ALBERTA REVENUE ANNUAL REPORT

FOR THE FISCAL YEAR ENDED MARCH 31, 2003 | PUBLISHED SEPTEMBER 2003

2003

ALBERTA REVENUE

GOVERNMENT OF ALBERTA

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PREFACE

Public Accounts 2002-03

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 24, 2003 contains the Minister of Finance's accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the *Measuring Up* report.

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

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

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 2003, 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, 2003, with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[original signed]

Honourable Greg Melchin, CA
Minister of Revenue

MESSAGE FROM THE MINISTER

It is a pleasure to present the second Annual Report for the Ministry of Revenue. Our ministry has been very busy since Alberta Treasury was split into Finance and Revenue in 2001. Yet, we have risen to meet the challenges and we have continued in our quest to take a long-term strategic look at collecting revenues and investing provincial assets.

As the provincial government's investment arm, Revenue has been challenged to manage approximately $34 billion of assets through the worst bear market since the 1930s. Investor confidence has been shaken by corporate scandals in the United States and by severe, worldwide market corrections. Through it all, the impact on provincial investments, including the Alberta Heritage Savings Trust Fund, has been mitigated because investment strategies include diversified, balanced portfolios that have weathered the storm. As markets improve, provincial investments will rebound.

From a policy standpoint, provincial savings policies were explored and Albertans were given an opportunity to share their thoughts on the Heritage Fund's future. Over 77,000 participated in a province-wide survey, reaffirming their commitment to the Heritage Fund and to holding long-term savings. Over the next year, government will explore ways to strengthen the Heritage Fund as an endowment fund and to protect its value over the long term.

A competitive tax structure is essential to the province's long-term economic growth and ensures Albertans can enjoy a high quality of life. In keeping with our promise to businesses, reductions to business taxes continued. The general corporate tax rate was reduced to 13 per cent, the small business rate to 4.5 per cent, and the small business exemption increased to $350,000. Businesses saved over $81 million in taxes in 2002-03 adding to the $286 million that has been cut since 2001.

Government increased tobacco taxes for the first time in 10 years, bringing in a tobacco tax increase of over 125 per cent. This supported the province's tobacco reduction strategy and efforts to significantly reduce smoking, especially among youth. While it is difficult to measure the number of smokers who quit, tax-paid tobacco sales dropped by 18 per cent over the year.

As the province managed volatility in resource revenues and developed a new fiscal framework, Revenue continued to take a long-term, strategic look at revenue policies and practices. Work on a Revenue Management Framework continued. Reviews of tax policies also continued as Alberta strives to maintain a broad-based, low rate tax structure that is competitive on the global stage.

This year, Alberta took a leadership role in reforming securities regulation. Over the years many regulators, industry representatives and legal practitioners have suggested ways the securities system in Canada can be improved. Reducing the number of barriers faced by issuers and registrants wishing to operate in more than one jurisdiction, as well as improving investor protection, will greatly benefit the securities environment. Recognizing the importance of these issues, provincial and territorial ministers from across the country have agreed to work together to identify improvements that will inspire investor confidence and create a more efficient, streamlined and effective securities regulatory system. Alberta is proud to chair this initiative, with work continuing quickly, as the Ministers have committed to develop an action plan by the fall of 2003.

Finally, Alberta Revenue is fortunate to have dedicated professional staff. I thank you for your commitment to excellence, for serving all Albertans well, and ensuring revenue policies reflect Albertans' values now and into the future.

[original signed]

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]

Robert Bhatia
Deputy Minister
September 5, 2003

OVERVIEW 2003

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

RELATIONSHIP OF REVENUE DEPARTMENT AND REPORTING ENTITIES TO CORE BUSINESSES

Ministry of Revenue

Ministry Support Services

Manage and invest financial assets prudently.

DEPARTMENT
- Investment Management Division
- Securities Administration and Systems Division

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

Manage tax and revenue programs fairly and efficiently.

DEPARTMENT
- Tax and Revenue Administration Division

Manage risk associated with loss of public assets.

DEPARTMENT
- Risk Management and Insurance Division

FUNDS
- Alberta Risk Management Fund

Regulate Alberta's capital market.

AGENCIES
- Alberta Securities Commission

OPERATIONAL OVERVIEW

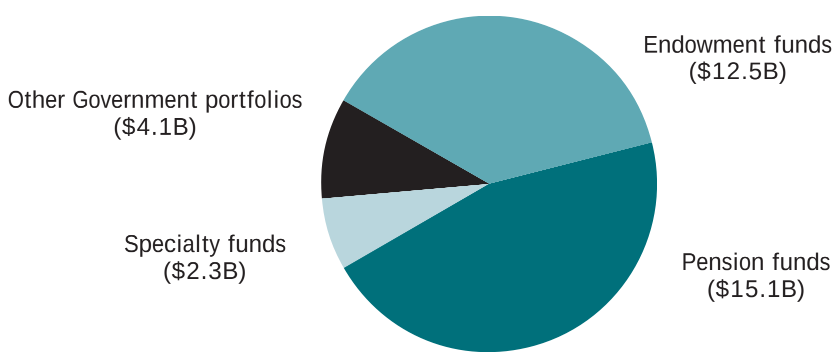
Department of Revenue	www.revenue.gov.ab.ca
9515 - 107 Street Edmonton Alberta T5K 2C3	

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 approximately $34 billion under management, Alberta Revenue is one of the largest fund managers in the country. Assets under management include:

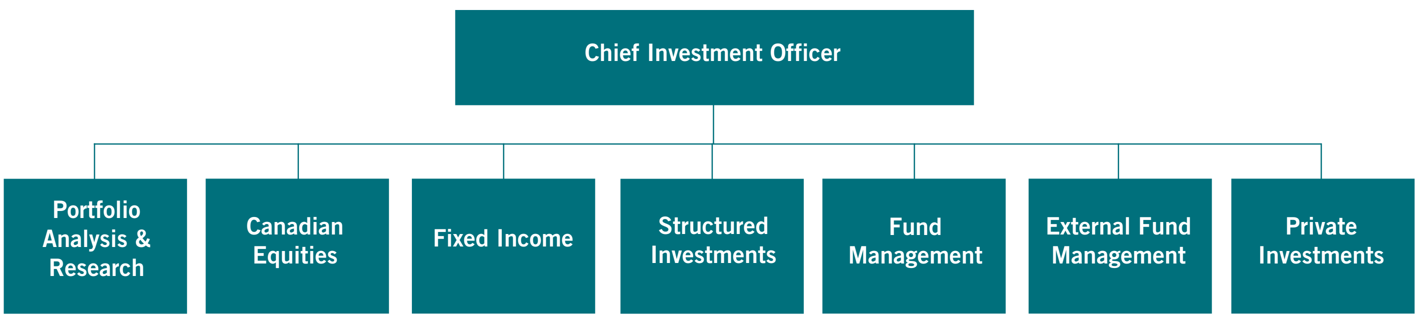
- Endowment funds including the Alberta Heritage Savings Trust Fund (Heritage Fund), the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund and the Alberta Heritage Science and Engineering Research Endowment Fund (totalling $12.5 billion).
- Government sponsored public sector pension plans ($15.1 billion).
- Other Government portfolios including the Government surplus, the General Revenue Fund and the General Revenue Capital Account ($4.1 billion).
- Specialty funds including the Power Pool Balancing Fund and funds managed on behalf of the Workers' Compensation Board ($2.3 billion).

ASSETS UNDER MANAGEMENT BY IMD



Investment objectives vary for the funds, reflecting different financial requirements and risk tolerances for each fund and its respective stakeholders. To meet each fund's investment policies and goals, IMD has developed a wide range of investment products that 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 by its return objective and risk profile. Clients buy into the pools by purchasing units based on the current market value of the pools' investments. This approach is important to managing the funds efficiently and to ensuring each client is treated fairly. Both IMD and third party external manager expertise are used, ensuring the necessary specialized investment knowledge and skills are used 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 indicate that satisfaction with IMD's service levels decreased to 66 in 2002-03 from 76 in 2001-02 (scale of 100). This performance may have been influenced to some degree by dissatisfaction with the continued poor performance of equity markets.



Securities Administration and Systems Division

The Securities Administration and Systems Division (SASD) has 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 to ensure 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. The focus is a fair, competitive, simple and efficient provincial tax and revenue system.

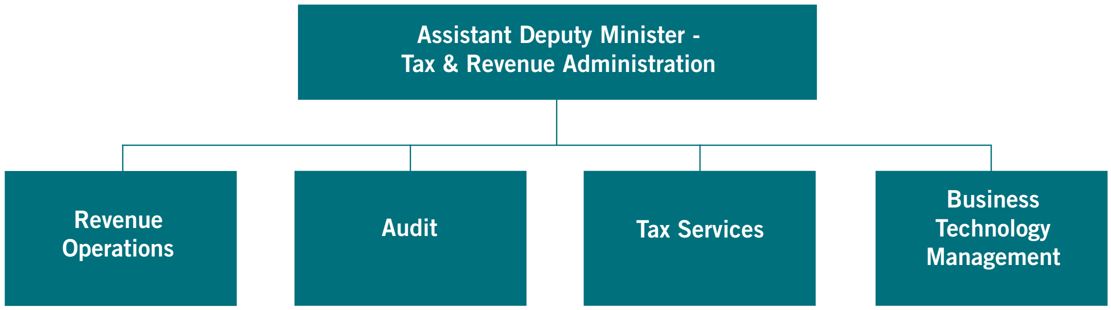
The Division has four branches: Revenue Operations, Audit, Tax Services and Business Technology Management. Each branch is responsible for specific business processes. TRA's branches are designed so that business processes that are similar in nature and require similar knowledge and skills are grouped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

Revenue Operations is responsible for registering corporations, individuals, trusts, fuel tax clients, tobacco tax and other clients under the applicable acts or programs, maintaining client accounts, validating and processing returns and claims and processing remittances and providing refunds to TRA's clients. In 2002, the enforcement of filing requirements and tax debt collection activities were consolidated in Revenue Operations.

