ALBERTA REVENUE ANNUAL REPORT

FOR THE FISCAL YEAR ENDED MARCH 31 2002 | PUBLISHED SEPTEMBER 2002

2002

ALBERTA
REVENUE

Alberta
GOVERNMENT OF ALBERTA

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TABLE OF CONTENTS

PREFACE

Public Accounts 2001-2002

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 25, 2002 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 Alberta 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 the *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, and**
- **financial information relating to trust funds.**

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 2002, 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 5, 2002, with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

(original signed by Honourable Greg Melchin, CA)

Minister of Revenue
September 5, 2002

MESSAGE FROM THE MINISTER

I am honoured to present to Albertans the inaugural Annual Report of the Ministry of Revenue. In March of 2001, the Government of Alberta restructured its ministries to better reflect the needs of Albertans, and Alberta Treasury became two entities: Alberta Revenue and Alberta Finance. This has been a very exciting first year for Alberta Revenue, bringing with it a host of opportunities, challenges and significant successes.

The Ministry has been created to address the growing size and complexity of revenues of the Province of Alberta. We are also addressing revenue and tax policy with vigor, as it is of increasing importance to the revenue framework of the province.

Our vision is to have a province where government revenue policy and administration reflect the values of Albertans. This means balancing present and future needs, contributing to a stable environment for the generation of wealth for all Albertans.

One of the most vibrant initiatives this past year was Alberta Revenue's lead role in the planning and delivery of the Alberta Future Summit 2002. The Future Summit was a province-wide public consultation that took place from September through December 2001. Culminating with the Summit itself in Red Deer on February 4-5, 2002, this was an opportunity for Albertans to voice their opinions about the future growth and direction of this province. Over 4,000 Albertans participated.

The Ministry of Revenue includes the Department of Revenue and responsibility for the Alberta Securities Commission and the Risk Management Fund. Alberta Revenue is responsible for tax and revenue streams, investment management, and management of the risk of loss of public assets. The Alberta Securities Commission, an external regulatory agency, is responsible for overseeing the capital market in Alberta. Let me touch on Revenue's four core businesses. It manages and invests financial assets, administers tax and revenue programs, manages risk associated with the loss of public assets and regulates Alberta's capital market.

The Investment Management Division manages over $38 billion in investments comprised of provincial endowment funds, including the Alberta Heritage Savings Trust Fund; public sector pension funds; and other government-related funds.

Alberta Revenue is reviewing the province's savings policies, including the mandate of the Alberta Heritage Savings Trust Fund, the largest single provincial asset, worth over $12 billion. The review will ensure that the rationale and form of our savings are clear. We are also reviewing the structure of the Department's investment organization.

The Tax and Revenue Administration Division (TRA) is responsible for managing tax and revenue programs fairly and efficiently. Among a number of its key initiatives, TRA is developing an integrated revenue framework which will direct development of the appropriate policy as it relates to size and mix. The intent of the framework is to bring a long-term strategic perspective to the province's revenue streams.

The Risk Management and Insurance Division administers programs to protect, secure and preserve public assets against risk of accidental loss. The Division assists ministries in identifying, measuring and controlling these risks. The Risk Management Fund provides insurance-like coverage to help ministries finance risk. Through the Fund, Alberta Revenue purchases insurance in the marketplace to offset a portion of the risks covered.

As an industry-funded provincial corporation, the Alberta Securities Commission continues its work in maintaining the efficiency and integrity of the capital markets in Alberta through the administration of the *Alberta Securities Act*, the Securities Regulation and the Alberta Securities Commission Rules.

Alberta Revenue is fortunate for the hard work and dedication of the professional staff of this Ministry. Their commitment to excellence will continue to serve this province and all Albertans well. The Ministry of Revenue looks forward to building on the success of our first year, and will continue our work to ensure that revenue policies reflect the values of Albertans now and into the future.

(original signed by Honourable Greg Melchin, CA)

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 by Robert Bhatia)

Deputy Minister
September 5, 2002

OVERVIEW

2002

- 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
- LEGISLATION ADMINISTERED BY REVENUE

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."

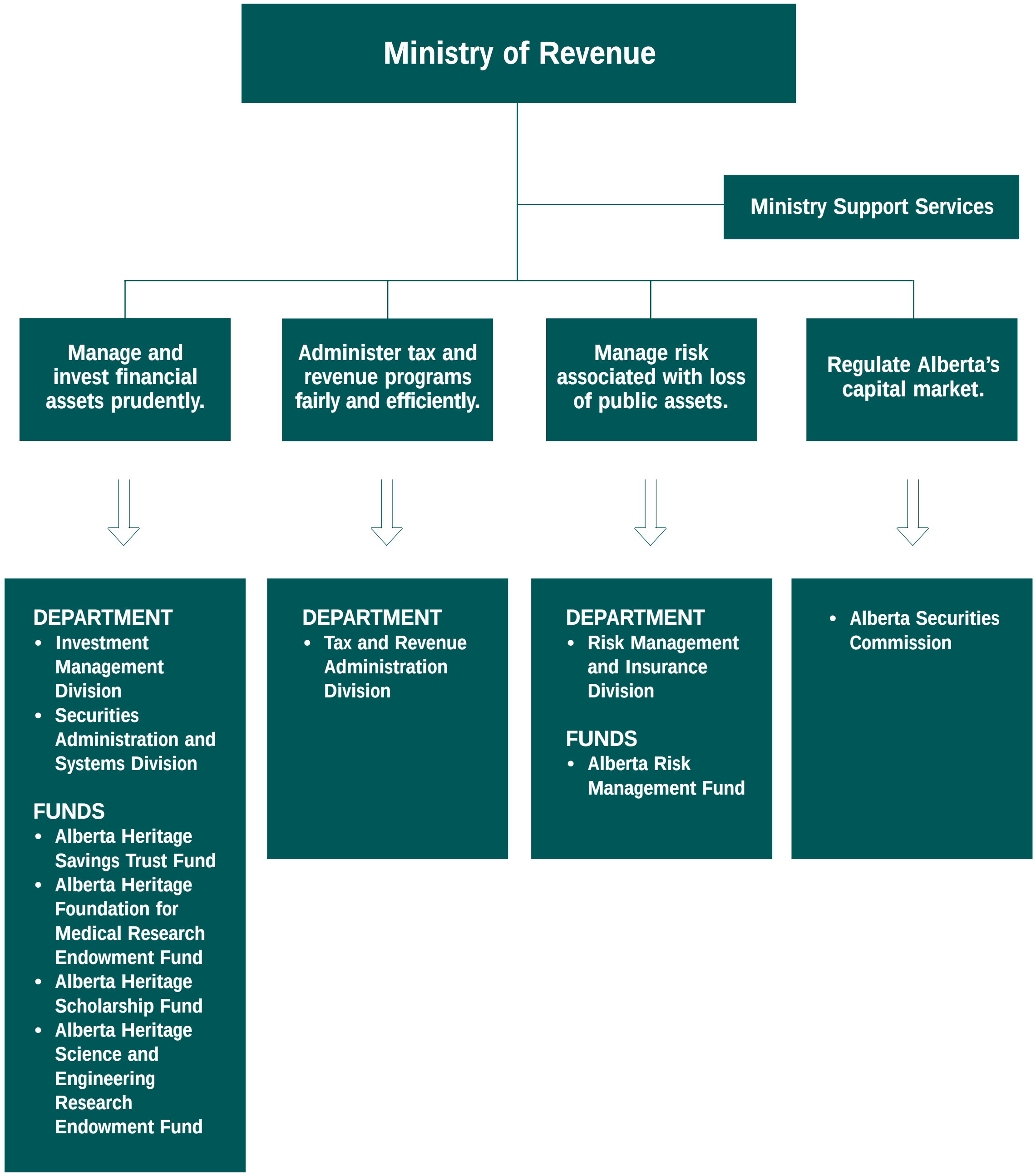
Our mission

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

Revenue's core businesses

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

RELATIONSHIP OF REVENUE DEPARTMENT AND REPORTING ENTITIES TO CORE BUSINESSES



OPERATIONAL OVERVIEW

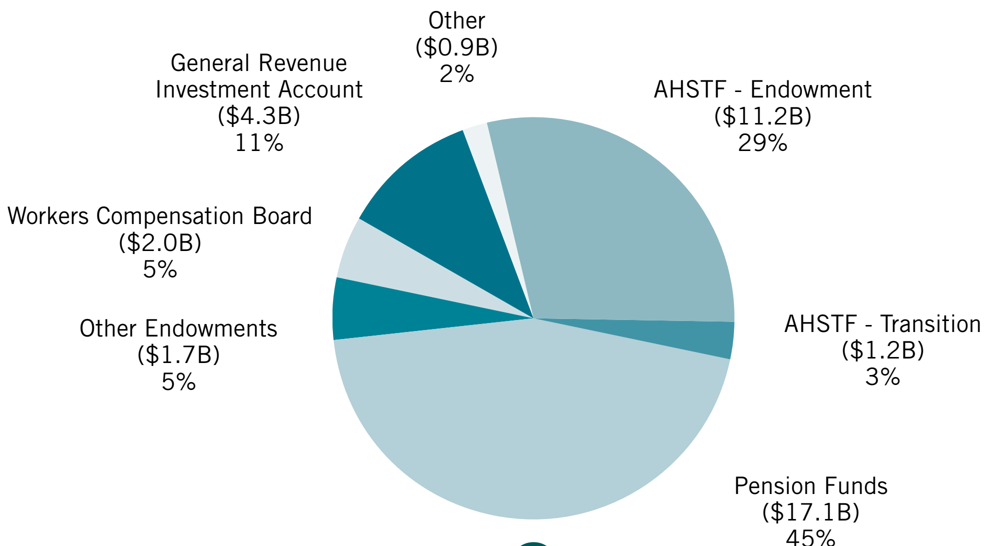
Department of Revenue	www.revenue.gov.ab.ca
9515 - 107 Street Edmonton, Alberta T5K 2C3	

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 over $38 billion under management, IMD is one of the largest fund managers in the country. Assets under management include:

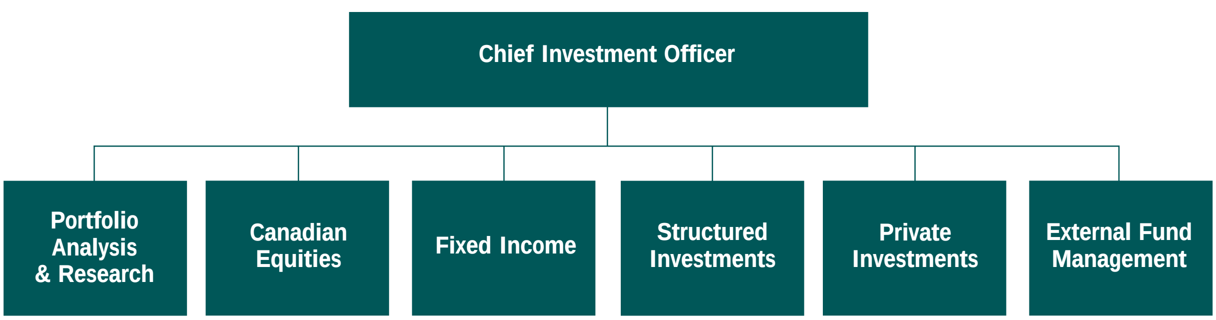
- Endowment funds ($14.1 billion) including the Alberta Heritage Savings Trust Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund and the Alberta Heritage Science and Engineering Research Endowment Fund.
- Government sponsored public sector pension plans ($17.1 billion).
- Specialty funds ($7.2 billion) including the Consolidated Cash Investment Trust Fund, which provides cash management services to many provincial agencies and funds, the government's long term disability plans and funds managed on behalf of The Workers' Compensation Board.

ASSETS UNDER MANAGEMENT BY IMD



Investment objectives vary for the funds under management by IMD reflecting different financial requirements and risk tolerances for each fund and its respective stakeholders. To meet the investment policies and achieve the goals of each fund, 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 profiles. Clients buy into the pools by purchasing units based on the current market value of the pools' investments. This pooled approach is important to managing the funds efficiently and to ensuring that each client is treated fairly. To manage the pools, both IMD and third party external manager expertise are used. This combination ensures 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.

Results from IMD's annual investment client survey indicated that satisfaction with IMD's service levels decreased to 76 in 2001-02 from 83 in 2000-01 on a scale of 100. The results were still above the 74 score received in 1999-2000. The satisfaction levels with service may have been influenced to some degree by the dissatisfaction with the performance of the markets.



Securities Administration and Systems Division

The Securities Administration and Systems Division (SASD) consists of three branches - Securities Administration, Investment and Debt Information Systems (IDIS), and Valuation and Fund Accounting. It provides back office support for investment operations including:

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

SASD works with IMD, ensuring that investment data is captured in the appropriate system and the financial transactions are settled with the corresponding brokers and financial institutions. IDIS is responsible for all of the software and system development required within IMD and SASD. The branch also provides assistance to the Treasury Management Division and the Investment and Debt Accounting Group within Alberta Finance. Valuation and Fund Accounting prepares the weekly valuation of the investment portfolios, measures investment performance and processes pool unit transactions.

Tax and Revenue Administration Division

Tax and Revenue Administration (TRA) is responsible for the collection of revenue, the administration of Alberta Revenue's tax, revenue and related benefit programs and the development of tax policy. TRA has established a policy group to develop the appropriate tax and revenue policy and legislation. The focus is a fair, competitive, simple and efficient provincial tax and revenue system.

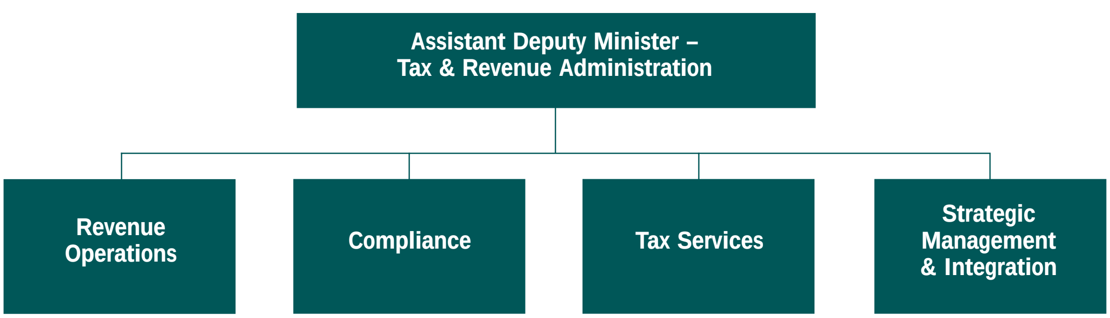
The Division is organized along functional lines. It is composed of four branches; Revenue Operations, Compliance, Tax Services and Strategic Management and Integration. Each branch is responsible for specific business processes. TRA's branches are designed so that business processes that are similar 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.

Compliance is responsible for ensuring the compliance of TRA's clients with the tax acts through investigation, audit and enforcement. This includes enforcing filing requirements, collecting debts and auditing books and records.

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. It also provides central services to other ministries and their agencies with respect to the federal GST.

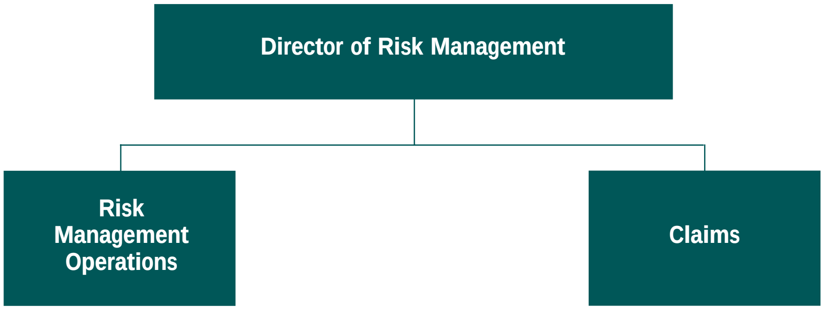
Strategic Management and Integration is responsible for providing planning, business systems and quality improvement services to TRA. This Branch has the lead responsibility for managing TRA's product development (e.g. electronic commerce, forms, etc.), change management, budgeting/forecasting and management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



Risk Management and Insurance Division

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

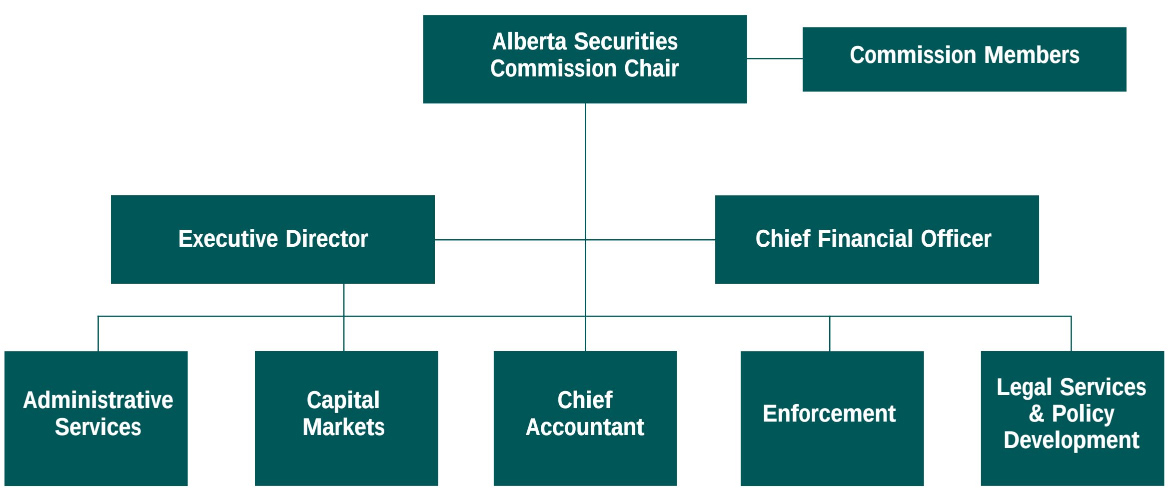
There are two branches within this division, Risk Management Operations and Claims. Risk Management Operations assists the Crown to minimize and, where appropriate, finance adverse effects of accidental loss. The Claims Branch administers all claims covered under the province's Risk Management Fund and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



Alberta Securities Commission	www.albertasecurities.com
20th Floor, 10025 Jasper Avenue Edmonton, Alberta T5J 3Z5	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

Future Summit

Albertans from all walks of life seized the opportunity to help chart a visionary and innovative course towards the province's future through the Alberta Future Summit 2002.

The Future Summit process launched with a broad, public-input phase. From September to December 2001, over 4,000 Albertans shared their vision and values for Alberta in the future and the opportunities and challenges they see ahead. Over 800 people attended 11 Regional Forums held in nine locations throughout the province. At least another 1,000 participated in more than 60 meetings held by over 40 MLAs. In addition, over 2,300 completed the Future Summit workbook and open-ended questionnaire.

Government is already responding to ideas discussed through this initiative. Delegates at the Summit were the first to call for an extensive review of the education system, similar to the work done by the Premier's Advisory Council on Health. Alberta Revenue has also embarked on an extensive review of the Savings Question through the work of a Savings Review Panel. This review looks at not only the reasons for, and appropriate level of savings, but also the mandate of the Alberta Heritage Savings Trust Fund going forward.

Premier Klein is committed to reviewing and responding to the strategies presented in this report. A full response from government can be expected this fall. Those strategies that can be implemented in the near term will be turned into actions in the Government's 2003-06 Business Plan.

The Summit framed discussions for the future direction of the province around seven central themes: Economy, Learning, Fiscal Responsibility, Communities, Health and Wellness, Environment and Governance. Several strategies and ideas for action came forward embracing the following common approaches.

- ***Linkages.*** The strength of the whole depends on the health of its parts. The economy must be strong to support vibrant quality-of-life institutions. The Summit encouraged all communities, organizations and individuals to make decisions and plans to benefit the province as a whole.
- ***Sustainability.*** Albertans value and have high expectations for the programs and services provided by government. The Summit recognized the importance of these programs and services and noted that to remain sustainable they will need stable predictable funding.
- ***Stability.*** The province was urged to expand its budgeting and planning horizons, surpassing the three to four year cycles it currently uses, to improve the province's ability to anticipate the effects of cyclical natural resource revenues.
- ***Ownership.*** Albertans embrace responsibility for the province's overall quality of life and economic status. The Summit called on the province to continue to support these values through initiatives such as a wellness-based prevention model and continued commitment to life-long learning.
- ***Partnerships.*** Partnerships should be encouraged between government, private sector organizations, communities and individuals to increase efficiency, effectiveness, accountability and transparency.

Revenue Framework

The Revenue Ministry was created in March 2001 with a mandate to bring a long-term strategic perspective to government revenues. While individual ministries are charged with the responsibility for managing, forecasting and collecting revenues within their mandates, Alberta Revenue is developing a framework to consider the broad characteristics, trends and issues in the province's revenue structure.

Alberta's revenues come primarily from two sources - taxation (personal, corporate and property) and non-renewable resources. While taxes account for the largest portion of the province's revenues, the tax mix is one of the least diversified in Canada. This is primarily because Alberta is the only province without a provincial sales tax. In the past fiscal year, tax revenues were the largest source of income ($9 billion representing 40.7 per cent of total revenue) and non-renewable resource revenues were the second largest source ($6.2 billion representing 28 per cent of total revenue).

Tax revenues are highly correlated with general economic and population trends while resource revenues correlate directly with commodity prices and production. Given the amount of revenue collected from non-renewable resources and the volatility in their markets, the province is exposed to large swings in the revenues available for the budget. In addition, the province must consider the long-term sustainability of its revenue sources over time. Work has begun on the revenue framework, which will consider these and other issues.

The Savings Question

In fiscal 1999-2000 the net debt of the Province of Alberta was eliminated, ten years ahead of schedule. By March 31, 2002 the province's net assets amounted to $5 billion (which includes $4.8 billion in pension obligations). The government continues to focus on the repayment of the remaining debt. As the province moves closer to a debt-free status, questions have been raised by Albertans related to the focus on debt repayment. While Albertans are keen on eliminating debt, they are also very concerned about maintaining the right balance with expenditures and savings. With the debt far more manageable, government is reviewing its savings policies, including the Alberta Heritage Savings Trust Fund. The work of the Savings Review Panel is timely to focus on key questions regarding the savings policy, which are:

- Should the province add to, maintain or reduce its existing savings?
- How should any savings be used in the future and what should the investment objectives of the savings be?
- Should the savings be maintained in the Heritage Fund or in some other vehicle?

The review will include consideration of the views expressed in the Alberta Future Summit 2002 report to the government, entitled *Imagine Our Tomorrow* as well as the recommendations of the Financial Management Commission.

Alberta Revenue Investment Operations

Alberta Revenue is responsible for the investment management and administration of approximately $38 billion of assets. These investments include the assets of the Alberta Heritage Savings Trust Fund, other provincial endowment funds, public sector pension plans and other government related clients.

The Ministry of Revenue has undertaken a project to review comparable investment management organizations with respect to objectives, philosophy, operations, structure and governance to identify the attributes of a successful organization. The Ministry has developed several options for the future of the investment operation and will present these options and recommendations to the Standing Policy Committee on Economic Development and Finance in 2002-03.

