232
	146,431	150,554	148,333	127,222
Passive Index	–	–	12	14
Receivable from sale of investments and accrued investment income	573	573	292	292
Accounts payable and accrued liabilities	(2,234)	(2,234)	(247)	(247)
	(1,661)	(1,661)	45	45
	$ 147,070	$ 151,193	$ 150,018	$ 128,909

a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $23,371,000 (2003: $2,981,000) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

b) The sector classification conform to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 3,152	$ 3,152	$ 4,765	$ 4,765
Public equities (a)				
Financials	33,732	37,879	32,623	26,720
Consumer discretionary	22,142	24,517	22,229	17,635
Industrials	16,413	18,115	14,196	11,164
Telecommunications services	11,864	12,368	15,232	12,106
Health Care	12,616	12,220	16,119	12,551
Materials	10,813	12,171	10,029	8,685
Energy	11,718	12,026	12,837	10,849
Consumer staples	11,281	11,739	12,950	11,216
Information technology	8,154	9,792	8,271	6,581
Utilities	5,645	6,163	8,092	6,951
	144,378	156,990	152,578	124,458
Receivable from sale of investments and accrued investment income	1,670	1,670	999	999
Accounts payable and accrued liabilities	(1,513)	(1,513)	(1,948)	(1,948)
	157	157	(949)	(949)
	$ 147,687	$ 160,299	$ 156,394	$ 128,274

a) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
United Kingdom	$ 35,184	$ 36,158	$ 42,447	$ 34,061
Japan	26,583	30,192	25,333	20,179
France	13,638	14,671	14,263	11,359
Switzerland	11,823	12,317	11,911	9,724
Germany	9,885	10,656	8,012	6,068
Netherlands	8,226	8,518	10,050	7,787
Australia	6,166	7,647	6,963	6,671
Italy	6,435	6,906	6,804	5,648
Spain	3,698	4,185	4,143	3,435
Hong Kong	3,221	3,430	4,444	3,684
Other	19,519	22,310	18,208	15,842
	$ 144,378	$ 156,990	$ 152,578	$ 124,458

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2004 *(thousands)*

		Fund's share 2004		Fund's share 2003
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 79	$ 79	$ 79	$ 79
Real Estate (a)				
Office	24,685	28,809	24,317	28,259
Retail	25,268	27,428	25,448	26,804
Industrial	3,836	4,316	2,435	2,854
Residential	3,597	3,394	2,121	2,090
	57,386	63,947	54,321	60,007
Participation units	570	570	39	39
Accrued income and accounts receivable	162	162	413	413
	$ 58,197	$ 64,758	$ 54,852	$ 60,538

a) The following is a summary of real estate investments by geographic location:

		Fund's share 2004		Fund's share 2003
	Cost	**Fair Value**	**Cost**	**Fair Value**
Ontario	$ 42,410	$ 47,305	$ 41,271	$ 45,584
Alberta	13,750	15,318	11,828	13,120
Other	1,226	1,324	1,222	1,303
	$ 57,386	$ 63,947	$ 54,321	$ 60,007

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

Year Ended March 31, 2004

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
	2004	**2003**	**2002**	**2001**	
Time-weighted rates of return					
Short-term fixed income	**3.0**	**2.7**	**3.9**	**5.9**	**3.9**
Scotia Capital 91-day T-Bill Index	*3.0*	*2.7*	*3.7*	*5.7*	*3.8*
Long-term fixed income	**11.6**	**9.6**	**5.9**	**9.3**	**9.1**
Scotia Capital Universe Bond Index	*10.8*	*9.2*	*5.1*	*8.7*	*8.4*
Canadian equities	**36.3**	**(17.4)**	**3.7**	**(16.5)**	**(0.7)**
S&P/TSX Composite Index	*37.7*	*(17.6)*	*4.9*	*(18.6)*	*(0.8)*
United States equities	**22.2**	**(30.5)**	**1.6**	**(14.4)**	**(7.3)**
S&P 500 Index	*20.5*	*(30.7)*	*1.6*	*(15.1)*	*(7.9)*
Non-North American equities	**40.9**	**(29.1)**	**(5.8)**	**(23.2)**	**(7.8)**
MSCI EAFE Index	*40.5*	*(29.3)*	*(7.3)*	*(19.6)*	*(7.2)*
Private equities (2)	**1.1**	**(3.3)**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*8.7*	*5.7*	*n/a*	*n/a*	*n/a*
Real estate (1)	**7.5**	**9.8**	**7.2**	**9.7**	**8.6**
Consumer Price Index (CPI) plus 5%	*5.7*	*8.9*	*9.9*	*11.9*	*9.1*
Absolute Return Strategies (2)	**10.7**	**1.6**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 6%	*6.7*	*4.7*	*n/a*	*n/a*	*n/a*
Overall Return	**24.0**	**(13.4)**	**2.4**	**(9.2)**	**0.0**
Policy Benchmark	**23.3**	**(13.7)**	**2.7**	**(9.5)**	**(0.3)**

(1) Effective June 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%.

(2) Actual and benchmark returns for 2003 are for six months.

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

YEAR ENDED MARCH 31, 2004

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, 2004 and the statements of operations and cash flow 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Edmonton, Alberta
May 21, 2004

Fred J. Dunn, FCA
Auditor General

ALBERTA HERITAGE SAVINGS TRUST FUND

BALANCE SHEET

March 31, 2004 *(thousands)*

	2004	2003
Assets		
Portfolio investments (Note 3)	$ 11,507,117	$ 11,346,295
Accrued investment income	7,542	16,145
Administrative expense receivable	310	2
	$ 11,514,969	$ 11,362,442
Liabilities and Fund Equity		
Liabilities		
Accounts payable	$ 42	$ –
Due to the General Revenue Fund	152,485	–
	152,527	–
Fund equity (Note 6)	11,362,442	11,362,442
	$ 11,514,969	$ 11,362,442

STATEMENT OF OPERATIONS

Year Ended March 31, 2004 *(thousands)*

	Budget	2004 Actual	2003 Actual
Net income (loss) (Note 7)	$ 440,170	$ 1,133,485	$ (893,877)
Transfers to the General Revenue Fund (Note 6)	440,170	1,133,485	–
Net change in fund equity (Note 6)	$ –	–	(893,877)
Fund equity at beginning of year		11,362,442	12,256,319
Fund equity at end of year		$ 11,362,442	$ 11,362,442

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

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF CASH FLOW

Year Ended March 31, 2004 *(thousands)*

	2004	2003
Operating transactions		
Net income (loss)	$ 1,133,485	$ (893,877)
Non-cash items included in net income	(166,266)	58,636
	967,219	(835,241)
Decrease in accounts receivable	8,295	20,640
Increase (decrease) in accounts payable	42	(269,287)
Cash provided by (applied to) operating transactions	975,556	(1,083,888)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,576,492	5,524,009
Purchase of investments	(1,707,900)	(4,228,530)
Cash provided by (applied to) investing transactions	(131,408)	1,295,479
Transfers		
Transfers to the General Revenue Fund	(1,133,485)	–
Increase (decrease) in amounts due to the General Revenue Fund	152,485	(12,897)
Cash applied to transfers	(981,000)	(12,897)
Increase (decrease) in cash	(136,852)	198,694
Cash at beginning of year	250,514	51,820
Cash at end of year	$ 113,662	$ 250,514
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 113,662	$ 250,514

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

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

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.

NOTE 2 (continued)

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. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps and equity index futures contracts are recorded at fair value.

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 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 managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

NOTE 2 (continued)

(iv) The fair value of real estate investments is 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. Appraisers use a combination of methods to determine fair value including the replacement cost approach, direct comparison approach, direct capitalization of earnings approach and the discounted cash flows approach.

(v) The fair value of Absolute Return 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, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. 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 and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

NOTE 3 PORTFOLIO INVESTMENTS (Schedules A to E)

(thousands)

	2004 Cost	2004 Fair Value	2004 %	2003 Cost	2003 Fair Value	2003 %
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 113,662	$ 113,662	0.9	$ 250,514	$ 250,514	2.3
Canadian Dollar Public Bond Pool (b)	3,135,075	3,223,579	25.7	3,012,610	2,996,258	27.1
Bonds, notes and short-term paper, directly held (c)	23,799	25,304	0.2	24,515	25,470	0.2
Private Mortgage Pool (d)	544,000	558,409	4.5	432,916	429,077	3.9
Provincial corporation debentures, directly held (e)	94,656	150,125	1.2	100,037	158,018	1.4
Loans, directly held (f)	93,144	93,144	0.7	97,359	97,359	0.9
	4,004,336	4,164,223	33.2	3,917,951	3,956,696	35.8
Canadian public equities (Schedule B)						
Domestic Passive Equity Pooled Fund (g)	989,162	1,152,226	9.2	907,115	1,050,459	9.5
Canadian Pooled Equity Fund (h)	581,354	699,381	5.6	647,209	596,641	5.4
External Managers Canadian Large Cap Equity Pool (i)	576,697	674,266	5.4	672,938	638,043	5.8
Growing Equity Income Pool (j)	182,284	191,135	1.5	–	–	–
External Managers Canadian Small Cap Equity Pool (k)	36,611	51,135	0.4	72,655	80,751	0.7
	2,366,108	2,768,143	22.1	2,299,917	2,365,894	21.4
United States public equities (Schedule C)						
S&P 500 Index Fund (l)	914,333	1,031,374	8.2	443,426	429,631	3.9
External Managers US Large Cap Equity Pool (m)	687,476	685,839	5.5	894,835	753,677	6.8
External Manager US Small/Mid Cap Equity Pool (n)	224,758	244,619	1.9	111,304	106,645	0.9
External Manager US Passive Equity Pool	–	–	–	505,192	462,155	4.2
United States Pooled Equity Fund	–	–	–	255	105	–
	1,826,567	1,961,832	15.6	1,955,012	1,752,213	15.8
Non-North American public equities (Schedule D)						
External Managers EAFE Core Equity Pool (o)	949,210	1,027,313	8.2	1,054,819	876,238	7.9
External Managers EAFE Plus Equity Pool (o)	460,474	500,339	4.0	518,725	437,568	3.9
External Manager EAFE Passive Equity Pool (p)	366,816	525,190	4.2	411,772	427,300	3.9
	1,776,500	2,052,842	16.4	1,985,316	1,741,106	15.7
Real Estate (Schedule E)						
Private Real Estate Pool (q)	871,959	949,771	7.6	804,855	869,948	7.9
Absolute Return Strategies						
Absolute Return Strategy Pool (r)	512,075	507,721	4.0	283,042	282,967	2.6
Private Equities						
Private Equity and Income Pools (s)	149,572	136,358	1.1	100,202	89,999	0.8
Total investments (t)	$ 11,507,117	$ 12,540,890	100.0	$ 11,346,295	$ 11,058,823	100.0

NOTE 3 (continued)

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, 2004, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2004	**2003**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	38.3	38.1
Canadian Pooled Equity Fund	67.8	55.0
Domestic Passive Equity Pooled Fund	49.2	47.7
Foreign Private Equity Pool (02)	43.8	43.8
Growing Equity Income Pool	75.3	–
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Equity Pool (02)	62.1	62.1
Private Income Pool	38.8	–
Private Mortgage Pool	46.6	42.8
Private Real Estate Pool	43.1	42.8
Standard & Poor’s 500 Index Fund	82.1	87.2
United States Pooled Equity Fund	–	18.0
Externally Managed Investment Pools		
Absolute Return Strategy Pool	88.5	88.2
Canadian Large Cap Equity Pool	21.9	25.5
Canadian Small Cap Equity Pool	8.2	18.6
EAFE Core Equity Pool	33.5	35.6
EAFE Passive Equity Pool	78.4	74.0
EAFE Plus Equity Pool	33.4	37.1
US Large Cap Equity Pool	35.2	41.6
US Passive Equity Pool	–	73.3
US Small/Mid Cap Equity Pool	35.5	26.9

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, 2004, securities held by the Fund have an average effective market yield of 2.11% per annum (2003: 3.23% 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, 2004, securities held by the Pool have an average effective market yield of 4.20% per annum (2003: 5.41% per annum) and the following term structure based on principal amount: under 1 year: 2% (2003: 2%); 1 to 5 years: 40% (2003: 37%); 5 to 10 years: 30% (2003: 31%); 10 to 20 years: 10% (2003: 11%); over 20 years: 18% (2003: 19%).