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

Tax Services is responsible for providing information and technical ruling services to TRA's clients and staff and the administration of dispute resolution mechanisms with respect to TRA actions. In 2002, a policy group was incorporated into this branch to develop revenue and tax policy. This group was actively involved in the revenue management framework and tobacco tax amendments initiatives. Tax Services also provides central services to other ministries and their agencies with respect to the federal GST.

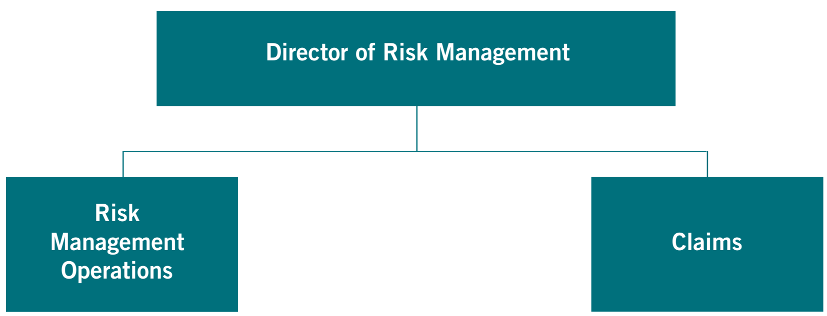
Business Technology Management provides planning, business systems and quality improvement services to TRA. This Branch has the lead responsibility for managing TRA's product development (e.g. electronic commerce, forms, etc.), change management, budgeting/forecasting and management reporting functions.



Risk Management and Insurance Division

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



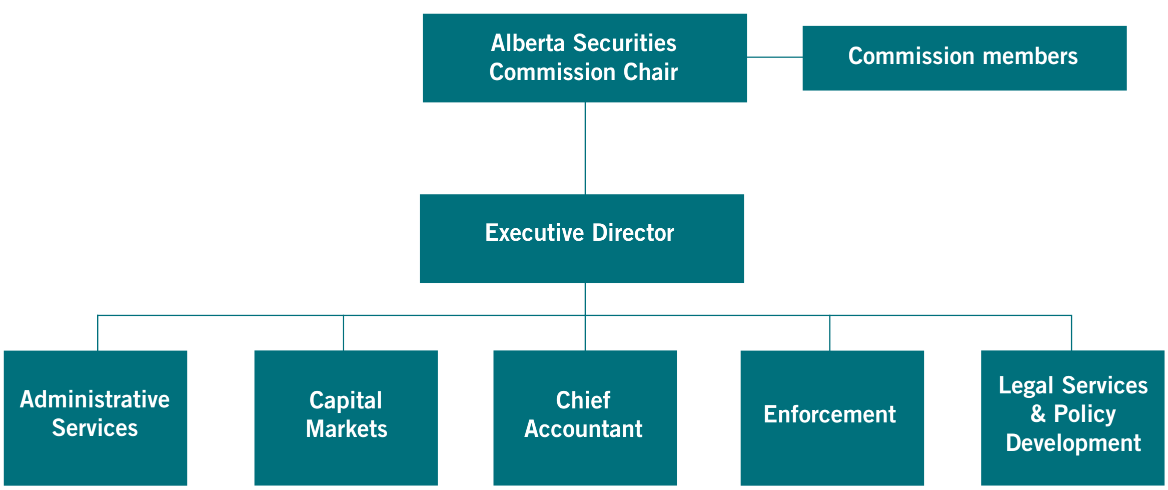
Alberta Securities Commission www.albertasecurities.com

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.

In November 2002, the ASC centralized operations in its Calgary office.



SUMMARY OF KEY ACTIVITIES IN THE PAST YEAR

Looking Forward, the Heritage Fund consultation

More than 77,000 Albertans shared their thoughts on the future of the Alberta Heritage Savings Trust Fund by completing the *Looking Forward: Planning for the Future with the Alberta Heritage Savings Trust Fund* survey. This province-wide survey was one part of an extensive savings review initiative, to ensure policies will help meet the province's needs into the future. Results of the survey can be found at www.revenue.gov.ab.ca.

It is clear Albertans value the Heritage Fund and want to ensure it will be around to benefit future generations. Future changes will focus on strengthening the Fund as an endowment and preserving its value over the long-term.

Developing the Revenue Framework

Alberta Revenue is developing a framework that considers broad characteristics, trends and issues in the province's revenue structure. This framework will ensure decisions can be made to benefit all Albertans over the long-term. Revenue is working with other ministries that are responsible for forecasting and collecting revenues to ensure a cohesive provincial approach to revenue management.

Strengthening Investment Operations

During the year Alberta Revenue took a number of steps to strengthen investment operations. Work commenced on a medium-term strategic plan for the investment operation, which includes four goals:

- Increase value added for clients;
- Strengthen governance and oversight;
- Strengthen client relationships; and
- Be cost effective.

Meanwhile the internally managed Canadian equity portfolio was restructured to improve investment results and a Fund Management Group was established to help pension, endowment and other client funds better achieve their investment objectives.

Alberta Revenue is responsible for the investment management and administration of approximately $34 billion of assets. These investments include the Alberta Heritage Savings Trust Fund, other provincial endowment funds, public sector pension plans and other investments for government related clients.

As the fifth largest investment organization in the country, the division continues to provide high quality service to government clients at low cost. Clients pay 10 basis points less than they would pay by outsourcing management to the private sector. Ensuring the division provides high quality management cost-efficiently continues to be a key objective.

Straight Through Processing and T+1 Trade Settlement

To meet changing standards in the investment industry, Revenue is acquiring new trading and data integration systems to enhance straight through processing and enable trades to be completed one day after trade date, compared to the current standard of settling three days after the trade date. The project will be completed by 2004-05.

Reviewing and Reforming Securities Regulation

The securities regulatory system promotes confidence in capital markets, enables businesses to access the financing they need to grow, and assures citizens they will be treated fairly when they invest.

In February 2003, provincial and territorial ministers from across the country agreed to study the securities regulatory framework and make improvements that will modernize the system, make it more efficient, and inspire investor confidence. Alberta is leading this initiative. Ministers are studying a passport approach that will allow businesses to operate in all jurisdictions if they are recognized by one. An action plan will be developed by fall 2003.

In addition, securities administrators from across the country have made a strong commitment to eliminating differences in provincial and territorial securities law by participating in the Uniform Securities Legislation (USL) Project. The Alberta Securities Commission is chairing this initiative, and a national framework for securities legislation will be presented to provincial and territorial leaders by the end of the 2003-04 fiscal year.

Corporate Tax Reductions

Competitive tax rates encourage investment, and reductions in Alberta's corporate tax rates continue to make the province globally competitive. This fiscal year, the general rate fell to 13 per cent, the small business rate was reduced to 4.5 per cent, and the small business threshold increased to $350,000. These reductions saved $81 million for businesses, in addition to the $286 million that has been cut from corporate income taxes since 2001. Additional reductions will be made, as affordable, in coming years.

Supporting the Tobacco Reduction Strategy

Ensuring Alberta's health care system continues to provide high quality health care for generations to come is an important government priority. A significant contribution to these efforts is Alberta's tobacco reduction strategy, which is encouraging Albertans, especially young Albertans, to stop smoking, or, better yet, to never take up the habit.

Studies prove that increasing tobacco taxes reduces tobacco use. To support the reduction strategy, tobacco taxes were increased for the first time in 10 years, by 125 per cent. The strategy is working – tax-paid tobacco sales have dropped by nearly 18 per cent. Additional resources were dedicated to enforce legislation and combat smuggling. An information campaign was implemented in stores at border crossings to educate Albertans about tobacco legislation and raise awareness that tobacco can only be purchased for personal use.

Consulting with Stakeholders on Tax Policy

Alberta supports a broad-based, low rate tax system, and will consult with key stakeholders on changes to the tax system. For example, while the Business Tax Review Committee recommended eliminating the rebate portion of the Tax Exempt Fuel Use (TEFU) program, initial consultations found these benefits to be important in some industry segments. Further consultation with key industry associations began in February 2003 and will continue to the next fiscal year, with a view to simplifying the system.

Future Summit

The Future Summit's Report to Government, *Imagine our Tomorrow*, was released in May 2002. Through the Summit, Albertans told government they were committed to a strong fiscal plan that balances fiscal responsibility with sustaining core programs and services - also the goal of Alberta's new fiscal framework. Many of the ideas suggested through the Summit already form part of government business, and government has begun to take action on others. For example, delegates at the Summit supported the creation of a sustainability fund, and Summit findings served as the basis of the recently completed Heritage Fund consultation.