Straight Through Processing and T+1 Trade Settlement

The investment industry in North America is moving toward trade settlement one day after trade date (T+1) from the current standard of settling three days after the trade date (T+3). This industry change has required the Ministry to initiate acquisition of new trading and accounting systems to enable it to comply with these new timelines. Implementation of the new systems will decrease manual intervention and will enable the Ministry to further increase efficiencies as set out in the 2002-05 business plan.

During 2001-02, PricewaterhouseCoopers conducted a review of the existing systems and processes and prepared a gap analysis for the Ministry. A detailed action plan has been developed from the gap analysis and a budget totaling $5 million has been approved for the project over a three-year period. A project manager has been hired and a dedicated team will be selected to work with the project manager. The project will be measured against deliverables in the action plan and progress will be reported as a secondary performance measure in 2002-03.

Tax Administration

Alberta Revenue implemented reductions to corporate income tax rates in the 2001-02 fiscal year as a result of changes announced in Budget 2001 following the report of the Business Tax Review Committee. Additional changes were implemented on April 1, 2002 as identified in Budget 2002. The Ministry will also be involved in implementing the NHL Players Tax in 2002.

In accordance with the desire of the province for a low rate, broad based tax structure, a review of the Tax Exempt Fuel User program was begun. It is anticipated that the review will be completed in the upcoming year. TRA is also continuing with its multi-year systems renewal process, which will enable more elements of electronic business to be implemented.

Alberta Securities Commission (ASC)

The Canadian Securities Administrators (CSA), which consists of all provincial and territorial securities regulators, have made a strong commitment to eliminating the differences in provincial and territorial securities law by engaging in the Uniform Securities Legislation (USL) Project. Each province and territory of Canada has its own securities act. Although the spirit and intent of this legislation is the same, there are many differences that stakeholders who carry out inter-jurisdictional activity must work around.

Compliance with 13 similar but slightly different sets of rules adds to the costs and detracts from the convenience of accessing our capital markets. The objective of the USL Project is to eliminate these differences by developing a uniform securities act and rules for adoption by each provincial and territorial legislature. The CSA has struck a high-level Steering Committee to oversee the Project that is comprised of chairs or vice-chairs of several jurisdictions. The Committee is chaired by ASC Chair Stephen Sibold and is making good progress. ASC staff have made many valuable contributions to the Project and are pleased to play a leading role.

The ASC led the development of new national disclosure standards for public oil and gas issuers, with the publication for comment of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* in January 2002. NI 51-101 is based on recommendations issued in January 2001 by the ASC Oil and Gas Taskforce. The ASC believes that NI 51-101 will provide investors with better, more consistent information about reserves, enabling them to make more informed investment decisions. That in turn should bolster confidence in Alberta's capital markets, to the benefit of both investors and issuers. The ASC hopes to finalize NI 51-101 in 2002.

In response to industry concerns that the rules governing exempt market financings are too restrictive and the cost of raising money is too high, the ASC initiated a project that would enhance the ability to raise capital in the exempt market. The ASC invited the BC Securities Commission to participate in the project in order to harmonize the exemptions between the two jurisdictions, making it easier to raise money in the two provinces. As a result of this initiative, the ASC adopted Multilateral Instrument 45-103 *Capital Raising Exemptions* in March 2002.
MI 45-103 provides four new and expanded capital raising exemptions from the prospectus requirements. MI 45-103 will make it easier and less expensive for issuers, particularly small and medium-sized issuers, to raise capital in Alberta and BC, without compromising investor protection. The new exemptions in MI 45-103 include an Offering Memorandum Exemption, an Accredited Investor Exemption, a Family, Friends and Business Associates Exemption and a Private Issuer Exemption.

Business Resumption Planning

In the aftermath of September 11, 2001, it is obvious that organizations must be prepared if they are to resume critical services quickly following a catastrophic event. Ministries have been advised to prepare a business resumption plan for their respective ministries and are required to report on the progress made in the fiscal year.

In response to this request, the Ministry of Revenue has provided Municipal Affairs (lead Ministry) with its existing plan for the department's critical business functions. The off-site location for the Investment Management and Securities Administration and Systems Divisions is almost functional. Alberta Revenue is committed to having a Business Resumption Plan for the department in place by March 31, 2003.

LEGISLATION ADMINISTERED BY REVENUE

as at March 31, 2002

The following Acts are the responsibility of the Minister of Revenue:

Alberta Heritage Savings Trust Fund Act
Government Fees and Charges Review Act
Financial Administration Act (section 76)

The following Acts are the combined responsibility of the Ministers of Revenue and Finance:

Alberta Corporate Tax Act (except section 26.41)
Alberta Income Tax Act
Alberta Personal Income Tax Act
Financial Administration Act - Sections 11 and 12, and Part 5
Fuel Tax Act (except sections 12 (3), (4), and (5), 34 (c), 37 (2), 42 and 51 (l), (j), and (aa))
Hotel Room Tax Act
Securities Act
Tobacco Tax Act

The following Acts are the combined responsibility of the Ministers of Revenue and Finance and other Ministers as noted:

Alberta Corporate Tax Act - Section 26.41 also with the Minister of Energy
Fuel Tax Act - Sections 12 (3), (4), and (5), 34 (c), 37 (2), 42 and 51 (l), (j), and (aa)
also with the Minister of Agriculture, Food and Rural Development

RESULTS ANALYSIS 2002

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

CORE BUSINESSES AND GOALS

CORE BUSINESS	GOAL
Manage and invest financial assets prudently.	• Develop and implement a sustainable investment framework that meets the province's needs. • Maximize investment returns subject to client-defined objectives and policies.
Administer tax and revenue programs fairly and efficiently.	• Develop and implement a sustainable revenue framework that meets the province's needs. • A fair and competitive provincial tax system managed efficiently and effectively.
Manage risk associated with loss of public assets.	• Safeguard public assets from accidental loss.
Regulate Alberta's capital market.	• Foster a fair and efficient capital market in Alberta.

FINANCIAL HIGHLIGHTS

Change from Budget

Revenue $78 million below budget (1%)	Expenses $6 million below budget (3.8%)

Revenue

	Change From 2000 - 2001
Income Taxes	$ 446m

Personal Taxes $240m

- Increase in prior year adjustments due to stronger than expected assessments for the 2000 tax year
- Decrease in payout for energy tax refund
- Increase in revenues due to continued growth in personal income estimated at 6.6% and employment at 2.6%
- Decrease in personal income tax due to implementation of single rate tax system (January 2001) and the increase in the basic and spousal exemptions

Corporate Taxes $206m

- Strong cash receipts, primarily for energy sector corporations
- Increase in business registrations

	Change From 2000 - 2001
Other Taxes	**$ 20m**
• Fuel taxes increased due to consumption resulting from economic and population growth	$4m
• Tobacco taxes increased due to increased rates as well as increased consumption	$34m
• Insurance corporation tax revenue increased due to growth in the economy	$15m
• Hotel room tax increase is attributable to international travel (primarily American) and more national appeal due to the weaker Canadian dollar	$3m
• Financial Institution capital tax was eliminated April 1, 2001	($36m)
Investment Income	**($ 624m)**
• Interest income declined by approximately $89 million from the previous year as a result of the policy decision to shift investment holdings out of fixed income securities into equities and real estate.	($89m)
• Income from equity investments declined by approximately $557 million from the previous year. Fiscal 2001-02 proved to be one of the most turbulent and volatile years in the history of financial markets. During the year, world stock markets experienced the negative effects of the events of September 11, significant declines in value of technology stocks and slowing economic growth resulting in realized capital losses and writedowns of equity investments.	($557m)
• Income from real estate investments increased by approximately $23 million from the previous year due to an increase in real estate investments, primarily in the Heritage Fund.	$23m
• Other investment income	($1m)
Miscellaneous	**$ 5m**
• Fees, Permits and Licenses	$1m
• Internal Government Transfers related to a contribution to the Alberta Heritage Scholarship Fund from the Ministry of Learning for Apprenticeship Scholarships	$2m
• Other	$2m
NET DECREASE IN REVENUE	**($ 153m)**

Expenses

Change From 2000 - 2001

Corporate tax interest refunds	$ 12m

- In 2001-02 Canada Customs & Revenue Agency (CCRA) reached a settlement on a large, multi-year objection file. This settlement triggered parallel reassessments for Alberta resulting in a substantial increase in refund interest being paid out.

Transfers from Endowment Funds	$ 8m

• Alberta Heritage Foundation for Medical Research	$6m
• Alberta Heritage Scholarship Fund	$1m
• Alberta Heritage Foundation for Science and Engineering Research	$1m

Miscellaneous	$ 4m

• Revenue collection and rebates	$1m
• Investment Management	$1m
• Regulation of Capital Markets	$2m

NET INCREASE IN EXPENSES	$ 24m

MINISTRY EXPENSE BY CORE BUSINESS

Core Business	**2001-02 Comparable Budget**	**2001-02 Actual**	**2000-01 Comparable Actual**
Manage and invest financial assets prudently	103,774	87,933	78,895
Administer tax and revenue programs fairly and efficiently	38,701	50,370	37,160
Manage risk associated with loss of public assets	7,747	6,070	5,779
Regulate Alberta's capital market	15,460	15,073	13,525
Total Expenses	**165,682**	**159,446**	**135,359**

AUDITOR GENERAL *Alberta*

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

To the Members of the Legislative Assembly:

I have performed the following procedures in connection with the Ministry of Revenue's key performance measures included in the *2001-2002 Annual Report of the Ministry of Revenue*, as presented on pages 26 to 33.

1. Information obtained from an independent source was agreed with the information supplied by the stated source. Information provided internally was agreed to the reports from the systems used to develop the information.

2. The calculations which converted source information into reported measures were tested.

3. The appropriateness of the description of each measure's methodology was assessed.

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 performance measures included in the *2001-2002 Annual Report of the Ministry of Revenue*.

Edmonton, Alberta
August 9, 2002

(original signed by Fred J. Dunn, CA)
Auditor General

PERFORMANCE MEASURES, TARGETS AND RESULTS

Core Business #1 - Manage and invest financial assets prudently.

The primary objective for the Investment Management Division of Alberta Revenue is to maximize long-term financial returns for its clients. Meeting this objective means managing the balance between risk and return. The 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. The success of these strategies is evident in the performance measures to follow.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT	Endowment Portfolio Return	Benchmark Portfolio Return
Rate of return of the Heritage Endowment Portfolio.	• Rate of return greater than a benchmark portfolio.	1 year	3.3%	3.4%
		4 year compounded	4.6%	4.2%

Source: Financial Models Corporation Inc. (See Key Performance Measure Methodology Appendix at the end of this section.)

The Alberta Heritage Savings Trust Fund consists of two distinct components, an Endowment Portfolio and a Transition Portfolio. In 1998, most of the Heritage Fund's investment portfolio consisted of fixed income securities held in the Transition Portfolio. Over the past five years, the Transition Portfolio has gradually been phased out as assets have been transferred to the Endowment Portfolio. At March 31, 2002 approximately 8 per cent of the Heritage Fund assets remained in the Transition Portfolio. Before the end of the next fiscal year, all remaining assets in the Transition Portfolio will be transferred to the Endowment Portfolio.

As at March 31, 2002, investments in the Endowment Portfolio (approximately 92 per cent of the Heritage Fund) are managed according to the following policy asset mix:

Fixed income securities	35%
Equities	58%
Real estate	7%

On a combined basis, equities account for 52.3 per cent or $6.6 billion of the Fund's total investments. Fixed income securities such as bonds, notes, short-term paper and other interest bearing securities continued to decrease. Fixed income securities now account for 43 per cent of the Fund's total investments or $5.4 billion. Real estate accounts for 4.7 per cent of the investments or $0.6 billion.

Generally, fixed income securities are less volatile and provide a steady stream of interest income. Equities are more volatile and produce capital gains or losses. Over the long term, equities are expected to produce higher rates of return than fixed income securities.

The table below shows the actual and benchmark weighting in each asset category as well as the actual and benchmark returns. Returns are calculated on an annual basis with the exception of the four-year calculation which is the annualized compounded return over four years. The target is to have the Endowment Portfolio return exceed the policy benchmark return, over a four-year period. The compounded return for the four-year period ended March 31, 2002 is 0.4 per cent greater than the policy benchmark return.

ENDOWMENT PORTFOLIO PERFORMANCE

(For the year ended March 31, 2002)

Actual Market Return						Benchmark Portfolio Return					
	Actual Weight	2002	2001	2000	4 year*		Index Weight	2002	2001	2000	4 year*
Short-term Fixed Income	4.2%	4.8%	5.7%	5.3%	5.2%	SC 91 Day T-Bill Index	2.0%	3.7%	5.7%	4.7%	4.8%
Long-term Fixed Income	32.5%	5.9%	9.5%	1.7%	5.9%	SC Universe Bond Index	33.0%	5.1%	8.7%	1.3%	5.5%
Canadian Equities	23.0%	4.2%	-16.0%	37.8%	2.3%	TSE 300	23.0%	4.9%	-18.6%	45.5%	2.5%
Foreign Equities						Foreign Index					
U.S.	17.8%	1.4%	-14.4%	13.1%	5.7%	S&P 500	17.5%	1.6%	-15.1%	13.2%	5.3%
EAFE	17.6%	-5.8%	-22.6%	37.3%	3.2%	MSCI EAFE	17.5%	-7.3%	-19.6%	20.1%	0.2%
Real Estate	5.2%	7.3%	9.7%	5.8%	9.0%	Russell Index**	7.0%	9.8%	11.9%	9.9%	11.8%
Total Endowment Portfolio	100.0%	3.3%	-6.1%	18.0%	4.6%	Total Benchmark Portfolio	100.0%	3.4%	-6.2%	15.9%	4.2%

* Annualized compounded return

**The Russell Index (Russell Canadian Property Index) benchmark is calculated on a gross basis and excludes expenses such as capital expenditures, interest expense, transaction costs and administration expense. The actual return is calculated on a net basis, fully reflecting all costs and expenses. Effective for 2002-03, the benchmark is changed to the Consumer Price Index (CPI) plus 5 per cent. Applying the new policy benchmark to the current period, the actual real estate return outperformed the new benchmark by 50 basis points over one year and 190 basis points over a four-year period on an annualized basis.

Source: Financial Models Corporation Inc. (See Key Performance Measure Methodology Appendix at the end of this section.)

The year was characterized by volatile markets driven by global terrorist concerns and economic uncertainty. Domestic and U.S equities were able to achieve positive returns over the year, but well below historical averages. Fixed income and real estate assets outperformed equities due to their use as a safe haven during market instability. Performance in fixed income was driven by interest rate reductions by central banks.

Fixed income performance over the year in comparison to its benchmarks was positive due to good duration management and sector allocation.

Canadian equity performance as a whole was negative relative to the TSE 300 index. An overweight in growth and technology together with an underweight in financials and utilities contributed to this underperformance.

US equities outperformed the S&P 500 index from exposure to small capitalization securities which significantly outperformed the S&P 500 index.

International equity exposure was a source of value added relative to the MSCI EAFE Index. The source of value added came from good security selection and an underweight in Japan, which were partially offset by poor country allocation.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT
Rate of return on the total Heritage Fund.	• **Rate of return compared against the province's total debt portfolio on a market value basis.**	• **The four year compounded rate of return for the Alberta Heritage Savings Trust Fund was 4.6% compared to the cost of debt at 6.9%.**

Source: Financial Models Corporation Inc. (See Key Performance Measure Methodology Appendix at the end of this section.)

The annual market cost of the debt portfolio, calculated on a four year basis, has decreased from 7.7 per cent (shown in the 2000-01 annual report) to 6.9 per cent for the most recent four year period. While the cost of the debt is decreasing, the return posted for the Alberta Heritage Savings Trust Fund has also declined, due to equity market performance.

Supplementary Measures

PERFORMANCE MEASURE: Clearly defined investment benchmarks for all government investments.

Benchmarks have been established for all government investments and returns are compared to those benchmarks on an on-going basis.

ENDOWMENT FUND PERFORMANCE

	Actual four year return	Benchmark four year return
Alberta Heritage Savings Trust Fund	4.60%	4.20%
Alberta Heritage Foundation for Medical Research Endowment Fund	3.72%	3.28%
Alberta Heritage Scholarship Fund	3.78%	3.28%
Alberta Heritage Science and Engineering Research Endowment Fund*	2.96%	3.12%

* Annual Return
Source: Financial Models Corporation Inc.

PERFORMANCE MEASURE: Annualized market value rates of return measured against benchmarks established by clients.

The various pooled products have benchmarks established and IMD must report on the performance of each pooled product relative to its respective benchmark. Clients' investments are spread over a variety of products, based on the investment objectives and goals for each client. Benchmarks are established for each product within the clients' portfolios and an overall benchmark is aggregated for each client. IMD reports directly to its clients on performance achieved each fiscal year in comparison to the established benchmarks.

PERFORMANCE MEASURE: Rates of return on client accounts compared to other major Canadian investment funds and to the rate of inflation.

Investment funds establish policy with respect to their allocations to various asset classes. These policies articulate the fund's tolerance to risk and reflect a strategy for meeting the particular financial needs of the fund. As needs and risk tolerances vary considerably between funds, different funds may hold materially different asset mixes. Comparing performance of one fund to others with different asset mixes may result in a misleading picture of relative performance. Therefore, a comparison to major Canadian investment funds has not been included. This measure has been dropped for the 2002-05 Ministry business plan. The four year inflation rate is 2.1 per cent.

PERFORMANCE MEASURE: Develop the investment management framework.

In the 2001-2002 fiscal year the Ministry was charged with developing a target related to the investment management framework. A target was established. By March 2002, alternatives had to be identified for the investment management organization and those alternatives had to be presented to the Standing Policy Committee on Economic Development and Finance (SPC) for a decision.

During the 2001-02 fiscal year the Ministry studied a number of comparable investment organizations with respect to objectives, philosophy, operations, structure and governance to identify the attributes of a successful organization. Several options have been identified for consideration. A recommendation will be presented to the SPC in 2002-03.

PERFORMANCE MEASURE: Establish clear concise action for the direction of the Future Summit.

As a result of the Future Summit consultations held during the 2001-02 fiscal year a report entitled *Imagine Our Tomorrow* was released in May 2002. This report lists seven key themes that are important to Albertans as well as strategies and ideas for action. The government will follow through on its commitment to listen to Albertans and follow through on the input received from the public consultation. Ministries will be required to analyze and evaluate the strategies and action ideas. Applicable strategies identified in the report will be incorporated into the respective ministries' 2003-06 business plans.

Core Business #2 - Administer tax and revenue programs fairly and efficiently.

Albertans continue to pay the lowest taxes in Canada while still enjoying excellent public services that contribute to their quality of life. In 2001, the government implemented significant improvements to personal and business taxes. As a result of these changes, Albertans enjoy a fair tax system today that provides for economic growth tomorrow. We have lower, simpler, fairer and more competitive taxes.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT
Provincial tax load for a family of four.	• Lowest in Canada	• Lowest in Canada

Alberta continues to have the lowest provincial tax load for a family of four. The table below compare taxes at various income levels across the country. While the new tax system reflects lower taxes overall, it is fairer to one-income families. By taxing all income at a single rate and setting the basic and spousal exemptions at the same amount, it reduces the difference in tax paid by one-and two-income families.

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	$482	$4,029	$7,334
Ontario	$1,603	$4,631	$8,834
Saskatchewan	$2,124	$5,070	$9,663
British Columbia	$2,587	$5,137	$8,469
New Brunswick	$2,968	$5,665	$10,801
Manitoba	$2,377	$5,742	$11,521
Nova Scotia	$2,906	$5,882	$11,161
Prince Edward Island	$3,212	$6,224	$11,379
Quebec	$1,890	$6,371	$14,333
Newfoundland	$3,733	$6,886	$12,820

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

Supplementary Measure

PERFORMANCE MEASURE: Lowest personal tax load in Canada.

During 2001-02, Albertans received the full benefit of the move to the new single rate personal income tax system. In 2001, Albertans saved $1.1 billion, bringing total savings to $1.5 billion since 1998. This means that on average, Albertans paid 23 per cent less in provincial income tax than in 1998.

Alberta's provincial tax load on persons, at 55.2 per cent of the national average, was the lowest in Canada and 36.6 percentage points below second place British Columbia. As well, Alberta continues to remain the only province with no provincial sales tax. The low taxes and strong economy attracted over 26,000 inter-provincial migrants to Alberta in 2001, mostly from British Columbia, Saskatchewan and Ontario.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT
Provincial tax load on business.	• **Lowest in Canada**	• **Second lowest**

In 2001-02, Alberta's provincial tax load on business continued to be the second lowest in Canada. While it did not meet the target (lowest in Canada), it is only slightly behind first place Nova Scotia and is significantly better than our key competitors (Ontario and British Columbia). Our low business taxes continue to encourage new business startups and extra-provincial businesses continue to migrate to our province.

TAX LOAD ON BUSINESS

Nova Scotia	79.6
Alberta	84.1
Prince Edward Island	84.6
Ontario	94.5
New Brunswick	98.4
Quebec	99.3
Manitoba	118.7
British Columbia	123.2
Newfoundland	142.8
Saskatchewan	187.5

Tax load relative to provincial average=100
Source: Finance Canada (See Key Performance Measure Methodology Appendix at the end of this section.)

In 2001-02, the Alberta Government reduced business taxes by $286 million. On April 1, 2001, the general corporate income tax rate was reduced from 15.5 per cent to 13.5 per cent, the small business rate was reduced from 6 per cent to 5 per cent, and the small business threshold was increased from $200,000 to $300,000. In addition, the capital tax on financial institutions was eliminated on April 1, 2001 and a schedule for further cuts to business taxes was announced, subject to affordability.

In Budget 2002, the schedule for further reductions was modified to accommodate changes in the fiscal situation. The general corporate income tax rate was reduced to 13 per cent, the small business rate was further reduced to 4.5 per cent, and the small business threshold was increased to $350,000 effective April 1, 2002. The Alberta Government still intends to reduce the general corporate income tax rate to 8 per cent, the small business rate to 3 per cent, and increase the small business threshold to $400,000; but the pace of planned reductions has been slowed to ensure they're affordable and sustainable.

REVISED IMPLEMENTATION SCHEDULE FOR THE BUSINESS TAX PLAN

(Effective April 1st each year)

	2001-02	**2002-03**	**2003-04**	**2004-05**
General rate* (%)	13.5	13.0	12.5	11.5
Small business rate (%)	5	4.5	4	3
Small business threshold ($)	300,000	350,000	400,000	400,000
Capital gains inclusion rate (%)	50	50	50	50
Railway fuel tax (c/litre)	1.5	1.5	1.5	1.5
Capital tax	Eliminated	-	-	-
Cumulative cost of tax cuts ($ millions)	**286**	**367**	**448**	**597**

* In 2001, the reduction of the general rate eliminated the need for a separate manufacturing and processing rate.

Supplementary Measures

PERFORMANCE MEASURE: Growth in business registrations.

The business tax cuts will stimulate a growing, more diverse tax base and encourage new business start-ups and other businesses to move to our province. Statistics Canada tracks business growth using GST based registrations. Comparisions are provided among provinces, using a consistent definition for a business. Based on that information, Alberta has once again had the strongest growth (3%), which meets the target set out in the Ministry Business Plan.

PERFORMANCE MEASURE: Percentage of returns filed on time.