NOTE 3 (continued)

c) As at March 31, 2004, fixed-income securities held directly by the Fund have an average effective market yield of 2.69% per annum (2003: 4.36% per annum). As at March 31, 2004, fixed-income securities have the following term structure based on principal amount: 1 to 5 years: 100%.

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 (94.1%) and provincial bond residuals (5.9%). 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, 2004, securities held by the Pool have an average effective market yield of 5.50% per annum (2003: 6.43% per annum) and the following term structure based on principal amount: under 1 year: 7% (2003: 5%); 1 to 5 years: 23% (2003: 31%); 5 to 10 years: 26% (2003: 20%); 10 to 20 years: 20% (2003: 24%); and over 20 years: 24% (2003: 20%).

e) As at March 31, 2004, Provincial corporation debentures have an average effective market yield of 7.10% per annum (2003: 7.83% 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, 2004, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245,000 (2003: $91,245,000) and the Vencap loan amounting to $1,899,000 (2003: $6,114,000). The decrease in the carrying value of the Vencap loan resulted from a change to the constant yield method of amortization. The decrease of $4.215 million was charged to income of the current period.

- 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, 2004 amounted to $88,414,959 (2003: $76,189,320). 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.

g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) 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 five years or less.

NOTE 3 (continued)

h) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

i) 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 Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

j) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well capitalized companies. The performance of the pool is measured against the total return of the S&P/TSX Composite Index.

k) 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 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 Composite 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.

l) 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).

m) 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.

n) 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.

NOTE 3 (continued)

o) 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.

p) 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.

q) 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 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.

r) 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.

s) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8%. 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.

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. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

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, 2004.

(thousands)

	Maturity Under 1 Year	Maturity 1 to 3 Years	Maturity Over 3 Years	2004 Notional Amount	2004 Fair Value (a)	2003 Notional Amount	2003 Fair Value (a)
Equity index swap contracts	93%	7%	–	$ 1,117,982	$ (8,244)	$ 575,028	$ (13,298)
Interest rate swap contracts	42%	47%	11%	684,837	(30,484)	404,230	(13,765)
Forward foreign exchange contracts	100%	–	–	590,114	4,825	616,346	21,069
Cross-currency interest rate swaps	1%	25%	74%	398,256	(45,969)	275,384	(52,399)
Credit default swap contracts	–	49%	51%	49,141	(384)	–	–
Bond index swap contracts	100%	–	–	45,613	1,114	52,107	(173)
Equity index futures contracts	100%	–	–	8,919	965	13,754	421
				$ 2,894,862	$ (78,177)	$ 1,936,849	$ (58,145)

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

NOTE 5 INVESTMENT RISK MANAGEMENT

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

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2003-2006 business plan proposes the following asset mix policy for the Endowment Portfolio.

Public equities	45%
Fixed income securities	35%
Real estate	10%
Private equities	5%
Absolute Return Strategies	5%

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(4) 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.

NOTE 7 NET INCOME (LOSS)

(thousands)	2004	2003
Deposits and fixed-income securities	$ 304,331	$ 286,427
Canadian equities	509,551	(246,871)
United States equities	46,191	(591,603)
Non-North American equities	175,183	(390,325)
Private equities	7,934	6,445
Real estate	54,392	39,265
Absolute return strategies	38,069	4,563
Investment income (loss)	1,135,651	(892,099)
Direct administrative expenses (Note 8)	(2,166)	(1,778)
Net income (loss)	$ 1,133,485	$ (893,877)

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 (loss) earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools (see Note 8).

The investment income for the year ended March 31, 2004 includes writedowns totalling $2,630,000 (March 31, 2003: $668,553,000).

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:

(thousands)	2004	2003
Direct fund expenses (Note 7)	$ 2,166	$ 1,778
Externally managed investment pools	12,338	11,883
Internally managed investment pools	3,425	2,286
Total	$ 17,929	$ 15,947
Expenses as a percentage of net assets at fair value	0.145%	0.144%

NOTE 9 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2004 *(thousands)*

	2004 Cost	Fund's share 2004 Fair Value	2003 Cost	Fund's share 2003 Fair Value
Deposits and short-term securities	$ 118,768	$ 118,768	$ 258,716	$ 258,716
Fixed-income securities (a)				
Corporate, pulbic and private	2,130,560	2,165,983	2,134,498	2,115,369
Government of Canada, direct and guaranteed	783,122	793,410	639,630	640,529
Provincial, direct and guaranteed:				
Alberta	2,159	2,377	6,786	7,370
Other provinces	745,529	801,819	584,015	581,516
Municipal	41,586	43,785	62,260	63,169
Provincial corporation debentures	94,656	150,125	100,037	158,018
Loans	93,144	93,144	97,359	97,359
	3,890,756	4,050,643	3,624,585	3,663,330
Receivable from sale of investments and accrued investment income	40,472	40,472	41,239	41,239
Accounts payable and accrued liabilities	(45,660)	(45,660)	(6,589)	(6,589)
	(5,188)	(5,188)	34,650	34,650
	$ 4,004,336	$ 4,164,223	$ 3,917,951	$ 3,956,696

a) Fixed income securities held as at March 31, 2004 have an average effective market yield of 4.53% per annum (2003: 5.68% per annum) and the following term structure based on principal amount:

	2004 %	2003 %
under 1 year	3	2
1 to 5 years	35	36
5 to 10 years	32	31
10 to 20 years	11	13
over 20 years	19	18
	100	100

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 19,490	$ 19,490	$ 22,098	$ 22,098
Public equities (a) (b)				
Financials	769,038	901,733	717,653	759,882
Materials	381,880	451,810	363,479	359,403
Energy	317,651	404,651	297,762	368,554
Industrials	184,151	209,612	174,582	172,681
Information technology	161,932	204,279	151,777	122,169
Consumer discretionary	185,183	196,016	193,152	171,206
Telecommunications services	133,260	131,202	126,947	120,503
Consumer staples	90,335	110,909	88,729	101,180
Utilities	90,691	100,631	76,729	83,199
Health Care	51,479	56,827	82,581	80,367
	2,365,600	2,767,670	2,273,391	2,339,144
Passive index	628	593	16,456	16,680
	2,366,228	2,768,263	2,289,847	2,355,824
Receivable from sale of investments and accrued investment income	10,835	10,835	6,579	6,579
Accounts payable and accrued liabilities	(30,445)	(30,445)	(18,607)	(18,607)
	(19,610)	(19,610)	(12,028)	(12,028)
	$ 2,366,108	$ 2768,143	$ 2,299,917	$ 2,365,894

a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $809,440,000 (2003: $550,918,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.

b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 29,995	$ 29,995	$ 23,085	$ 23,085
Public equities (a) (b)				
Financials	357,904	400,188	386,731	338,718
Information technology	282,604	313,416	262,253	235,478
Consumer discretionary	292,063	311,021	326,894	291,626
Health Care	240,502	238,498	270,831	257,347
Industrials	204,356	220,671	218,911	191,605
Consumer staples	175,500	183,849	179,069	161,325
Energy	107,832	112,968	128,498	111,492
Materials	59,136	70,825	57,080	48,294
Telecommunications services	55,511	55,753	54,907	49,260
Utilities	43,449	46,933	45,953	43,141
	1,818,857	1,954,122	1,931,127	1,728,286
Passive index	–	–	132	174
	1,818,857	1,954,122	1,931,259	1,728,460
Receivable from sale of investments and accrued investment income	7,408	7,408	4,023	4,023
Accounts payable and accrued liabilities	(29,693)	(29,693)	(3,355)	(3,355)
	(22,285)	(22,285)	668	668
	$ 1,826,567	$ 1,961,832	$ 1,955,012	$ 1,752,213

a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $317,461,000 (2003: $37,864,000) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 40,551	$ 40,551	$ 64,941	$ 64,941
Public equities (a)				
Financials	405,030	484,429	414,562	362,993
Consumer discretionary	266,480	314,210	280,984	239,047
Industrials	197,744	232,027	179,573	151,420
Telecommunications services	142,311	158,735	193,406	164,414
Health Care	150,885	156,468	203,489	170,131
Materials	130,807	155,861	128,579	118,296
Energy	140,245	154,046	161,419	146,925
Consumer staples	135,141	150,389	163,886	152,151
Information technology	97,954	125,276	104,922	89,339
Utilities	67,353	78,851	102,399	94,293
	1,733,950	2,010,292	1,933,219	1,689,009
Receivable from sale of investments and accrued investment income	21,318	21,318	13,595	13,595
Accounts payable and accrued liabilities	(19,319)	(19,319)	(26,439)	(26,439)
	1,999	1,999	(12,844)	(12,844)
	$ 1,776,500	$ 2,052,842	$ 1,985,316	$ 1,741,106

a) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
United Kingdom	$ 421,563	$ 462,861	$ 538,441	$ 462,446
Japan	318,432	385,621	320,114	273,788
France	163,625	188,025	179,921	153,954
Switzerland	142,150	157,843	150,805	131,937
Germany	119,043	136,328	101,305	82,318
Netherlands	98,481	109,348	127,664	105,851
Australia	73,965	98,036	87,877	90,362
Italy	77,319	88,605	85,869	76,510
Spain	44,093	53,543	52,331	46,591
Hong Kong	38,962	43,950	56,369	50,019
Other	236,317	286,132	232,523	215,233
	$ 1,733,950	$ 2,010,292	$ 1,933,219	$ 1,689,009

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 1,162	$ 1,162	$ 1,129	$ 1,129
Real Estate (a)				
Office	369,962	422,531	356,881	406,099
Retail	378,702	402,264	373,473	385,180
Industrial	57,490	63,298	35,741	41,008
Residential	53,909	49,782	31,132	30,033
	860,063	937,875	797,227	862,320
Participation units	8,355	8,355	559	559
Accrued income and accounts receivable	2,379	2,379	5,940	5,940
	$ 871,959	$ 949,771	$ 804,855	$ 869,948

a) The following is a summary of real estate investments by geographic location:

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Ontario	635,609	693,793	605,698	655,052
Alberta	$ 206,072	$ 224,660	$ 173,597	$ 188,541
British Columbia	18,382	19,422	17,932	18,727
	$ 860,063	$ 937,875	$ 797,227	$ 862,320

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

Year Ended March 31, 2004

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
	2004	**2003**	**2002**	**2001**	
Time-weighted rates of return					
Short-term fixed income	**2.9**	**3.0**	**3.8**	**5.7**	**3.9**
Scotia Capital 91-day T-Bill Index	*3.0*	*2.7*	*3.7*	*5.7*	*3.8*
Long-term fixed income	**11.3**	**9.5**	**5.9**	**9.5**	**9.0**
Scotia Capital Universe Bond Index	*10.8*	*9.2*	*5.1*	*8.7*	*8.4*
Canadian equities	**36.6**	**(16.6)**	**4.2**	**(16.0)**	**(0.1)**
S&P/TSX Composite Index	*37.7*	*(17.6)*	*4.9*	*(18.6)*	*(0.8)*
United States equities	**22.0**	**(30.6)**	**1.4**	**(14.4)**	**(7.4)**
S&P 500 Index	*20.5*	*(30.7)*	*1.6*	*(15.1)*	*(7.9)*
Non-North American equities	**40.9**	**(29.1)**	**(5.8)**	**(22.6)**	**(7.6)**
MSCI EAFE Index	*40.5*	*(29.3)*	*(7.3)*	*(19.6)*	*(7.2)*
Private equities (2)	**4.6**	**(3.3)**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*8.7*	*5.7*	*n/a*	*n/a*	*n/a*
Real estate (1)	**7.5**	**9.8**	**7.3**	**9.7**	**8.6**
Consumer Price Index (CPI) plus 5%	*5.7*	*9.6*	*9.9*	*11.9*	*9.3*
Absolute Return Strategies (2)	**10.7**	**1.6**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 6%	*6.7*	*4.7*	*n/a*	*n/a*	*n/a*
Total Endowment portfolio	**22.5**	**(11.3)**	**3.3**	**(6.1)**	**1.3**
Policy Benchmark	*21.7*	*(11.7)*	*3.4*	*(6.2)*	*1.1*
Transition portfolio	**n/a**	**0.5**	**5.3**	**8.2**	**n/a**
Overall Return	**22.5**	**(11.0)**	**4.2**	**(0.1)**	**3.2**

(1) 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%.