Review of the Risk Management Fund

The Risk Management Fund provides insurance-like coverage to ministries, managing the risk of significant accidental loss to public assets. Following the events of September 11, 2001, insurance premiums have been rising. Over the year, Revenue has reviewed financing strategies for the Fund, including the mix of self-insurance and purchased insurance. Revenue continues to ensure the government's self-financed insurance coverage is cost-effective and efficient.

Implementing the National Hockey League (NHL) Players' Tax

Alberta implemented an NHL Players' Tax that applies to all NHL players for all regular season games played in Alberta. Revenue from this tax will be used to provide a grant to Alberta-based NHL teams that is equal to the revenue raised (minus administrative costs.) This is the first tax designed for electronic, web-based filing and NHL teams have commented on its ease of use.

Payment in Lieu of Tax (PILOT)

As of January 1, 2002, certain municipal-owned electricity companies must make payments equal to what would otherwise be paid in federal and provincial corporate taxes to the Alberta Power Pool. These payments level the playing field with the other companies paying corporate income taxes in the deregulated electricity industry. Alberta Revenue administers this program and has received and assessed its first returns.

LEGISLATION ADMINISTERED BY ALBERTA REVENUE

as at March 31, 2003

The following Acts are the sole 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 (section 11 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:

Alberta Corporate Tax Act (section 26.41 jointly 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) jointly with the Minister of Agriculture, Food and Rural Development)

RESULTS ANALYSIS 2003

- 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 tax and revenue programs fairly and efficiently.	• Maintain and develop a revenue structure that meets Alberta's needs and is consistent with Albertans' values. • Maintain a fair and competitive provincial tax system. • Administer tax and revenue programs fairly, effectively and efficiently.
Manage and invest financial assets prudently.	• Develop and implement an investment management framework. • Develop a renewed savings policy for the Province of Alberta. • Maximize investment returns subject to client-defined objectives and policies. • Enhance the efficiency of investment operations.
Manage risk associated with the loss of public assets.	• Minimize the cost of loss of public assets and the cost of liability claims. • Identify and prioritize risks and establish contingency plans for Revenue's operations.
Regulate Alberta's capital market.	• Improve the regulatory environment and maintain confidence in the Alberta capital market. • Maintain working relationships with industry, other securities regulatory authorities, regulators of financial institutions and government. • Be recognized as a professional organization and be an employer of choice.

FINANCIAL HIGHLIGHTS

Changes from Budget

Revenue	Expenses
$1,076 million below budget (13%)	$22.5 million above budget (12%)

Change from Previous Fiscal Year

REVENUE

	Change from 2001 - 2002
Income Taxes	**$ 441 m**
Personal Taxes	$651 m
· Revenues increased due to continued growth in personal income estimated at 5.8 per cent.	
· The Energy Tax Refund Program ended in 2001-02. The cost of the program went from $320 million in 2001-02 to a net receipt of $4 million in 2002-03.	
· The increases were partially offset by a $37 million decline in end of year adjustments.	
Corporate Taxes	($210 m)
· Revenues declined due to the reduction in the corporate tax rates.	
· Corporate taxable income declined by an estimated 5.4 per cent from 2001-02.	
Other Taxes	**$ 281 m**
· Fuel taxes increased as economic and population growth led to increased consumption.	$12 m
· Tobacco taxes increased due to increased rates, but were partly offset by lower consumption.	$245 m
· Insurance corporation tax revenue increased due to a positive prior year adjustment of $13 million based on updated historical data.	$26 m
· Hotel room tax declined marginally.	($1 m)
· Financial Institution capital tax was eliminated April 1, 2001. The change relates to reassessments of prior year tax.	($1 m)

	Change from 2001 - 2002
Investment Income	**($ 1,217 m)**
· This was one of the most turbulent and volatile years in the history of financial markets. Tensions in the Middle East, fears of a slowing world economy, unwinding of excess capacity in the technology sector and concerns over corporate governance all contributed to global stock market declines and significant equity losses.	($1,063 m)
· Interest income declined as the phase-in of the Heritage Fund's endowment portfolio was completed resulting in the shift of investment holdings into equities and real estate consistent with the Fund's long-term investment goals.	($158 m)
· Real estate investment income was slightly lower.	($1 m)
· Income was realized from investments in Absolute Return Strategies, a new asset class that uses a wide variety of investments to realize positive investment returns regardless of the overall market direction.	$5 m
Miscellaneous	**$ 2 m**
· Internal Government Transfers related to a contribution to the Alberta Heritage Scholarship Fund from the Ministry of Learning.	$1 m
· Other	$1 m
NET DECREASE IN REVENUE	**($ 493 m)**

EXPENSES

	Change from 2001 - 2002
Corporate tax interest refund	**$ 33 m**
· In 2002-03 Canada Customs and Revenue Agency (CCRA) reached settlements on a number of large objection files. These settlements triggered parallel reassessments for Alberta, resulting in a substantial increase in refund interest being paid out.	

	Change from 2001 - 2002
Transfers from Endowment Funds	**$ 3 m**
· Alberta Heritage Foundation for Medical Research	($4 m)
· Alberta Heritage Scholarship Fund	$2 m
· Alberta Heritage Foundation for Science and Engineering Research	$5 m

Miscellaneous	$ 12 m

- Revenue collection and rebates increased primarily due to increased manpower, which was delayed from 2001-02 due to the hiring freeze. This allowed for increased file review. $2 m
- Regulation of capital markets increased primarily because of the Alberta Securities Commission's one-time cost for closure of its Edmonton office. $4 m
- Risk Management and Insurance costs increase related to higher third party premium costs and a change in the provision for future claims. $6 m

NET INCREASE IN EXPENSES	$ 48 m

MINISTRY EXPENSE BY CORE BUSINESS

(thousands)

Core Business	2002-03 Comparable Budget	2002-03 Actual	2001-02 Comparable Actual
Manage and invest financial assets prudently	116,038	90,364	86,914
Manage tax and revenue programs fairly and efficiently	41,762	84,970	50,312
Manage risk associated with loss of public assets	9,058	12,680	7,147
Regulate Alberta's capital market	17,682	19,013	15,073
Total Expenses	**184,540**	**207,027**	**159,446**

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

To the Members of the Legislative Assembly:

In connection with the Ministry of Revenue's key and supplemental performance measures included in the *2002-2003 Annual Report of the Ministry of Revenue* for the year ended March 31, 2003, I have:

Key Performance Measures

1. Agreed information from an external organization to reports from the organization.
2. Agreed information from reports that originated from organizations included in the consolidated financial statements of the Ministry to source reports. In addition, I tested the procedures used to compile the underlying data into source reports.
3. Checked that the presentation of results is consistent with the stated methodology.
4. Checked that the results presented are comparable to stated targets, and information presented in prior years.
5. Checked that the key performance measures, as well as targets, agree to and include results for all of the measures presented in Budget 2002.

Supplemental Performance Measures

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

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit, and therefore I express no opinion on the key and supplementary performance measures included in the *2002-2003 Annual Report of the Ministry of Revenue*.

[original signed]

Edmonton, Alberta — FCA

August 29, 2003 — Auditor General

PERFORMANCE MEASURES, TARGETS AND RESULTS

Core Business #1 – Manage tax and revenue programs fairly and efficiently.

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

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

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

PROVINCIAL TAX LOAD FOR A FAMILY OF FOUR*

	One-income family with two children earning $30,000	Two-income family with two children earning $60,000	Two-income family with two children earning $100,000
Alberta	$432	$4,124	$7,418
Ontario	$1,777	$4,679	$8,873
Saskatchewan	$2,352	$5,204	$9,527
British Columbia	$2,836	$5,338	$8,593
New Brunswick	$3,064	$5,828	$10,850
Manitoba	$2,563	$5,898	$11,525
Nova Scotia	$3,209	$6,200	$11,457
Prince Edward Island	$3,269	$6,230	$11,291
Quebec	$1,997	$6,353	$14,289
Newfoundland and Labrador	$4,022	$7,246	$13,283

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

The personal tax load on Alberta was the lowest in Canada at 54 per cent of the national average, far ahead of its nearest competitor British Columbia, which is at 90.5 per cent of the national average.

KEY PERFORMANCE MEASURE:

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

In 2002-03, Alberta's provincial tax load on business was the third lowest in Canada, the same ranking as 2001-02 (revised based on latest available information). Alberta did not meet its target of having the lowest business tax load in Canada as it lagged behind Prince Edward Island and British Columbia. British Columbia improved its ranking from ninth overall in 2001-02 to second in 2002-03 because it cut its general corporate income tax rate to 13.5% from 16.5% and eliminated its general capital tax as of September 1, 2002.

Alberta's general corporate tax rate and small business rate, at 13.0% and 4.5% respectively, are the second lowest among all the provinces. Alberta does not have any capital taxes. Low overall taxes in Alberta encourage entrepreneurs to start new businesses in Alberta, or move them here from other provinces.