The Ministry relies on voluntary compliance by taxpayers. Data shows that 99 per cent of returns filed during the fiscal year were filed on time. This exceeds the target of 97 per cent.

PERFORMANCE MEASURE: Percentage of accounts with a nil balance.

This performance measure is a new measure and has been chosen to accompany the preceding performance measure. While it is important for the taxpayers to file in a timely manner, it is equally important that the province receives the revenue associated with each of these returns. The target has been set at 97 per cent. As at March 31, 2002, 95 per cent of the accounts had a nil balance.

PERFORMANCE MEASURE: Percentage of objections filed to assessments and reassessments issued.

This is a new performance measure established in 2001-02. We believe the number of objections filed to assessments, refunds and rebate claims issued by Tax and Revenue Administration reflects the quality and accuracy of our processing of returns and claims. While this is the first year that the Ministry has measured the number of objections filed we felt that the target of 0.25 per cent was reasonable and would imply the public's satisfaction with assessments and reassessments issued by the Ministry. In the past fiscal year there were 0.20 per cent objections to the assessments and reassessments issued indicating that the public is generally satisfied with Tax and Revenue Administration's decisions in establishing the taxes to be paid and the eligibility for refunds.

**PERFORMANCE MEASURE: Satisfaction with tax administration.
Satisfaction with compliance costs.**

Overall satisfaction with tax administration (76 per cent) is down from 2000-01 by 5 per cent (81 per cent in 2000-01). Satisfaction with compliance costs has also suffered a small decrease from last year (73.3 per cent in 2001-02 compared to 74.6 per cent in 2000-01). Part of this decrease in satisfaction is a result of issues in the Alberta Royalty Tax Credit and Tax Exempt Fuel Use (TEFU) programs. Several entities incurred costs as a result of announcements of changes to the Alberta Royalty Tax Credit (ARTC) and Royalty Credits for Individuals and Trusts (RCIT) programs. The announcement was later withdrawn and the entities that had taken proactive steps to ensure they remained eligible for benefits incurred needless costs.

PERFORMANCE MEASURE: Costs per $100 of tax revenue collected.

The Ministry continues to drive its operating costs down through efficient use of technology and human resources to collect tax revenues. In the 1999-2000 fiscal year, processing tax returns cost the Ministry $0.66 per $100 of revenue collected. In 2000-01, the processing cost fell to $0.57, and in the past fiscal year it decreased a further $0.06. This cost is the lowest in Canada.

Approximately 75 per cent of the clients are registered through data exchanges and federal data is used to issue most reassessments, without relying on additional taxpayer information. The Division works closely with federal and other provincial officials in joint and reciprocal initiatives that eliminate overlap and duplication. Increased use of technology in the tax return and rebate claim processing systems has also contributed to the low administration costs. Alberta continues to have the lowest collection costs in the country (Ontario - $0.57; Manitoba - $0.73; British Columbia - $0.82).

PERFORMANCE MEASURE: Use of E-Business

Tax and Revenue Administration is working aggressively to increase the use of electronic tax filing. Currently the Division has three e-business applications, which are smaller programs (Hotel, Liquid Propane, and Alberta Indian Tax Exemption), that have been used extensively by the filers. The fourth electronic application is the “Net File” project, being developed in partnership with the federal government and the Province of Ontario. This application will be used for the electronic filing of corporate tax returns and is expected to be available during the 2003-04 fiscal year. While it is difficult to project the take up in this filing program the Ministry anticipates that the acceptance will be high based on the statistics available for on-line filing of personal tax returns. The Ministry target is to have one-third of all transactions conducted electronically by the end of 2003-04.

In order to progress in this area, the Division must lay the foundation upon which to develop the filing system further. This includes the use of secure web enabling technology which will be accessible to the majority of filers. The success of this venture is dependent upon accessibility, simplicity and filer acceptance. In 2001-02, the Division identified a number of potential web-based applications for current tax programs and future tax programs. The interactive voice response system has also been upgraded to accommodate expanded use of the telephone for simple filings. In 2002-03, the Division will develop an e-business strategy which will include the technology infrastructure for future web-based applications.

As the Ministry moves forward with the development of web-based filing applications, the key to its success lies in the willingness of taxpayers to adopt new methods for filing. These methods must not be cost prohibitive to the filing community but must provide an alternative that is simple, easy to understand and affordable by the community at large.

PERFORMANCE MEASURE: Acceptance of harmonization initiatives by other jurisdictions.

During the course of the past year the Ministry has been involved in several harmonization initiatives. Common forms, in the case of the Fuel Tax Uniformity project, and common definitions of tobacco for tax purposes on a national basis are just two of the projects that were underway.

The Tri-Party Review Allocation Committee meets to address case-specific issues related to provincial corporate income allocation. The Provincial Income Allocation Task Force is a working group which recommends changes to the federal income tax regulations to Finance Canada. The Division has had active involvement in both of these committees. A total of 28 items have been resolved between the two groups.

Phase 1 of the Alberta Indian Tax Exemption program single identification project has been completed. Identity cards have been issued by Treaty 7 Tribal Council as a pilot. Phase 2 of the project is targeted for 2002-03.

PERFORMANCE MEASURE: Develop the revenue management framework.

The Revenue Ministry is charged with the responsibility of developing a revenue management framework. Work began in 2001-02 to consider the broad characteristics, trends and issues in the province's revenue structure. The Ministry has now created a plan to develop a framework and implement it by March 31, 2003. This plan involves consultation with the ministries as well as other stakeholders. Results will be published in the 2002-03 Annual Report of the Ministry.

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. The events of September 11, 2001 have had a serious impact on the insurance industry and have significantly increased the cost and availability of purchased insurance. Recognizing the probability of a fluctuation in the cost and quality of insurance protection available, the Risk Management Fund was created to stabilize the costs and coverage offered Fund participants. The Ministry's focus was to maintain the Risk Management Fund with sufficient assets to cover liabilities. The excess of assets over liabilities at March 31, 2002 will lessen the impact of these increases over the short term. This will give the Division time to establish its premiums for the future.

Supplementary Measures

PERFORMANCE MEASURE: Condition of the Risk Management Fund.

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. The Ministry target is to have the Fund's assets to be equal to the Fund's liabilities at the end of each fiscal year. This year Fund assets exceeded Fund liabilities. An actuarial review of the Fund's claim reserving practices as of March 31, 2001 was completed and the results incorporated in reserves as at March 31, 2002.

Excess assets will help cushion the various ministries from pending increases in the cost of external insurance coverage. The impact of September 11, 2001 is far reaching and will significantly increase the cost of external insurance. The incident also brings into question the availability of appropriate reinsurance for the Fund.

PERFORMANCE MEASURE: Client satisfaction with services provided.

In November 2001, the Division conducted a survey with its clients. The purpose of the survey was to determine satisfaction levels and extent of knowledge of existing services provided by the Division. Approximately one-third of the clients responded, indicating the satisfaction level at 81 per cent, exceeding the target of 80 per cent. This survey was worded differently and was sent to a larger, broader audience than the prior year surveys conducted by Treasury, which included questions from several Treasury divisions. Using the results, the Ministry will develop a plan for working with clients to improve services and expand knowledge of the risk management services provided. The 2002-03 Business Plan articulates related goals and strategies which will be reported in the 2002-03 Annual Report.

Core Business #4 - Regulate Alberta's capital market.

The focus of the Alberta Securities Commission is the improvement of: the regulatory environment, enforcement and working relationships with other regulatory authorities. The Commission included a number of operational strategies in their internal Business Plan which support the goals of the Ministry. The more significant effort is the national initiative to harmonize securities legislation. Increased efforts have also been expended in the enforcement area.

Supplementary Measures

PERFORMANCE MEASURES: **Level of information sharing.**
Average time to review applications and issue decisions.
Number of joint investigations conducted.
National instruments developed, published for comment and implemented.

Innovative legislation, effective enforcement of that legislation and investor education are all critical in fostering efficiency and fairness of the capital markets.

The Alberta Securities Commission (ASC) has developed several new policy initiatives such as improved capital raising exemptions and oil and gas disclosure standards, both of which are key to Alberta businesses.

Through visible and proactive enforcement action last year, ASC staff conducted proceedings in both Provincial Court and before the ASC, sitting in its administrative quasi-judicial role, against several individuals and companies who contravened securities legislation. The ASC concluded 302 investigations, and held 29 administrative hearings. Two convictions in Provincial Court were obtained, including one which resulted in the first term of imprisonment ordered since prosecutions were taken over by ASC staff.

Educated investors are more likely to make wise investment decisions, which is beneficial for Alberta's capital markets. A comprehensive education program has been developed by the ASC, including two significant research projects to help identify the education needs of Alberta investors. The results of these studies will be used to formulate the investment messages we deliver to our stakeholders, and to refine our education programs.

Staff from the ASC are significantly involved in projects at a national level through the Canadian Securities Administrators (CSA), which is the organization under which Canada's 13 securities regulators work towards a harmonized system of securities regulation. Just as the ASC has developed expertise in certain areas as required by the structure of Alberta's capital markets, so too have its colleagues across Canada. Work at a national level allows securities regulators to leverage those strengths to form a consistent and strong national regulatory presence. A prime example of this collaborative approach is the ASC's work in developing uniform securities legislation to be enacted by June 30, 2004.

KEY PERFORMANCE MEASURE METHODOLOGY APPENDIX

Rate of return of the Heritage Endowment Portfolio

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 specific 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.

Market value of the total debt portfolio

The modified dietz performance formula is used to calculate the market value rate of return for the liability portfolio. The formula uses the previous month end position and the current month end position, as well as intra-month cash flows to calculate the monthly return. The modified dietz performance formula calculates the time-weighted rate of return.

Taxation load for a family of four

Calculations are based on the following assumptions:

- Business is assumed to bear between 25% and 60% of the provincial sales tax, depending upon the provincial tax regime.
- In provinces that impose payroll taxes, 75% is assumed to be borne by employees and 25% 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

The tax load data is derived by the Federal Department of Finance using all provincial and municipal tax revenue data. Tax load is expressed as an index with the average provincial tax load equal to 100 basis points. The tax load on business includes business income taxes, capital taxes and insurance corporation taxes.

FINANCIAL INFORMATION 2002

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

TABLE OF CONTENTS

MINISTRY OF REVENUE
Consolidated Financial Statements
MARCH 31, 2002

AUDITOR'S REPORT

AUDITOR GENERAL
Alberta

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, 2002 and the consolidated statements of operations and changes in financial position 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.

The Ministry is required to follow the corporate government accounting policies and reporting practices established by Alberta Finance, including the following policy that is an exception from Canadian generally accepted accounting principles. Capital assets costing less than $15,000 are expensed in the year acquired and have not been recognized as assets in the consolidated statement of financial position. The effect of this omission is to understate net assets as at March 31, 2002 by approximately $2,080,000, and to overstate expenses by approximately $29,000 for the year ended March 31, 2002.

In my opinion, except for the effects of the matter discussed in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 23, 2002

(original signed by Fred J. Dunn, CA)
Auditor General

MINISTRY OF REVENUE

CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended March 31, 2002 *(thousands)*

	Budget (Schedule 2)	2002 Actual	2001 Actual
Revenues (Schedule 1)			
Income taxes	$ 6,050,556	$ 6,411,650	$ 5,965,914
Other taxes	1,105,933	1,148,901	1,129,373
Investment income	670,124	182,898	807,096
Fees, permits and licences	14,237	15,088	13,947
Internal government transfers	200	2,200	200
Other	16,025	18,367	15,980
	7,857,075	7,779,104	7,932,510
Expenses (Schedule 3)			
Ministry support services	3,902	3,699	3,201
Revenue collection and rebates	16,946	17,655	16,223
Investment management	11,878	10,004	8,956
Government risk management and insurance	7,546	5,924	5,651
Regulation of capital markets	15,460	15,012	13,505
Transfers to the Alberta Heritage Foundation for Medical Research	63,000	55,000	49,000
Transfers to the Students Finance Board for payment of Alberta Heritage Scholarships	19,200	19,137	18,287
Transfers to the Alberta Heritage Foundation for Science and Engineering Research	7,000	1,550	575
Corporate tax interest refunds	20,000	31,303	19,437
Valuation adjustments (Schedule 4)	750	162	524
	165,682	159,446	135,359
Net operating results	$ 7,691,393	$ 7,619,658	$ 7,797,151

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

MINISTRY OF REVENUE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2002 *(thousands)*

	2002	2001
Assets		
Cash and temporary investments (Schedule 5)	$ 286,783	$ 440,309
Accrued interest and accounts receivable (Schedule 6)	553,124	958,366
Portfolio investments (Schedule 7)	13,983,856	13,430,820
Loans and advances to government entities (Schedule 8)	104,622	250,387
Other loans and advances (Schedule 9)	98,479	98,630
Inventories held for resale	103	110
Capital assets (Schedule 10)	6,521	7,475
	$ 15,033,488	$ 15,186,097
Liabilities		
Accounts payable (Schedule 11)	$ 550,410	$ 431,090
Vacation entitlements	2,779	2,817
	553,189	433,907
Net Assets		
Net assets at beginning of year	14,752,190	14,386,702
Net operating results	7,619,658	7,797,151
Net transfer to general revenues	(7,891,549)	(7,431,663)
Net assets at end of year	14,480,299	14,752,190
	$ 15,033,488	$ 15,186,097

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

MINISTRY OF REVENUE

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 2002 *(thousands)*

	2002	2001
Operating activities		
Net operating results	$ 7,619,658	$ 7,797,151
Non-cash items included in net operating results	(40,880)	(87,434)
	7,578,778	7,709,717
Other	524,417	132,530
Cash provided by operating activities	8,103,195	7,842,247
Investing activities		
Disposals of portfolio investments	13,002,975	12,999,282
Repayment of loans and advances	145,916	262,310
Portfolio investments purchased	(13,512,655)	(13,543,368)
Other	(1,408)	(3,251)
Cash used for investing activities	(365,172)	(285,027)
Financing activities		
Net transfer to general revenues	(7,891,549)	(7,431,663)
Cash used for financing activities	(7,891,549)	(7,431,663)
Net cash (used) provided	(153,526)	125,557
Cash and temporary investments at beginning of year	440,309	314,752
Cash and temporary investments at end of year	$ 286,783	$ 440,309

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

MINISTRY OF REVENUE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2002

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 functions are to:

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

MINISTRY OF REVENUE

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, 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.

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.

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.

MINISTRY OF REVENUE

NOTE 3 **(continued)**

Portfolio investments are carried at cost. 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.

Inventories for resale are valued at the lower of cost, determined on a first-in, first-out basis, and estimated net realizable value.

Assets acquired by right are not included. 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.

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. 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 GOVERNMENT RESTRUCTURING

As a result of government restructuring announced on March 15, 2001, the former Ministry of Treasury's responsibilities were transferred to the newly established Ministries of Finance and Revenue.

The 2001 figures are presented as if the Ministry of Revenue had been in existence on April 1, 2000 and throughout the two year period covered by these financial statements.

NOTE 5 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 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 are valued based on discounted cash flows using current market yields. Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices. The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.
>
> 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.
>
> 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.

Loans and advances to government entities are valued based on the net present value of future cash flows. The fair value of other loans and advances is estimated by management based on the present value of discounted cash flows. An estimate of fair value was not performed in prior years. Consequently, no amount is provided for comparative purposes.

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

NOTE 6 ASSET RISK MANAGEMENT

The majority of the Ministry's portfolio investments are in the Alberta Heritage Savings Trust Fund (Heritage Fund).

The Heritage Fund is comprised of two portfolios. The Endowment Portfolio is being held for the long term and has the objective of maximizing long-term financial returns. The portfolio consists of 25 per cent to 45 per cent fixed-income instruments and 75 per cent to 55 per cent equities. The Transition Portfolio consists mainly of Canadian fixed-income securities and has the objective of providing income support to the government's fiscal plan over the short term to medium term.

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 7 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.

a) Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2002 amounted to $11,348,000 (2001 $13,066,000). 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 to March 31, 2006. The aggregate amounts payable for the unexpired terms of these leases are as follows:

(thousands)		
2002-03	$	3,913
2003-04		3,274
2004-05		2,899
2005-06		1,262
	$	11,348

b) Guarantees

The Ministry, through the Alberta Securities Commission along with the Ontario Securities Commission and the British Columbia Securities Commission, has 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, 2002, 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 $4,934,000 (2001 $7,262,000). Included in this amount are claims for $3,384,000 (2001 $3,684,000) in which the Ministry has been jointly named with other entities. The resulting loss, if any, from these claims cannot be determined.

MINISTRY OF REVENUE

NOTE 8 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, 2002, trust funds under administration were as follows:

(thousands)

	2002	2001
The Workers' Compensation Board Accident Fund	$ 2,030,548	$ 2,264,635
Power Pool of Alberta Balancing Pool	121,294	813,149
	$ 2,151,842	$ 3,077,784

NOTE 9 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 $1,435,000 for the year ended March 31, 2002 (2001 $1,238,000).

At December 31, 2001, the Management Employees Pension Plan reported an actuarial surplus of $5,338,000 (2000 $170,858,000) and the Public Service Pension Plan reported an actuarial surplus of $320,487,000 (2000 $635,084,000). At December 31, 2001, the Supplementary Retirement Plan for Public Service Managers had an actuarial deficiency of $399,000 (2000 actuarial surplus of $180,000).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2002, the Bargaining Unit Plan reported an actuarial deficiency of $8,646,000 (2001 $12,710,000) and the Management, Opted Out and Excluded Plan an actuarial deficiency of $2,656,000 (2001 $4,583,000). The expense for these two plans is limited to employer's annual contributions for the year.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

MINISTRY OF REVENUE

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REVENUES

Schedule 1

Year Ended March 31, 2002 *(thousands)*

	Budget	2002 Actual	2001 Actual
Income taxes			
Personal income tax	$ 4,422,050	$ 4,503,099	$ 4,287,654
Less Alberta energy tax refund	(345,000)	(320,000)	(345,000)
Corporate income tax	1,973,506	2,228,551	2,023,260
	6,050,556	6,411,650	5,965,914
Other taxes			
Fuel tax	581,000	584,855	580,988
Tobacco tax	344,000	373,516	339,658
Insurance corporations tax	133,933	133,725	118,562
Hotel room tax	47,000	55,604	52,557
Financial institutions capital tax	-	1,201	37,608
	1,105,933	1,148,901	1,129,373
Investment income	670,124	182,898	807,096
Fees, permits and licences	14,237	15,088	13,947
Internal government transfers	200	2,200	200
Other			
Insurance services	6,251	7,163	7,217
Other services	9,564	7,783	7,349
Refunds of expenditure	50	953	157
Miscellaneous	160	2,468	1,257
	16,025	18,367	15,980
	$ 7,857,075	$ 7,779,104	$ 7,932,510

MINISTRY OF REVENUE

BUDGET

Schedule 2

Year Ended March 31, 2002 *(thousands)*

	2001-02 Estimates	Adjustments (a)	2001-02 Budget
Revenues			
Income taxes	$ 6,050,556	$ -	$ 6,050,556
Other taxes	1,105,933	-	1,105,933
Investment income	682,324	(12,200)	670,124
Fees, permits and licences	14,237	-	14,237
Internal government transfers	200	-	200
Other	12,726	3,299	16,025
	7,865,976	(8,901)	7,857,075
Expenses			
Ministry support services	3,902	-	3,902
Revenue collection and rebates	16,351	595	16,946
Investment management	8,294	3,584	11,878
Government risk management and insurance	7,546	-	7,546
Regulation of capital markets	15,460	-	15,460
Transfers to the Alberta Heritage Foundation for Medical Research	63,000	-	63,000
Transfers to the Students Finance Board for payment of Alberta Heritage Scholarships	19,200	-	19,200
Transfers to the Alberta Heritage Foundation for Science and Engineering Research	7,000	-	7,000
Corporate tax interest refunds	20,000	-	20,000
Valuation adjustments	750	-	750
	161,503	4,179	165,682
Net Operating Results	$ 7,704,473	$ (13,080)	$ 7,691,393

a) Adjustments consist of transfers of budgeted revenue in the net amount of $8,901,000 to the Ministry of Finance, and administrative transfers of budgeted expenses of $4,179,000 from the Ministry of Finance authorized by Order in Council 290/2001.

MINISTRY OF REVENUE

EXPENSES BY OBJECT

Schedule 3

(thousands)

		2002	2001
	Budget	Actual	Actual
Salaries, wages and employee benefits	$ 28,747	$ 28,054	$ 24,841
Supplies and services	23,606	21,411	19,830
Grants	89,200	75,694	67,875
Corporate tax interest refunds	20,000	31,303	19,437
Other financial transactions	1,064	808	1,136
Amortization of capital assets	2,507	2,326	1,899
Valuation adjustments	750	162	524
	165,874	159,758	135,542
Less recovery from support service arrangements with related parties (a)	192	312	183
	$ 165,682	$ 159,446	$ 135,359

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

VALUATION ADJUSTMENTS

Schedule 4

(thousands)

		2002	2001
	Budget	Actual	Actual
Provision for doubtful accounts, loans and write-offs	$ 750	$ 161	$ 158
Provision for employee benefits other than pensions	-	1	366
	$ 750	$ 162	$ 524

MINISTRY OF REVENUE

CASH AND TEMPORARY INVESTMENTS

Schedule 5

(thousands)

	2002	2001
Pooled investment funds		
Fixed-income securities (a)	$ 8,786	$ 16,405
Canadian equities	2,746	-
	11,532	16,405
Deposit in the Consolidated Cash Investment Trust Fund	111,098	314,992
Cash in bank and in transit	164,153	108,912
	$ 286,783	$ 440,309

a) Fixed-income securities held had an average effective yield of 5.80% per annum (2001 5.75%) as at March 31, 2002. 93% (2001 95%) of the securities had terms to maturity of over one year.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

Schedule 6

(thousands)

	2002	2001
Corporate income tax	$ 239,617	$ 232,228
Personal income tax	195,555	520,433
Fuel tax	50,492	48,329
Accrued interest receivable	39,062	126,896
Insurance corporations tax	17,482	21,009
Hotel room tax	5,310	4,974
Tobacco tax	5,124	3,636
Financial institutions capital tax	544	1,317
Other	1,085	601
	554,271	959,423
Less allowance for doubtful accounts	1,147	1,057
	$ 553,124	$ 958,366

MINISTRY OF REVENUE

PORTFOLIO INVESTMENTS

Schedule 7

(thousands)

	2002 Book Value	2002 Fair Value	2001 Book Value	2001 Fair Value
Fixed-income securities (a)(b)				
Government of Canada, direct and guaranteed	$ 228,073	$ 229,475	$ 1,069,678	$ 1,078,017
Provincial, direct and guaranteed	133,856	134,874	1,073,531	1,083,723
Municipal	-	-	69,645	71,914
Corporate	1,078,862	1,081,325	2,051,095	2,071,386
Pooled investment funds	4,271,839	4,168,141	3,326,746	3,270,008
	5,712,630	5,613,815	7,590,695	7,575,048
Equities (b)				
Canadian	2,875,097	3,131,361	2,077,749	2,136,413
Foreign	4,732,931	4,580,626	3,311,329	2,901,826
Real estate	663,198	693,898	451,047	480,021
	8,271,226	8,405,885	5,840,125	5,518,260
	$ 13,983,856	$ 14,019,700	$ 13,430,820	$ 13,093,308

a) The majority of the Ministry's fixed-income securities are in the Transition portfolio of the Alberta Heritage Savings Trust Fund (Heritage Fund). As at March 31, 2002, the Heritage Fund held $5,218,475,000 (2001 $7,011,239,000) of public fixed-income securities at cost (Fair value $5,126,845,000; 2001 $7,002,018,000). The securities held have an average effective market yield of 5.4% per annum (2001 5.4% per annum) and the following term structure based on principal amount:

	2002 %	2001 %
Under 1 year	31	24
1 to 5 years	26	45
6 to 10 years	21	18
11 to 20 years	9	7
Over 20 years	13	6
	100	100

b) The Alberta Heritage Savings Trust Fund uses derivative contracts to enhance return, hedge risks, and manage asset mix. As at March 31, 2002, the notional amount of all derivative contracts issued by the Heritage Fund amounted to $1,438,692,000 (2001 $1,248,678,000). 67% (2001 60%) of these contracts mature within one year. As at March 31, 2002, index swap and futures contracts, forward foreign exchange contracts and interest rate swap contracts with a notional amount of $1,057,710,000 (2001 $750,872,000) had a negative fair value of $1,055,000 (2001 $37,913,000). Cross-currency interest rate swap contracts, which comprised the remaining notional amount of $380,982,000 (2001 $497,806,000), are valued as a package including the underlying security. As at March 31, 2002, the combined fair value of cross-currency swaps and underlying securities amounted to $380,037,000 (2001 $503,753,000).