(2) Actual and benchmark returns for 2003 are for six months.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements
YEAR ENDED MARCH 31, 2004

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Revenue

I have audited the balance sheet of the Alberta Heritage Scholarship Fund as at March 31, 2004 and the statements of income and retained earnings and cash flow 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Edmonton, Alberta
May 21, 2004

Fred J. Dunn, FCA
Auditor General

ALBERTA HERITAGE SCHOLARSHIP FUND

BALANCE SHEET

March 31, 2004 *(thousands)*

	2004	2003
Assets		
Portfolio investments (Note 3)	$ 251,236	$ 249,293
Contributions receivable	104	1,500
Administration expense receivable	14	11
Accrued investment income	–	179
	$ 251,354	$ 250,983
Endowment and Retained Earnings		
Endowment (Note 6)	100,000	100,000
Retained earnings (Note 6)	151,354	150,983
	$ 251,354	$ 250,983

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2004 *(thousands)*

	Budget	2004 Actual	2003 Actual
Income			
Net investment income (loss) (Note 7)	$ 9,983	$ 22,513	$ (27,766)
Contributions from Province of Alberta	200	104	5,030
Other contributions	70	18	286
	10,253	22,635	(22,450)
Expenses			
Scholarships	21,180	22,264	21,037
Net income (loss)	$ (10,927)	371	(43,487)
Retained earnings at beginning of year		150,983	194,470
Retained earnings at end of year		$ 151,354	$ 150,983

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

ALBERTA HERITAGE SCHOLARSHIP FUND

STATEMENT OF CASH FLOW

Year Ended March 31, 2004 *(thousands)*

	2004	2003
Operating transactions		
Net income (loss)	$ 371	$ (43,487)
Non-cash items included in net income	(2,489)	6,167
	(2,118)	(37,320)
Increase (decrease) in receivables	1,572	(1,450)
Decrease in payables	–	(185)
Cash applied to operating transactions	(546)	(38,955)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	36,230	57,150
Purchase of investments	(38,281)	(19,085)
Cash provided by (applied to) investing transactions	(2,051)	38,065
Decrease in cash	(2,597)	(890)
Cash at beginning of year	8,079	8,969
Cash at end of year	$ 5,482	$ 8,079
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 5,482	$ 8,079

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

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Scholarship Fund ("the Fund") operates under the authority of the *Alberta Heritage Scholarship Act,* Chapter A-24, Revised Statutes of Alberta 2000.

The purpose of the Fund is to invest the endowment made to the Fund. The Fund is managed with the objectives of providing an annual level of income for scholarships while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

NOTE 2 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 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.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

NOTE 2 (continued)

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps and equity index futures contracts are recorded at fair value.

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 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 managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.
(iv) The fair value of real estate investments 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. Appraisers use a combination of methods to determine fair value including the replacement cost approach, direct comparison approach, direct capitalization of earnings approach and the discounted cash flows approach.
(v) The fair value of Absolute Return Strategy Pool investments are estimated by external managers.
(vi) The fair value of deposits, receivables, accrued interest and payables are estimated to approximate their book values.
(vii) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

NOTE 2 (continued)

e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 5, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTE 3 PORTFOLIO INVESTMENTS (Schedules A to E)

(thousands)

	2004 Cost	2004 Fair Value	2004 %	2003 Cost	2003 Fair Value	2003 %
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 5,482	$ 5,482	2.1	$ 8,079	$ 8,079	3.3
Canadian Dollar Public Bond Pool (b)	57,806	59,084	22.2	54,105	53,504	23.0
Private Mortgage Pool (c)	9,390	10,477	3.9	7,552	8,387	3.6
	72,678	75,043	28.2	69,736	69,970	29.9
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	28,043	28,752	10.8	25,659	24,962	10.7
Canadian Pooled Equity Fund (e)	15,610	18,316	6.9	16,827	15,115	6.5
External Managers Canadian Large Cap Pool (f)	15,194	17,388	6.5	21,991	20,373	8.8
Growing Equity Income Pool (g)	4,532	4,752	1.8	–	–	–
External Managers Canadian Small Cap Pool (h)	1,067	1,425	0.5	1,444	1,524	0.6
	64,446	70,633	26.5	65,921	61,974	26.6
United States equities (Schedule C)						
S&P 500 Index Fund (i)	18,727	20,234	7.6	9,471	8,978	3.9
External Managers US Large Cap Equity Pool (j)	20,871	20,106	7.5	22,157	18,012	7.7
External Manager US Small/Mid Cap Equity Pool (k)	4,738	5,462	2.1	2,843	2,883	1.2
External Manager US Passive Equity Pool	–	–	–	10,207	8,739	3.8
United States Equity Pooled Fund	–	–	–	18	9	–
	44,336	45,802	17.2	44,696	38,621	16.6
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (l)	24,194	24,246	9.1	25,381	19,419	8.3
External Managers EAFE Plus Equity Pool (l)	12,135	12,841	4.8	11,913	9,756	4.2
External Manager EAFE Passive Equity Pool (m)	7,687	10,187	3.8	9,781	9,381	4.0
EAFE Structured Equity Pool	–	–	–	–	–	–
	44,016	47,274	17.7	47,075	38,556	16.5
Real Estate (Schedule E)						
Private Real Estate Pool (n)	16,632	18,452	6.9	15,082	16,657	7.2
Absolute Return Strategies						
Absolute Return Strategy Pool (o)	7,930	7,926	3.0	6,394	6,392	2.8
Private Equities						
Private Equity and Income Pools (p)	1,198	1,428	0.5	389	919	0.4
Total investments (q)	$ 251,236	$ 266,558	100.0	$ 249,293	$ 233,089	100.0

NOTE 3 (continued)

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, 2004, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2004	**2003**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	0.7	0.7
Canadian Pooled Equity Fund	1.8	1.4
Domestic Passive Equity Pooled Fund	1.2	1.1
Foreign Private Equity Pool (02)	1.0	1.0
Growing Equity Income Pool	1.9	–
Private Equity Pool	2.2	2.2
Private Equity Pool (02)	0.9	0.9
Private Income Pool	0.8	–
Private Mortgage Pool	0.9	0.8
Private Real Estate Pool	0.8	0.8
Standard & Poor's 500 Index Fund	1.6	1.8
United States Pooled Equity Fund	–	1.6
Externally Managed Investment Pools		
Absolute Return Strategy Pool	1.4	2.0
Canadian Large Cap Equity Pool	0.6	0.8
Canadian Small Cap Equity Pool	0.2	0.4
EAFE Core Equity Pool	0.8	0.8
EAFE Passive Equity Pool	1.5	1.6
EAFE Plus Equity Pool	0.9	0.8
US Large Cap Equity Pool	1.0	1.0
US Small/Mid Cap Equity Pool	0.8	0.7
US Passive Equity Pool	–	1.4

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, 2004, securities held by the Fund have an average effective market yield of 2.11% per annum (2003: 3.23% 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, 2004, securities held by the Pool have an average effective market yield of 4.20% per annum (2003: 5.41% per annum) and the following term structure based on principal amount: under 1 year: 2% (2003: 2%); 1 to 5 years: 40% (2003: 37%); 5 to 10 years: 30% (2003: 31%); 10 to 20 years: 10% (2003: 11%); over 20 years: 18% (2003: 19%).

NOTE 3 (continued)

c) 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 (94.1%) and provincial bond residuals (5.9%). 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, 2004, securities held by the Pool have an average effective market yield of 5.50% per annum (2003: 6.43% per annum) and the following term structure based on principal amount: under 1 year: 7% (2003: 5%); 1 to 5 years: 23% (2003: 31%); 5 to 10 years: 26% (2003: 20%); 10 to 20 years: 20% (2003: 24%); and over 20 years: 24% (2003: 20%).

d) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) 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 five years or less.

e) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

f) 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 Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

g) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well capitalized companies. The performance of the pool is measured against the total return of the S&P/TSX Composite Index.

h) 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 Composite Index total market capitalization at time of purchase. Each portfolio is actively managed by an external 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.

i) 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 3d).

NOTE 3 (continued)

j) 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.

k) 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.

l) 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.

m) 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.

n) 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 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.

o) 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.

p) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8%. 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.

NOTE 3 (continued)

q) 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 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.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2003-2004 fiscal year:

Fixed-income securities	35% to 25%
Equities	65% to 75%

Risk is reduced through asset class diversification, diversification within each asset class, quality 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 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

NOTE 5 DERIVATIVE CONTRACTS

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

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

NOTE 5 (continued)

(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.

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, 2004.

(thousands)

	Maturity Under 1 Year	Maturity 1 to 3 Years	Maturity Over 3 Years	2004 Notional Amount	2004 Fair Value (a)	2003 Notional Amount	2003 Fair Value (a)
Equity index swap contracts	93%	7%	–	$ 26,248	$ (174)	$ 13,577	$ (316)
Interest rate swap contracts	42%	46%	12%	16,057	(715)	9,405	(319)
Forward foreign exchange contracts	100%	–	–	9,970	79	13,656	467
Cross-currency interest rate swaps	1%	26%	73%	8,043	(841)	5,531	(979)
Credit default swap contracts	–	53%	47%	1,060	(9)	–	–
Bond index swap contracts	100%	–	–	836	20	930	(3)
Equity index futures contracts	100%	–	–	178	20	306	9
				$ 62,392	$ (1,620)	$ 43,405	$ (1,141)

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

NOTE 6 ENDOWMENT AND RETAINED EARNINGS

The endowment was received from the Alberta Heritage Savings Trust Fund on March 31, 1980. The Alberta Heritage Scholarship Act provides that money required by the Students Finance Board for providing scholarships or for paying for the costs of administering scholarships, shall be paid from the Fund, but no portion of the original endowment may be paid out of the Fund.

NOTE 7 NET INVESTMENT INCOME (LOSS)

(thousands)

	2004	2003
Deposits and fixed-income securities	$ 5,352	$ 5,244
Canadian equities	10,808	(9,172)
United States equities	923	(15,233)
Non-North American equities	3,351	(9,399)
Private equities	349	(2)
Real estate	1,057	752
Absolute return strategies	738	103
Investment income (loss)	22,578	(27,707)
Direct administrative expenses (Note 8)	(65)	(59)
Net investment income (loss)	$ 22,513	$ (27,766)

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

The investment income for the year ended March 31, 2004, includes writedowns of $74,000 (2003: $15,248,000).