TAX LOAD ON BUSINESS*

	2002-03	2001-02 (revised)
Prince Edward Island	60.5	72.0
British Columbia	83.6	135.1
Alberta	85.0	76.6
Manitoba	91.6	116.1
Nova Scotia	93.7	72.0
Ontario	96.1	94.9
New Brunswick	96.8	104.8
Quebec	114.8	106.7
Newfoundland and Labrador	120.0	122.2
Saskatchewan	212.4	150.7

* Includes business income taxes, capital taxes, and insurance corporation taxes
Tax load relative to provincial average=100
Source: Federal Department of Finance, July 2003 Interim Estimate for 2002-03; February 2003 Fifth Estimate for 2001-02; Alberta Finance
Methodology: See Key Performance Measures Methodology Appendix

The government affirmed its commitment to corporate income tax cuts in 2002-03, though the pace of the cuts was slowed in response to a changing fiscal situation. Effective April 1, 2002, the general rate was reduced to 13%, the small business rate was reduced to 4.5%, and the small business threshold was increased to $350,000. These reductions saved taxpayers $81 million.

The tax cuts continued in 2003. Effective April 1, 2003, the general rate was reduced to 12.5%, the small business rate was reduced to 4%, and the small business threshold was increased to $400,000.

REVISED IMPLEMENTATION SCHEDULE FOR THE BUSINESS TAX PLAN

(Effective April 1st each year)

	2002-03	2003-04	2004-05
General rate* (%)	13.0	12.5	11.5
Small business rate (%)	4.5	4.0	3.0
Small business threshold ($)	350,000	400,000	400,000
Capital gains inclusion rate (%)	50	50	50
Railway fuel tax (¢/litre)	1.5	1.5	1.5
Capital tax	-	-	-

*In 2002, the reduction of the general rate eliminated the need for a separate manufacturing and processing rate.

Supplemental Measures

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

For 2002-03, the target was set at 99 per cent. The actual percentage of accounts with no overdue amounts owing as at March 31, 2003 was 95.62 per cent, up from 95 per cent in 2001-02. This consistently high performance demonstrates Alberta's tax enforcement efforts are successful.

PERFORMANCE MEASURE: Client satisfaction with tax administration.

For the 2002 client survey, Tax and Revenue Administration (TRA) adopted "percentage satisfied" as the new measure of client satisfaction in response to public feedback that the previous measure was difficult to understand. (Note that the comparative 2001-02 results shown below have been restated to the percentage satisfied measure of client satisfaction).

Clients' overall satisfaction with tax administration (88.7 per cent) exceeded the minimum 85 per cent performance target. In comparison to the 2001-02 results, the clients' overall satisfaction with tax administration has decreased slightly by 0.9 per cent from 89.6 per cent in 2001-02, which can be partially attributed to the increased TRA enforcement activities as a result of the tobacco tax rate increases in 2002.

PERFORMANCE MEASURE: Ratio of amounts added to net revenue to costs of administration.

This performance measure is new and replaces the costs per $100 of tax revenue collected measure reported in 2002. The calculation is based on the total additional revenue obtained through TRA's efforts, shown as a ratio of the total costs of TRA's operating budget.

The total amount added to net revenue for the year was $229 million, and the associated costs were $18.7 million, so the value added ratio is 12.3 to 1 – that is, recoveries of $12.30 for every $1 spent.

Core Business #2 – Manage and invest financial assets prudently.

The Investment Management Division's primary objective is to maximize long-term financial returns. Meeting this objective means managing the balance between risk and return. The 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.

KEY PERFORMANCE MEASURE:

PERFORMANCE MEASURE	TARGET	RESULT		
			Endowment Fund Return[1]	Benchmark Return
Annualized market value rates of return (ROR) measured against benchmarks established by clients.	• ROR for the Heritage Endowment Fund exceeds the policy benchmark.	4 year annualized	0.4	-0.2

[1] Combined Fund (includes Endowment and Transition Portfolios) 4-year annualized return was 0.3%. No combined benchmark exists.

In 1997, the Alberta government adopted a new investment strategy for the Alberta Heritage Savings Trust Fund (Heritage Fund). This new strategy focuses on earning the greatest long-term returns for Albertans, within an acceptable level of risk. To meet this strategy, a plan was put in place to shift the majority of the Fund's assets from exclusively fixed income securities (held in the Transition Portfolio) to a balanced mix of securities (held in the Endowment Portfolio). All assets were shifted to the Endowment Portfolio by July 2002.

As at March 31, 2003, investments in the Heritage Fund policy asset mix was:

Fixed Income Securities	35.0%
Public Equities	50.0%
Real Estate	10.0%
Private Equity	2.0%
Absolute Return Strategies	3.0%

Generally, fixed income securities are less volatile and provide a steady stream of interest income, while equities are more volatile and produce capital gains or losses. Over the long term, equities produce higher rates of return than fixed income securities. The diversification effect of combining fixed income with equities and other asset classes reduces overall risk to the Fund.

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 Heritage Fund return exceed the policy benchmark return, over a four-year period. The annualized return for the four-year period ended March 31, 2003 is 0.6 per cent greater than the policy benchmark return.

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

1) Actual and benchmark returns are for six months.
2) Effective April 1, 2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI plus 5%. Therefore, the benchmark for four years is a combination of RCPI and CPI plus 5%.
3) The Transition Portfolio was wound up in the first half of the year. The actual return of 0.5% is for six months.

An atmosphere of uncertainty prevailed in public equity markets throughout 2002-03. Few investors escaped the effects of significant declines in stock values. Tensions in the Middle East, fears of a slowing world economy, unwinding of excess capacity in the technology sector and concerns over corporate governance all contributed to a general loss of investor confidence in the stock market. Bright spots were fixed income and real estate assets, which outperformed equities consistent to their use as a safe haven during market instability.

- Canadian equity performance as a whole was positive relative to the S&P/TSX Composite Index. A portion of this relative gain was due to small capitalization securities, which significantly outperformed their index.

- Fixed income performance over the year was also positive relative to its benchmarks. The outperformance was primarily due to an overweight in high quality corporate bonds relative to government bonds and the strong performance of private mortages.

- US equity performance was slightly positive relative to the S&P 500. The outperformance was partly due to an overweight position in small capitalization equities.

- Non-North American equity performance was also positive relative to the MSCI EAFE Index. Value was added through superior security selection and country allocation in the Asia-Pacific region.

Supplemental Measures

PERFORMANCE MEASURES: Straight Through Processing (STP) System fully functional prior to June 2005.
Straight Through Processing (STP) of investment transactions.

Alberta Revenue met 2002-03 targets established in its multiyear straight-through processing (STP) plan to establish processes capable of settling trades on a next-day (“T+1”) basis before June 2005. A trade order management system, the core of Alberta Revenue’s three-year STP initiative, was selected and implementation began during the year. In anticipation of an industry-wide model for STP and T+1 settlement, the investment operation achieved an internal STP rate of 84 per cent by the end of fiscal 2002-03 against its target rate of 75 per cent.

Other key strategies directed at improving efficiency for the year included consolidating investment custody services with a single service provider, and developing a functional disaster recovery location to ensure continuity of investment operations. These initiatives were successfully completed during the year.

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

The main strategy for the Risk Management Division is to control the cost of risk. Through the Risk Management Fund, coverage is provided to ministries and appropriate insurance services are purchased to protect some of the Fund's financial responsibilities. The events of September 11, 2001 have had a serious impact on the insurance industry, significantly increasing costs and reducing the availability of purchased insurance.

Supplemental Measures

PERFORMANCE MEASURE: Cost of Claims (insurance premiums plus self-insured losses)

Due to the significant reduction of available coverage, even at an increased cost, insurance was purchased with additional exclusions, at a cost of $1.8 million, $400,000 more than budgeted. New (in-house) property and liability wordings have been prepared for the term beginning April 1, 2003. Lower fund limits for some in-house (self-insurance) coverage will be introduced allowing better budgeting for unexpected loss. The actual cost of premiums and claims in 2002-03 was $10.3 million, which exceeded the $6.6 million target. This resulted from an increased cost of insurance plus higher reserves for new and expected Incurred But Not Reported (IBNR) claims.

An actuarial review of the Risk Management Fund was completed for March 31, 2001. That report confirmed the claims reserving practices of Risk Management Insurance to be appropriate, subject to adjustments of the (IBNR) reserves. Those changes were carried out and the next review is scheduled for summer 2003.

PERFORMANCE MEASURE: Development and implementation of a Business Continuity Plan for critical areas.

After a thorough review of department businesses, a Business Continuity Plan was developed and implemented. Critical operations, systems and employees were identified and plans put in place to ensure that any disruption in normal activity would be minimal.

All critical computer systems for Investment Management have been duplicated and thoroughly tested at an offsite location. The plan will bring investment operations online in a remote location within 24 hours. Key functions of Tax and Revenue Administration and Risk Management will be manually operational within 72 hours.

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

Alberta Revenue places a high priority on ensuring the rules governing capital markets inspire investor confidence and that the province is competitive nationally and internationally. In February 2003, provincial and territorial ministers agreed to study ways to improve the securities regulatory framework and to develop an action plan to implement improvements by September 30, 2003.

The focus of the Alberta Securities Commission (ASC) is the improvement of the regulatory environment, enforcement and working relationships with other regulatory authorities. The Commission included a number of operational strategies in its internal Business Plan that support the Ministry's goals. The most significant effort is the national initiative to harmonize securities legislation. Increased efforts have also been expended in the enforcement area.