MINISTRY OF REVENUE

LOANS AND ADVANCES TO GOVERNMENT ENTITIES — Schedule 8

(thousands)

	2002	2001
Alberta Social Housing Corporation	$ 104,622	$ 145,591
Agriculture Financial Services Corporation	-	104,796
	$ 104,622	$ 250,387
Fair value	$ 165,178	$ 327,228
Average effective market yield	8.35%	7.84%

OTHER LOANS AND ADVANCES — Schedule 9

(thousands)

	2002	2001
Alberta Heritage Savings Trust Fund Act	$ 157,408	$ 152,484
Accountable advances	1,120	1,271
	158,528	153,755
Less allowance for doubtful loans and advances	60,049	55,125
	$ 98,479	$ 98,630
Fair value	$ 98,479	*Note 5*

CAPITAL ASSETS — Schedule 10

(thousands)

	Estimated Useful Life	Cost	Accumulated Amortization	2002 Net Book Value	2001 Net Book Value
Equipment	10 years	$ 851	$ 434	$ 417	$ 450
Computer hardware and software	5 years	28,035	22,875	5,160	6,029
Other	10 years	1,556	612	944	996
		$ 30,442	$ 23,921	$ 6,521	$ 7,475

ACCOUNTS PAYABLE — Schedule 11

(thousands)

	2002	2001
Corporate income tax receipts in abeyance	$ 262,284	$ 253,466
Investment purchases	271,204	157,960
Unearned revenue	664	1,173
Other	16,258	18,491
	$ 550,410	$ 431,090

MINISTRY OF REVENUE

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)

	2002	2001
Revenues		
Transfers	$ 2,200	$ 200
Interest	32,016	53,711
Charges for services	6,898	7,336
	$ 41,114	$ 61,247
Expenses		
Transfers	$ 19,137	$ 18,287
Cost of services	4,400	877
	$ 23,537	$ 19,164
Assets		
Accrued interest receivable	$ 8,124	$ 11,300
Portfolio investments	-	57,717
Loans and advances	104,622	250,387
	$ 112,746	$ 319,404

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)

	2002	2001
Expenses - incurred by others		
Accommodation	$ 1,716	$ 1,789
Legal services	1,161	789
	$ 2,877	$ 2,578

DEPARMENT OF REVENUE

Financial Statements

MARCH 31, 2002

AUDITOR'S REPORT

AUDITOR GENERAL Alberta

To the Minister of Revenue

I have audited the statement of financial position of the Department of Revenue as at March 31, 2002 and the statements of operations and changes in financial position 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.

The Department is required to follow the corporate government accounting policies and reporting practices established by Alberta Finance, including the following policy that is an exception from Canadian generally accepted accounting principles. Capital assets costing less than $15,000 are expensed in the year acquired and have not been recognized as assets in the statement of financial position. The effect of this omission is to understate net assets as at March 31, 2002 by approximately $2,080,000, and to overstate expenses by approximately $29,000 for the year ended March 31, 2002.

In my opinion, except for the effects of the matter discussed in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton,Alberta
May 23, 2002

(original signed by Fred J. Dunn, CA)
Auditor General

DEPARTMENT OF REVENUE

STATEMENT OF OPERATIONS

Year Ended March 31, 2002 *(thousands)*

	Budget (Schedule 4)	2002 Actual	2001 Actual
Revenues (Schedules 1 and 2)			
Internal government transfers	$ 579,700	$ 205,772	$ 706,176
Income taxes	6,050,556	6,411,650	5,965,914
Other taxes	1,105,933	1,148,901	1,129,373
Investment income	-	732	829
Fees, permits and licences	172	169	174
Other	11,045	10,778	10,142
	7,747,406	7,778,002	7,812,608
Expenses - directly incurred (Note 2b and Schedule 12)			
Voted (Schedules 2, 3 and 5)			
Ministry support services	3,902	3,699	3,201
Revenue collection and rebates	16,946	17,655	16,223
Investment management	10,776	9,947	8,798
Risk management and insurance	739	703	748
	32,363	32,004	28,970
Statutory (Schedules 3 and 5)			
Corporate tax interest refunds	20,000	31,303	19,437
Alberta Heritage Science and Engineering Research Endowment Fund	-	-	500,000
Valuation adjustments (Schedule 6)	750	121	446
	20,750	31,424	519,883
Write-down of capital assets	-	35	-
	53,113	63,463	548,853
Net operating results	$ 7,694,293	$ 7,714,539	$ 7,263,755

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

DEPARTMENT OF REVENUE

STATEMENT OF FINANCIAL POSITION

March 31, 2002 *(thousands)*

	2002	2001
Assets		
Cash in transit	$ 164,153	$ 108,912
Accounts receivable (Schedule 8)	526,962	832,152
Accountable advances	1,120	1,271
Capital assets (Schedule 9)	4,902	5,619
	$ 697,137	$ 947,954
Liabilities		
Accounts payable (Schedule 10)	$ 266,627	$ 340,355
Vacation entitlements	2,002	2,081
	268,629	342,436
Net Assets		
Net assets at beginning of year	605,518	773,426
Net operating results	7,714,539	7,263,755
Net transfer to general revenues	(7,891,549)	(7,431,663)
Net assets at end of year	428,508	605,518
	$ 697,137	$ 947,954

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

DEPARTMENT OF REVENUE

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 2002 *(thousands)*

	2002	2001
Operating transactions		
Net operating results	$ 7,714,539	$ 7,263,755
Non-cash items included in net operating results		
Amortization and write-down of capital assets	1,804	1,447
Valuation adjustments	121	446
	7,716,464	7,265,648
Decrease in receivables	305,029	48,794
Increase (decrease) in payables	(73,767)	146,683
Cash provided by operating transactions	7,947,726	7,461,125
Investing transactions		
Repayments of advances	151	143
Purchase of capital assets (Schedule 5)	(1,087)	(2,193)
Cash used for investing transactions	(936)	(2,050)
Financing transactions		
Net transfer to general revenues	(7,891,549)	(7,431,663)
Cash used for financing transactions	(7,891,549)	(7,431,663)
Net cash provided	55,241	27,412
Cash at beginning of year	108,912	81,500
Cash at end of year	$ 164,153	$ 108,912

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

DEPARTMENT OF REVENUE

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2002

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 functions are to manage and invest financial assets prudently, administer tax and revenue programs fairly and efficiently, manage risk associated with loss of public assets, and regulate 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.

DEPARTMENT OF REVENUE

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.

DEPARTMENT OF REVENUE

NOTE 2 (continued)

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.

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. 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.

DEPARTMENT OF REVENUE

NOTE 3 GOVERNMENT RESTRUCTURING

As a result of government restructuring announced on March 15, 2001, the former Department of Treasury's responsibilities were transferred to the newly established Departments of Finance and Revenue.

The 2001 figures are presented as if the Department of Revenue had been in existence on April 1, 2000 and throughout the two year period covered by these 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 in transit, receivables, accountable advances and liabilities are estimated to approximate their book values.

NOTE 5 COMMITMENTS AND CONTINGENCIES

a) Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2002 amounted to $6,290,000 (2001 $6,931,000). 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.

b) Legal Actions

At March 31, 2002, the Department is a defendant in three legal claims (2001 twelve legal claims). Two of the claims have specified amounts totalling approximately $4,934,000 and the remaining one has not specified any amount (2001 twelve claims with a specified amount of $7,262,000). Included in the total legal claims is one amounting to $3,384,000 (2001 two amounting to $3,684,000) in which the Department has been jointly named with other entities. Two claims amounting to $4,934,000 (2001 eleven amounting to $6,512,000) are covered by the Alberta Risk Management Fund.

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

NOTE 6 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, 2002, trust funds under administration were as follows:

(thousands)

	2002	2001
The Workers' Compensation Board Accident Fund	$ 2,030,548	$ 2,264,635
Power Pool of Alberta Balancing Pool	121,294	813,149
	$ 2,151,842	$ 3,077,784

NOTE 7 PAYMENTS UNDER AGREEMENT

The Department has entered into agreements to deliver programs and services that are fully funded by outside sponsors. Costs incurred under these agreements are paid by the Department under authority of the Financial Administration Act, section 25. Accounts receivable includes $Nil (2001 $10,000) and accounts payable includes $3,000 (2001 $160,000) relating to payments under agreement.

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

(thousands)

	2002	2001
Canadian fuel tax uniformity project	$ 65	$ 150
Legacy Petroleum Ltd. bankruptcy costs	-	163
	$ 65	$ 313

NOTE 8 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 $1,255,000 for the year ended March 31, 2002 (2001 $1,067,000).

At December 31, 2001, the Management Employees Pension Plan reported a surplus of $5,338,000 (2000 $170,858,000) and the Public Service Pension Plan reported a surplus of $320,487,000 (2000 $635,084,000). At December 31, 2001, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $399,000 (2000 surplus of $180,000).

The Department also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2002, the Bargaining Unit Plan reported an actuarial deficiency of $8,646,000 (2001 $12,710,000), and the Management, Opted Out and Excluded Plan an actuarial deficiency of $2,656,000 (2001 $4,583,000). The expense for these two plans is limited to employer's annual contributions for the year.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

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

DEPARTMENT OF REVENUE

SCHEDULES TO THE FINANCIAL STATEMENTS

REVENUES **Schedule 1**

(thousands)

	Budget	2002 Actual	2001 Actual
Internal government transfers			
Alberta Heritage Savings Trust Fund	$ 579,700	$ 205,772	$ 706,176
Income taxes			
Personal income tax	4,422,050	4,503,099	4,287,654
Less Alberta energy tax refund	(345,000)	(320,000)	(345,000)
Corporate income tax	1,973,506	2,228,551	2,023,260
	6,050,556	6,411,650	5,965,914
Other taxes			
Fuel tax	581,000	584,855	580,988
Tobacco tax	344,000	373,516	339,658
Insurance corporations tax	133,933	133,725	118,562
Hotel room tax	47,000	55,604	52,557
Financial institutions capital tax	-	1,201	37,608
	1,105,933	1,148,901	1,129,373
Investment income	-	732	829
Fees, permits and licences	172	169	174
Other			
Cost recovery from dedicated revenue initiatives (Schedule 2)	10,895	10,175	9,985
Refunds of expenditure	50	953	157
Sale of assets	-	5	-
Miscellaneous	100	(355)	-
	11,045	10,778	10,142
	$ 7,747,406	$ 7,778,002	$ 7,812,608

DEPARTMENT OF REVENUE

DEDICATED REVENUE INITIATIVES

Schedule 2

Year Ended March 31, 2002 *(thousands)*

			2002
	Authorized Dedicated Revenues	Actual Dedicated Revenues	(Shortfall) (a)/ Excess
Tax and revenue administration	$ 200	$ 167	$ (33)
Investment management	9,956	9,305	(651)
Risk management and insurance	739	703	(36)
	$10,895	$10,175	$ (720)

Following is a brief description of each dedicated revenue initiative:

- Tax and revenue administration: 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 management: 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 various public sector entities.

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.

DEPARTMENT OF REVENUE

EXPENSES DETAILED BY OBJECT

Schedule 3

(thousands)

	Budget	2002 Actual	2001 Actual
Voted			
Salaries, wages and employee benefits	$ 18,149	$ 17,789	$ 15,776
Supplies and services	11,459	11,976	10,986
Grants	-	7	12
Financial transactions and other	1,064	775	932
Amortization of capital assets	1,883	1,769	1,447
Total voted expenses before recoveries	32,555	32,316	29,153
Less recovery from support service arrangements with related parties (a)	192	312	183
	$ 32,363	$ 32,004	$ 28,970
Statutory			
Corporate tax interest refunds	$ 20,000	$ 31,303	$ 19,437
Grants	-	-	500,000
Valuation adjustments (Schedule 6)	750	121	446
	$ 20,750	$ 31,424	$ 519,883

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

DEPARTMENT OF REVENUE

BUDGET

Schedule 4

(thousands)

	2001-02 Estimates	Adjustments (a)	2001-02 Budget	Dedicated Revenue Shortfall	2001-02 Authorized Budget
Revenues					
Internal government transfers	$ 579,700	$ -	$ 579,700	$ -	$ 579,700
Income taxes	6,050,556	-	6,050,556	-	6,050,556
Other taxes	1,105,933	-	1,105,933	-	1,105,933
Investment income	12,200	(12,200)	-	-	-
Fees, permits and licences	172	-	172	-	172
Other	7,746	3,299	11,045	-	11,045
	7,756,307	(8,901)	7,747,406	-	7,747,406
Expenses					
Voted					
Ministry support services	3,902	-	3,902	-	3,902
Revenue collection and rebates	16,351	595	16,946	(33)	16,913
Investment management	7,192	3,584	10,776	(651)	10,125
Risk management and insurance	739	-	739	(36)	703
	28,184	4,179	32,363	(720)	31,643
Statutory					
Corporate tax interest refunds	20,000	-	20,000	-	20,000
Valuation adjustments	750	-	750	-	750
	20,750	-	20,750	-	20,750
	48,934	4,179	53,113	(720)	52,393
Net operating results	$ 7,707,373	$ (13,080)	$ 7,694,293	$ 720	$ 7,695,013
Capital investment	$ 1,930	$ -	$ 1,930	$ -	$ 1,930

a) Adjustments consist of transfers of budgeted revenue in the net amount of $8,901,000 to the Department of Finance, and administrative transfers of budgeted expenses of $4,179,000 from the Department of Finance authorized by Order in Council 290/2001.

DEPARTMENT OF REVENUE

COMPARISON OF EXPENSES AND CAPITAL INVESTMENT BY ELEMENT TO AUTHORIZED BUDGET

Schedule 5

(thousands)

	2001-02 Budget	Dedicated Revenue Shortfall	2001-02 Authorized Budget	2001-02 Expense	Unexpended (Over Expended)
Voted Expenses and Capital Investment					
Program 1 - Ministry Support Services					
1.0.1 Minister's Office	$ 260	$ -	$ 260	$ 294	$ (34)
1.0.2 Deputy Minister's Office	290	-	290	310	(20)
1.0.3 Corporate Services	3,139	-	3,139	2,854	285
1.0.4 Communications	213	-	213	241	(28)
	3,902	-	3,902	3,699	203
Program 2 - Revenue Collection and Rebates					
2.0.1 Tax and Revenue Administration					
- Operating Expense	16,946	(33)	16,913	17,655	(742)
- Capital Investment	1,930	-	1,930	1,067	863
	18,876	(33)	18,843	18,722	121
Program 3 - Investment Management					
3.0.1 Investment Management					
- Operating Expense	10,776	(651)	10,125	9,947	178
- Capital Investment	-	-	-	21	(21)
	10,776	(651)	10,125	9,968	157
Program 4 - Risk Management and Insurance					
4.0.1 Risk Management and Insurance	739	(36)	703	703	-
	$ 34,293	$ (720)	$ 33,573	$ 33,092	$ 481
Program Operating Expense	$ 32,363	$ (720)	$ 31,643	$ 32,004	$ (361)
Program Capital Investment	1,930	-	1,930	1,088	842
	$ 34,293	$ (720)	$ 33,573	$ 33,092	$ 481
Statutory Expenses					
Corporate tax interest refunds	$ 20,000	$ -	$ 20,000	$ 31,303	$ (11,303)
Valuation adjustments	750	-	750	121	629
	$ 20,750	$ -	$ 20,750	$ 31,424	$ (10,674)

a) Includes achievement bonus of $615,000.

DEPARTMENT OF REVENUE

VALUATION ADJUSTMENTS Schedule 6

(thousands)

	Budget	2002 Actual	2001 Actual
Provision for doubtful accounts and loans	750	161	158
Provision for employee benefits other than pensions	-	(40)	288
	$ 750	$ 121	$ 446

SALARY AND BENEFITS DISCLOSURE Schedule 7

	2002 Salary (1)	2002 Benefits and Allowances (1)(2)	2002 Total	2001 Total
Deputy Minister (3)(4)	$ 148,352	$ 48,175	$ 196,527	$ -
Executives				
Chief Investment Officer	324,185	22,797	346,982	292,768
Assistant Deputy Minister - Revenue (5)	89,473	22,596	112,069	156,293
Acting Assistant Deputy Minister - Revenue (6)	31,732	7,709	39,441	-
Chief Administrative Officer (7)	82,485	22,928	105,413	-
Director, Risk Management and Insurance	99,259	19,242	118,501	-
Corporate Secretary (8)	104,917	22,572	127,489	-

1) Salary includes regular base pay, bonuses, overtime and lump sum payments.

2) Benefits and allowances 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, WCB premiums, professional memberships and tuition fees.

3) The position was occupied by two individuals during the year.

4) Automobile provided, no dollar amount included in benefits and allowances. Includes a cash payment in lieu of an automobile for one month during which no automobile was provided.

5) The position was occupied for nine months during the year.

6) The incumbent was appointed to the position on January 1, 2002.

7) The incumbent was appointed to the position on July 23, 2001.

8) 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)

		2002		2001
Corporate income tax	$	239,617	$	232,228
Personal income tax		195,555		520,433
Fuel tax		50,492		48,329
Insurance corporations tax		17,482		21,009
Alberta Heritage Savings Trust Fund		12,897		-
Hotel room tax		5,310		4,974
Tobacco tax		5,124		3,636
Financial institutions capital tax		544		1,317
Other		1,061		1,236
		528,082		833,162
Less allowance for doubtful accounts		1,120		1,010
	$	526,962	$	832,152

CAPITAL ASSETS — Schedule 9

(thousands)

	Estimated Useful Life		Cost		Accumulated Amortization		2002 Net Book Value		2001 Net Book Value
Equipment	10 years	$	257	$	194	$	63	$	78
Computer hardware and software	5 years		26,794		21,955		4,839		5,541
		$	27,051	$	22,149	$	4,902	$	5,619

ACCOUNTS PAYABLE — Schedule 10

(thousands)

		2002		2001
Corporate income tax receipts in abeyance	$	262,284	$	253,466
Alberta Heritage Savings Trust Fund		-		81,824
Other		4,343		5,065
	$	266,627	$	340,355

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	
	2002	2001	2002	2001
Revenues				
Transfers	$ 205,772	$ 706,176	$ -	$ -
Charges for services	2,323	2,636	71	632
	$ 208,095	$ 708,812	$ 71	$ 632
Expenses				
Transfers	$ -	$ 500,000	$ -	$ -
Cost of services	-	15	4,400	877
	$ -	$ 500,015	$ 4,400	$ 877
Assets				
Accounts receivable	$ 12,897	$ 348	$ -	$ -
Liabilities				
Accounts payable	$ -	$ 81,829	$ -	$ -

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	
	2002	2001	2002	2001
Expenses - incurred by others				
Accommodation	$ -	$ -	$ 1,716	$ 1,789
Legal services	-	-	1,161	789
	$ -	$ -	$ 2,877	$ 2,578

DEPARTMENT OF REVENUE

ALLOCATED COSTS BY PROGRAM

Schedule 12

(thousands)

	Ministry Support Services	Revenue Collection and Rebates	Investment Management	Risk Management and Insurance	Other	Total
Expenses [(1)]	$ 3,699	$ 17,655	$ 9,947	$ 703	$ 31,303	$ 63,307
Expenses - incurred by others						
Accommodation	64	1,259	325	68	-	1,716
Legal services	3	597	30	531	-	1,161
	67	1,856	355	599	-	2,877
Valuation adjustments						
Vacation pay	(7)	(78)	59	(14)	-	(40)
Doubtful accounts	1	111	-	49	-	161
	(6)	33	59	35	-	121
2002 Total	$ 3,760	$ 19,544	$ 10,361	$ 1,337	$ 31,303	$ 66,305
2001 Total	$ 3,286	$ 18,143	$ 9,262	$ 1,303	$ 519,437	$ 551,431

1) Expenses – directly incurred as per Statement of Operations, excluding valuation adjustments.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

MARCH 31, 2002

AUDITOR'S REPORT

AUDITOR GENERAL Alberta

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, 2002 and the statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 23, 2002

(original signed by Fred J. Dunn, CA)
Auditor General

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

BALANCE SHEET

March 31, 2002 *(thousands)*

	2002	2001
Assets		
Portfolio investments (Note 3)	$ 959,906	$ 1,031,670
Receivable from sale of investments	614	4,802
Administration expense receivable	6	-
	$ 960,526	$ 1,036,472
Liabilities, Endowment and Retained Earnings		
Liabilities for investment purchases	$ 614	$ 5,500
Administration expense payable	-	7
	614	5,507
Endowment (Note 6)	300,000	300,000
Retained earnings (Note 6)	659,912	730,965
	$ 960,526	$ 1,036,472

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

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2002 *(thousands)*

	Budget	2002 Actual	2001 Actual
Income			
Net investment income (loss) (Note 7)	$ 45,026	$ (16,053)	$ 57,426
Expenses			
Transfers to the Alberta Heritage Foundation for Medical Research	63,000	55,000	49,000
Net income (loss)	$ (17,974)	(71,053)	8,426
Retained earnings at beginning of year		730,965	722,539
Retained earnings at end of year		$ 659,912	$ 730,965

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 2002 *(thousands)*

	2002	2001
Operating transactions		
Net income (loss)	$ (71,053)	$ 8,426
Non-cash items included in net income	6,236	(2,956)
	(64,817)	5,470
Decrease (increase) in receivables	4,182	(4,802)
Increase (decrease) in payables	(4,893)	5,486
Cash provided by (applied to) operating transactions	(65,528)	6,154
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	140,831	388,846
Purchase of investments	(77,330)	(392,618)
Cash provided by (applied to) investing transactions	63,501	(3,772)
Increase (decrease) in cash	(2,027)	2,382
Cash at beginning of year	12,019	9,637
Cash at end of year	$ 9,992	$ 12,019
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 9,992	$ 12,019

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, 2002

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 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, and real estate 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.