NOTE 8 ADMINISTRATIVE EXPENSES

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

(thousands)

	2004	2003
Direct fund expenses	$ 65	$ 59
Externally managed investment pools	287	289
Internally managed investment pools	68	52
Total	$ 420	$ 400
Expenses as a percentage of net assets at fair value	0.158%	0.170%

NOTE 9 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2004 *(thousands)*

		2004		2003
	Cost	Fund's share Fair Value	Cost	Fund's share Fair Value
Deposits and short-term securities	$ 5,576	$ 5,576	$ 8,231	$ 8,231
Fixed-income securities (a)				
Corporate, public and private	38,685	39,925	38,121	38,451
Government of Canada, direct and guaranteed	14,001	14,078	11,048	10,983
Provincial, direct and guaranteed:				
Alberta	40	44	122	132
Other provinces	13,703	14,711	10,474	10,423
Municipal	767	803	1,118	1,128
	67,196	69,561	60,883	61,117
Receivable from sale of investments and accrued investment income	743	743	740	740
Accounts payable and accrued liabilities	(837)	(837)	(118)	(118)
	(94)	(94)	622	622
	$ 72,678	$ 75,043	$ 69,736	$ 69,970

a) Fixed income securities held as at March 31, 2004 have an average effective market yield of 4.39% per annum (2003: 5.55% per annum) and the following term structure based on principal amount:

	2004 %	2003 %
under 1 year	3	2
1 to 5 years	37	36
5 to 10 years	30	29
10 to 20 years	11	13
over 20 years	19	20
	100	100

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 506	$ 506	$ 631	$ 631
Public equities (a) (b)				
Financials	20,297	22,962	19,960	19,973
Materials	10,598	11,527	10,712	9,486
Energy	8,568	10,322	8,549	9,691
Industrials	5,117	5,373	5,053	4,503
Information technology	4,549	5,220	4,472	3,195
Consumer discretionary	5,208	5,014	5,614	4,373
Telecommunications services	3,549	3,342	3,587	3,121
Consumer staples	2,571	2,832	2,541	2,597
Utilities	2,437	2,552	2,143	2,070
Health Care	1,517	1,455	2,439	2,148
	64,411	70,599	65,070	61,157
Passive index	18	17	505	471
Receivable from sale of investments and accrued investment income	276	276	184	184
Accounts payable and accrued liabilities	(765)	(765)	(469)	(469)
	(489)	(489)	(285)	(285)
	$ 64,446	$ 70,633	$ 65,921	$ 61,974

a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $20,198,000 (2003: $13,092,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.

b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 712	$ 712	$ 547	$ 547
Public equities (a) (b)				
Financials	8,622	9,269	8,818	7,448
Consumer discretionary	7,446	7,627	7,606	6,536
Information technology	6,708	7,163	5,962	5,155
Health Care	5,756	5,467	6,139	5,631
Industrials	4,954	5,191	4,994	4,225
Consumer staples	4,246	4,216	4,100	3,538
Energy	2,601	2,625	2,944	2,462
Materials	1,460	1,720	1,311	1,068
Telecommunications services	1,318	1,255	1,222	1,047
Utilities	993	1,037	1,038	948
	44,104	45,570	44,134	38,058
Passive index	–	–	3	4
Receivable from sale of investments and accrued investment income	178	178	90	90
Accounts payable and accrued liabilities	(658)	(658)	(78)	(78)
	(480)	(480)	12	12
	$ 44,336	$ 45,802	$ 44,696	$ 38,621

a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $6,228,000 (2003: $791,000) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2004 *(thousands)*

	2004 Cost	Fund's share 2004 Fair Value	2003 Cost	Fund's share 2003 Fair Value
Deposits and short-term securities	$ 986	$ 986	$ 1,442	$ 1,442
Public equities (a)				
Financials	10,031	11,126	9,817	8,035
Consumer discretionary	6,641	7,268	6,691	5,293
Industrials	4,938	5,380	4,271	3,353
Materials	3,293	3,658	3,036	2,623
Telecommunications services	3,527	3,629	4,596	3,643
Health Care	3,707	3,567	4,843	3,766
Energy	3,452	3,531	3,846	3,251
Consumer staples	3,333	3,440	3,895	3,369
Information technology	2,430	2,865	2,489	1,978
Utilities	1,644	1,790	2,434	2,088
	42,996	46,254	45,918	37,399
Receivable from sale of investments and accrued investment income	520	520	301	301
Accounts payable and accrued liabilities	(486)	(486)	(586)	(586)
	34	34	(285)	(285)
	$ 44,016	$ 47,274	$ 47,075	$ 38,556

a) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	2004 Cost	Fund's share 2004 Fair Value	2003 Cost	Fund's share 2003 Fair Value
United Kingdom	$ 10,398	$ 10,587	$ 12,782	$ 10,242
Japan	7,838	8,814	7,587	6,059
France	4,050	4,319	4,286	3,408
Switzerland	3,535	3,646	3,583	2,921
Germany	2,967	3,159	2,405	1,822
Netherlands	2,429	2,498	3,029	2,345
Australia	1,832	2,230	2,096	2,000
Italy	1,921	2,044	2,048	1,694
Spain	1,076	1,201	1,242	1,031
Hong Kong	981	1,035	1,344	1,108
Other	5,969	6,721	5,516	4,769
	$ 42,996	$ 46,254	$ 45,918	$ 37,399

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 23	$ 23	$ 22	$ 22
Real Estate (a)				
Office	7,055	8,209	6,686	7,776
Retail	7,222	7,815	6,997	7,375
Industrial	1,096	1,230	670	785
Residential	1,028	967	583	575
	16,401	18,221	14,936	16,511
Participation units	162	162	11	11
Accrued income and accounts receivable	46	46	113	113
	$ 16,632	$ 18,452	$ 15,082	$ 16,657

a) The following is a summary of real estate investments by geographic location:

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Ontario	$ 12,121	$ 13,479	$ 11,348	$ 12,542
Alberta	3,930	4,365	3,252	3,610
British Columbia	350	377	336	359
	$ 16,401	$ 18,221	$ 14,936	$ 16,511

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

Year Ended March 31, 2004

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
	2004	2003	2002	2001	
Time-weighted rates of return					
Short-term fixed income	**3.0**	**2.9**	**4.1**	**6.0**	**4.0**
Scotia Capital 91-day T-Bill Index	*3.0*	*2.7*	*3.7*	*5.7*	*3.8*
Long-term fixed income	**11.6**	**9.7**	**5.9**	**9.4**	**9.1**
Scotia Capital Universe Bond Index	*10.8*	*9.2*	*5.1*	*8.7*	*8.4*
Canadian equities	**36.2**	**(17.4)**	**3.4**	**(16.0)**	**(0.6)**
S&P/TSX Composite Index	*37.7*	*(17.6)*	*4.9*	*(18.6)*	*(0.8)*
United States equities	**22.2**	**(30.6)**	**1.4**	**(14.3)**	**(7.4)**
S&P 500 Index	*20.5*	*(30.7)*	*1.6*	*(15.1)*	*(7.9)*
Non-North American equities	**40.9**	**(29.1)**	**(5.9)**	**(23.1)**	**(7.8)**
MSCI EAFE Index	*40.5*	*(29.3)*	*(7.3)*	*(19.6)*	*(7.2)*
Private equities (2)	**1.3**	**(3.5)**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*8.7*	*5.7*	*n/a*	*n/a*	*n/a*
Real estate (1)	**7.5**	**9.8**	**7.2**	**9.7**	**8.5**
Consumer Price Index (CPI) plus 5%	*5.7*	*8.9*	*9.9*	*11.9*	*9.1*
Absolute Return Strategies (2)	**10.7**	**1.6**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 6%	*6.7*	*4.7*	*n/a*	*n/a*	*n/a*
Overall Return	**24.0**	**(13.3)**	**2.3**	**(8.9)**	**0.1**
Policy Benchmark	**23.4**	**(13.7)**	**2.7**	**(9.5)**	**(0.3)**

(1) Effective June 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%.

(2) Actual and benchmark returns for 2003 are for six months.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

YEAR ENDED MARCH 31, 2004

AUDITOR'S REPORT

To the Minister of Revenue

I have audited the balance sheet of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2004 and the statements of income and retained earnings and cash flow 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Edmonton, Alberta
May 21, 2004

Fred J. Dunn, FCA
Auditor General

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

BALANCE SHEET

March 31, 2004 *(thousands)*

	2004	2003
Assets		
Portfolio investments (Note 3)	$ 521,616	$ 473,192
Administrative expense receivable	14	–
Accrued investment income	–	319
	$ 521,630	$ 473,511
Liabilities, Endowment and Retained Earnings		
Administration expense payable	$ –	$ 1
Endowment (Note 6)	500,000	500,000
Retained earnings (deficit) (Note 6)	21,630	(26,490)
	$ 521,630	$ 473,511

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2004 *(thousands)*

	Budget	2004 Actual	2003 Actual
Income			
Net Investment income (loss) (Note 7)	$ 10,682	$ 37,106	$ (33,314)
Transfer from the General Revenue Fund	–	21,430	–
	10,682	58,536	(33,314)
Expenses			
Transfers to the Alberta Heritage Foundation for Science and Engineering Research	14,022	10,416	6,325
Net income (loss)	$ (3,340)	48,120	(39,639)
Retained earnings (deficit) at beginning of year		(26,490)	13,149
Retained earnings (deficit) at end of year		$ 21,630	$ (26,490)

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

STATEMENT OF CASH FLOW

Year Ended March 31, 2004 *(thousands)*

	2004	2003
Operating transactions		
Net income (loss)	$ 48,120	$ (39,639)
Non-cash items included in net income	1,363	796
	49,483	(38,843)
Decrease in accounts receivable	305	112
Decrease in accounts payable	(1)	(427)
Cash provided by (applied to) operating transactions	49,787	(39,158)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	40,506	81,542
Purchase of investments	(100,271)	(40,557)
Cash provided by (applied to) investing transactions	(59,765)	40,985
Increase (decrease) in cash	(9,978)	1,827
Cash at beginning of year	14,390	12,563
Cash at end of year	$ 4,412	$ 14,390
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 4,412	$ 14,390

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Science and Engineering Research Endowment Fund ("the Fund") operates under the authority of the *Alberta Heritage Foundation for Science and Engineering Research Act*, Chapter A-22, Revised Statutes of Alberta 2000.

The purpose of the Fund is to invest the endowment made to the Fund. The Fund has been managed with the objectives of providing an annual level of income for transfer to the Alberta Heritage Foundation for Science and Engineering while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian 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 are recorded as of the trade date.

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

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 2 (continued)

b) Income Recognition

Investment income is recorded on the accrual basis. Gains and losses arising as a result of disposals are included in the determination of investment income.

Income and expense from derivative contracts are included in investment income.

Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps and equity index futures contracts are recorded at fair value.

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 compulsion to act. Fair values of investments held either 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) Private fixed-income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management.

(iii) The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple analysis.

NOTE 2 (continued)

(iv) The fair value of 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. Appraisers use a combination of methods to determine fair value including the replacement cost approach, direct comparison approach, direct capitalization of earnings approach and the discounted cash flows approach.

(v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(vi) The fair values of deposits, receivables, accrued interest and payables are estimated to approximate their book values.

(vii) 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, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 5, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS (Schedules A to E)

(thousands)

			2004			2003
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 4,412	$ 4,412	0.8	$ 14,390	$ 14,390	3.4
Canadian Dollar Public Bond Pool (b)	150,432	157,029	29.8	126,849	128,755	30.7
Private Mortgage Pool (c)	25,285	26,384	5.0	19,491	19,784	4.7
	180,129	187,825	35.6	160,730	162,929	38.8
Canadian public equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	54,518	50,606	9.6	45,870	38,892	9.3
External Managers Canadian Large Cap Equity Pool (e)	33,853	32,000	6.1	40,117	30,011	7.1
Canadian Pooled Equity Fund (f)	35,481	31,003	5.9	36,984	24,502	5.8
Growing Equity Income Pool (g)	7,856	8,237	1.5	–	–	–
External Managers Canadian Small Cap Equity Pool (h)	1,389	1,687	0.3	2,726	2,586	0.6
	133,097	123,533	23.4	125,697	95,991	22.8
United States public equities (Schedule C)						
S&P 500 Index Fund (i)	41,035	43,624	8.3	17,284	15,506	3.7
External Managers US Large Cap Equity Pool (j)	27,378	25,223	4.8	31,923	24,805	5.9
External Manager US Small/Mid Cap Equity Pool (k)	8,849	9,682	1.8	3,737	3,731	0.9
External Manager US Passive Equity Pool	–	–	–	20,718	18,156	4.3
	77,262	78,529	14.9	73,662	62,198	14.8
Non-North American public equities (Schedule D)						
External Managers EAFE Core Equity Pool (l)	42,680	41,792	7.9	41,770	31,181	7.4
External Managers EAFE Plus Equity Pool (l)	18,356	19,445	3.7	18,724	15,352	3.6
External Manager EAFE Passive Equity Pool (m)	18,412	23,048	4.4	17,308	15,787	3.8
	79,448	84,285	16.0	77,802	62,320	14.8
Real Estate (Schedule E)						
Private Real Estate Pool (n)	28,167	29,976	5.7	24,124	25,546	6.1
Absolute Return Strategies						
Absolute Return Strategy Pool (o)	21,625	21,432	4.1	10,830	10,827	2.6
Private Equities						
Private Equity and Income Pools (p)	1,888	1,704	0.3	347	335	0.1
Total investments (q)	$ 521,616	$ 527,284	100.0	$ 473,192	$ 420,146	100.0

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 3 (continued)

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, 2004, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2004	**2003**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	1.9	1.6
Canadian Pooled Equity Fund	3.0	2.3
Domestic Passive Equity Pooled Fund	2.2	1.8
Foreign Private Equity Pool (02)	1.8	1.8
Growing Equity Income Pool	3.2	–
Private Equity Pool (02)	1.8	1.8
Private Income Pool	1.5	–
Private Mortgage Pool	2.2	2.0
Private Real Estate Pool	1.4	1.3
Standard & Poor's 500 Index Fund	3.5	3.1
Externally Managed Investment Pools		
Absolute Return Strategy Pool	3.7	3.4
Canadian Large Cap Equity Pool	1.0	1.2
Canadian Small Cap Equity Pool	0.3	0.6
EAFE Core Equity Pool	1.4	1.3
EAFE Passive Equity Pool	3.4	2.7
EAFE Plus Equity Pool	1.3	1.3
US Large Cap Equity Pool	1.3	1.4
US Small/Mid Cap Equity Pool	1.4	0.9
US Passive Equity Pool	–	2.9

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, 2004, securities held by the Fund have an average effective market yield of 2.11% per annum (2003: 3.23% 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, 2004, securities held by the Pool have an average effective market yield of 4.20% per annum (2003: 5.41% per annum) and the following term structure based on principal amount: under 1 year: 2% (2003: 2%); 1 to 5 years: 40% (2003: 37%); 5 to 10 years: 30% (2003: 31%); 10 to 20 years: 10% (2003: 11%); over 20 years: 18% (2003: 19%).