Supplemental Measures

PERFORMANCE MEASURES: Investor education program.
Number of annual examinations.
Legislation for a uniform Securities Act.
Service standards developed and published.
Commission survey on service levels provided to stakeholders.

Educated investors are more likely to make wise investment decisions, which is, in turn, 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 refine education programs.

Examinations are conducted on selected mutual fund dealers, portfolio managers and scholarship plan dealers each fiscal year. In 2002-03, out of an overall 339 registrants, 154 were subject for review.

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 developing uniform securities legislation, targeted to be enacted by June 30, 2004.

As part of the Canadian Securities Administrators (CSA) the ASC participates in the Mutual Reliance Review System, which sets out standards for the Exemptive Relief Applications and prospectives.

A survey was not sent out in 2002-03 to stakeholders.

KEY PERFORMANCE MEASURE METHODOLOGY APPENDIX

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

Calculations are based on the following assumptions:

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

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

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

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

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

The latest available data are used in these calculations:

- July 2003 Interim Estimates for 2002-03, except for Alberta corporate income tax, which has been adjusted from budget to actual
- February 2003 Fifth Estimate for 2001-02

As a result, the 2001-02 business tax load are restated from what was reported in the Alberta Revenue Annual Report for 2001-02.

Annualized market value rates of return (ROR) measured against benchmarks established by clients

The performance measurement system used by Revenue calculates a total return for each of the investment funds, including both endowment and other client funds.

Investment clients select indices for various asset classes making up their fund policy benchmark composition. Revenue aggregates published returns for these indices into a policy benchmark composite return for each client fund.

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

Fund returns are calculated by the Securities Administration and Systems Division.

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

FINANCIAL INFORMATION 2003

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

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FINANCIAL STATEMENTS OF THE MINISTRY AND ITS ENTITIES

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

MINISTRY OF REVENUE

Consolidated Financial Statements

YEAR ENDED MARCH 31, 2003

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, 2003 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, 2003 by approximately $1,998,000, and to understate expenses by approximately $91,000 for the year ended March 31, 2003.

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, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed]

FCA
Auditor General

Edmonton, Alberta
May 23, 2003

MINISTRY OF REVENUE

CONSOLIDATED STATEMENT OF OPERATIONS

Year Ended March 31, 2003 *(thousands)*

	Budget (Schedule 2)	2003 Actual	2002 Actual
Revenues (Schedule 1)			
Income Taxes	$ 6,258,397	$ 6,852,823	$ 6,411,650
Other Taxes	1,416,486	1,430,255	1,148,901
Net investment income (loss)	654,505	(1,034,089)	182,898
Fees, permits and licences	15,372	14,813	15,088
Internal government transfers	200	3,480	2,200
Other	16,827	18,890	18,367
	8,361,787	7,286,172	7,779,104
Expenses (Schedule 3)			
Investment	114,739	89,068	85,681
Tax and revenue collection	40,463	83,673	49,079
Regulation of capital markets	17,682	19,013	15,073
Government risk management and insurance	7,759	11,384	5,914
Ministry support services	3,897	3,889	3,699
	184,540	207,027	159,446
Net operating results	$ 8,177,247	$ 7,079,145	$ 7,619,658

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2003 *(thousands)*

	2003	2002
Assets		
Cash and temporary investments (Schedule 5)	$ 430,843	$ 286,783
Accrued interest and accounts receivable (Schedule 6)	641,438	553,124
Portfolio investments (Schedule 7)	12,411,632	13,983,856
Loans and advances to government entities (Schedule 8)	100,037	104,622
Other loans and advances (Schedule 9)	98,362	98,479
Capital assets (Schedule 10)	8,550	6,521
	$ 13,690,862	$ 15,033,385
Liabilities		
Accounts payable (Schedule 11)	$ 360,217	$ 550,307
Vacation entitlements	2,880	2,779
	363,097	553,086
Net Assets		
Net assets at beginning of year	14,480,299	14,752,190
Net operating results	7,079,145	7,619,658
Net transfer to general revenues	(8,231,679)	(7,891,549)
Net assets at end of year	13,327,765	14,480,299
	$ 13,690,862	$ 15,033,385

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

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 2003 *(thousands)*

	2003	2002
Operating activities		
Net operating results	$ 7,079,145	$ 7,619,658
Non-cash items included in net operating results	77,075	(40,880)
	7,156,220	7,578,778
Other	(278,589)	524,417
Cash provided by operating activities	6,877,631	8,103,195
Investing activities		
Disposals of portfolio investments	5,821,281	13,002,975
Purchases of portfolio investments	(4,323,377)	(13,512,655)
Repayment of loans and advances	4,702	145,916
Other	(4,498)	(1,408)
Cash used for investing activities	1,498,108	(365,172)
Financing activities		
Net transfer to general revenues	(8,231,679)	(7,891,549)
Cash used for financing activities	(8,231,679)	(7,891,549)
Net cash provided (used)	144,060	(153,526)
Cash and temporary investments at beginning of year	286,783	440,309
Cash and temporary investments at end of year	$ 430,843	$ 286,783

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

MINISTRY OF REVENUE

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2003

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 fulfill 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 Engineering Research Act*, Chapter A-22, Revised Statutes of Alberta 2000
Alberta Risk Management Fund	*Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000
Alberta Securities Commission	Incorporated June 1, 1995 under the *Securities Act*, Chapter S-4, Revised Statutes of Alberta 2000

NOTE 2 PURPOSE

The Ministry's core businesses are to:

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

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) Method of Consolidation

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

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.

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 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 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 interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields.
>
> 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.

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

NOTE 5 ASSET RISK MANAGEMENT

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

The investment objective is to invest in a diversified portfolio to maximize long-term returns at an acceptable level of risk. The policy asset mix for fixed income securities is 35%. The policy mix for public equity investment is 50%. The remainder of the portfolio is invested in real estate, private equities and absolute return strategies.

NOTE 5 (continued)

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

NOTE 6 COMMITMENTS AND CONTINGENCIES

Set out below are details of commitments to organizations outside the Ministry and contingencies resulting from guarantees.

Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

a) Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2003 amounted to $18,439,000 (2002 $11,348,000). These commitments will become expenses of the Ministry when terms of the contracts are met. These amounts include obligations under operating leases which expire on various dates. The aggregate amounts payable for the unexpired terms of these leases are as follows:

(thousands)	
2003-04	$ 4,674
2004-05	3,071
2005-06	2,231
2006-07	1,842
2007-08	1,815
Thereafter	4,806
	$ 18,439

b) Guarantees

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

c) Legal Actions

At March 31, 2003, 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 $22,452,000 (2002 $4,934,000). Included in this amount are claims for $19,677,000 (2002 $3,384,000) in which the Ministry has been jointly named with other entities. The resulting loss, if any, from these claims cannot be determined.

NOTE 7 TRUST FUNDS UNDER ADMINISTRATION

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

At March 31, 2003, trust funds under administration were as follows:

(thousands)

	2003	2002
The Workers' Compensation Board Accident Fund	$ 2,025,400	$ 2,030,548
Power Pool of Alberta Balancing Pool	146,085	121,294
	$ 2,171,485	$ 2,151,842

NOTE 8 DEFINED BENEFIT PLANS

The Ministry participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these plans is equivalent to the annual contributions of $1,612,000 for the year ended March 31, 2003 (2002 $1,435,000).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of $301,968,000 (2001 surplus of $5,338,000) and the Public Service Pension Plan reported an actuarial deficiency of $175,528,000 (2001 actuarial surplus of $320,487,000). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $6,472,000 (2001 actuarial deficiency of $399,000).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2003, the Bargaining Unit Plan reported an actuarial deficiency of $14,434,000 (2002 $8,646,000) and the Management, Opted Out and Excluded Plan an actuarial deficiency of $3,053,000 (2002 $2,656,000). The expense for these two plans is limited to employer's annual contributions for the year.