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.

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.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 2 (continued)

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 management.
(iv) Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.
(v) The fair values of deposits, receivables, accrued interest and payables are estimated to approximate their book values.
(vi) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. As disclosed in Note 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 are valued based on discounted cash flows using current market yields.
(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.
(iv) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

			2002			2001
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed-income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 9,992	$ 9,992	1.1	$ 12,019	$ 12,019	1.2
Canadian Dollar Public Bond Pool (b)	225,607	218,308	23.2	229,637	223,688	22.9
Private Mortgage Pool (c)	23,855	25,834	2.7	26,270	28,909	3.0
Floating Rate Note Pool	-	-	-	4,679	4,631	0.5
	259,454	254,134	27.0	272,605	269,247	27.6
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	125,320	126,131	13.4	127,583	119,077	12.2
Canadian Pooled Equity Fund (e)	119,601	118,085	12.5	122,098	111,924	11.5
External Managers Canadian Large Cap Pool (f)	37,331	40,683	4.3	29,452	30,685	3.2
External Managers Canadian Small Cap Pool (g)	4,316	5,473	0.6	18,872	20,655	2.1
Private Equity Pool (h)	750	3,482	0.4	1,309	5,356	0.5
	287,318	293,854	31.2	299,314	287,697	29.5
United States equities (Schedule C)						
External Manager US Passive Equity Pool (i)	98,440	83,279	8.8	108,753	92,900	9.5
External Managers US Large Cap Equity Pool (j)	71,483	71,659	7.6	80,323	77,363	7.9
External Manager US Small/Mid Cap Equity Pool (k)	9,980	12,256	1.3	10,968	11,600	1.2
United States Equity Pooled Fund	184	176	-	183	195	-
	180,087	167,370	17.7	200,227	182,058	18.6
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (l)	91,150	84,317	9.0	94,248	83,740	8.6
External Managers EAFE Plus Equity Pool (l)	40,722	41,174	4.4	40,807	36,468	3.7
External Manager EAFE Passive Equity Pool (m)	45,289	42,486	4.5	64,233	54,191	5.6
EAFE Structured Equity Pool	212	222	-	227	238	-
External Manager Emerging Markets Equity Pool	-	-	-	2	1	-
	177,373	168,199	17.9	199,517	174,638	17.9
Real Estate						
Private Real Estate Pool (n)	55,674	58,590	6.2	60,007	62,767	6.4
Total equities and real estate	700,452	688,013	73.0	759,065	707,160	72.4
Total investments (o)	$ 959,906	$ 942,147	100.0	$ 1,031,670	$ 976,407	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, 2002, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2002	**2001**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	2.4	2.7
Canadian Pooled Equity Fund	5.9	5.1
Domestic Passive Equity Pooled Fund	4.7	5.8
EAFE Structured Equity Pool	0.1	0.1
Private Equity Pool	6.6	6.6
Private Mortgage Pool	2.9	3.2
Private Real Estate Pool	3.6	4.7
United States Pooled Equity Fund	5.0	5.0
Floating Rate Note Pool	-	0.2
Externally Managed Investment Pools		
Canadian Large Cap Equity Pool	1.9	2.3
Canadian Small Cap Equity Pool	1.2	4.4
EAFE Core Equity Pool	3.1	4.2
EAFE Passive Equity Pool	4.7	4.5
EAFE Plus Equity Pool	2.9	4.0
US Large Cap Equity Pool	3.0	4.2
US Passive Equity Pool	5.8	7.2
US Small/Mid Cap Equity Pool	3.0	4.2

a) The Consolidated Cash Investment Trust Fund 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 five years. As at March 31, 2002, securities held by the Fund have an average effective market yield of 2.57% per annum (2001: 5.09% 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 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. As at March 31, 2002, securities held by the pool have an average effective market yield of 5.80% per annum (2001: 5.75% per annum) and the following term structure based on principal amount: under 1 year: 7% (2001: 5%); 1 to 5 years: 34% (2001: 36%); 5 to 10 years: 31% (2001: 29%); 10 to 20 years: 10% (2001: 15%); over 20 years: 18% (2001: 15%).

ALBERTA HERITAGE FOUNDATION FOR MEDICAL 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 (94.8%) and provincial bond residuals (5.2%). 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, 2002, mortgages held by the Pool have an average market yield of 7.01% per annum (2001: 7.14% per annum) and the following term structure based on principal amount: under 1 year: 10% (2001: 10%); 1 to 5 years: 21% (2001: 25%); 5 to 10 years: 23% (2001: 22%); 10 to 20 years: 26% (2001: 25%); over 20 years: 20% (2001: 18%).

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 (TSE) 300 Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the TSE 300 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.

e) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange (TSE) 300 Index. 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 TSE 300 index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

g) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the TSE 300 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 TSE 300 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.

h) The Private Equity Pool is in the process of orderly liquidation.

i) The US Passive Equity Pool consists of units in an externally managed US Passive Equity Pool that replicates 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.

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, Australia Asia 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 comparable to the Russell Canadian Property Index over a four-year period or longer. 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 tend to be 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 returns.

o) 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 2001-2002 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 participates in investment funds that hold derivative contracts to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

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

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

NOTE 5 (continued)

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, 2002.

(thousands)

	Maturity Under 1 Year	Maturity 1 to 3 Years	Maturity Over 3 Years	2002 Notional Amount	2002 Fair Value (a)	2001 Notional Amount	2001 Fair Value (a)
Equity index swap contracts	87%	13%	-	$ 58,819	$ 894	$ 59,357	$ (5,728)
Bond index swap contracts	100%	-	-	3,684	(33)	14,329	(72)
Interest rate swap contracts	29%	69%	2%	24,018	(856)	16,244	(558)
Forward foreign exchange contracts	100%	-	-	21,904	16	24,646	(74)
Equity index futures contracts	-	-	-	-	-	110	(2)
				108,425	$ 21	114,686	$ (6,434)
Cross-currency interest rate swaps (b)	38%	20%	42%	35,085		48,667	
				$143,510		$163,353	

(a) The method of determining the fair value of derivative contracts is described in note 2 (e).
(b) Cross-currency swaps are valued as a package including the underlying security. As at March 31, 2002, the combined fair value of cross-currency interest rate swaps and underlying securities amounted to $35,065,000 (2001: $49,091,000).

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 INVESTMENT INCOME

(thousands)

		2002		2001
Deposits and fixed-income securities	$	16,406	$	16,552
Canadian equities		(7,547)		37,993
United States equities		(3,699)		(975)
Non-North Amercian equities		(25,031)		963
Real estate		3,961		3,036
Investment income (loss)		(15,910)		57,569
Direct administrative expenses (Note 8)		(143)		(143)
Net investment income (loss)	$	(16,053)	$	57,426

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

Investment income for the year ended March 31, 2002, includes a net loss from disposal of investments and writedowns totalling $51,622,000 (2001: net gain $40,454,000).

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)

		2002		2001
Direct fund expenses	$	143	$	143
Externally managed investment pools		877		954
Internally managed investment pools		167		171
	$	1,187	$	1,268
Expenses as a percentage of net assets at fair value		0.126%		0.130%

NOTE 9 COMPARATIVE FIGURES

Certain 2001 figures have been reclassified to conform to 2002 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

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2002 *(thousands)*

		Fund's share 2002		Fund's share 2001
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 12,541	$ 12,541	$ 16,834	$ 16,834
Fixed Income Securities (a)				
Corporate, public and private	136,274	134,955	140,353	140,032
Government of Canada,				
direct and guaranteed	63,808	61,518	56,228	54,946
Provincial, direct and guaranteed:				
Alberta	660	681	767	805
Other provinces	40,620	38,947	53,551	51,784
Municipal	3,295	3,236	3,340	3,314
	244,657	239,337	254,239	250,881
Receivable from sale of investments and				
accrued investment income	5,229	5,229	4,942	4,942
Accounts payable and accrued liabilities	(2,973)	(2,973)	(3,410)	(3,410)
	2,256	2,256	1,532	1,532
	$ 259,454	$ 254,134	$ 272,605	$ 269,247

(a) Fixed income securities held as at March 31, 2002 have an average effective market yield of 5.93% per annum (2001: 5.90% per annum) and the following term structure based on principal amount:

	2002	2001
	%	%
under 1 year	7	6
1 to 5 years	32	35
5 to 10 years	30	28
10 to 20 years	12	16
over 20 years	19	15
	100	100

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2002 *(thousands)*

	2002 Cost	2002 Fund's share Fair Value	2001 Cost	2001 Fund's share Fair Value
Deposits and short-term securities	$ 3,791	$ 3,791	$ 3,411	$ 3,411
Public equities (a)(b)				
Financial services	76,243	82,652	62,126	67,878
Industrial products	59,343	48,236	92,876	68,541
Oil and gas	30,702	37,099	30,897	37,998
Utilities	22,757	18,392	21,318	19,224
Metals and minerals	14,298	15,349	11,165	10,735
Consumer products	14,070	14,531	15,469	15,725
Communications and media	14,112	13,741	14,161	13,024
Gold and precious minerals	10,922	12,277	8,366	7,184
Merchandising	9,208	11,648	6,520	7,239
Transportation and environmental services	7,977	9,266	3,713	3,541
Paper and forest products	6,738	6,688	7,766	7,020
Pipelines	4,836	5,304	5,022	5,501
Conglomerates	3,706	4,566	9,702	12,600
Real estate and construction	2,382	2,328	2,577	2,474
	277,294	282,077	291,678	278,684
Passive index	4,130	3,907	7,836	6,620
	281,424	285,984	299,514	285,304
Private equities	492	2,468	955	3,548
Receivable from sale of investments and accrued investment income	2,474	2,474	2,951	2,951
Accounts payable and accrued liabilities	(863)	(863)	(7,517)	(7,517)
	1,611	1,611	(4,566)	(4,566)
	$ 287,318	$ 293,854	$ 299,314	$ 287,697

(a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $58,608,000 (2001: $59,093,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2002 *(thousands)*

		Fund's share 2002		Fund's share 2001
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 1,124	$ 1,124	$ 1,624	$ 1,624
Public equities (a)				
Financial	31,663	29,891	35,125	33,020
Information technology	30,395	26,826	31,358	24,800
Consumer discretionary	24,933	23,135	24,339	22,510
Health Care	22,177	20,857	23,825	22,486
Industrials	19,486	18,785	18,398	17,321
Consumer staples	16,793	16,069	14,918	13,954
Energy	12,448	11,742	13,893	12,949
Utilities	6,728	6,283	9,303	9,574
Telecommunication services	7,473	5,977	14,972	11,761
Materials	6,037	5,852	5,161	4,748
	178,133	165,417	191,292	173,123
Passive index	25	24	-	-
	178,158	165,441	191,292	173,123
Receivable from sale of investments and accrued investment income	1,633	1,633	8,031	8,031
Accounts payable and accrued liabilities	(828)	(828)	(720)	(720)
	805	805	7,311	7,311
	$ 180,087	$ 167,370	$ 200,227	$ 182,058

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

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

March 31, 2002 *(thousands)*

	Fund's share 2002 Cost	Fund's share 2002 Fair Value	Fund's share 2001 Cost	Fund's share 2001 Fair Value
Deposits and short-term securities	$ 2,597	$ 2,597	$ 2,860	$ 2,860
Public equities (a)				
United Kingdom	43,363	41,531	42,847	37,087
Japan	34,242	28,634	43,072	37,057
France	19,345	18,541	18,712	17,067
Switzerland	13,801	13,432	11,174	10,516
Netherlands	13,905	13,337	13,748	12,059
Germany	11,853	11,015	16,954	14,415
Australia	6,361	6,764	5,662	5,056
Italy	5,606	5,570	7,693	7,227
Hong Kong	4,608	4,718	6,302	5,537
Spain	4,883	4,371	7,255	6,547
Finland	2,961	3,168	4,142	3,051
Sweden	2,473	2,837	7,140	5,524
Other	11,533	11,842	11,798	10,477
	174,934	165,760	196,499	171,620
Receivable from sale of investments and accrued investment income	2,833	2,833	3,657	3,657
Accounts payable and accrued liabilities	(2,991)	(2,991)	(3,499)	(3,499)
	(158)	(158)	158	158
	$ 177,373	$ 168,199	$ 199,517	$ 174,638

(a) The Fund's effective net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $211,000 (2001: $264,000), which are used as underlying securities to support the notional amount of Non-North American equity index swap contracts.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule E

Year Ended March 31, 2002 *(thousands)*

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
	2002	**2001**	**2000**	**1999**	**Return**
Time-weighted rates of return					
Short-term fixed income	**3.9**	**5.9**	**5.1**	**2.6**	**4.4**
Scotia Capital 91-day T-Bill Index	3.7	5.7	4.7	4.9	4.8
Long-term fixed income	**5.9**	**9.3**	**1.5**	**6.7**	**5.8**
Scotia Capital Universe Bond Index	5.1	8.7	1.3	7.0	5.5
Canadian equities	**3.7**	**(16.5)**	**42.4**	**(12.5)**	**1.9**
Toronto Stock Exchange 300 Index	4.9	(18.6)	45.5	(11.3)	2.5
United States equities	**1.6**	**(14.4)**	**12.0**	**28.0**	**5.7**
S&P 500 Index	1.6	(15.1)	13.2	26.0	5.3
Non-North American equities	**(5.8)**	**(23.2)**	**39.2**	**13.6**	**3.5**
MSCI EAFE Index	(7.3)	(19.6)	20.1	12.8	0.2
Real estate*	**7.2**	**9.7**	**5.8**	**n/a**	**n/a**
Russell Canadian Property Index	9.8	11.9	9.9	n/a	n/a
Overall	**2.4**	**(9.2)**	**20.1**	**3.6**	**3.7**
Policy Benchmark	**2.7**	**(9.5)**	**16.8**	**4.8**	**3.3**

* The difference between the actual return and the benchmark is attributable to the method of calculation. The benchmark is calculated on a gross basis and excludes expenses such as capital expenditures, interest expense, transaction costs and administration expense. The actual return is calculated on a net basis fully reflecting all costs and expenses.

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

MARCH 31, 2002

AUDITOR'S REPORT

AUDITOR GENERAL Alberta

To the Minister of Revenue

I have audited the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 2002 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 23, 2002

(original signed by Fred J. Dunn, CA)
Auditor General

ALBERTA HERITAGE SAVINGS TRUST FUND

BALANCE SHEET

March 31, 2002 *(thousands)*

	2002	2001
Assets		
Portfolio investments (Note 3)	$ 12,501,716	$ 12,200,300
Accrued interest receivable	20,617	77,276
Receivable from sale of investments	16,163	41,934
Administration expense receivable	7	-
Due from the General Revenue Fund	-	81,824
	$ 12,538,503	$ 12,401,334
Liabiities and Fund Equity		
Liabilities		
Liabilities for investment purchases	$ 269,287	$ 144,963
Due to the General Revenue Fund	12,897	-
Administration expense payable	-	52
	282,184	145,015
Fund equity (Note 6)	12,256,319	12,256,319
	$ 12,538,503	$ 12,401,334

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

STATEMENT OF OPERATIONS

Year Ended March 31, 2002 *(thousands)*

	Budget	2002 Actual	2001 Actual
Net income (Note 7)	$ 579,700	$ 205,772	$ 706,175
Transfers to the General Revenue Fund (Note 6)	579,700	205,772	706,175
Net change in fund equity (Note 6)	$ -	-	-
Fund equity at beginning of year		12,256,319	12,256,319
Fund equity at end of year		$ 12,256,319	$ 12,256,319

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

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 2002 *(thousands)*

	2002	2001
Operating transactions		
Net income	$ 205,772	$ 706,175
Non-cash items included in net income	(56,841)	(86,255)
	148,931	619,920
Decrease in accounts receivable	82,423	22,904
Increase in accounts payable	124,272	141,942
Cash provided by operating transactions	355,626	784,766
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	12,881,740	12,629,363
Purchase of investments	(13,338,370)	(12,390,895)
Cash provided by (applied to) investing transactions	(456,630)	238,468
Transfers		
Transfers to the General Revenue Fund	(205,772	(706,175)
Increase (decrease) in amounts due to the General Revenue Fund	94,721	(240,938)
Cash applied to transfers	(111,051)	(947,113)
Increase (decrease) in cash	(212,055)	76,121
Cash at beginning of year	263,875	187,754
Cash at end of year	$ 51,820	$ 263,875
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 51,820	$ 263,875

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

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2002

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."

Investments of the Fund are held in two portfolios, the Endowment Portfolio and the Transition Portfolio. Based on current transfers of $300 million per month, substantially all of the assets in the Transition Portfolio will be transferred to the Endowment Portfolio by June 30, 2002. These financial statements present the Fund's investments held in the two portfolios on a combined basis (see note 3 and note 3s).

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, and real estate 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 and real estate that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

b) Investment Income

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

NOTE 2 (continued)

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

c) Foreign Currency

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

d) Investment Valuation

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(i) Public fixed-income securities and equities are valued at the period-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.
(ii) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
(iii) The fair value of private equities is estimated by management.
(iv) Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.
(v) The fair value of loans is estimated by management based on the present value of discounted cash flows. An estimate of fair value was not performed in prior years, consequently no amount is provided for comparative purposes.
(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.

(e) Valuation of Derivative Contracts

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

(i) Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest.
(ii) Interest rate swaps are valued based on discounted cash flows using current market yields.
(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.
(iv) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

	2002			2001		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed income (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 51,820	$ 51,820	0.4	$ 263,875	$ 263,875	2.2
Canadian Dollar Public Bond Pool (b)	3,372,717	3,291,655	26.0	2,449,498	2,404,033	20.1
Bonds, notes & short-term paper, directly held (c)	1,440,792	1,445,674	11.4	4,263,948	4,305,040	36.0
Private Mortgage Pool (d)	404,966	389,516	3.1	318,808	310,398	2.6
Provincial corporation debentures, directly held (e)	104,622	165,178	1.3	250,387	327,228	2.7
Loans, directly held (f)	97,359	97,359	0.8	97,359	note 2(d)(v)	-
Floating Rate Note Pool	-	-	-	36,702	36,449	0.3
	5,472,276	5,441,202	43.0	7,680,577	7,647,023	63.9
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (g)	886,167	1,097,763	8.7	532,863	674,804	5.6
Canadian Pooled Equity Fund (h)	931,972	945,662	7.5	693,550	635,305	5.3
External Managers Canadian Large Cap Equity Pool (i)	380,554	406,097	3.2	139,326	149,898	1.3
External Managers Canadian Small Cap Equity Pool (j)	67,471	88,027	0.7	105,430	117,102	1.0
Private Equity Pool (98) (k)	75,580	75,843	0.6	58,724	58,720	0.5
Private Equity Pool (k)	10,489	7,204	-	11,645	11,082	0.1
Public equities, directly held	1,526	2,716	-	-	-	-
	2,353,759	2,623,312	20.7	1,541,538	1,646,911	13.8
United States equities (Schedule C)						
External Manager US Passive Equity Pool (l)	1,104,863	994,944	7.9	721,903	622,837	5.2
External Managers US Large Cap Equity Pool (m)	891,430	879,969	6.9	543,658	491,092	4.1
External Manager US Small/Mid Cap Equity Pool (n)	102,321	122,653	1.0	72,409	77,483	0.6
United States Pooled Equity Fund	803	640	-	800	707	-
	2,099,417	1,998,206	15.8	1,338,770	1,192,119	9.9
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (o)	1,013,353	994,087	7.8	543,353	470,702	3.9
External Managers EAFE Plus Equity Pool (o)	488,475	499,732	4.0	268,134	226,211	1.9
External Manager EAFE Passive Equity Pool (p)	505,888	507,434	4.0	463,944	398,269	3.3
EAFE Structured Equity Pool	803	818	-	858	875	-
External Managers Emerging Markets Equity Pool	-	-	-	11	3	-
	2,008,519	2,002,071	15.8	1,276,300	1,096,060	9.2
Real estate (q)	567,745	594,463	4.7	363,115	388,258	3.2
Total equities and real estate	7,029,440	7,218,052	57.0	4,519,723	4,323,348	36.1
Total investments (r) (s)	$12,501,716	$ 12,659,254	100.0	$12,200,300	$11,970,371	100.0

ALBERTA HERITAGE SAVINGS TRUST FUND

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, 2002, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2002	**2001**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	36.9	28.9
Canadian Pooled Equity Fund	47.0	29.0
Domestic Passive Equity Pooled Fund	41.3	33.0
EAFE Structured Equity Pool	0.2	0.2
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Mortgage Pool	43.2	34.8
Private Real Estate Pool	36.3	28.9
United States Pooled Equity Fund	18.0	18.0
Floating Rate Note Pool	-	1.9
Externally Managed Investment Pools		
Canadian Large Cap Equity Pool	18.8	25.0
Canadian Small Cap Equity Pool	18.7	14.0
EAFE Core Equity Pool	36.2	23.4
EAFE Passive Equity Pool	56.6	33.3
EAFE Plus Equity Pool	35.4	24.8
US Large Cap Equity Pool	37.0	26.5
US Passive Equity Pool	68.9	48.1
US Small/Mid Cap Equity Pool	30.2	27.8

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 five years. As at March 31, 2002, securities held by the Fund have an average effective market yield of 2.57% per annum (2001: 5.09% per annum).

NOTE 3 (continued)

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, 2002, securities held by the Pool have an average effective market yield of 5.80% per annum (2001: 5.75% per annum) and the following term structure based on principal amount: under 1 year: 7% (2001: 5%); 1 to 5 years: 34% (2001: 36%); 5 to 10 years: 31% (2001: 29%); 10 to 20 years: 10% (2001: 15%); over 20 years: 18% (2001: 15%).

c) As at March 31, 2002, fixed-income securities held directly by the Fund have an average effective market yield of 4.02% per annum (2001: 5.10% per annum). As at March 31, 2002, fixed-income securities have the following term structure based on principal amount: under 1 year: 91% (2001: 32%); 1 to 5 years: 9% (2001: 58%); over 5 years: nil% (2001: 10%).

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 (94.8%) and provincial bond residuals (5.2%). 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, 2002, securities held by the Pool have an average effective market yield of 7.01% per annum (2001: 7.14% per annum) and the following term structure based on principal amount: under 1 year: 10% (2001: 10%); 1 to 5 years: 21% (2001: 25%); 5 to 10 years: 23% (2001: 22%); 10 to 20 years: 26% (2001: 25%); and over 20 years: 20% (2001: 18%).

e) As at March 31, 2002, Provincial corporation debentures have an average effective market yield of 8.35% per annum (2001: 7.84% per annum). The maturity profile based on expected repayments is as follows: under 1 year $4,585,000; 1 to 5 years: $27,812,000 and over 5 years: $72,225,000.

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. An estimate of fair value was not performed in prior years, consequently no amount is provided for comparative purposes. As at March 31, 2002, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245,000 (2001: $91,245,000) and the Vencap loan amounting to $6,114,000 (2001: $6,114,000).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $91,245,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at March 31, 2002 amounted to $60,049,081 (2001: $55,125,291). 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.