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 3 (continued)

c) 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 (94.1%) and provincial bond residuals (5.9%). 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, 2004, securities held by the Pool have an average effective market yield of 5.50% per annum (2003: 6.43% per annum) and the following term structure based on principal amount: under 1 year: 7% (2003: 5%); 1 to 5 years: 23% (2003: 31%); 5 to 10 years: 26% (2003: 20%); 10 to 20 years: 20% (2003: 24%); and over 20 years: 24% (2003: 20%).

d) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index.The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) 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 five years or less.

e) 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 Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

f) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite Index while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

g) The Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well capitalized companies. The performance of the pool is measured against the total return of the S&P/TSX Composite Index.

h) 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 Composite Index total market capitalization at time of purchase. Each portfolio is actively managed by an external 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 Composite 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.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 3 (continued)

i) 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 3d).

j) 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.

k) 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.

l) 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.

m) 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.

n) 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 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.

o) 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.

NOTE 3 (continued)

p) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8%. The Private Equity Portfolio consists of the 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.

q) 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 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.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2003-2004 fiscal year:

Fixed-income securities	15% to 55%
Equities	45% to 75%

Risk is reduced through asset class diversification, diversification within each asset class, quality 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 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

NOTE 5 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

NOTE 5 (continued)

term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. There are underlying securities supporting all swaps. Leveraging is not allowed.

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

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, 2004.

(thousands)

		Maturity		2004		2003	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	93%	7%	–	$ 48,600	$ (352)	$ 21,261	$ (492)
Interest rate swap contracts	42%	46%	12%	29,818	(1,330)	15,079	(516)
Forward foreign exchange contracts	100%	–	–	24,687	202	23,405	807
Cross-currency interest rate swaps	1%	25%	74%	18,642	(2,240)	11,200	(2,206)
Bond index swap contracts	100%	–	–	2,222	54	2,239	(7)
Credit default swap contracts	–	48%	52%	2,176	(17)	–	–
Equity index futures contracts	100%	–	–	378	41	502	16
				$ 126,523	$ (3,642)	$ 73,686	$ (2,398)

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

NOTE 6 ENDOWMENT AND RETAINED EARNINGS

The endowment was received from the General Revenue Fund during the fiscal year ended March 31, 2001. The Alberta Heritage Foundation for Science and Engineering Research Act provides that money required by the Foundation for the furtherance of its objectives shall be paid from the Fund, but no money shall be paid out of the Fund if the payments would impair the real value of the Endowment Fund over the long term.

Effective for 2004-05, the Act was amended to restrict payments requested by the Foundation. The amount requested may not exceed in a fiscal year 4.5% of the average market value of the Fund determined at March 31 of the preceeding three fiscal years.

NOTE 7 NET INVESTMENT INCOME (LOSS)

(thousands)	2004	2003
Deposits and fixed-income securities	$ 13,164	$ 12,615
Canadian equities	14,583	(14,413)
United States equities	1,189	(19,507)
Non-North American equities	4,847	(13,258)
Private equities	185	6
Real estate	1,708	1,153
Absolute return strategies	1,535	175
Investment income (loss)	37,211	(33,229)
Direct administrative expenses (Note 8)	(105)	(85)
Net investment income (loss)	$ 37,106	$ (33,314)

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

The investment income for the year ended March 31, 2004, includes writedowns of $100,000 (2003: $25,999,000).

NOTE 8 ADMINISTRATIVE EXPENSES

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

(thousands)	2004	2003
Direct fund expenses (Note 7)	$ 105	$ 85
Externally managed investment pools	467	436
Internally managed investment pools	131	87
Total	$ 703	$ 608
Expenses as a percentage of net assets at fair value	0.133%	0.145%

NOTE 9 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 4,660	$ 4,660	$ 14,751	$ 14,751
Fixed-income securities (a)				
Corporate, public and private	101,474	104,746	91,018	92,158
Government of Canada, direct and guaranteed	36,435	37,416	25,893	26,430
Provincial, direct and guaranteed:				
Alberta	104	116	286	317
Other provinces	35,718	39,011	24,665	25,062
Municipal	1,995	2,133	2,621	2,715
	175,726	183,422	144,483	146,682
Receivable from sale of investments and accrued investment income	1,967	1,967	1,779	1,779
Accounts payable and accrued liabilities	(2,224)	(2,224)	(283)	(283)
	(257)	(257)	1,496	1,496
	$ 180,129	$ 187,825	$ 160,730	$ 162,929

a) Fixed income securities held as at March 31, 2004 have an average effective market yield of 4.39% per annum (2003: 5.55% per annum) and the following term structure based on principal amount:

	2004 %	2003 %
under 1 year	3	2
1 to 5 years	37	36
5 to 10 years	30	29
10 to 20 years	11	13
over 20 years	19	20
	100	100

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 878	$ 878	$ 963	$ 963
Public equities (a) (b)				
Financials	40,963	40,320	37,129	30,907
Materials	22,353	20,224	20,684	14,663
Energy	17,460	18,060	16,207	14,990
Industrials	10,725	9,326	9,839	6,979
Information technology	9,630	9,136	8,740	4,949
Consumer discretionary	11,002	8,708	10,969	6,817
Telecommunications services	7,310	5,863	6,853	4,846
Consumer staples	5,413	4,906	4,925	4,041
Utilities	4,878	4,436	4,183	3,252
Health Care	3,330	2,525	4,707	3,314
	133,064	123,504	124,236	94,758
Passive index	24	20	940	712
Receivable from sale of investments and accrued investment income	483	483	282	282
Accounts payable and accrued liabilities	(1,352)	(1,352)	(724)	(724)
	(869)	(869)	(442)	(442)
	$ 133,097	$ 123,533	$ 125,697	$ 95,991

a) The Plan's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $35,551,000 (2003: $20,396,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.

b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2004 *(thousands)*

		Fund's share 2004		**Fund's share 2003**
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 1,170	$ 1,170	$ 773	$ 773
Public equities (a) (b)				
Financials	15,193	16,067	14,608	12,065
Information technology	11,970	12,625	9,927	8,407
Consumer discretionary	12,108	12,225	12,188	10,219
Health Care	10,255	9,604	10,275	9,171
Industrials	8,635	8,809	8,265	6,819
Consumer staples	7,522	7,424	6,758	5,719
Energy	4,581	4,531	4,841	3,951
Materials	2,483	2,798	2,144	1,716
Telecommunications services	2,377	2,262	2,109	1,782
Utilities	1,865	1,911	1,745	1,546
	76,989	78,256	72,860	61,395
Passive Index	–	–	5	6
Receivable from sale of investments and accrued investment income	291	291	140	140
Accounts payable and accrued liabilities	(1,188)	(1,188)	(116)	(116)
	(897)	(897)	24	24
	$ 77,262	$ 78,529	$ 73,662	$ 62,198

a) The Plan's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $13,427,000 (2003: $1,367,000) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 1,624	$ 1,624	$ 2,303	$ 2,303
Public equities (a)				
Financials	18,111	19,909	16,218	13,001
Consumer discretionary	11,902	12,876	11,078	8,560
Industrials	8,798	9,497	7,072	5,423
Telecommunications services	6,456	6,541	7,580	5,875
Health Care	6,834	6,453	8,034	6,097
Materials	5,739	6,343	4,973	4,221
Energy	6,344	6,339	6,406	5,271
Consumer staples	6,103	6,194	6,449	5,449
Information technology	4,387	5,159	4,115	3,201
Utilities	3,058	3,258	4,030	3,375
	77,732	82,569	75,955	60,473
Receivable from sale of investments and accrued investment income	851	851	486	486
Accounts payable and accrued liabilities	(759)	(759)	(942)	(942)
	92	92	(456)	(456)
	$ 79,448	$ 84,285	$ 77,802	$ 62,320

a) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
United Kingdom	$ 19,004	$ 19,061	$ 21,124	$ 16,552
Japan	14,269	15,879	12,613	9,831
France	7,367	7,730	7,112	5,514
Switzerland	6,371	6,472	5,930	4,726
Germany	5,282	5,580	3,990	2,951
Netherlands	4,487	4,508	4,999	3,782
Australia	3,346	4,048	3,472	3,238
Italy	3,478	3,637	3,393	2,738
Spain	2,015	2,224	2,063	1,673
Hong Kong	1,708	1,786	2,213	1,784
Other	10,405	11,644	9,046	7,684
	$ 77,732	$ 82,569	$ 75,955	$ 60,473

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 37	$ 37	$ 33	$ 33
Real Estate (a)				
Office	11,955	13,335	10,699	11,925
Retail	12,237	12,696	11,196	11,311
Industrial	1,857	1,998	1,072	1,204
Residential	1,742	1,571	933	882
	27,791	29,600	23,900	25,322
Participation units	264	264	17	17
Accrued income and accounts receivable	75	75	174	174
	$ 28,167	$ 29,976	$ 24,124	$ 25,546

a) The following is a summary of real estate investments by geographic location:

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Ontario	$ 20,538	$ 21,897	$ 18,158	$ 19,236
Alberta	6,659	7,090	5,205	5,536
British Columbia	594	613	537	550
	$ 27,791	$ 29,600	$ 23,900	$ 25,322

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENT RETURNS — Schedule F

Year Ended March 31, 2004

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 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			3 Year Compound Annualized
	2004	**2003**	**2002**	**Return**
Time-weighted rates of return				
Short-term fixed income	**3.0**	**2.9**	**4.0**	**3.3**
Scotia Capital 91-day T-Bill Index	*3.0*	*2.7*	*3.7*	*3.1*
Long-term fixed income	**11.6**	**9.6**	**5.9**	**9.0**
Scotia Capital Universe Bond Index	*10.8*	*9.2*	*5.1*	*8.3*
Canadian equities	**36.6**	**(17.1)**	**4.2**	**5.7**
S&P/TSX Composite Index	*37.7*	*(17.6)*	*4.9*	*6.0*
United States equities	**22.1**	**(30.4)**	**1.4**	**(5.0)**
S&P 500 Index	*20.5*	*(30.7)*	*1.6*	*(5.3)*
Non-North American equities	**40.9**	**(29.1)**	**(5.6)**	**(2.0)**
MSCI EAFE Index	*40.5*	*(29.3)*	*(7.3)*	*(2.7)*
Private equities (2)	**1.2**	**(4.3)**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*8.7*	*5.7*	*n/a*	*n/a*
Real estate (1)	**7.5**	**9.8**	**7.3**	**8.2**
Consumer Price Index (CPI) plus 5%	*5.7*	*8.9*	*9.9*	*7.3*
Absolute Return Strategies (2)	**10.7**	**1.6**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 6%	*6.7*	*4.7*	*n/a*	*n/a*
Overall Return	**22.5**	**(10.2)**	**3.0**	**4.2**
Policy Benchmark	*21.7*	*(10.6)*	*3.1*	*3.9*

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

(2) Actual and benchmark returns for 2003 are for six months.