NOTE 9 COMPARATIVE FIGURES

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

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REVENUES

Schedule 1

Year Ended March 31, 2003 *(thousands)*

	Budget	2003 Actual	2002 Actual
Income taxes			
Personal income tax	$ 4,708,117	$ 4,834,080	$ 4,503,099
Less Alberta energy tax refund	-	-	(320,000)
Corporate income tax	1,550,280	2,018,743	2,228,551
	6,258,397	6,852,823	6,411,650
Other taxes			
Tobacco tax	633,000	618,474	373,516
Fuel tax	594,000	596,953	584,855
Insurance taxes	139,486	160,305	133,725
Hotel room tax	50,000	54,494	55,604
Financial institutions capital tax	-	29	1,201
	1,416,486	1,430,255	1,148,901
Net investment income (loss)	654,505	(1,034,089)	182,898
Fees, permits and licences	15,372	14,813	15,088
Internal government transfers	200	3,480	2,200
Other			
Insurance services	6,524	7,061	7,538
Other services	10,237	8,710	7,783
Refunds of expenditure	-	342	953
Miscellaneous	66	2,777	2,093
	16,827	18,890	18,367
	$ 8,361,787	$ 7,286,172	$ 7,779,104

MINISTRY OF REVENUE

BUDGET

Schedule 2

Year Ended March 31, 2003 *(thousands)*

	2002-03 Estimates	Adjustments	2002-03 Budget
Revenues			
Income taxes	$ 6,258,397	$ -	$ 6,258,397
Other taxes	1,416,486	-	1,416,486
Investment income	654,505	-	654,505
Fees, permits and licences	15,372	-	15,372
Internal government transfers	200	-	200
Other	16,827	-	16,827
	8,361,787	-	8,361,787
Expenses			
Investment	114,739	-	114,739
Tax and revenue collection	40,463	-	40,463
Regulation of capital markets	17,682	-	17,682
Government risk management and insurance	7,759	-	7,759
Ministry support services	3,897	-	3,897
	184,540	-	184,540
Net Operating Results	$ 8,177,247	$ -	$ 8,177,247

EXPENSES BY OBJECT

Schedule 3

(thousands)

	Budget	2003 Actual	2002 Actual
Salaries, wages and employee benefits	$ 33,662	$ 30,868	$ 28,054
Supplies and services	25,427	31,119	21,411
Grants	102,400	78,370	75,694
Corporate tax interest refunds	20,000	64,197	31,303
Other financial transactions	67	105	808
Amortization of capital assets	2,584	2,284	2,326
Valuation adjustments	600	284	162
	184,740	207,227	159,758
Less recovery from support services arrangements with related parties (a)	200	200	312
	$ 184,540	$ 207,027	$ 159,446

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)

	Budget	2003 Actual	2002 Actual
Provision for doubtful accounts, loans and write-offs	$ 600	$ 12	$ 161
Provision for employee benefits other than pensions	-	272	1
	$ 600	$ 284	$ 162

CASH AND TEMPORARY INVESTMENTS

Schedule 5

(thousands)

	2003	2002
Pooled investment funds		
Fixed-income securities (a)	$ 8,755	$ 8,786
Canadian equities	2,859	2,746
	11,614	11,532
Deposit in the Consolidated Cash Investment Trust Fund	311,184	111,098
Cash in bank and in transit	108,045	164,153
	$ 430,843	$ 286,783

a) Fixed-income securities held had an average effective yield of 5.41% (2002 5.80%) per annum as at March 31, 2003. 98% (2002 93%) of the securities had terms to maturity of over one year.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

Schedule 6

(thousands)

	2003	2002
Personal income tax	$ 326,948	$ 195,555
Corporate income tax	204,809	239,617
Fuel tax	54,149	50,492
Accrued interest receivable	19,690	39,062
Insurance taxes	19,359	17,482
Hotel room tax	5,031	5,310
Tobacco tax	4,851	5,124
Financial institutions capital tax	3,516	544
Other	4,234	1,085
	642,587	554,271
Less allowance for doubtful accounts	1,149	1,147
	$ 641,438	$ 553,124

PORTFOLIO INVESTMENTS

Schedule 7

(thousands)

	2003 Book Value	2003 Fair Value	2002 Book Value	2002 Fair Value
Fixed-income securities (a)(b)				
Pooled investment funds	$ 3,859,557	$ 3,842,060	$ 4,271,839	$ 4,168,141
Government of Canada, direct and guaranteed	24,515	25,470	228,073	229,475
Corporate	-	-	1,078,862	1,081,325
Provincial, direct and guaranteed	-	-	133,856	134,874
	3,884,072	3,867,530	5,712,630	5,613,815
Equities (b)				
Canadian	2,809,922	2,817,748	2,875,097	3,131,361
Foreign	4,498,155	3,960,128	4,732,931	4,580,626
Real estate	898,913	972,689	663,198	693,898
Absolute return strategies	320,570	320,485	-	-
	8,527,560	8,071,050	8,271,226	8,405,885
	$ 12,411,632	$ 11,938,580	$ 13,983,856	$ 14,019,700

a) The majority of the Ministry's fixed-income securities are in the Alberta Heritage Savings Trust Fund (Heritage Fund). As at March 31, 2003, the Heritage Fund held $3,470,041,000 (2002 $5,218,475,000) of public fixed-income securities at cost (Fair value $3,450,805,000 (2002 $5,126,845,000)). The securities held have an average effective market yield of 5.5% (2002 5.4%) per annum and the following term structure based on principal amount:

	2003 %	2002 %
under 1 year	2	31
1 to 5 years	37	26
6 to 10 years	29	21
11 to 20 years	13	9
over 20 years	19	13
	100	100

b) The Ministry uses derivative contracts to enhance return, hedge risks, and manage asset mix. As at March 31, 2003, the notional amount of all derivative contracts issued by the Ministry amounted to $2,201,700,000 (2002 $1,691,600,000). 72% (2002 67%) of these contracts mature within one year. As at March 31, 2003, index swap contracts, forward foreign exchange contracts and interest rate swap contracts with a notional amount of $1,890,800,000 (2002 $1,246,900,000) had a negative fair value of $6,900,000 (2002 $1,100,000). Cross-currency interest rate swap contracts, which comprised the remaining notional amount of $310,900,000 (2002 $444,700,000), are valued as a package including the underlying security. As at March 31, 2003, the combined fair value of cross-currency swaps and underlying securities amounted to $316,800,000 (2002 $443,700,000).

MINISTRY OF REVENUE

LOANS AND ADVANCES TO GOVERNMENT ENTITIES

Schedule 8

(thousands)

	2003	2002
Alberta Social Housing Corporation	$ 100,037	$ 104,622
Fair value	$ 158,018	$ 165,178
Average effective market yield	7.83%	8.35%

OTHER LOANS AND ADVANCES

Schedule 9

(thousands)

	2003	2002
Alberta Heritage Savings Trust Fund Act	$ 173,548	$ 157,408
Accountable advances	1,003	1,120
	174,551	158,528
Less allowance for doubtful loans and advances	76,189	60,049
	$ 98,362	$ 98,479
Fair value	$ 98,362	$ 98,479

CAPITAL ASSETS

Schedule 10

(thousands)

	Estimated Useful Life	Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Equipment	10 years	$ 738	$ 374	$ 364	$ 417
Computer hardware and software	5 years	32,004	24,833	7,171	5,160
Other	10 years	1,684	669	1,015	944
		$ 34,426	$ 25,876	$ 8,550	$ 6,521

ACCOUNTS PAYABLE

Schedule 11

(thousands)

	2003	2002
Corporate income tax receipts in abeyance	$ 336,467	$ 262,284
Investment purchases	-	271,204
Other	23,750	16,819
	$ 360,217	$ 550,307

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)

	2003	2002
Revenues		
Transfers	$ 5,030	$ 2,200
Interest	17,854	32,016
Charges for services	6,864	6,898
	$ 29,748	$ 41,114
Expenses		
Transfers	$ 21,037	$ 19,137
Costs of services	2,962	4,400
	$ 23,999	$ 23,537
Assets		
Accrued interest receivable	$ 7,772	$ 8,124
Loans and advances	100,037	104,622
	$ 107,809	$ 112,746

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)

	2003	2002
Expenses - incurred by others		
Accommodation	$ 1,828	$ 1,716
Legal services	1,292	1,161
	$ 3,120	$ 2,877

DEPARTMENT OF REVENUE

Financial Statements

YEAR ENDED MARCH 31, 2003

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, 2003 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, 2003 by approximately $1,998,000, and to understate expenses by approximately $91,000 for the year ended March 31, 2003.

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, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed]

Edmonton, Alberta
May 23, 2003

FCA
Auditor General

STATEMENT OF OPERATIONS

Year Ended March 31, 2003 *(thousands)*

		2003	2002
	Budget (Schedule 4)	**Actual**	**Actual**
Revenues (Schedules 1 and 2)			
Internal government transfers	$ 588,682	$ -	$ 205,772
Income taxes	6,258,397	6,852,823	6,411,650
Other taxes	1,416,486	1,430,255	1,148,901
Investment income	455	443	732
Fees, permits and licences	180	166	169
Other	13,268	11,845	10,778
	8,277,468	8,295,532	7,778,002
Expenses - directly incurred (Note 2b and Schedule 12)			
Voted (Schedules 3 and 5)			
Ministry support services	3,897	3,889	3,699
Revenue collection and rebates	19,863	19,193	17,655
Investment	12,171	10,538	9,947
Risk management and insurance	939	878	703
	36,870	34,498	32,004
Statutory (Schedules 3 and 5)			
Corporate tax interest refunds	20,000	64,197	31,303
Valuation adjustments (Schedule 6)	600	284	121
	20,600	64,481	31,424
Write-down of capital assets	-	-	35
	57,470	98,979	63,463
Net operating results	$ 8,219,998	$ 8,196,553	$ 7,714,539

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

DEPARTMENT OF REVENUE

STATEMENT OF FINANCIAL POSITION

March 31, 2003 *(thousands)*

	2003	2002
Assets		
Cash in transit	$ 108,043	$ 164,153
Accounts receivable (Schedule 8)	621,066	526,962
Accountable advances	1,003	1,120
Capital assets (Schedule 9)	6,825	4,902
	$ 736,937	$ 697,137
Liabilities		
Accounts payable (Schedule 10)	$ 341,281	$ 266,627
Vacation entitlements	2,274	2,002
	343,555	268,629
Net Assets		
Net assets at beginning of year	428,508	605,518
Net operating results	8,196,553	7,714,539
Net transfer to general revenues	(8,231,679)	(7,891,549)
Net assets at end of year	393,382	428,508
	$ 736,937	$ 697,137

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

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 2003 *(thousands)*

	2003	2002
Operating transactions		
Net operating results	$ 8,196,553	$ 7,714,539
Non-cash items included in net operating results		
Amortization and write-down of capital assets	1,728	1,804
Valuation adjustments	284	121
	8,198,565	7,716,464
Decrease (increase) in receivables	(94,116)	305,029
Increase (decrease) in payables	74,654	(73,767)
Cash provided by operating transactions	8,179,103	7,947,726
Investing transactions		
Repayments of advances	117	151
Purchase of capital assets (Schedule 5)	(3,651)	(1,087)
Cash used for investing transactions	(3,534)	(936)
Financing transactions		
Net transfer to general revenues	(8,231,679)	(7,891,549)
Cash used for financing transactions	(8,231,679)	(7,891,549)
Net cash provided (used)	(56,110)	55,241
Cash at beginning of year	164,153	108,912
Cash at end of year	$ 108,043	$ 164,153

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

DEPARTMENT OF REVENUE

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003

NOTE 1 AUTHORITY AND PURPOSE

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

The Department's core businesses are to manage tax and revenue programs fairly and efficiently, manage and invest financial assets prudently, manage risk associated with the 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.