NOTE 3 (continued)

- The principal amount of the Vencap loan, amounting to $52,588,000, is due July 2046 and bears no interest. Amortization ceased being recorded on the loan from December 31, 2000 onward.

g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (TSE) 300 Index. A portion of the portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the TSE 100 Index and the TSE 60 Index. The other portion of the portfolio fully replicates the TSE 300. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of ten years or less.

h) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange 300 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 TSE 300 index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

j) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the TSE 300 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 TSE 300 index over a four-year period and returns higher than the Nesbitt Burns Small Cap Index over shorter time periods. Return volatility is reduced through multiple manager investment style and small capitalization focus.

k) The Private Equity Pool (98) is managed with the objective of providing investment returns higher than attainable from the TSE 300 Index over a five to ten year period. The portfolio is comprised of investments in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

l) The US Passive Equity Pool consists of units in an externally managed US Passive Equity Pool that replicates 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.

NOTE 3 (continued)

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.

o) The Europe, Australia, Asia 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 comparable to the Russell Canadian Property Index over a four-year period or longer. 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) 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 3 (continued)

s) A summary of investments held in the Endowment Portfolio and Transition Portfolio is as follows:

(thousands)

			2002			2001
	Cost	Fair Value	%	Cost	Fair Value	%
Endowment Portfolio:						
Deposits and fixed income securities	$ 4,274,817	$ 4,178,459	36.7%	$ 3,197,161	$ 3,143,179	42.1%
Canadian equities	2,353,759	2,623,312	23.0%	1,541,538	1,646,911	22.1%
United States equities	2,099,417	1,998,206	17.5%	1,338,770	1,192,119	16.0%
Non-North American equities	2,008,519	2,002,071	17.6%	1,276,300	1,096,060	14.7%
Real estate	567,745	594,463	5.2%	363,115	388,258	5.2%
	11,304,257	11,396,511	100.0%	7,716,884	7,466,527	100%
Transition Portfolio:						
Deposits and fixed income securites	$ 995,478	$ 1,000,206	79.2%	$ 4,135,670	$ 4,176,616	92.7%
Provincial Corporation Debentures	104,622	165,178	13.1%	250,387	327,228	7.3%
Loans	97,359	97,359	7.7%	97,359	note 2(d)(v)	-
	1,197,459	1,262,743	100.0%	4,483,416	4,503,844	100%
Total investments	$ 12,501,716	$ 12,659,254	100.0%	$ 12,200,300	$11,970,371	100%

NOTE 4 DERIVATIVE CONTRACTS

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

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

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

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 4 (continued)

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, 2002.

(thousands)

	Under 1 Year	1 to 3 Years	Maturity Over 3 Years	2002 Notional Amount	2002 Fair Value (a)	2001 Notional Amount	2001 Fair Value (a)
Equity index swap contracts	87%	13%	-	$ 510,859	$ 7,733	$ 335,850	$ (32,415)
Bond index swap contracts	100%	-	-	55,553	(491)	154,001	(769)
Forward foreign exchange contracts	100%	-	-	260,664	182	142,373	(366)
Interest rate swap contracts	31%	67%	2%	230,634	(8,479)	117,965	(4,352)
Equity index futures contracts	-	-	-	-	-	683	(11)
				1,057,710	$ (1,055)	750,872	$ (37,913)
Cross-currency interest rate swap contracts (b)	33%	17%	50%	380,982		497,806	
				$1,438,692		$1,248,678	

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

(b) Cross-currency swaps are valued as a package including the underlying security. As at March 31, 2002, the combined fair value of cross-currency interest rate swaps and underlying securities amounted to $380,037,000 (2001: $503,753,000).

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 2001-2002 business plan limits investments of the Transition Portfolio to include only fixed-income securities other than securities transferred from the previous structure and proposes the following asset mix policy for the Endowment Portfolio.

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

NOTE 5 (continued)

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

NOTE 6 FUND EQUITY

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

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

NOTE 7 NET INCOME

(thousands)	2002	2001
Deposit and fixed-income securities	$ 444,884	$ 532,434
Canadian equities	(54,112)	175,334
United States equities	(8,065)	(22,422)
Non-North American equities	(213,481)	5,293
Real estate	38,001	17,090
Investment income	207,227	707,729
Direct administrative expenses (Note 8)	(1,455)	(1,554)
Net income	$ 205,772	$ 706,175

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

Investment income for the year ended March 31, 2002 includes a net loss from disposals of investments and writedowns totalling $351,119,000 (2001: net gain $191,242,000).

NOTE 7 (continued)

A summary of investment income (loss) earned in the Endowment Portfolio and Transition Portfolio is as follows:

(thousands)

	2002	2001
Endowment Portfolio	$ (16,143)	$ 374,890
Transition Portfolio	221,915	331,285
Net income	$ 205,772	$ 706,175

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)

	2002	2001
Direct fund expenses, (Note 7)	$ 1,455	$ 1,554
Externally managed investment pools	8,291	5,379
Internally managed investment pools	1,722	1,149
Total	$ 11,468	$ 8,082
Percent of net assets at fair value	0.092%	0.067%

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to March 31, 2002 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2002 *(thousands)*

	2002 Cost	Fund's share 2002 Fair Value	2001 Cost	Fund's share 2001 Fair Value
Deposits and short-term securities	$ 90,252	$ 90,252	$ 315,087	$ 315,087
Fixed Income Securities (a)				
Corporate, public and private	3,161,066	3,116,173	3,572,419	3,563,784
Government of Canada, direct and guaranteed	1,181,806	1,157,039	1,669,330	1,668,536
Provincial, direct and guaranteed:				
Alberta	9,861	10,271	65,896	67,035
Other provinces	744,038	722,116	1,588,459	1,581,439
Municipal	49,249	48,791	105,260	107,534
Provincial corporation debentures	104,622	165,178	250,387	327,228
Loans	97,359	97,359	97,359	note 2(d)(v)
	5,348,001	5,316,927	7,349,110	7,315,556
Receivable from sale of investments and accrued investment income	78,837	78,837	52,948	52,948
Accounts payable and accrued liabilities	(44,814)	(44,814)	(36,568)	(36,568)
	34,023	34,023	16,380	16,380
	$ 5,472,276	$ 5,441,202	$ 7,680,577	$ 7,647,023

(a) Fixed income securities held as at March 31, 2002 have an average effective market yield of 5.41% per annum (2001: 5.40% per annum) and the following term structure based on principal amount:

	2002 %	2001 %
under 1 year	31	24
1 to 5 years	26	45
5 to 10 years	21	18
10 to 20 years	9	7
over 20 years	13	6
	100	100

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2002 *(thousands)*

	2002 Cost	2002 Fund's share Fair Value	2001 Cost	2001 Fund's share Fair Value
Deposits and short-term securities	$ 34,647	$ 34,647	$ 19,841	$ 19,841
Public equities (a)(b)				
Financial services	619,565	713,704	320,170	379,074
Industrial products	458,380	428,063	452,434	383,728
Oil and gas	243,931	325,498	152,468	211,762
Utilities	183,680	156,971	115,576	108,257
Metals and minerals	110,556	131,403	54,102	59,684
Consumer products	112,325	126,770	75,964	81,766
Communications and media	109,508	120,893	69,360	72,789
Gold and precious minerals	83,852	106,506	38,740	39,982
Merchandising	72,505	106,078	29,375	40,026
Transportation and environmental services	64,770	82,485	17,598	19,730
Paper and forest products	53,879	59,788	39,175	39,371
Pipelines	37,376	45,569	23,801	30,362
Conglomerates	27,846	40,233	48,525	70,411
Real estate and construction	16,253	19,921	11,160	13,842
	2,194,426	2,463,882	1,448,448	1,550,784
Passive index	30,234	32,015	33,296	37,545
	2,224,660	2,495,897	1,481,744	1,588,329
Private equities	81,175	79,491	65,939	64,727
Receivable from sale of investments and accrued investment income	21,319	21,319	16,570	16,570
Accounts payable and accrued liabilities	(8,042)	(8,042)	(42,556)	(42,556)
	13,277	13,277	(25,986)	(25,986)
	$ 2,353,759	$ 2,623,312	$ 1,541,538	$ 1,646,911

(a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $510,081,000 (2001: $334,880,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

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

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2002 *(thousands)*

	2002 Cost	Fund's share 2002 Fair Value	2001 Cost	Fund's share 2001 Fair Value
Deposits and short-term securities	$ 13,110	$ 13,110	$ 10,262	$ 10,262
Public equities (a)				
Financial	368,148	357,170	235,021	216,108
Information technology	354,595	319,543	209,778	163,136
Consumer discretionary	290,523	274,590	162,517	147,030
Health Care	256,430	248,791	159,213	147,544
Industrials	226,164	223,369	123,067	113,453
Consumer staples	197,674	193,818	99,852	91,296
Energy	145,227	140,838	92,989	84,728
Utilities	79,384	75,298	62,336	62,339
Telecommunication services	87,524	72,109	100,572	76,631
Materials	70,355	69,309	34,572	31,001
	2,076,024	1,974,835	1,279,917	1,133,266
Passive index	313	291	-	-
	2,076,337	1,975,126	1,279,917	1,133,266
Receivable from sale of investments and accrued investment income	18,938	18,938	53,179	53,179
Accounts payable and accrued liabilities	(8,968)	(8,968)	(4,588)	(4,588)
	9,970	9,970	48,591	48,591
	$ 2,099,417	$ 1,998,206	$ 1,338,770	$ 1,192,119

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

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

March 31, 2002 *(thousands)*

	2002 Cost	2002 Fund's share Fair Value	2001 Cost	2001 Fund's share Fair Value
Deposits and short-term securities	$ 31,001	$ 31,001	$ 16,542	$ 16,542
Public equities (a)				
United Kingdom	491,588	494,816	273,126	233,210
Japan	386,408	340,718	277,600	234,119
France	218,911	220,626	121,042	108,156
Switzerland	156,183	159,836	71,792	66,673
Netherlands	156,839	158,483	86,779	74,501
Germany	133,246	130,791	108,700	90,864
Australia	72,150	80,516	35,808	31,495
Italy	63,398	66,291	49,798	46,041
Hong Kong	51,803	55,963	40,104	34,437
Spain	55,380	52,077	46,332	40,994
Finland	33,728	37,807	27,169	19,174
Sweden	27,574	33,577	45,093	33,471
Other	132,306	141,565	75,458	65,426
	1,979,514	1,973,066	1,258,801	1,078,561
Receivable from sale of investments and accrued investment income	33,857	33,857	20,933	20,933
Accounts payable and accrued liabilities	(35,853)	(35,853)	(19,976)	(19,976)
	(1,996)	(1,996)	957	957
	$ 2,008,519	$ 2,002,071	$ 1,276,300	$ 1,096,060

(a) The Fund's effective net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $779,000 (2001: $970,000), which are used as underlying securities to support the notional amount of Non-North American equity index swap contracts.

SCHEDULE OF INVESTMENT RETURNS

Schedule E

Year Ended March 31, 2002 *(thousands)*

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
	2002	**2001**	**2000**	**1999**	
Time-weighted rates of return					
Endowment Portfolio:					
Short-term fixed Income	**4.8**	**5.7**	**5.3**	**5.0**	**5.2**
Scotia Capital 91-day T-Bill Index	3.7	5.7	4.7	4.9	4.8
Long-term fixed income	**5.9**	**9.5**	**1.7**	**6.8**	**5.9**
Scotia Capital Universe Bond Index	5.1	8.7	1.3	7.0	5.5
Canadian equities	**4.2**	**(16.0)**	**37.8**	**(9.2)**	**2.3**
Toronto Stock Exchange 300 Index	4.9	(18.6)	45.5	(11.3)	2.5
United States equities	**1.4**	**(14.4)**	**13.1**	**26.9**	**5.7**
S&P 500 Index	1.6	(15.1)	13.2	26.0	5.3
Non-North American equities	**(5.8)**	**(22.6)**	**37.3**	**13.0**	**3.2**
MSCI EAFE Index	(7.3)	(19.6)	20.1	12.8	0.2
Real estate*	**7.3**	**9.7**	**5.8**	**13.4**	**9.0**
Russell Canadian Property Index	9.8	11.9	9.9	15.6	11.8
Endowment portfolio	**3.3**	**(6.1)**	**18.0**	**4.7**	**4.6**
Policy Benchmark	3.4	(6.2)	15.9	4.7	4.2
Transition portfolio	**5.3**	**8.2**	**3.0**	**5.4**	**5.5**
Overall Return	**4.2**	**(0.1)**	**9.0**	**5.5**	**4.6**

* The difference between the actual return and the benchmark is attributable to the method of calculation. The benchmark is calculated on a gross basis and excludes expenses such as capital expenditures, interest expense, transaction costs and administration expense. The actual return is calculated on a net basis fully reflecting all costs and expenses.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

MARCH 31, 2002

AUDITOR'S REPORT

AUDITOR GENERAL *Alberta*

To the Minister of Revenue

I have audited the balance sheet of the Alberta Heritage Scholarship Fund as at March 31, 2002 and the statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 23, 2002

(original signed by Fred J. Dunn, CA)
Auditor General

ALBERTA HERITAGE SCHOLARSHIP FUND

BALANCE SHEET

March 31, 2002 *(thousands)*

	2002	2001
Assets		
Portfolio investments (Note 3)	$ 294,415	$ 317,362
Receivable from sale of investments	239	1,652
Administration expense receivable	1	-
	$ 294,655	$ 319,014
Liabilities, Endowment and Retained Earnings		
Liabilities for investment purchases	$ 185	$ 3,066
Administration expense payable	-	7
	185	3,073
Endowment (Note 6)	100,000	100,000
Retained earnings (Note 6)	194,470	215,941
	$ 294,655	$ 319,014

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

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2002 *(thousands)*

	2002 Budget	2002 Actual	2001 Actual
Income			
Net investment income (loss) (Note 7)	$ 27,674	$ (5,701)	$ 18,409
Contributions from Province of Alberta	200	2,200	200
Other contributions	60	1,167	325
	27,934	(2,334)	18,934
Expenses			
Scholarships	19,200	19,137	18,287
Net income (loss)	$ 8,734	(21,471)	647
Retained earnings at beginning of year		215,941	215,294
Retained earnings at end of year		$ 194,470	$ 215,941

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

ALBERTA HERITAGE SCHOLARSHIP FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 2002 *(thousands)*

	2002	2001
Operating transactions		
Net income (loss)	$ (21,471)	$ 647
Non-cash items included in net income	2,574	(1,769)
	(18,897)	(1,122)
Decrease (increase) in receivables	1,412	(1,652)
Increase (decrease) in payables	(2,888)	3,061
Cash provided by (applied to) operating transactions	(20,373)	287
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	57,370	126,583
Purchase of investments	(32,515)	(126,333)
Cash provided by investing transactions	24,855	250
Increase in cash	4,482	537
Cash at beginning of year	4,487	3,950
Cash at end of year	$ 8,969	$ 4,487
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 8,969	$ 4,487

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

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2002

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 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, and real estate 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.

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.

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.

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTE 2 (continued)

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 management
(iv) Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.
(v) The fair values of deposits, receivables, accrued interest and payables are estimated to approximate their book values.
(vi) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. As disclosed in Note 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 are valued based on discounted cash flows using current market yields.
(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.
(iv) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTE 3 PORTFOLIO INVESTMENTS

March 31, 2002 *(thousands)*

			2002			2001
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed-income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 8,969	$ 8,969	3.1	$ 4,487	$ 4,487	1.5
Canadian Dollar Public Bond Pool (b)	67,816	65,771	22.8	69,764	68,081	22.7
Private Mortgage Pool (c)	7,097	7,783	2.7	7,892	8,856	2.9
Floating Rate Note Pool	-	-	-	2,227	2,205	0.7
	83,882	82,523	28.6	84,370	83,629	27.8
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	37,013	38,348	13.3	37,676	36,241	12.1
Canadian Pooled Equity Fund (e)	36,360	36,189	12.5	37,543	34,715	11.5
External Managers Canadian Large Cap Pool (f)	11,251	12,263	4.2	8,287	8,660	2.9
External Managers Canadian Small Cap Pool (g)	1,345	1,660	0.6	6,581	7,023	2.3
Private Equity Pool (h)	341	1,145	0.4	524	1,761	0.6
	86,310	89,605	31.0	90,611	88,400	29.4
United States equities (Schedule C)						
External Manager US Passive Equity Pool (i)	29,267	24,603	8.5	32,962	28,317	9.4
External Managers US Large Cap Equity Pool (j)	22,789	21,518	7.5	26,283	23,801	7.9
External Manager US Small/Mid Cap Equity Pool (k)	3,078	3,777	1.3	3,372	3,563	1.2
United States Equity Pooled Fund	58	56	-	57	61	-
	55,192	49,954	17.3	62,674	55,742	18.5
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (l)	27,540	25,480	8.8	29,479	26,206	8.7
External Managers EAFE Plus Equity Pool (l)	12,534	12,632	4.4	12,615	11,331	3.8
External Manager EAFE Passive Equity Pool (m)	13,585	12,448	4.3	19,252	16,115	5.4
EAFE Structured Equity Pool	64	67	-	68	71	-
	53,723	50,627	17.5	61,414	53,723	17.9
Real Estate						
Private Real Estate Pool (n)	15,308	16,121	5.6	18,293	19,139	6.4
Total equities and real estate	210,533	206,307	71.4	232,992	217,004	72.2
Total investments (o)	$ 294,415	$ 288,830	100.0	$ 317,362	$ 300,633	100.0

ALBERTA HERITAGE SCHOLARSHIP 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, 2002, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

		% Ownership
	2002	**2001**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	0.7	0.8
Canadian Pooled Equity Fund	1.8	1.6
Domestic Passive Equity Pooled Fund	1.4	1.8
EAFE Structured Equity Pool	0.02	0.02
Private Equity Pool	2.2	2.2
Private Mortgage Pool	0.9	1.0
Private Real Estate Pool	1.0	1.4
United States Pooled Equity Fund	1.6	1.6
Floating Rate Note Pool	-	0.1
Externally Managed Investment Pools		
Canadian Large Cap Equity Pool	0.6	0.8
Canadian Small Cap Equity Pool	0.4	1.5
EAFE Core Equity Pool	0.9	1.3
EAFE Passive Equity Pool	1.4	1.4
EAFE Plus Equity Pool	0.9	1.2
US Large Cap Equity Pool	0.9	1.3
US Passive Equity Pool	1.7	2.2
US Small/Mid Cap Equity Pool	0.9	1.3

a) The Consolidated Cash Investment Trust Fund 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 five years. As at March 31, 2002, securities held by the Fund have an average effective market yield of 2.57% per annum (2001: 5.09% 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 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. As at March 31, 2002, securities held by the pool have an average effective market yield of 5.80% per annum (2001: 5.75% per annum) and the following term structure based on principal amount: under 1 year: 7% (2001: 5%); 1 to 5 years: 34% (2001: 36%); 5 to 10 years: 31% (2001: 29%); 10 to 20 years: 10% (2001: 15%); over 20 years: 18% (2001: 15%).

ALBERTA HERITAGE SCHOLARSHIP 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 (94.8%) and provincial bond residuals (5.2%). 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, 2002, mortgages held by the Pool have an average market yield of 7.01% per annum (2001: 7.14% per annum) and the following term structure based on principal amount: under 1 year: 10% (2001: 10%); 1 to 5 years: 21% (2001: 25%); 5 to 10 years: 23% (2001: 22%); 10 to 20 years: 26% (2001: 25%); over 20 years: 20% (2001: 18%).

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 (TSE) 300 Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the TSE 300 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.

e) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange (TSE) 300 Index. 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 TSE 300 index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

g) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the TSE 300 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 TSE 300 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.

h) The Private Equity Pool is in the process of orderly liquidation.

i) The US Passive Equity Pool consists of units in an externally managed US Passive Equity Pool that replicates 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.

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, Australia, Asia 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 comparable to the Russell Canadian Property Index over a four-year period or longer. 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 tend to be 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 returns.

o) 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.

ALBERTA HERITAGE SCHOLARSHIP FUND

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 2001-2002 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 participates in investment funds that hold derivative contracts to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

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

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

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTE 5 (continued)

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, 2002.

(thousands)

	Maturity			2002		2001	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	87%	13%	-	$ 17,882	$ 272	$ 18,064	$ (1,743)
Bond index swap contracts	100%	-	-	1,110	(10)	4,361	(22)
Interest rate swap contracts	30%	68%	2%	7,293	(260)	5,097	(174)
Forward foreign exchange contracts	100%	-	-	6,651	5	7,628	(23)
Equity index futures contracts	-	-	-	-	-	34	(1)
				32,936	$ 7	35,184	$ (1,963)
Cross-currency interest rate swaps (b)	38%	20%	42%	10,634		15,218	
				$ 43,570		$ 50,402	

(a) The method of determining the fair value of derivative contracts is described in note 2 (e).
(b) Cross-currency swaps are valued as a package including the underlying security. As at March 31, 2002, the combined fair value of cross-currency interest rate swaps and underlying securities amounted to $10,628,000 (2001: $15,351,000).

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 INVESTMENT INCOME

(thousands)

	2002	2001
Deposits and fixed-income securities	$ 5,141	$ 5,461
Canadian equities	(2,777)	12,579
United States equities	(1,488)	(773)
Non-North American equities	(7,703)	300
Real estate	1,234	944
Investment income (loss)	(5,593)	18,511
Direct administration expenses (Note 8)	(108)	(102)
Net investment income (loss)	$ (5,701)	$ 18,409

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

Investment income for the year ended March 31, 2002, includes a net loss from disposal of investments and writedowns totalling $16,409,000 (2001: net gain $13,172,000).