ALBERTA RISK MANAGEMENT FUND

Financial Statements

YEAR ENDED MARCH 31, 2004

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Revenue

I have audited the balance sheet of the Alberta Risk Management Fund as at March 31, 2004 and the statement of operations 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Edmonton, Alberta — Fred J. Dunn, FCA
May 21, 2004 — Auditor General

ALBERTA RISK MANAGEMENT FUND

BALANCE SHEET

March 31, 2004 *(thousands)*

	2004	2003
Assets		
Cash and cash equivalents (Note 3)	$ 19,248	$ 18,237
Accounts receivable (Note 4)	33	34
Accrued recoveries (Note 5)	209	147
	$ 19,490	$ 18,418
Liabilities and Net Liabilities		
Liabilities		
Payable to the Revenue Department	$ 426	$ 275
Liability for accrued claims (Note 6)	25,255	14,584
	25,681	14,859
Net (Liabilities) Assets	(6,191)	3,559
	$ 19,490	$ 18,418

The accompanying notes are part of these financial statements.

ALBERTA RISK MANAGEMENT FUND

STATEMENT OF OPERATIONS
Year Ended March 31, 2004 *(thousands)*

	Budget	2004 Actual	2003 Actual
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 6,000	$ 6,284	$ 6,725
Other entities	730	342	363
Subrogation and salvage	250	220	278
Interest	550	600	564
	7,530	7,446	7,930
Expenses			
Insurance claims	4,400	13,516	8,560
Insurance premiums	2,000	2,296	1,770
Administration	1,039	1,162	881
Other services	271	222	200
	7,710	17,196	11,411
Net expense	$ (180)	(9,750)	(3,481)
Net assets at beginning of year		3,559	7,040
Net (liabilities) assets at end of year		$ (6,191)	$ 3,559

The accompanying notes are part of these financial statements.

ALBERTA RISK MANAGEMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

NOTE 1 AUTHORITY, PURPOSE AND FINANCIAL STRUCTURE

The Alberta Risk Management Fund (the Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000.

The Fund facilitates the provision of risk management and insurance services to government departments, other entities within the Alberta Government, members of the Legislative Assembly and others by assuming general and automobile liability and the risk of property and other losses in exchange for premiums related to the level of risk assumed.

In the ordinary course of business, the Fund insures certain risks for the purpose of limiting its exposure to large or unusual risks. As such, the Fund enters into excess of loss contracts with only the most credit-worthy insurance companies and is required to pay for all losses up to certain predetermined amounts. The insurance companies compensate the Fund for any losses above the agreed predetermined amounts.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

a) Claims provisions, including provisions for claims incurred but not reported, are based on estimates made by management. The provisions are adjusted in the period when more experience is acquired and as additional information is obtained.

b) In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the calculation of the Fund's liability for accrued claims. Uncertainty arises because the Fund's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Fund's liability for accrued claims, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are adjusted in the period when the actual values are known.

NOTE 2 (continued)

c) The fair values of cash and cash equivalents, accounts receivable, accrued recoveries, accounts payable and liability for accrued claims are estimated to approximate their book values.

d) A statement of changes in cash flows is not provided as disclosure in these financial statements is considered adequate.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of a deposit in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum 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, 2004, securities held by the CCITF have an average effective market yield of 2.11% (2003 3.23%) per annum and an average duration of 142 days (2003 71 days).

NOTE 4 ACCOUNTS RECEIVABLE

(thousands)

	2004	2003
Receivable from Province of Alberta departments, funds and agencies	$ 33	$ 30
Other	–	4
	$ 33	$ 34

NOTE 5 ACCRUED RECOVERIES

Accrued recoveries represent management's best estimates of amounts that will be recovered for subrogation or salvage. All amounts are considered to be good and recoverable when due.

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

(thousands)

	2004	2003
Outstanding claims case reserves (a)	$ 12,955	$ 8,384
Incurred but not reported losses (b)	12,300	6,200
	$ 25,255	$ 14,584

a) Outstanding Claims Case Reserves
Liability for outstanding claims case reserves represents management's best estimates of outstanding losses which have been reported but are not yet closed, and expenses for claims if any. The amount reflects management's best estimate of the ultimate cost of settlement after discussion with legal counsel if required.

NOTE 6 (continued)

(b) Incurred But Not Reported (IBNR) Losses

Liability for IBNR losses is an estimate of liabilities for claims that have been incurred but have not yet been reported. The amount includes a provision for development of case reserves, a provision for reopened claims, and a provision for claims that have been reported but are not yet recorded in the books.

An actuarial review of the Fund's liability for IBNR losses was carried out as at March 31, 2004 by Mercer Oliver Wyman Actuarial Consulting Limited (which is a part of Mercer Oliver Wyman, an operating division within Marsh & McLennan Companies). The actuary's estimate of the Fund's liability for IBNR losses at March 31, 2004 amounts to $12.3 million, taking into account the significant growth in claims and new claim types up to that date.

Liability for IBNR losses as at March 31, 2004 was determined using accepted actuarial practices, including selection of appropriate assumptions and methods, which include using weighted averages of estimated losses paid and reported.

Liability for IBNR losses represents the difference between the actuary's estimated ultimate incurred loss and the amount of incurred loss reported on the effective date of review, adjusted for the portion of any individual large claims ceded to third party insurers.

The Fund's future experience will inevitably differ, perhaps significantly, from the actuary's estimate due to the random occurrence of large losses and the outcome of future contingent events. Any differences between the actuary's estimate and future experience will emerge as gains or losses in future reviews and will affect the financial position of the Fund.

NOTE 7 CONTINGENCIES

At March 31, 2004, the Province was named as defendant in various legal actions relating to insurance claims. The resulting loss, if any from these claims and other potential claims cannot be determined.

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA SECURITIES COMMISSION

Financial Statements

YEAR ENDED MARCH 31, 2004

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Members of the Alberta Securities Commission

I have audited the balance sheet of the Alberta Securities Commission as at March 31, 2004 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Commission'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 Commission as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Edmonton, Alberta
May 14, 2004

Fred J. Dunn, FCA
Auditor General

ALBERTA SECURITIES COMMISSION

BALANCE SHEET

March 31, 2004 *(thousands)*

	2004	2003
Assets		
Current		
Cash		
Cash (Note 4)	$ 1,599	$ 2,472
Funds held for others (Note 9)	295	655
Accounts and advances receivable	59	749
Lease inducement receivable (Note 7)	67	400
Prepaid expense	42	55
	2,062	4,331
Non-current		
Restricted cash (Note 3)	932	786
Investments (Note 4)	17,258	15,320
Capital assets (Note 6)	2,218	1,727
Lease inducement and deposit (Note 7)	521	588
	20,929	18,421
Total assets	$ 22,991	$ 22,752
Liabilities and Retained Earnings		
Current		
Funds held for others (Note 9)	$ 295	$ 655
Accounts payable and accrued liabilities	970	1,551
Accrued vacation and benefit liabilities	666	607
Lease inducement (Note 7)	170	170
	2,101	2,983
Lease Inducement (Note 7)	785	955
Accrued benefit liability (Note 8)	1,267	1,033
Total liabilities	4,153	4,971
Retained earnings (Note 3)	18,838	17,781
Total liabilities and retained earnings	$ 22,991	$ 22,752

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

Approved by the members:

Stephen P. Sibold, Q.C., Chair

Jerry A. Bennis, FCA, Member

ALBERTA SECURITIES COMMISSION

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2004 *(thousands)*

	Budget (Note 12)	2004 Actual	2003 Actual
Revenue			
Fees (Note 13)	$ 16,910	$ 16,406	$ 14,655
Investment income (Note 5)	700	1,698	551
Settlement cost recoveries	–	248	12
	17,610	18,352	15,218
Expense			
Salaries and benefits (Schedule A)	11,345	11,363	10,613
Professional services	2,217	2,398	1,820
Premises	1,443	1,315	1,264
Amortization	542	519	556
Other	513	441	657
Materials and supplies	422	429	301
Travel	402	269	394
Member fees (Schedule A)	353	288	275
CSA project costs (Note 11)	247	226	780
Telephone and communications	173	193	218
Investor education (eligible restricted cash expense) (Note 3)	–	69	–
Edmonton office closure (Note 10)	–	–	2,096
Total expense	17,657	17,510	18,974
Budget contingency (Note 12)	1,766		
Income (loss) from operations	(1,813)	842	(3,756)
Administrative penalties revenue (Note 3)	–	215	57
Net income (loss)	$ (1,813)	1,057	(3,699)
Opening retained earnings		17,781	21,480
Closing retained earnings (Note 3)		$ 18,838	$ 17,781

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

ALBERTA SECURITIES COMMISSION

STATEMENT OF CASH FLOWS

Year Ended March 31, 2004 *(thousands)*

	2004	2003
Cash flows from operating activities		
Cash receipts from fees	$ 16,628	$ 14,580
Cash receipts from settlement cost recoveries	248	12
Cash paid to and on behalf of employees	(10,979)	(10,254)
Cash paid to suppliers for goods and services	(5,899)	(5,741)
Edmonton office closure	(130)	(1,966)
Investment income	1,698	561
Cash advanced to MICA project (Note 9)	(110)	–
Cash flows from (used in) operating activities	1,456	(2,808)
Administrative penalties	215	57
Cash flows from (used in) operating activities and administrative penalties	1,671	(2,751)
Cash flows from investing activities		
Lease inducement received	400	19
Increase in restricted cash	(146)	(57)
Cash used for capital assets (1)	(1,096)	(727)
Cash (used for) provided from investments (2)	(1,938)	3,327
Cash returned from (advanced to) CSA for NRD funding	236	(236)
Cash (used in) from investing activities	(2,544)	2,326
Decrease in cash	(873)	(425)
Opening cash	2,472	2,897
Closing cash	$ 1,599	$ 2,472
Supplemental cash flow information		
(1) Additions to capital assets	$ (1,012)	$ (847)
Proceeds on disposal	2	–
Decrease (increase) in capital asset liabilities	(86)	120
	$ (1,096)	$ (727)
(2) (Additions) reductions in investments	$ (1,938)	$ 3,337
Loss on disposal of investments	–	(10)
	$ (1,938)	$ 3,327

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

ALBERTA SECURITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004 *(thousands)*

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission is a Provincial Corporation operating under the *Securities Act* (Alberta). The business of the Commission is the regulation of the Alberta capital market, including the administration of the Act, the Securities Regulation and the Alberta Securities Commission Rules.

The mission of the Commission is to foster a fair and efficient capital market in Alberta and confidence in that market. In carrying out its mission, the Commission strives to balance the needs of investors for adequate protection with the needs of industry to access capital necessary for continued economic growth.

The Commission, as an Alberta Provincial Corporation, is exempt from income tax.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

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

a) Portfolio investments

Portfolio investments are recorded at cost. Realized gains and losses on disposal of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

b) Investment Income

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.

Gains and losses arising as a result of disposal of investments are included in the determination of investment income.

Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps and equity index futures contracts are recorded at fair value. Unrealized gains and and losses on these derivative contracts are recognized in income.

ALBERTA SECURITIES COMMISSION

NOTE 2 (continued)

c) Valuation of Financial Assets and Liabilities

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.

The fair values of cash, receivables, payables and accrued liabilities are estimated to approximate their book values.

The methods used to determine the fair values of portfolio investments and derivative contracts are explained in the following paragraphs:

Public fixed-income securities and equities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

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.

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, equity index futures contracts. The value of derivative contracts is included in the fair value of the Commission's investment in the Canadian Dollar Public Bond Pool and Domestic Passive Equity Pooled Fund (see Note 4). The fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bonds 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 swaps are valued based on discounted cash flows using current market yields and exchange rates.
(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.
(iv) Equity index futures contracts are based on quoted market prices.

d) Capital Assets

Capital assets are recorded at cost.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leasehold improvements	remaining lease term to March 2011

e) Fee Revenue Recognition

Fees are recognized when earned which is upon cash receipt.

NOTE 2 (continued)

f) Employee Future Benefits

The Commission participates in the Public Service Pension Plan, a multi-employer defined benefit pension plan, with other government entities. This plan is accounted for as a defined contribution plan as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan. Pension costs included in these financial statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for the service relating to prior years.

The Commission maintains a Supplemental Pension Plan (the Plan) for certain designated executives of the Commission. The cost of the pension is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of economic assumptions. Past service costs are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the plan. The average remaining service period of active employees of the Plan is 10 years.

The Commission also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the Commission. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution limit as specified in the *Income Tax Act*. The expense included in these financial statements represents the current contributions made on behalf of the employees.

g) Lease Inducement

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease term.

h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

i) Restricted Cash

Revenues received by the Commission from Administrative Penalties can be used for certain operating expenditures that educate investors and enhance the knowledge of the securities market operation. This change in use is a result of a June 2003 amendment of the *Alberta Securities Act*.