NOTE 2 (continued)

b) Basis of Financial Reporting

REVENUES

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

INTERNAL GOVERNMENT TRANSFERS

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

DEDICATED REVENUE

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

EXPENSES

Directly Incurred

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

Directly incurred expenses include:

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

Incurred by Others

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

ASSETS

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

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

LIABILITIES

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

NOTE 2 (continued)

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.

NOTE 3 VALUATION OF FINANCIAL ASSETS AND LIABILITIES

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

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

NOTE 4 COMMITMENTS AND CONTINGENCIES

a) Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2003 amounted to $5,915,000 (2002 $6,290,000). 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, 2003, the Department is a defendant in seven legal claims (2002 three legal claims). All of the claims have specified amounts totalling approximately $22,452,000 (2002 two claims with a specified amount of $4,934,000 and one with no specified amount). Included in the total legal claims are three amounting to $19,677,000 (2002 one amounting to $3,384,000) in which the Department has been jointly named with other entities. Four claims amounting to $18,043,000 (2002 two amounting to $4,934,000) are covered by the Alberta Risk Management Fund.

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

NOTE 5 TRUST FUNDS UNDER ADMINISTRATION

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

As at March 31, 2003, trust funds under administration were as follows:

(thousands)

	2003	2002
The Workers' Compensation Board Accident Fund	$ 2,025,400	$ 2,030,548
Power Pool of Alberta Balancing Pool	146,085	121,294
	$ 2,171,485	$ 2,151,842

NOTE 6 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 payable includes $59,000 (2002 $3,000) relating to payments under agreement.

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

(thousands)

	2003	2002
Canadian fuel tax uniformity project	$ 141	$ 65

NOTE 7 DEFINED BENEFIT PLANS

The Department participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,418,000 for the year ended March 31, 2003 (2002 $1,255,000).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of $301,968,000 (2001 surplus of $5,338,000) and the Public Service Pension Plan reported an actuarial deficiency of $175,528,000 (2001 actuarial surplus of $320,487,000). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $6,472,000 (2001 actuarial deficiency of $399,000).

The Department also participates in two multiemployer Long Term Disability Income Continuance Plans. At March 31, 2003, the Bargaining Unit Plan reported an actuarial deficiency of $14,434,000 (2002 $8,646,000), and the Management, Opted Out and Excluded Plan an actuarial deficiency of $3,053,000 (2002 $2,656,000). The expense for these two plans is limited to employer's annual contributions for the year.

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

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

DEPARTMENT OF REVENUE

SCHEDULES TO THE FINANCIAL STATEMENTS

REVENUES

Schedule 1

(thousands)

	Budget	2003 Actual	2002 Actual
Internal government transfers			
Alberta Heritage Savings Trust Fund	$ 588,682	$ -	$ 205,772
Income taxes			
Personal income tax	4,708,117	4,834,080	4,503,099
Less Alberta energy tax refund	-	-	(320,000)
Corporate income tax	1,550,280	2,018,743	2,228,551
	6,258,397	6,852,823	6,411,650
Other taxes			
Tobacco tax	633,000	618,474	373,516
Fuel tax	594,000	596,953	584,855
Insurance corporations tax	139,486	160,305	133,725
Hotel room tax	50,000	54,494	55,604
Financial institutions capital tax	-	29	1,201
	1,416,486	1,430,255	1,148,901
Investment income	455	443	732
Fees, permits and licences	180	166	169
Other			
Cost recovery from dedicated revenue initiatives (Schedule 2)	13,262	11,477	10,175
Refunds of expenditure	-	342	953
Sale of assets	-	5	5
Miscellaneous	6	21	(355)
	13,268	11,845	10,778
	$ 8,277,468	$ 8,295,532	$ 7,778,002

DEDICATED REVENUE INITIATIVES

Schedule 2

(thousands)

	2003		
	Authorized Dedicated Revenues	Actual Dedicated Revenues	(Shortfall) (a)/ Excess
Tax and revenue administration	$ 300	$ 185	$ (115)
Investment management	12,023	10,414	(1,609)
Risk management and insurance	939	878	(61)
	$ 13,262	$ 11,477	$ (1,785)

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: Manages the investments of various public sector investment funds. Fees are based on cost recovery.
- Risk management and insurance: Recovers costs of risk management and insurance services from the Alberta Risk Management Fund.

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

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

EXPENSES DETAILED BY OBJECT

Schedule 3

(thousands)

	2003 Budget	2003 Actual	2002 Actual
Voted			
Salaries, wages and employee benefits	$ 22,160	$ 20,256	$ 17,789
Supplies and services	12,904	12,639	11,976
Grants	-	8	7
Financial transactions and other	67	67	775
Amortization of capital assets	1,939	1,728	1,769
Total voted expenses before recoveries	37,070	34,698	32,316
Less recovery from support services arrangements with related parties (a)	200	200	312
	$ 36,870	$ 34,498	$ 32,004
Statutory			
Corporate tax interest refunds	$ 20,000	$ 64,197	$ 31,303
Valuation adjustments (Schedule 6)	600	284	121
	$ 20,600	$ 64,481	$ 31,424

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

DEPARTMENT OF REVENUE

BUDGET **Schedule 4**

(thousands)

	2002-03 Estimates	Adjustments	2002-03 Budget	Dedicated Revenue Shortfall	2002-03 Authorized Budget
Revenues					
Internal government transfers	$ 588,682	$ -	$ 588,682	$ -	$ 588,682
Income taxes	6,258,397	-	6,258,397	-	6,258,397
Other taxes	1,416,486	-	1,416,486	-	1,416,486
Investment income	455	-	455	-	455
Fees, permits and licences	180	-	180	-	180
Other	13,268	-	13,268	-	13,268
	8,277,468	-	8,277,468	-	8,277,468
Expenses					
Voted					
Ministry support services	3,897	-	3,897	-	3,897
Revenue collection and rebates	19,863	-	19,863	(115)	19,748
Investment	12,171	-	12,171	(1,609)	10,562
Risk management and insurance	939	-	939	(61)	878
	36,870	-	36,870	(1,785)	35,085
Statutory					
Corporate tax interest refunds	20,000	-	20,000	-	20,000
Valuation adjustments	600	-	600	-	600
	20,600	-	20,600	-	20,600
	57,470	-	57,470	(1,785)	55,685
Net operating results	$ 8,219,998	$ -	$ 8,219,998	$ 1,785	$ 8,221,783
Capital investment	$ 3,374	$ -	$ 3,374	$ -	$ 3,374

DEPARTMENT OF REVENUE

COMPARISON OF EXPENSES AND CAPITAL INVESTMENT BY ELEMENT TO AUTHORIZED BUDGET Schedule 5

(thousands)

	2002-03 Budget	Dedicated Revenue Shortfall	2002-03 Authorized Budget	2002-03 Actual Expense	Unexpended (Over Expended)
Voted Expenses and Capital Investment					
Program 1 - Ministry Support Services					
1.0.1 Minister's Office	$ 263	$ -	$ 263	$ 273	$ (10)
1.0.2 Deputy Minister's Office	330	-	330	381	(51)
1.0.3 Corporate Services	3,026	-	3,026	2,935	91
1.0.4 Communications	278	-	278	300	(22)
	3,897	-	3,897	3,889	8
Program 2 - Revenue Collection and Rebates					
2.0.1 Tax and Revenue Administration					
- Operating Expense	19,863	(115)	19,748	19,193	555
- Capital Investment	1,374	-	1,374	1,309	65
	21,237	(115)	21,122	20,502	620
Program 3 - Investment					
3.0.1 Investment Management	8,492	(1,609)	6,883	7,377	(494)
3.0.2 Securities Administration and Systems					
- Operating Expense	3,679	-	3,679	3,161	518
- Capital Investment	2,000	-	2,000	2,342	(342)
	14,171	(1,609)	12,562	12,880	(318)
Program 4 - Risk Management and Insurance					
4.0.1 Risk Management and Insurance	939	(61)	878	878	-
	$ 40,244	$ (1,785)	$ 38,459	$ 38,149	$ 310
Program Operating Expense	$ 36,870	$ (1,785)	$ 35,085	$ 34,498	$ 587
Program Capital Investment	3,374	-	3,374	3,651	(277)
	$ 40,244	$ (1,785)	$ 38,459	$ 38,149	$ 310
Statutory Expenses					
Corporate tax interest refunds	$ 20,000	$ -	$ 20,000	$ 64,197	$ (44,197)
Valuation adjustments	600	-	600	284	316
	$ 20,600	$ -	$ 20,600	$ 64,481	$ (43,881)