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)

	2002	2001
Direct fund expenses	$ 108	$ 102
Externally managed investment pools	264	296
Internally managed investment pools	51	53
	$ 423	$ 451
Expenses as a percentage of net assets at fair value	0.147%	0.151%

NOTE 9 COMPARATIVE FIGURES

Certain 2001 figures have been reclassified to conform to 2002 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULES OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2002 *(thousands)*

	Fund's share 2002 Cost	Fund's share 2002 Fair Value	Fund's share 2001 Cost	Fund's share 2001 Fair Value
Deposits and short-term securities	$ 9,737	$ 9,737	$ 5,985	$ 5,985
Fixed Income Securities (a)				
Corporate, public and private	40,892	40,657	43,297	43,408
Government of Canada, direct and guaranteed	19,179	18,534	17,081	16,723
Provincial, direct and guaranteed:				
Alberta	198	205	233	245
Other provinces	12,205	11,734	16,288	15,788
Municipal	990	975	1,015	1,009
	73,464	72,105	77,914	77,173
Receivable from sale of investments and accrued investment income	1,575	1,575	1,515	1,515
Accounts payable and accrued liabilities	(894)	(894)	(1,044)	(1,044)
	681	681	471	471
	$ 83,882	$ 82,523	$ 84,370	$ 83,629

(a) Fixed income securities held as at March 31, 2002 have an average effective market yield of 5.93% per annum (2001: 5.90% per annum) and the following term structure based on principal amount:

	2002 %	2001 %
under 1 year	7	6
1 to 5 years	32	36
5 to 10 years	30	28
10 to 20 years	12	15
over 20 years	19	15
	100	100

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES — Schedule B

March 31, 2002 *(thousands)*

	2002 Cost	2002 Fund's share Fair Value	2001 Cost	2001 Fund's share Fair Value
Deposits and short-term securities	$ 1,156	$ 1,156	$ 1,033	$ 1,033
Public equities (a)(b)				
Financial services	22,972	25,183	18,729	20,723
Industrial products	17,728	14,693	28,092	21,089
Oil and gas	9,199	11,299	9,365	11,678
Utilities	6,877	5,609	6,501	5,900
Metals and minerals	4,287	4,678	3,334	3,260
Consumer products	4,238	4,447	4,788	4,943
Communications and media	4,220	4,186	4,295	4,017
Gold and precious minerals	3,265	3,740	2,491	2,185
Merchandising	2,748	3,544	1,981	2,236
Transportation and environmental services	2,391	2,818	1,134	1,088
Paper and forest products	2,018	2,036	2,364	2,167
Pipelines	1,448	1,616	1,488	1,659
Conglomerates	1,102	1,391	2,911	3,841
Real estate and construction	704	710	774	764
	83,197	85,950	88,247	85,550
Passive index	1,240	1,195	2,337	2,039
	84,437	87,145	90,584	87,589
Private equities	225	812	383	1,167
Receivable from sale of investments and accrued investment income	754	754	912	912
Accounts payable and accrued liabilities	(262)	(262)	(2,301)	(2,301)
	492	492	(1,389)	(1,389)
	$ 86,310	$ 89,605	$ 90,611	$ 88,400

a) The Plan's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $17,819,000 (2001: $17,985,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

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

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2002 *(thousands)*

	2002 Cost	2002 Fund's share Fair Value	2001 Cost	2001 Fund's share Fair Value
Deposits and short-term securities	$ 339	$ 339	$ 500	$ 500
Public equities (a)				
Financial	9,690	8,918	11,006	10,113
Information technology	9,334	8,008	9,810	7,586
Consumer discretionary	7,651	6,913	7,619	6,894
Health Care	6,760	6,217	7,428	6,883
Industrials	5,967	5,611	5,748	5,302
Consumer staples	5,165	4,793	4,672	4,272
Energy	3,812	3,501	4,355	3,966
Utilities	2,080	1,878	2,932	2,935
Telecommunication services	2,286	1,776	4,747	3,603
Materials	1,859	1,752	1,623	1,454
	54,604	49,367	59,940	53,008
Passive index	8	7	-	-
	54,612	49,374	59,940	53,008
Receivable from sale of investments and accrued investment income	494	494	2,455	2,455
Accounts payable and accrued liabilities	(253)	(253)	(221)	(221)
	241	241	2,234	2,234
	$ 55,192	$ 49,954	$ 62,674	$ 55,742

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

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2002 *(thousands)*

	2002 Cost	2002 Fund's share Fair Value	2001 Cost	2001 Fund's share Fair Value
Deposits and short-term securities	$ 788	$ 788	$ 893	$ 893
Public equities (a)				
United Kingdom	13,139	12,494	13,200	11,406
Japan	10,358	8,604	13,233	11,380
France	5,860	5,588	5,746	5,239
Switzerland	4,181	4,043	3,436	3,228
Netherlands	4,211	4,019	4,244	3,721
Germany	3,585	3,309	5,216	4,431
Australia	1,928	2,036	1,746	1,557
Italy	1,697	1,675	2,363	2,217
Hong Kong	1,395	1,423	1,945	1,709
Spain	1,480	1,314	2,236	2,016
Finland	899	954	1,267	938
Sweden	746	849	2,201	1,709
Other	3,507	3,582	3,639	3,230
	52,986	49,890	60,472	52,781
Receivable from sale of investments and accrued investment income	857	857	1,143	1,143
Accounts payable and accrued liabilities	(908)	(908)	(1,094)	(1,094)
	(51)	(51)	49	49
	$ 53,723	$ 50,627	$ 61,414	$ 53,723

a) The Plan's effective net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $63,000 (2001: $79,000), which are used as underlying securities to support the notional amount of Non-North American equity index swap contracts.

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule E

Year Ended March 31, 2002 *(thousands)*

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
	2002	**2001**	**2000**	**1999**	**Return**
Time-weighted rates of return					
Short-term fixed Income	**4.1**	**6.0**	**5.1**	**3.6**	**4.7**
Scotia Capital 91-day T-Bill Index	*3.7*	*5.7*	*4.7*	*4.9*	*4.8*
Long-term fixed income	**5.9**	**9.4**	**1.6**	**6.7**	**5.9**
Scotia Capital Universe Bond Index	*5.1*	*8.7*	*1.3*	*7.0*	*5.5*
Canadian equities	**3.4**	**(16.0)**	**40.9**	**(11.3)**	**2.1**
Toronto Stock Exchange 300 Index	*4.9*	*(18.6)*	*45.5*	*(11.3)*	*2.5*
United States equities	**1.4**	**(14.3)**	**12.3**	**28.0**	**5.7**
S&P 500 Index	1.6	(15.1)	13.2	26.0	5.3
Non-North American equities	**(5.9)**	**(23.1)**	**38.7**	**13.2**	**3.2**
MSCI EAFE Index	*(7.3)*	*(19.6)*	*20.1*	*12.8*	*0.2*
Real estate*	**7.2**	**9.7**	**5.8**	**n/a**	**n/a**
Russell Canadian Property Index	*9.8*	*11.9*	*9.9*	*n/a*	*n/a*
Overall	**2.3**	**(8.9)**	**19.7**	**4.0**	**3.8**
Policy Benchmark	***2.7***	***(9.5)***	***16.8***	***4.8***	***3.3***

* The difference between the actual return and the benchmark is attributable to the method of calculation. The benchmark is calculated on a gross basis and excludes expenses such as capital expenditures, interest expense, transaction costs and administration expense. The actual return is calculated on a net basis fully reflecting all costs and expenses.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

MARCH 31, 2002

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, 2002 and the statements of income and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

I also report that Section 8(2) of the *Alberta Heritage Foundation for Science and Engineering Research Act* states that "The Provincial Treasurer shall not pay money out of the Endowment Fund if in the opinion of the trustees of the Foundation, on consultation with the Provincial Treasurer, the payment would impair the real value of the Endowment Fund over the long term." As the terms "real value" and "over the long term" are not defined in the legislation, I am unable to assess whether transfers from the Endowment Fund were made in compliance with this section of the Act.

Edmonton, Alberta
May 23, 2002

(original signed by Fred J. Dunn, CA)
Auditor General

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

BALANCE SHEET

March 31, 2002 *(thousands)*

	2002	2001
Assets		
Portfolio investments (Note 3)	$ 513,146	$ 523,299
Receivable from sale of investments	428	592
Administration expense receivable	3	-
	$ 513,577	$ 523,891
Liabilities, Endowment and Retained Earnings		
Liabilities for investment purchases	$ 428	$ 4,430
Administration expense payable	-	8
	428	4,438
Endowment (Note 6)	500,000	500,000
Retained earnings (Note 6)	13,149	19,453
	$ 513,577	$ 523,891

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

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2002 *(thousands)*

	Budget	2002 Actual	2001 Actual
Income			
Investment income (loss) (Note 7)	$ 13,600	$ (4,754)	$ 20,028
Expenses			
Transfers to the Alberta Heritage Foundation for Science and Engineering Research	7,000	1,550	575
Net income (loss)	$ 6,600	(6,304)	19,453
Retained earnings at beginning of year		19,453	-
Retained earnings at end of year		$ 13,149	$ 19,453

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 2002 *(thousands)*

	2002	2001
Operating transactions		
Net income (loss)	$ (6,304)	$ 19,453
Non-cash items included in net income	4,669	1,202
	(1,635)	20,655
Increase (decrease) in receivables	161	(592)
Decrease (increase) in payables	(4,010)	4,438
Cash provided by (applied to) operating transactions	(5,484)	24,501
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	68,799	122,709
Purchase of investments	(64,440)	(633,522)
Cash provided by (applied to) investing transactions	4,359	(510,813
Transfers		
Transfers from the General Revenue Fund	-	500,000
Increase (decrease) in cash	(1,125)	13,688
Cash at beginning of year	13,688	-
Cash at end of year	$ 12,563	$ 13,688
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 12,563	$ 13,688

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, 2002

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 and real estate.

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, and real estate 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.

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.

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.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 2 (continued)

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) 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.
(iv) The fair values of deposits, receivables, accrued interest and payables are estimated to approximate their book values.
(v) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate.

e) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, equity index futures contracts and cross-currency interest rate swaps. As disclosed in Note 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 are valued based on discounted cash flows using current market yields.
(iii) Forward foreign exchange contracts and equity index futures contracts are based on quoted market prices.
(iv) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS

March 31, 2002 *(thousands)*

			2002			2001
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed-income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 12,563	$ 12,563	2.6	$ 13,688	$ 13,688	2.9
Canadian Dollar Public Bond Pool (b)	151,668	151,362	31.8	160,573	162,046	34.7
Private Mortgage Pool (c)	18,114	17,912	3.8	20,695	20,712	4.4
	182,345	181,837	38.2	194,956	196,446	42.0
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	58,252	53,000	11.2	57,776	48,217	10.3
Canadian Pooled Equity Fund (e)	67,981	50,755	10.7	69,392	48,408	10.4
External Managers Canadian Large Cap Pool (f)	17,039	15,838	3.3	13,069	11,030	2.4
External Managers Canadian Small Cap Pool (g)	4,438	4,997	1.1	6,048	5,750	1.2
	147,710	124,590	26.3	146,285	113,405	24.3
United States equities (Schedule C)						
External Manager US Passive Equity Pool (h)	41,100	35,169	7.4	44,463	38,191	8.2
External Managers US Large Cap Equity Pool (i)	33,762	30,980	6.5	38,365	33,651	7.2
External Manager US Small/Mid Cap Equity Pool (j)	4,041	4,887	1.0	4,574	4,763	1.0
	78,903	71,036	14.9	87,402	76,605	16.4
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (k)	41,950	36,893	7.8	36,318	29,690	6.4
External Managers EAFE Plus Equity Pool (k)	18,693	18,598	3.9	17,103	14,889	3.2
External Manager EAFE Passive Equity Pool (l)	19,074	17,672	3.7	31,603	26,302	5.6
	79,717	73,163	15.4	85,024	70,881	15.2
Real Estate						
Private Real Estate Pool (m)	24,471	24,724	5.2	9,632	9,857	2.1
Total equities and real estate	330,801	293,513	61.8	328,343	270,748	58.0
Total investments (n)	$ 513,146	$ 475,350	100.0	$ 523,299	$ 467,194	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, 2002, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2002	**2001**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	1.7	1.9
Canadian Pooled Equity Fund	2.5	2.2
Domestic Passive Equity Pooled Fund	2.0	2.4
Private Mortgage Pool	2.0	2.3
Private Real Estate Pool	1.5	0.7
Externally Managed Investment Pools		
Canadian Large Cap Equity Pool	0.7	1.0
Canadian Small Cap Equity Pool	1.1	1.2
EAFE Core Equity Pool	1.3	1.5
EAFE Passive Equity Pool	2.0	2.2
EAFE Plus Equity Pool	1.3	1.6
US Large Cap Equity Pool	1.3	1.8
US Passive Equity Pool	2.4	2.9
US Small/Mid Cap Equity Pool	1.2	1.7

a) The Consolidated Cash Investment Trust Fund 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 five years. As at March 31, 2002, securities held by the Fund have an average effective market yield of 2.57% per annum (2001: 5.09% 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 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. As at March 31, 2002, securities held by the pool have an average effective market yield of 5.80% per annum (2001: 5.75% per annum) and the following term structure based on principal amount: under 1 year: 7% (2001: 5%); 1 to 5 years: 34% (2001: 36%); 5 to 10 years: 31% (2001: 29%); 10 to 20 years: 10% (2001: 15%); over 20 years: 18% (2001: 15%).

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 (94.8%) and provincial bond residuals (5.2%). 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, 2002, mortgages held by the Pool have an average market yield of 7.01% per annum (2001: 7.14% per annum) and the following term structure based on principal amount: under 1 year: 10% (2001: 10%); 1 to 5 years: 21% (2001: 25%); 5 to 10 years: 23% (2001: 22%); 10 to 20 years: 26% (2001: 25%); over 20 years: 20% (2001: 18%).

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 (TSE) 300 Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the TSE 300 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.

e) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange (TSE) 300 Index. 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 TSE 300 index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

g) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the TSE 300 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 TSE 300 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.

h) The US Passive Equity Pool consists of units in an externally managed US Passive Equity Pool that replicates 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.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 3 (continued)

i) 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.

j) 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.

k) The Europe, Australia Asia 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.

l) 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.

m) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over a four-year period or longer. 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 tend to be 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 returns.

n) 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.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

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 2001-2002 fiscal year:

Fixed-income securities	50% to 30%
Equities	50% to 70%

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 participates in investment funds that hold derivative contracts to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

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

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 5 (continued)

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, 2002.

(thousands)

	Under 1 Year	1 to 3 Years	Maturity Over 3 Years	2002 Notional Amount	2002 Fair Value (a)	2001 Notional Amount	2001 Fair Value (a)
Equity index swap contracts	87%	13%	-	$ 24,627	$ 372	$ 23,928	$ (2,310)
Bond index swap contracts	100%	-	-	2,555	(23)	10,381	(52)
Interest rate swap contracts	31%	67%	2%	11,003	(403)	7,707	(286)
Forward foreign exchange contracts	100%	-	-	9,683	7	9,570	(25)
Equity index futures contracts	-	-	-	-	-	45	(1)
				47,868	$ (47)	51,631	$ (2,674)
Cross-currency interest rate swaps (b)	33%	17%	50%	17,966		24,501	
				$ 65,834		$ 76,132	

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

b) Cross-currency swaps are valued as a package including the underlying security. As at March 31, 2002, the combined fair value of cross-currency interest rate swaps and underlying securities amounted to $17,925,000 (2001: $24,696,000).

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.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 7 INVESTMENT INCOME

(thousands)

		2002		2001
Deposits and fixed-income securities	$	11,956	$	13,379
Canadian equities		(4,805)		7,791
United States equities		(2,372)		(1,321)
Non-North Amercian equities		(11,002)		12
Real estate		1,585		270
Investment income (loss)	$	(4,638)	$	20,131
Direct administration expense (Note 8)		(116)		(103)
Net investment income (loss)	$	(4,754)	$	20,028

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

Investment income for the year ended March 31, 2002, includes a net loss from disposal of investments and writedowns totalling $23,875,000 (2001: net gain $9,974,000).

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)

		2002		2001
Direct fund expenses	$	116	$	103
Externally managed investment pools		371		289
Internally managed investment pools		88		61
	$	575	$	453
Expenses as a percentage of net assets at fair value		0.121%		0.098%

NOTE 9 COMPARATIVE FIGURES

Certain 2001 figures have been reclassified to conform to 2002 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

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule A

March 31, 2002 *(thousands)*

	2002 Cost	Fund's share 2002 Fair Value	2001 Cost	Fund's share 2001 Fair Value
Deposits and short-term securities	$ 14,331	$ 14,331	$ 17,040	$ 17,040
Fixed Income Securities (a)				
Corporate, public and private	93,504	93,570	97,253	98,133
Government of Canada, direct and guaranteed	42,868	42,653	39,280	39,804
Provincial, direct and guaranteed:				
Alberta	443	472	536	583
Other provinces	27,421	27,003	37,427	37,398
Municipal	2,214	2,244	2,333	2,401
	166,450	165,942	176,829	178,319
Receivable from sale of investments and accrued investment income	3,625	3,625	3,533	3,533
Accounts payable and accrued liabilities	(2,061)	(2,061)	(2,446)	(2,446)
	1,564	1,564	1,087	1,087
	$ 182,345	$ 181,837	$ 194,956	$ 196,446

a) Fixed income securities held as at March 31, 2002 have an average effective market yield of 5.93% per annum (2001: 5.91% per annum) and the following term structure based on principal amount:

	2002 %	2001 %
under 1 year	7	5
1 to 5 years	32	35
5 to 10 years	30	28
10 to 20 years	12	16
over 20 years	19	16
	100	100

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2002 *(thousands)*

	2002 Cost	2002 Fund's share Fair Value	2001 Cost	2001 Fund's share Fair Value
Deposits and short-term securities	$ 1,616	$ 1,616	$ 1,307	$ 1,307
Public equities (a)(b)				
Financial services	38,162	34,937	29,990	27,628
Industrial products	31,395	20,934	46,552	27,563
Oil and gas	15,792	15,862	14,938	15,096
Utilities	11,815	7,820	10,520	7,908
Metals and minerals	7,351	6,463	5,537	4,386
Consumer products	7,481	6,180	7,182	5,274
Communications and media	7,429	5,941	6,941	5,145
Gold and precious minerals	5,612	5,225	4,103	2,909
Merchandising	4,815	5,179	2,883	2,687
Transportation and environmental services	4,048	3,939	1,626	1,357
Paper and forest products	3,554	2,897	3,966	2,842
Pipelines	2,400	2,230	2,310	2,196
Conglomerates	1,969	2,004	4,910	5,213
Real estate and construction	1,283	1,005	1,258	968
	143,106	120,616	142,716	111,172
Passive index	2,311	1,681	4,073	2,737
	145,417	122,297	146,789	113,909
Receivable from sale of investments and accrued investment income	1,038	1,038	1,235	1,235
Accounts payable and accrued liabilities	(361)	(361)	(3,046)	(3,046)
	677	677	(1,811)	(1,811)
	$ 147,710	$ 124,590	$ 146,285	$ 113,405

a) The Plan's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $24,627,000 (2001: $23,928,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2002 *(thousands)*

	2002 Cost	2002 Fund's share Fair Value	2001 Cost	2001 Fund's share Fair Value
Deposits and short-term securities	$ 465	$ 465	$ 692	$ 692
Public equities (a)				
Financial	13,844	12,699	15,374	13,921
Information technology	13,319	11,339	13,680	10,398
Consumer discretionary	10,942	9,804	10,571	9,414
Health Care	9,632	8,848	10,322	9,455
Industrials	8,514	7,967	8,009	7,299
Consumer staples	7,433	6,857	6,524	5,886
Energy	5,459	4,996	6,088	5,461
Utilities	2,994	2,676	4,120	4,058
Telecommunication services	3,283	2,545	6,713	4,983
Materials	2,656	2,480	2,277	2,006
	78,076	70,211	83,678	72,881
Passive index	12	10	-	-
	78,088	70,221	83,678	72,881
Receivable from sale of investments and accrued investment income	690	690	3,344	3,344
Accounts payable and accrued liabilities	(340)	(340)	(312)	(312)
	350	350	3,032	3,032
	$ 78,903	$ 71,036	$ 87,402	$ 76,605

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

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

March 31, 2002 *(thousands)*

	2002 Cost	2002 Fund's share Fair Value	2001 Cost	2001 Fund's share Fair Value
Deposits and short-term securities	$1,148	$1,148	$1,057	$1,057
Public equities (a)				
United Kingdom	19,479	18,050	18,183	15,087
Japan	15,300	12,416	18,565	15,139
France	8,718	8,084	8,092	7,000
Switzerland	6,219	5,842	4,791	4,317
Netherlands	6,287	5,809	5,767	4,806
Germany	5,317	4,771	7,255	5,879
Australia	2,867	2,941	2,388	2,032
Italy	2,510	2,418	3,320	2,985
Hong Kong	2,093	2,060	2,646	2,233
Spain	2,189	1,898	3,072	2,656
Finland	1,334	1,379	1,826	1,238
Sweden	1,112	1,221	3,016	2,147
Other	5,222	5,204	4,983	4,242
	78,647	72,093	83,904	69,761
Receivable from sale of investments and accrued investment income	1,245	1,245	1,332	1,332
Accounts payable and accrued liabilities	(1,323)	(1,323)	(1,269)	(1,269)
	(78)	(78)	63	63
	$79,717	$73,163	$85,024	$70,881

a) The Plan's effective net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $63,000 (2001: $79,000), which are used as underlying securities to support the notional amount of Non-North American equity index swap contracts.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule E

Year Ended March 31, 2002 *(thousands)*

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	
	2002	**2001****
Time-weighted rates of return		
Short-term fixed income	**4.0**	**n/a**
Scotia Capital 91-day T-Bill Index	*3.7*	*n/a*
Long-term fixed income	**5.9**	**n/a**
Scotia Capital Universe Bond Index	*5.1*	*n/a*
Canadian equities	**4.2**	**n/a**
Toronto Stock Exchange 300 Index	*4.9*	*n/a*
United States equities	**1.4**	**n/a**
S&P 500 Index	1.6	n/a
Non-North American equities	**(5.6)**	**n/a**
MSCI EAFE Index	*(7.3)*	*n/a*
Real estate*	**7.3**	**n/a**
Russell Canadian Property Index	*9.8*	*n/a*
Overall Return	**3.0**	**n/a**
Policy Benchmark	***3.1***	***n/a***

* The difference between the actual return and the benchmark is attributable to the method of calculation. The benchmark is calculated on a gross basis and excludes expenses such as capital expenditures, interest expense, transaction costs and administration expense. The actual return is calculated on a net basis fully reflecting all costs and expenses.

** The Fund commenced investments operations throughout 2001.

ALBERTA RISK MANAGEMENT FUND

Financial Statements

MARCH 31, 2002

AUDITOR'S REPORT

AUDITOR GENERAL Alberta

To the Minister of Revenue

I have audited the balance sheet of the Alberta Risk Management Fund as at March 31, 2002 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, 2002 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 23, 2002

(original signed by Fred J. Dunn, CA)
Auditor General

ALBERTA RISK MANAGEMENT FUND

BALANCE SHEET

March 31, 2002 *(thousands)*

		2002		2001
Assets				
Cash and cash equivalents (Note3)	$	17,014	$	15,964
Accounts receivable (Note 4)		28		21
Accrued recoveries (Note 5)		827		126
	$	17,869	$	16,111
Liabilities and Net Assets				
Liabilities				
Accounts payable (Note 6)	$	196	$	269
Liabilities for accrued claims (Note 7)		10,633		11,999
		10,829		12,268
Net Assets		7,040		3,843
	$	17,869	$	16,111

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

STATEMENT OF OPERATIONS

Year Ended March 31, 2002 *(thousands)*

	Budget	2002 Actual	2001 Actual
Income			
Insurance services			
Province of Alberta department, funds and agencies	$ 6,300	$ 7,163	$ 7,217
Other	700	1,312	616
Interest	700	646	967
	7,700	9,121	8,800
Expenses			
Insurance claims	5,825	3,813	3,917
Insurance premiums	900	1,103	837
Administration	739	703	754
Other services	121	305	149
	7,585	5,924	5,657
Net income	$ 115	3,197	3,143
Net assets at beginning of year		3,843	700
Net assets at end of year		$ 7,040	$ 3,843

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

ALBERTA RISK MANAGEMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2002

NOTE 1 AUTHORITY AND 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) 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 claims provisions. The nature of the uncertainty in these items arises from several factors such as the effect of claims incurred but not reported and estimates of liability for outstanding claims.

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 financial position 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 five years. For the year ended March 31, 2002, securities held by the CCITF had a market return of 4.03% per annum (2001: 6.02% per annum) and an average duration of 65.7 days (2001: 105.9 days).