NOTE 3 RESTRICTED CASH AND RETAINED EARNINGS

Retained earnings include $932 (2003 $786) of restricted cash, as described in Note 2(i). The restricted cash increase represents administrative penalty receipts during the year of $215 less eligible investor education expenses of $69.

ALBERTA SECURITIES COMMISSION

NOTE 4 CASH AND INVESTMENTS

a) Summary

			2004			2003
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	$ 1,599	$ 1,599		$ 627	$ 627	
Less funds held for others (Note 9)	–	–		(655)	(655)	
CCITF cash	–	–		2,500	2,500	
	$ 1,599	$ 1,599		$ 2,472	$ 2,472	
Investments						
Deposit in the CCITF	$ 54	$ 54	0.3	$ 6,206	$ 6,206	35.2
Fixed-income securities (Schedule B)	12,386	12,442	69.7	8,755	8,544	48.5
Canadian equities (Schedule C)	4,818	5,364	30.0	2,859	2,877	16.3
	17,258	17,860	100.0	17,820	17,627	100.0
Less CCITF cash held for current purposes	–	–		(2,500)	(2,500)	
	$ 17,258	$ 17,860		$ 15,320	$ 15,127	

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund that is managed by the Ministry of Revenue to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. The average effective yield for fiscal 2004 was 2.11% (2003 3.23%).

The Commission's investments are held in pooled investment funds established and managed by the Ministry of Revenue. Investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of units. As at March 31, 2004, the Commission's percentage ownership, at market, in pooled investment funds is 0.15% or less.

b) Investment Risk Management

The value of investments is exposed to credit 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 interest rate risk and market risk. Interest rate risk relates to the possibility that the investments will change in value due to 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.

In order to earn an optimal financial return at an acceptable level of risk, management of the Commission has established an investment policy, which is reviewed annually. Risk is reduced through asset class diversification, diversification within each asset class and quality and duration constraints on fixed-income instruments. Controls are in place respecting the use of derivatives. While the Commission reports the results of these risk management initiatives in its accounts, the Commission is a passive third party recipient of these transactions and does not engage directly in derivative or swap contracting.

ALBERTA SECURITIES COMMISSION

NOTE 4 (continued)

c) 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 Ministry of Revenue uses derivative contracts within the 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.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount.

An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index.

For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount.

Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies.

A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

Stock index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified stock index.

There are underlying securities supporting all swaps. Leveraging is not allowed.

The following is a summary of the Commission's proportionate share of the notional amount and fair value of swap contracts issued by pooled funds as at March 31, 2004.

(thousands)

	Maturity			2004		2003	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	93%	7%	–	$ 1,679	$ (5)	$ 659	$ (16)
Cross-currency interest rate swaps	1%	21%	78%	1,196	(178)	606	(137)
Interest rate swap contracts	43%	44%	13%	1,054	(48)	499	(18)
Bond index swap contracts	100%	–	–	176	4	149	–
Credit default swap contracts	–	45%	55%	81	(1)	–	–
Equity index futures contracts	100%	–	–	1	–	8	–
				$ 4,187	$ (228)	$ 1,921	$ (171)

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

ALBERTA SECURITIES COMMISSION

NOTE 5 NET INVESTMENT INCOME

	2004	2003
Interest	$ 768	$ 873
Net realized gain (loss) on investments	542	(257)
Derivative income (loss)	333	(106)
Dividends	55	41
	$ 1,698	$ 551

NOTE 6 CAPITAL ASSETS

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Computer equipment and software	$ 1,722	$ 1,238	$ 484	$ 398
Furniture and equipment	497	206	291	314
Leasehold improvements	2,300	857	1,443	1,015
	$ 4,519	$ 2,301	$ 2,218	$ 1,727

NOTE 7 LEASE INDUCEMENTS AND DEPOSIT

Lease inducement balances and current amortization includes:

Lease	Term	Curent Inducement	Future Inducement
Calgary, old	10 years, ending 2006	$ 40	$ 40
Calgary, new	8 years, ending March 2011	123	742
Calgary sublease	3 years, ending October 2005	7	3
		$ 170	$ 785

The remaining new Calgary lease inducement of $588 is receivable over three years with $199 due in April 2004. A lease deposit of $132 is payable to the landlord and offsets a portion of the current lease inducement receivable.

NOTE 8 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability includes:

	2004	2003
Retirement Plan	$ 182	$ 201
Supplemental Pension Plan	1,085	832
	$ 1,267	$ 1,033

The following pension expense for the plans is recorded in the Statement of Income under salaries and benefits.

	2004	2003
Public Service Pension Plan	$ 231	$ 194
Registered Retirement Savings Plan	270	240
Retirement Plan	2	6
Supplemental Pension Plan	286	292
	$ 789	$ 732

a) Public Service Pension Plan

The Commission participates in the Public Service Pension Plan (the PSPP). At December 31, 2003 the PSPP reported an actuarial deficiency of $596,213 and in 2002 an actuarial deficiency of $175,528.

b) Registered Retirement Savings Plan

The Commission makes contributions on behalf of employees who do not participate in the PSPP to employee Registered Retirement Savings Plans.

c) Retirement Plan

The Commission has a retirement plan for an executive who is now retired. The provisions of the retirement plan were established pursuant to a written agreement. The retirement plan provides pension benefits based on a fixed schedule of payments over a fifteen year period ending in August 2017. Accrued benefits are payable on death. The retirement plan is not pre-funded and the benefits are paid ($21 in 2004, $13 in 2003) from the assets of the Commission as they come due.

d) Supplemental Pension Plan

The Commission has a Supplemental Pension Plan (the Plan) for certain designated executives of the Commission. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

The Plan provides pension benefits to the designated executives that are defined by reference to earnings in excess of the limit (increased from $86 to $92 effective January 1, 2004 and $100 January 1, 2005) imposed by the Income Tax Act on registered pension arrangements.

ALBERTA SECURITIES COMMISSION

NOTE 8 (continued)

Pension benefits from the Plan are payable on or after attainment of age 55 and are equal to 1.75% of highest average pensionable earnings (average over five years) for each year of service with the Commission. Members of the Plan become vested in the benefits of the plan after two years of service. Accrued benefits are also payable on early retirement (with reductions), death or termination of employment of the designated executive.

The Plan is not pre-funded and the benefits will be paid from the assets of the Commission as they come due.

An actuarial valuation of the Plan, as at April 1, 2004, was performed by an independent actuary.

The results of the actuarial valuation and management's cost estimates as they apply to the Plan are summarized below:

	2004	2003
Balance Sheet at March 31		
Market value of assets	$ –	$ –
Accrued benefit obligation	1,391	1,033
Unfunded obligation	1,391	1,033
Unamortized transitional obligation	(202)	(229)
Unamortized actuarial gain	(104)	(33)
Employee change liability estimate	–	61
Accrued benefit liability	$ 1,085	$ 832
Accrued Benefit Obligation		
Accrued benefit obligation at beginning of period	$ 1,033	$ 829
Service cost	197	190
Interest cost	64	60
Net actuarial loss (gain)	97	(46)
Accrued benefit obligation at end of period	$ 1,391	$ 1,033
Pension Expense		
The pension expense for the Plan is as follows:		
Service cost	$ 197	$ 206
Interest cost	64	60
Amortization of transition obligation	25	26
Pension expense	$ 286	$ 292

NOTE 8 (continued)

Actuarial Assumptions for Actuarial Valuation of the Plan

The assumptions used in the April 2004 actuarial valuation of the Plan are summarized below. The 2003 assumptions are based on the March 2001 actuarial valuation of the Plan. The discount rate was established in accordance with the yield on long corporate bonds. Other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on best estimate of the future experience of the plans.

	2004	2003
Discount rate	6.10%	7.15%
Rate of inflation	2.35%	2.20%
Salary increases	3.35%	3.70%

NOTE 9 FUNDS HELD FOR OTHERS

The Commission holds, in a separate bank account, $295 ($655 in 2003) in cash for participants in the Market Integrity Computer Analysis (MICA) system upgrade project. The Commission has recorded a total project expense of $110 ($75 in 2004, $35 in 2003) and has a remaining commitment of $60. Funds are disbursed as payments are made for approved expenditures. Expenditures, if any, in excess of the amounts held for others and the Commission's contribution, require further participant approval and contribution. The MICA project will assist participants in the analysis of trading activities.

NOTE 10 EDMONTON OFFICE CLOSURE

The Commission closed its Edmonton office on February 1, 2003. Closure costs of $2,096 include: employee severances of $1,400, lease termination of $145, litigation settlement with Edmonton employees of $250, furniture fixtures and leasehold write-offs of $200 and operational costs of $100.

NOTE 11 COMMITMENTS, CONTINGENCIES AND GUARANTEES

Set out below are details of commitments to organizations outside the Commission and contingencies from guarantees and legal actions. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

a) Commitments

Commitments arising from contractual obligations associated primarily with the eight year lease of premises, the remaining MICA commitment and three year average rental of office equipment at March 31, 2004 amounted to $11,692 (2003 $12,656). These commitments become expenses of the Commission when the terms of the contracts are met.

2004-05	$ 1,538
2005-06	1,623
2006-07	1,648
2007-08	1,729
2008-09	1,729
Thereafter	3,425
Total	$ 11,692

The Commission also agreed to share, based on an agreed upon cost sharing formula, the costs incurred for the maintenance of the Canadian Securities Administrators (CSA) Secretariat (formerly Project Office), and any third party costs incurred in the development of harmonized rules, regulations and policies. The CSA Secretariat was established to assist in the development and harmonization of rules, regulations and policies across Canada.

b) Guarantees

The Commission, along with the Ontario Securities Commission and the British Columbia Securities Commission, guaranteed a line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The Commission's share of the guarantee is limited to $2,160. As at March 31, 2004 the MFDA had no line of credit balance outstanding. The guarantors are in the process of negotiating a release from their guarantee.

c) Legal Actions

The Commission is involved in various legal proceedings arising from its regulatory activities. Management considers the chance of liability under these legal proceedings not to be determinable and accordingly an estimate of any contingent loss cannot be made.

ALBERTA SECURITIES COMMISSION

NOTE 12 BUDGET

The Minister of Revenue approved budget includes fee increases of $1,880 and a contingency expense provision of $1,766. A budget contingency provision of up to ten percent of planned expenditures for unplanned expenses and revenue shortfalls is provided for in the Memorandum of Understanding between the Minister and the Commission. Commission members must approve any expenditure that is applied to the budget contingency expense provision. Subsequent to budget approval, the Commission members approved a revised budget including, a deferral of the fee increase beyond 2004, revenue increases of $940 and a contingency expense provision reduction of $940. Members also approved a further expenditure (which was applied against the contingency amount) of $145 for the national recruitment of a senior management team member and for additional legal staff. Actual revenues and expenses resulting from these budget changes are recorded in their respective accounts.

NOTE 13 FEES

	2004	2003
Distribution of securities	$ 6,879	$ 6,172
Registrations	6,715	5,686
Annual financial statements	2,504	2,448
Other	3	8
Orders (applications)	305	341
Total	$ 16,406	$ 14,655

NOTE 14 COMPARATIVES

Comparative 2003 other revenue amounts of $8 have been reclassified as fees revenue to conform to their 2004 presentation.

ALBERTA SECURITIES COMMISSION

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF SALARIES AND BENEFITS Schedule A

For the Year Ended March 31, 2004 *(dollars)*

	2004				2003	
	Number of Individuals (1)	Salary (2)	Benefits and Allowances (3)	Total	Number of Individuals (1)	Total
Chair, Securities Commission (4)	1.0	$ 433,150	$ 30,980	$ 464,130	1.0	$ 468,305
Vice Chair, Securities Commission (4)	1.0	$ 224,150	$ 18,601	$ 242,751	1.0	$ 230,881
Vice Chair, Securities Commission (4,5)	1.0	$ 200,150	$ 16,854	$ 217,004	0.8	$ 541,246
Members (part-time)	9.0	$ 288,487	$ –	$ 288,487	9.0	$ 275,405
Executive Director	1.0	$ 245,150	$ 27,560	$ 272,710	1.0	$ 262,881
Director, Legal Services and Policy Development	1.0	$ 194,150	$ 18,032	$ 212,182	1.0	$ 210,636
Director, Capital Markets	1.0	$ 183,650	$ 16,788	$ 200,438	1.0	$ 198,650
Director, Enforcement (6)	1.0	$ 182,934	$ 37,084	$ 220,018	1.0	$ 186,186
Director, Administrative Services (7)	1.0	$ 165,150	$ 16,186	$ 181,336	0.6	$ 106,102
Chief Accountant	1.0	$ 173,150	$ 22,690	$ 195,840	1.0	$ 191,632
General Counsel (8)	0.9	$ 170,983	$ 22,905	$ 193,888	0.0	–

(1) Number of individuals is the weighted average during the year.