ALBERTA RISK MANAGEMENT FUND

NOTE 4 ACCOUNTS RECEIVABLE

(thousands)

	2002	2001
Receivable from Province of Alberta		
departments, funds and agencies	$ 18	$ 13
Other	10	8
	$ 28	$ 21

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 ACCOUNTS PAYABLE

(thousands)

	2002	2001
Payable to the Revenue Department		
– Administration costs	$ 196	$ 266
Other	-	3
	$ 196	$ 269

NOTE 7 LIABILITY FOR ACCRUED CLAIMS

(thousands)

	2002	2001
Incurred but not reported losses (a)	$ 5,600	$ 4,400
Outstanding claims (b)	5,033	7,599
	$ 10,633	$ 11,999

a) 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, including 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.

ALBERTA RISK MANAGEMENT FUND

NOTE 7 (continued)

An actuarial review of the Fund's liability for IBNR losses was carried out as at March 31, 2001 by MMC Enterprise Risk Consulting Limited, an operating division of Marsh & McLennan Companies subsequent to the release of the Fund's 2000-01 financial statements. The 2001 review resulted in an increase in the Fund's liability for IBNR losses. Based on that review, management determined that $5.6 million was an appropriate estimate of the Fund's liability for IBNR losses at March 31, 2002.

Liability for IBNR losses as at March 31, 2001 was determined using the following actuarial methods:
- Incurred Loss Development Method
- Paid Loss Development Method
- Incurred Loss Bornhuetter-Ferguson Method
- Paid Loss Bornhuetter-Ferguson Method

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.

(b) Outstanding Claims

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

NOTE 8 CONTINGENCIES

At March 31, 2002, 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 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2002 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA SECURITIES COMMISSION
Financial Statements
MARCH 31, 2002

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, 2002 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, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 13, 2002

(original signed by Fred J. Dunn, CA)
Auditor General

ALBERTA SECURITIES COMMISSION

BALANCE SHEET

March 31, 2002 *(thousands)*

		2002		2001
Assets				
Current				
Cash (Note 3)	$	2,897	$	4,337
Accounts receivable		182		147
Work-in-progress		103		110
Prepaid Expense		18		20
		3,200		4,614
Non-curremt				
Restricted assets (Note 4)		729		625
Investments (Note 5)		18,646		16,405
Capital assets (Note 7)		1,619		1,856
		20,994		18,886
Total assets	$	24,194	$	23,500
Liabilities and Retained Earnings				
Current				
Accounts payable and accrued liabilities	$	925	$	914
Accrued vacation and benefit liabilities		777		736
Unearned revenue		664		1,173
Lease inducement (Note 8)		40		-
		2,406		2,823
Lease inducement (Note 8)		120		-
Accrued benefit liability (Note 9)		748		523
Total liabilities		3,274		3,346
Retained earnings (Note 4)		20,920		20,154
Total liabilities and retained earnings	$	24,194	$	23,500

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

Approved on behalf of the members:

Stephen Sibold, Q.C., Chair
Jerry A. Bennis, FCA, Member

ALBERTA SECURITIES COMMISSION

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2002 *(thousands)*

	Budget (Note 11)	2002 Actual	2001 Actual
Revenue			
Fees (Note 12)	$ 14,135	$ 14,919	$ 13,773
Investment income (Note 6)	1,309	437	1,359
Settlement cost recoveries	-	365	111
Other	20	16	28
	15,464	15,737	15,271
Expense			
Salaries and benefits (Schedule A)	11,109	10,306	9,138
Premises	1,079	1,109	871
Contract services	1,437	1,088	1,248
Amortization	584	557	451
Other (Note 14)	506	541	454
Travel	537	388	534
CSA Project costs (Note 13)	400	359	243
Materials and supplies	384	299	332
Telephone and communications	238	229	208
Member fees (Schedule A)	388	199	140
Total expense	16,662	15,075	13,619
Net income (loss) from operations	(1,198)	662	1,652
Administrative penalties revenue (Note 4)	-	104	439
Net income (loss)	(1,198)	766	2,091
Retained earnings at beginning of year	20,154	20,154	18,063
Retained earnings at end of year (Note 4)	$ 18,956	$ 20,920	$ 20,154

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

ALBERTA SECURITIES COMMISSION

STATEMENT OF CASH FLOWS

Year Ended March 31, 2002 *(thousands)*

	2002	2001
Cash flows from operating activities		
Cash receipts from fees	$ 14,411	$ 14,310
Cash receipts from settlement cost recoveries	365	111
Cash paid to and on behalf of employees	(9,550)	(8,922)
Cash paid to suppliers for goods and services	(4,465)	(3,752)
Investment income	980	1,353
Cash flows from operating activities	1,741	3,100
Administrative penalties	104	439
Cash flows from (used in) operating activities and administrative penalties	1,845	3,539
Cash flows used in investing activities		
Lease inducement received	200	-
Increase in restricted assets	(104)	(439)
Cash used for capital assets (1)	(595)	(774)
Cash used for investments (2)	(2,786)	(1,118)
Cash from (used in) investing activities	(3,285)	(2,331)
Increase (decrease) in cash	(1,440)	1,208
Cash at beginning of year	4,337	3,129
Cash at end of year	$ 2,897	$ 4,337
Supplemental cash flow information		
(1) Additions to capital assets	$ (321)	$ (1,058)
Increases (decreases) in capital asset liabilities	(274)	284
	$ (595)	$ (774)
(2) Additions to investments	$ (2,241)	$ (1,118)
Loss on investments	(545)	-
	$ (2,786)	$ (1,118)

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

ALBERTA SECURITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2002

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (the "Commission") is a Provincial Corporation under the Securities Act (Alberta) (the "Act"). 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

Fixed-income securities and equities 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 trade date.

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

Where there has been a decline in value in 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.

Income and expense on index swaps and interest rate swaps are accrued as earned and gains and losses arising as a result of disposal of investments are included in the determination of investment income.

c) 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 directly by the pooled investment fund are determined as follows:

ALBERTA SECURITIES COMMISSION

NOTE 2 (continued)

(i) Public fixed-income securities 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.
(ii) 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.

d) Valuation of Derivative Contracts

Derivative contracts include equity and bond index swaps, interest rate swaps and cross-currency interest rate swaps. 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 5(c)). The fair value of 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 are valued based on discounted cash flows using current market yields.
(iii) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

e) Capital Assets

Capital assets are recorded at cost. The Commission capitalizes labour and out of pocket costs for significant individual systems development projects. Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment	3 years
Furniture and equipment	10 years
Systems development costs	5 years
Leasehold improvements	3.5 years to 10 years

f) Revenue Recognition

Fees are recognized as revenue when the relevant order, receipt, certificate or other acknowledgment is issued, otherwise, when cash is received. Fees received concerning matters in progress at year end are recorded as unearned revenue and an estimate of labour costs on these matters is recorded as work in progress. Administrative penalties, cost recoveries from Commission orders and settlement agreements are recognized as revenues when cash is received.

ALBERTA SECURITIES COMMISSION

NOTE 2 (continued)

g) Accrued Benefit Liability

The Commission participates in the Public Service Pension Plan, a multi-employer pension plan, with other government entities. 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 senior management employees of the Plan is 11 years.

The Commission also maintains a plan whereby it would make 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 of $13,500. The expense included in these financial statements comprise the current contributions made on behalf of the employees.

h) Lease Inducement

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

i) Restricted Assets

Revenues received by the Commission from Administrative Penalties are not to be used for normal operating expenditures of the Commission and can only be used for endeavours or activities that, in the opinion of the Commission, enhance the capital market in Alberta.

j) Fair Value

The carrying value of cash, receivables and payables, and accruals approximate their fair value due to the relatively short periods to maturity of the instruments.

NOTE 3 CASH

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF), which is administered by the Minister of Revenue with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositor's capital. The CCITF is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. As at March 31, 2002, securities held by the Fund have an average effective market yield of 2.57% per annum (2001-5.09% per annum).

ALBERTA SECURITIES COMMISSION

NOTE 4 RESTRICTED ASSETS AND RETAINED EARNINGS

Restricted assets, as described in Note 2(i) are comprised of administrative penalties revenue, interest earned, less associated costs.

For the year, restricted assets increased as follows:

	2002	2001
Administrative penalties revenue	$ 110	$ 466
Interest earned	27	19
	137	485
Less: seminar and other costs	33	46
Net increase	104	439
Restricted assets, beginning of year	625	186
Restricted assets, end of year	$ 729	$ 625
Unrestricted earnings	$ 20,191	$ 19,529
Restricted earnings	729	625
Retained earnings	$ 20,920	$ 20,154

NOTE 5 INVESTMENTS

a) Summary

(thousands)

	2002			2001		
	Cost	Fair Value	%	Cost	Fair Value	%
Deposit in the CCITF (Note 3)	$ 7,114	$ 7,114	38.5	$ -	$ -	-
Fixed-income securities (Schedule B)	8,786	8,399	45.4	16,405	15,794	100.0
Canadian equities (Schedule C)	2,746	2,980	16.1	-	-	-
	$ 18,646	$ 18,493	100.0	$ 16,405	$ 15,794	100.0

The Commission's investments are held in investment funds established and administered by the Minister 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.

ALBERTA SECURITIES COMMISSION

NOTE 5 (continued)

b) Investment Rick Management

Income and financial returns of the Commission 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 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 assets 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.

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 fund manager 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.

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

ALBERTA SECURITIES COMMISSION

NOTE 5 (continued)

The following is a summary of the Commission's proportionate share of the notional amount and fair value of swaps contracts issued by pooled funds as at March 31, 2002.

(thousands)

	Maturity Under 1 Year	Maturity 1 to 3 Years	Maturity Over 3 Years	2002 Notional Amount	2002 Fair Value (a)	2001 Notional Amount	2001 Fair Value (a)
Equity index swap contracts	87%	13%	-	$ 612	$ 9	$ -	$ -
Interest rate swaps contracts	34%	64%	2%	347	(13)	334	(16)
Bond index swaps contracts	100%	-	-	142	(1)	1,012	(5)
				1,101	$ (5)	1,346	$ (21)
Cross-currency interest rate swaps (b)	25%	13%	62%	700		1,283	
				$ 1,801		$ 2,629	

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

(b) As at March 31, 2002, the combined value of cross-currency interest rate swaps and underlying securities amounted to $696 (2001 – 1,291).

NOTE 6 INVESTMENT INCOME

(thousands)

	2002	2001
Interest	$ 945	$ 1,189
Net realized (loss) gain on investments	(545)	144
Derivative income	2	26
Dividends	35	-
	$ 437	$ 1,359

ALBERTA SECURITIES COMMISSION

NOTE 7 CAPITAL ASSETS

(thousands)

	Cost	Accumulated Amortization	2002 Net Book Value	2001 Net Book Value
Computer equipment	$ 1,241	$ 924	$ 317	$ 488
Furniture and equipment	594	236	358	372
Leasehold improvements	1,556	612	944	996
	$ 3,391	$ 1,772	$ 1,619	$ 1,856

NOTE 8 LEASE INDUCEMENT

Pursuant to a ten year lease agreement effective April 1, 1996, as amended, the Commission received from its landlord a final lease inducement payment of $200 for the remaining five years of the lease. Amortization for each year for the remaining 4 years will be $40.

NOTE 9 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability consists of:

	2002 %	2001 %
Retirement Plan	$ 207	$ 194
Supplemental Pension Plan	541	329
	$ 748	$ 523

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

	2002 %	2001 %
Public Service Pension Plan (a)	$ 180	$ 171
Registered Retirement Savings Plan (b)	242	225
Retirement Plan (c)	13	(20)
Supplemental Pension Plan (d)	212	168
	$ 647	$ 544

ALBERTA SECURITIES COMMISSION

NOTE 9 (continued)

a) Public Service Pension Plan

The Commission participates in the Public Service Pension Plan (the PSPP). The expense for this pension plan is equivalent to the annual contributions for the year ending March 31, 2002. At December 31, 2001, the PSPP reported a surplus of $320,487 (2000 - $635,084).

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 a designated executive. The provisions of the retirement plan were established pursuant to a written agreement with the designated executive. The retirement plan provides pension benefits based on a fixed schedule of payments over a fifteen-year period ending in 2018. Accrued benefits are payable on the death of the designated executive. The retirement plan is not pre-funded and the benefits will be paid 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 executive that are defined by reference to earnings, which are in excess of the $86 limit imposed by the Income Tax Act on registered pension arrangements.

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.

ALBERTA SECURITIES COMMISSION

NOTE 9 (continued)

An actuarial valuation of the Plan was performed by an independent actuary in March, 2001 and updated to March 31, 2002. The results of that actuarial valuation as it applied to the Plan are summarized below:

(thousands)

Balance Sheet at March 31	**2002**	**2001**
Market value of assets	$ -	$ -
Accrued benefit obligation	829	596
Unfunded obligation	829	596
Unamortized transitional obligation	(255)	(279)
Unamortized actuarial loss (gain)	(33)	12
Accrued benefit liability	$ 541	$ 329
Accrued Benefit Obligation		
Accrued benefit obligation at beginning of year	$ 596	$ 466
Service cost	134	109
Interest cost	54	37
Net Actuarial loss (gain)	45	(16)
Accrued benefit obligation at end of year	$ 829	$ 596
Pension Expense		
The pension expense for the Plan is as follows:		
Service cost	$ 134	$ 109
Interest cost	54	37
Amortization of transitional obligation	24	22
Pension Expense	$ 212	$ 168

The assumptions used in the actuarial valuation of the Plan performed in March 2001 and updated to March 31, 2002 are summarized below. The discount rate was established in accordance with the yield on long-term 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.

Plan

	2002	**2001**
Discount rate	7.15%	7.35%
Rate of inflation	2.20%	2.35%
Salary increases	3.70%	3.35%

ALBERTA SECURITIES COMMISSION

NOTE 10 LEASE OBLIGATIONS

Operating

Future minimum operating lease payments for premises and equipment for each of the next 4 years and in aggregate are as follows:

2003	$ 1,265
2004	1,263
2005	1,268
2006	1,262
Total	$ 5,058

NOTE 11 BUDGET

The Board Members approved the Commission's 2001-2002 budget on February 14, 2001, with a subsequent revision and approval on March 13, 2001. The original budget was increased by $520. This amount is reflected in the budget included with these financial statements.

NOTE 12 FEES

	2002	**2001**
Distribution of Securities	$ 7,254	$ 7,014
Registrations	5,039	4,333
Annual Financial Statements	2,168	1,904
Orders	458	522
Total	$ 14,919	$ 13,773

NOTE 13 CSA PROJECT COSTS

The Canadian Securities Administrators (CSA) have established a CSA Project Office, the purpose of which is to assist in the development and harmonization of rules, regulations and policies across Canada. The Commissions have also agreed that the costs incurred for the maintenance of the CSA Project Office and any third party costs incurred in the development of harmonized rules, regulations and polices will be shared on an agreed upon cost sharing formula.

ALBERTA SECURITIES COMMISSION

NOTE 14 OTHER EXPENSES

	2002	2001
Repairs and maintenance	$ 70	$ 113
Freight and postage	67	62
Advertising	59	49
Business consultation	55	35
Equipment rental	42	56
Other	248	139
Total	$ 541	$ 454

NOTE 15 CONTINGENCIES

a) The Commission is involved in various legal proceedings arising in the normal course of business. Management considers the likelihood of liability under these legal proceedings not to be determinable and accordingly an estimate of any contingent loss cannot be made.

b) The 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 Commission to the Bank is limited to $2,160.

NOTE 16 COMPARATIVE FIGURES

Certain 2001 figures have been reclassified to conform to the 2002 presentation.

ALBERTA SECURITIES COMMISSION

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF SALARIES AND BENEFITS — Schedule A

March 31, 2002

	2002				2001	
	Number of Individuals (1)	Salary (2)	Benefits and Allowances (3)	Total	Number of Individuals (1)	Total
Securities Commission Members (part-time)	9	$ 198,681	$ -	$ 198,681	8	$ 139,988
Chair, Securities Commission (4)	1.0	$ 435,200	$ 21,285	$ 456,485	0.9	$ 409,769
Vice Chair, Securities Commission (4)	1.0	205,200	17,332	222,532	1.0	201,127
Vice Chair, Securities Commission (4)	1.0	205,200	15,948	221,148	1.0	190,722
Executive Director (5)	1.0	235,200	25,563	260,763	1.0	208,532
Director, Legal/Policy	1.0	187,700	16,437	204,137	1.0	166,569
Director, Capital Markets	1.0	175,200	15,722	190,922	1.0	160,340
Director, Enforcement	1.0	160,867	17,123	177,990	0.8	187,789

(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 pensions, 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, and club memberships.

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

(5) Automobile provided, no dollar amount included in benefits and allowances figures.

ALBERTA SECURITIES COMMISSION

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES — Schedule B

March 31, 2002 *(thousands)*

	Commission's share 2002		Commission's share 2001	
	Cost	Fair Value	Cost	Fair Value
Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 94	$ 94	$ 326	$ 326
Public fixed-income securities (b)				
Government of Canada				
Direct and guaranteed	2,485	2,368	4,018	3,880
Provincial Alberta, direct and guaranteed	26	26	55	57
Other, direct and guaranteed	1,525	1,446	3,723	3,557
Municipal	128	124	239	234
Corporate	3,337	3,218	5,752	5,587
Private fixed-income securities (b)				
Corporate	1,110	1,042	2,202	2,063
	8,705	**8,318**	**16,315**	**15,704**
Accounts receivable and accrued investment income	193	193	282	282
Accounts payable and accrued liabilities	(112)	(112)	(192)	(192)
	81	**81**	**90**	**90**
	$ 8,786	**$ 8,399**	**$ 16,405**	**$ 15,794**

(a) Fixed income securities held as at March 31, 2002 have an average effective market yield of 5.80% per annum (2001 – 5.75% per annum) and the following term structure based on principal amounts:

	2002 %	2001 %
under 1 year	7	5
1 to 5 years	34	36
5 to 10 years	31	29
10 to 20 years	10	15
over 20 years	18	15
	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 participant's 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, 2002 *(thousands)*

	Commission's share 2002		Commission's share 2001	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposit and short-term securities	$ 38	$ 38	$ -	$ -
Public equities (a) (b) (c)				
Financial services	748	860	-	-
Industrial products	557	490	-	-
Oil and gas	292	380	-	-
Utilities	223	192	-	-
Metals and minerals	139	161	-	-
Communications and media	133	140	-	-
Consumer products	126	131	-	-
Gold and precious metals	105	127	-	-
Merchandising	86	114	-	-
Transportation and environmental services	76	94	-	-
Paper and forest products	63	67	-	-
Pipelines	47	56	-	-
Conglomerates	34	46	-	-
Real estate and construction	22	24	-	-
	2,651	2,882	-	-
Passive index	39	42	-	-
	2,690	2,924	-	-
Receivable from sale of investments and accrued investment income	26	26	-	-
Accounts payable and accrued liabilities	(8)	(8)	-	-
	18	18	-	-
	$ 2,746	$ 2,980	$ -	$ -

(a) The Commission's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totaling $612 (2001 - $Nil) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

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

ALBERTA SECURITIES COMMISSION

Schedule C (continued)

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

(thousands)

	2002 Cost	2002 Fair Value	2001 Cost	2001 Fair Value
Domestic Passive Equity Pooled Fund (i)	$ 1,222	$ 1,318	$ -	$ -
Canadian Pooled Equity Fund (ii)	1,160	1,279	-	-
External Managers Canadian Large Cap Equity Pool (iii)	364	383	-	-
	$ 2,746	$ 2,980	$ -	$ -

(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 (TSE) 300 Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the TSE 300 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) is used as the underlying security 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 terms-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 TSE 300 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 TSE 300 index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

ALBERTA SECURITIES COMMISSION

SCHEDULE OF INVESTMENT RETURNS

Schedule D

Year Ended March 31, 2002

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			Three-Year Compound Annualized Return
	2002	**2001**	**2000**	
Time-weighted rates of return				
Short-term fixed income	**4.0**	**5.8**	**5.1**	**5.0**
Scotia Capital 91-day T-Bill Index	*3.7*	*5.7*	*4.7*	*4.7*
Long-term fixed income	**5.7**	**9.4**	**1.3**	**5.4**
Scotia Capital Universe Bond Index	*5.1*	*8.7*	*1.3*	*5.0*
Canadian equities				
Internal Passive (3 months)	**2.7**	**n/a**	**n/a**	**n/a**
Internal Active (3 months)	**0.2**	**n/a**	**n/a**	**n/a**
External Large Cap (9 months)	**5.7**	**n/a**	**n/a**	**n/a**
Toronto Stock Exchange TSE 300 (3 months)	*2.5*	*n/a*	*n/a*	*n/a*
Toronto Stock Exchange TSE 300 (9 months)	*2.7*	*n/a*	*n/a*	*n/a*
Overall Return	**4.3**	**8.6**	**2.1**	**5.0**

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

Statement of Remissions, Compromises and Write-Offs

MARCH 31, 2002

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	$	11,165,454
Fuel tax		277,874
	$	11,443,328

ALPHABETICAL LIST OF ENTITIES' FINANCIAL STATEMENTS

2002

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	Agriculture, Food and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Dairy Control Board	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, The	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 Municipal Financing Corporation	Finance
Alberta Opportunity Company	Agriculture, Food and Rural Development
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
Awasak Child and Family Services Authority	
Calgary Rocky View Child and Family Services Authority	
Child and Family Services Authority Region 13	
Child and Family Services Authority Region 14	
Diamond Willow Child and Family Services Authority	
Hearthstone Child and Family Services Authority	
Keystone Child and Family Services Authority	
Ma' Mowe Capital Region Child and Family Services Authority	
Metis Settlements Child and Family Services Authority	
Neegan Awas'sak Child and Family Services Authority	
Ribstone Child and Family Services Authority	
Sakaigun Asky Child and Family Services Authority	
Sakaw-Askiy Child and Family Services Authority	
Silver Birch Child and Family Services Authority	
Southeast Alberta Child and Family Services Authority	
Sun Country Child and Family Services Authority	
West Yellowhead Child and Family Services Authority	
Windsong Child and Family Services Authority	
Credit Union Deposit Guarantee Corporation	Finance
Crop Reinsurance Fund of Alberta	Agriculture, Food and Rural Development

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, The	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[1]	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[1]	Economic Development
Ministry of Energy	Energy
Ministry of Environment[1]	Environment
Ministry of Finance	Finance
Ministry of Executive Council[1]	Executive Council
Ministry of Gaming	Gaming
Ministry of Government Services[1]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[1]	Human Resources and Employment
Ministry of Infrastructure[1]	Infrastructure
Ministry of Innovation and Science	Innovation and Science
Ministry of International and Intergovernmental Relations[1]	International and Intergovernmental Relations
Ministry of Justice[1]	Justice
Ministry of Learning	Learning
Ministry of Municipal Affairs[1]	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[1]	Transportation
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development

[1] Ministry includes only the department 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 Community Boards	
Calgary Community Board	Community Development
Central Community Board	Community Development
Edmonton Community Board	Community Development
Northeast Community Board	Community Development
Northwest Community Board	Community Development
South Community Board	Community Development
Persons with Developmental Disabilities Foundations[2]	Community Development
Persons with Developmental Disabilities Michener Centre Facility Board	Community Development
Persons with Developmental Disabilities Provincial Board	Community Development
Provincial Judges and Masters in Chambers Reserve Fund	Finance
S C Financial Ltd.	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, The	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
Universities Academic Pension Plan	Finance
Workers' Compensation Board	Human Resources and Employment

[2] Dissolved June 2001