(2) Salary includes regular base pay, bonuses, overtime and lump sum payments and honoraria.

(3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, registered retirement savings plan contributions, health care, dental coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disability plan, vacation payouts, professional memberships, tuition, club memberships, worker's compensation and Chair and Executive Director's automobile allowance.

(4) The Chair and Vice-Chairs are full-time Commission Members.

(5) The previous Vice-Chair resigned in 2003. Salary and Benefits and Allowances amounts in 2003 include retiring allowance, bonus, and vacation payout.

(6) Previous Director, Enforcement resigned October 10, 2003. Vacation payout included in Benefits and Allowances. Current Director commenced employment on October 1, 2003.

(7) The Director, Administrative Services was hired September 9, 2002 as a new member of the senior management group.

(8) General Counsel position created May 1, 2003, as a member of the senior management group.

ALBERTA SECURITIES COMMISSION

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule B

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fair Value	2003 Cost	2003 Fair Value
Deposit in the Consolidated Cash Investment Trust Fund	$ 19	$ 19	$ 15	$ 15
Public fixed-income securities				
Government of Canada, direct and guaranteed	3,000	2,964	1,788	1,754
Provincial:				
Alberta, direct guaranteed	9	9	20	21
Other, direct guaranteed	2,800	2,968	1,617	1,592
Municipal	164	169	181	180
Corporate	5,082	5,018	4,067	3,949
Private fixed-income securities				
Corporate	1,343	1,326	975	941
	12,417	**12,473**	**8,663**	**8,452**
Accounts receivable and accrued investment income	145	145	111	111
Accounts payable and accrued liabilities	(176)	(176)	(19)	(19)
	(31)	**(31)**	**92**	**92**
	$ 12,386	**$ 12,442**	**$ 8,755**	**$ 8,544**

(a) Fixed income securities held as at March 31, 2004 have an average effective market yield of 4.20% per annum (2003: 5.41% per annum) and the following term structure based on principal amounts:

	2004 %	2003 %
under 1 year	2	2
1 to 5 years	40	37
5 to 10 years	30	31
10 to 20 years	10	11
over 20 years	18	19
	100	100

b) The Commission's fixed income securities are held in the Canadian Dollar Public Bond Pool (the Pool). The Pool is managed by the Ministry of Revenue 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 portfolio is comprised of high quality Canadian fixed income instruments and related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

ALBERTA SECURITIES COMMISSION

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule C

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fair Value	2003 Cost	2003 Fair Value
Deposits and short-term securities	$ 34	$ 34	$ 25	$ 25
Public equities (a) (b)				
Financial	1,497	1,723	887	952
Materials	823	907	457	437
Energy	639	783	361	446
Information technology	365	428	191	145
Industrials	376	398	209	193
Consumer discretionary	387	371	243	199
Telecommunication services	268	256	168	155
Consumer staples	187	209	109	119
Utilities	167	181	113	117
Health Care	117	116	98	92
	4,826	5,372	2,836	2,855
Passive index	–	–	11	10
	4,826	5,372	2,847	2,865
Receivable from sale of investments and accrued investment income	21	21	8	8
Accounts payable and accrued liabilities	(63)	(63)	(21)	(21)
	(42)	(42)	(13)	(13)
	$ 4,818	**$ 5,364**	**$ 2,859**	**$ 2,877**

(a) The Commission's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $1,680 (2003 $667) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and futures contracts.

(b) The industrial classifications are those used by the Toronto Stock Exchange indices.

Schedule C (continued)

(c) The Commission’s investments in Canadian equities are held in the following pooled funds administered by the Ministry of Revenue.

	2004 Cost	2004 Fair Value	2003 Cost	2003 Fair Value
Domestic Passive Equity Pooled Fund (i)	$ 2,338	$ 2,391	$ 1,250	$ 1,272
Canadian Pooled Equity Fund (ii)	1,172	1,517	1,156	1,173
External Managers Canadian Large Cap Equity Pool (iii)	1,308	1,456	453	432
	$ 4,818	$ 5,364	$ 2,859	$ 2,877

(i) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Total Return Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the S&P/TSX Composite Index. To enhance investment returns with no substantial increase in risks, the pool uses structured investments such as domestic equity index swaps. 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 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.

(ii) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(iii) 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 Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capital focus.

SCHEDULE OF INVESTMENT RETURNS

Schedule D

Year Ended March 31, 2004

The Commission 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 Commission over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and 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 return of pools with other pools or indices.

Investment returns for the Commission are as follows:

	One Year Return				4 Year Compound Annualized Return
	2004	**2003**	**2002**	**2001**	
Time-weighted rates of return					
Short-term fixed income	**4.2**	**2.9**	**4.0**	**5.8**	**4.2**
Scotia Capital 91-day T-Bill Index	*3.0*	*2.7*	*3.7*	*5.7*	*3.8*
Long-term fixed income	**11.7**	**9.5**	**5.7**	**9.4**	**9.1**
Scotia Capital Universe Bond Index	*10.8*	*9.2*	*5.1*	*8.7*	*8.4*
Canadian equities	**36.6**	**(17.5)**	**n/a**	**n/a**	**n/a**
Toronto Stock Exchange (S&P/TSX) Composite Index	*37.7*	*(17.6)*	*n/a*	*n/a*	*n/a*
Overall	**17.8**	**2.3**	**4.3**	**8.6**	**8.1**

SUPPLEMENTARY INFORMATION REQUIRED BY LEGISLATION OR BY DIRECTION OF THE MINISTER OF FINANCE

Statement of Remissions, Compromises and Write-Offs

MARCH 31, 2004

The following statement has been prepared pursuant to section 23 of the *Financial Administration Act*. The statement includes all write-offs of the Ministry of Revenue made or approved during the fiscal year. There were no remissions or compromises.

Department of Revenue

Accounts and interest receivable

Corporate income tax	$ 6,689,942
Tobacco tax	454,997
Fuel tax	422,918
Hotel tax	21,220
	$ 8,589,077

ALPHABETICAL LIST OF ENTITIES' FINANCIAL STATEMENTS

2004

ALPHABETICAL LIST OF ENTITIES' FINANCIAL STATEMENTS

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	Ministry Annual Report
Agriculture Financial Services Corporation[1]	Agriculture, Food and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Capital Finance Authority	Finance
Alberta Dairy Control Board[2]	Agriculture, Food and Rural Development
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Gaming
Alberta Government Telephones Commission	Finance
Alberta Heritage Foundation for Medical Research Endowment Fund	Revenue
Alberta Heritage Savings Trust Fund	Revenue
Alberta Heritage Scholarship Fund	Revenue
Alberta Heritage Science and Engineering Research Endowment Fund	Revenue
Alberta Historical Resources Foundation, The	Community Development
Alberta Insurance Council	Finance
Alberta Pensions Administration Corporation	Finance
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Innovation and Science
Alberta Risk Management Fund	Revenue
Alberta School Foundation Fund	Learning
Alberta Science and Research Authority	Innovation and Science
Alberta Securities Commission	Revenue
Alberta Social Housing Corporation	Seniors
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development
Alberta Treasury Branches	Finance
ATB Investment Services Inc.	Finance
Child and Family Services Authorities:	Children's Services
Calgary and Area Child and Family Services Authority	
Central Alberta Child and Family Services Authority	
East Central Alberta Child and Family Services Authority	
Edmonton and Area Child and Family Services Authority	
North Central Child and Family Services Authority	
Northeast Alberta Child and Family Services Authority	
Northwest Child and Family Services Authority	
Southeast Child and Family Services Authority	
Southwest Child and Family Services Authority	
Metis Settlements Child and Family Services Authority	
Credit Union Deposit Guarantee Corporation	Finance
Crop Reinsurance Fund of Alberta[1]	Agriculture, Food and Rural Development

1 The Crop Reinsurance Fund of Alberta was merged into the Agriculture Financial Services Corporation, effective April 1, 2003.

2 Dissolved August 1, 2003.

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	Ministry Annual Report
Department of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Department of Children's Services	Children's Services
Department of Community Development	Community Development
Department of Energy	Energy
Department of Finance	Finance
Department of Gaming	Gaming
Department of Health and Wellness	Health and Wellness
Department of Innovation and Science	Innovation and Science
Department of Learning	Learning
Department of Revenue	Revenue
Department of Seniors	Seniors
Department of Solicitor General	Solicitor General
Department of Sustainable Resource Development	Sustainable Resource Development
Environmental Protection and Enhancement Fund	Sustainable Resource Development
Gainers Inc.	Finance
Government House Foundation	Community Development
Historic Resources Fund	Community Development
Human Rights, Citizenship and Multiculturalism Education Fund	Community Development
iCORE Inc.	Innovation and Science
Lottery Fund	Gaming
Ministry of Aboriginal Affairs and Northern Development[3]	Aboriginal Affairs and Northern Development
Ministry of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Ministry of Children's Services	Children's Services
Ministry of Community Development	Community Development
Ministry of Economic Development[3]	Economic Development
Ministry of Energy	Energy
Ministry of Environment[3]	Environment
Ministry of Finance	Finance
Ministry of Executive Council[3]	Executive Council
Ministry of Gaming	Gaming
Ministry of Government Services[3]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[3]	Human Resources and Employment
Ministry of Infrastructure[3]	Infrastructure
Ministry of Innovation and Science	Innovation and Science
Ministry of International and Intergovernmental Relations[3]	International and Intergovernmental Relations
Ministry of Justice[3]	Justice
Ministry of Learning	Learning
Ministry of Municipal Affairs[3]	Municipal Affairs
Ministry of Revenue	Revenue
Ministry of Seniors	Seniors
Ministry of Solicitor General	Solicitor General
Ministry of Sustainable Resource Development	Sustainable Resource Development
Ministry of Transportation[3]	Transportation
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development

[3] Ministry includes only the departments so separate department financial statements are not necessary.

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	Ministry Annual Report
Persons with Developmental Disabilities Boards:	Community Development
Calgary Region Community Board	
Central Region Community Board	
Edmonton Region Community Board	
Northeast Region Community Board	
Northwest Region Community Board	
Provincial Board	
South Region Community Board	
Provincial Judges and Masters in Chambers Reserve Fund	Finance
Supplementary Retirement Plan Reserve Fund	Finance
Victims of Crime Fund	Solicitor General
Wild Rose Foundation, The	Community Development

ENTITIES NOT INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Fund or Agency	Ministry Annual Report
Alberta Cancer Board	Health and Wellness
Alberta Foundation for Health Research	Innovation and Science
Alberta Heritage Foundation for Medical Research	Innovation and Science
Alberta Heritage Foundation for Science and Engineering Research	Innovation and Science
Alberta Mental Health Board	Health and Wellness
Alberta Teachers' Retirement Fund Board	Learning
Improvement Districts' Trust Account	Municipal Affairs
Local Authorities Pension Plan	Finance
Long-Term Disability Income Continuance Plan - Bargaining Unit	Human Resources and Employment
Long-Term Disability Income Continuance Plan - Management, Opted Out and Excluded	Human Resources and Employment
Management Employees Pension Plan	Finance
Provincial Judges and Masters in Chambers Pension Plan	Finance
Public Post Secondary Institutions	Learning
Public Service Management (Closed Membership) Pension Plan	Finance
Public Service Pension Plan	Finance
Regional Health Authorities	Health and Wellness
School Boards	Learning
Special Areas Trust Account	Municipal Affairs
Special Forces Pension Plan	Finance
Supplementary Retirement Plan for Provincial Judges and Masters in Chambers	Finance
Supplementary Retirement Plan for Public Service Managers	Finance
Workers' Compensation Board	Human Resources and Employment