VALUATION ADJUSTMENTS

Schedule 6

(thousands)

		2003	2002
	Budget	Actual	Actual
Provision for doubtful accounts and loans	$ 600	$ 12	$ 161
Provision for employee benefits other than pensions	-	272	(40)
	$ 600	$ 284	$ 121

SALARY AND BENEFITS DISCLOSURE

Schedule 7

(dollars)

			2003	2002
	Salary (1)	Benefits and Allowances (2)	Total	Total
Deputy Minister (3)	$ 176,283	$ 49,778	$ 226,061	$ 196,527
Executives				
Chief Investment Officer (4)(5)	51,096	50,155	101,251	346,982
Acting Chief Investment Officer (4)(6)	278,296	83,734	362,030	-
Assistant Deputy Minister - Revenue (7)	130,552	31,120	161,672	112,069
Acting Assistant Deputy Minister - Revenue (8)	-	-	-	39,441
Chief Administrative Officer	134,058	32,796	166,854	105,413
Director, Risk Management and Insurance	107,521	23,890	131,411	118,501
Corporate Secretary (9)	111,775	25,425	137,200	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) Automobile provided, no dollar amount included in benefits and allowances.
4) Benefits and allowances include the following vacation payouts: Chief Investment Officer $48,864 (2002 $Nil), Acting Chief Investment Officer $21,500 (2002 $Nil).
5) The incumbent resigned effective June 15, 2002. Benefits include a vacation payout of $48,864.
6) The incumbent was appointed Acting Chief Investment Officer on May 1, 2002.
7) The incumbent was appointed Assistant Deputy Minister - Revenue effective April 1, 2002.
8) The position was occupied for the period January 1, 2002 to March 31, 2002.
9) 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)

	2003	2002
Personal income tax	$ 326,948	$ 195,555
Corporate income tax	204,809	239,617
Fuel tax	54,149	50,492
Insurance corporations tax	19,359	17,482
Hotel room tax	5,031	5,310
Tobacco tax	4,851	5,124
Financial institutions capital tax	3,516	544
Alberta Heritage Savings Trust Fund	-	12,897
Other	3,516	1,061
	622,179	528,082
Less allowance for doubtful accounts	1,113	1,120
	$ 621,066	$ 526,962

CAPITAL ASSETS

Schedule 9

(thousands)

	Estimated Useful Life	Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Equipment	10 years	$ 258	$ 207	$ 51	$ 63
Computer hardware and software	5 years	30,444	23,670	6,774	4,839
		$ 30,702	$ 23,877	$ 6,825	$ 4,902

ACCOUNTS PAYABLE

Schedule 10

(thousands)

	2003	2002
Corporate income tax receipts in abeyance	$ 336,467	$ 262,284
Other	4,814	4,343
	$ 341,281	$ 266,627

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	
	2003	**2002**	**2003**	**2002**
Revenues				
Transfers	$ -	$ 205,772	$ -	$ -
Charges for services	2,767	2,323	637	71
	$ 2,767	$ 208,095	$ 637	$ 71
Expenses				
Cost of services	$ 16	$ -	$ 2,962	$ 4,400
Assets				
Accounts receivable	$ 453	$ 12,897	$ 3	$ -

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	
	2003	**2002**	**2003**	**2002**
Expenses - incurred by others				
Accommodation	$ -	$ -	$ 1,828	$ 1,716
Legal services	-	-	1,292	1,161
	$ -	$ -	$ 3,120	$ 2,877

ALLOCATED COSTS BY PROGRAM

Schedule 12

(thousands)

	Ministry Support Services	Revenue Collection and Rebates	Investment	Risk Management and Insurance	Other	Total
Expenses (1)	$ 3,889	$ 19,193	$ 10,538	$ 878	$ 64,197	$ 98,695
Expenses - incurred by others						
Accommodation	16	1,411	328	73	-	1,828
Legal services	6	222	119	945	-	1,292
	22	1,633	447	1,018	-	3,120
Valuation adjustment						
Vacation pay	28	157	53	34	-	272
Doubtful accounts	-	12	-	-	-	12
	28	169	53	34	-	284
2003 Total	$ 3,939	$ 20,995	$ 11,038	$ 1,930	$ 64,197	$ 102,099
2002 Total	$ 3,760	$ 19,544	$ 10,361	$ 1,337	$ 31,303	$ 66,305

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

YEAR ENDED MARCH 31, 2003

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, 2003 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, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed]

Edmonton, Alberta
May 22, 2003

FCA
Auditor General

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

BALANCE SHEET

March 31, 2003 *(thousands)*

	2003	2002
Assets		
Portfolio investments (Note 3)	$ 825,576	$ 959,906
Accrued investment income	590	-
Receivable from sale of investments	-	614
Administration expense receivable	-	6
	$ 826,166	$ 960,526
Liabilities, Endowment and Retained Earnings		
Liabilities for investment purchases	$ -	$ 614
Administration expense payable	5	-
	5	614
Endowment (Note 6)	300,000	300,000
Retained earnings (Note 6)	526,161	659,912
	$ 826,166	$ 960,526

STATEMENT OF LOSS AND RETAINED EARNINGS

Year Ended March 31, 2003 *(thousands)*

	Budget	2003 Actual	2002 Actual
Income			
Net investment income (loss) (Note 7)	$ 37,523	$ (82,751)	$ (16,053)
Expenses			
Transfers to the Alberta Heritage Foundation for Medical Research	72,000	51,000	55,000
Net loss	$ (34,477)	(133,751)	(71,053)
Retained earnings at beginning of year		659,912	730,965
Retained earnings at end of year		$ 526,161	$ 659,912

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

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended March 31, 2003 *(thousands)*

	2003	2002
Operating transactions		
Net loss	$ (133,751)	$ (71,053)
Non-cash items included in net income	8,725	6,236
	(125,026)	(64,817)
Decrease in receivables	30	4,182
Decrease in payables	(609)	(4,893)
Cash applied to operating transactions	(125,605)	(65,528)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	163,165	140,831
Purchase of investments	(35,205)	(77,330)
Cash provided by investing transactions	127,960	63,501
Increase (decrease) in cash	2,355	(2,027)
Cash at beginning of year	9,992	12,019
Cash at end of year	$ 12,347	$ 9,992
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 12,347	$ 9,992

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, 2003

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) Portfolio investments

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

Investments are recorded as of the trade date.

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

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

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.

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 value of Absolute Return Strategy Pool investments is estimated by external managers.

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

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

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 and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields. The fair value of cross-currency interest rate swaps was not available in prior years. Consequently, no amount is provided for comparative purposes.

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

			2003			2002
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 12,347	$ 12,347	1.6	$ 9,992	$ 9,992	1.1
Canadian Dollar Public Bond Pool (b)	180,469	178,099	23.2	225,607	218,308	23.2
Private Mortgage Pool (c)	25,565	28,196	3.7	23,855	25,834	2.7
	218,381	218,642	28.5	259,454	254,134	27.0
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	92,349	86,976	11.3	125,320	126,131	13.4
External Managers Canadian Large Cap Equity Pool (e)	69,892	64,192	8.4	37,331	40,683	4.3
Canadian Pooled Equity Fund (f)	57,684	51,305	6.7	119,601	118,085	12.5
External Managers Canadian Small Cap Equity Pool (g)	4,641	5,024	0.7	4,316	5,473	0.6
	224,566	207,497	27.1	286,568	290,372	30.8
Private Equity Pools (h)	488	2,408	0.3	750	3,482	0.4
	225,054	209,905	27.4	287,318	293,854	31.2
United States equities (Schedule C)						
External Managers US Large Cap Equity Pool (i)	61,680	52,027	6.8	71,483	71,659	7.6
S&P 500 Index Fund (j)	37,725	33,824	4.4	-	-	-
External Manager US Passive Equity Pool (k)	41,338	33,672	4.4	98,440	83,279	8.8
External Manager US Small/Mid Cap Equity Pool (l)	9,219	9,357	1.2	9,980	12,256	1.3
United States Pooled Equity Fund	56	29	-	184	176	-
	150,018	128,909	16.8	180,087	167,370	17.7
Private Equity Pools (h)	573	547	0.1	-	-	-
	150,591	129,456	16.9	180,087	167,370	17.7
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (m)	83,613	64,852	8.4	91,150	84,317	9.0
External Managers EAFE Plus Equity Pool (m)	38,449	31,533	4.1	40,722	41,174	4.4
External Manager EAFE Passive Equity Pool (n)	34,332	31,889	4.2	45,289	42,486	4.5
EAFE Structured Equity Pool	-	-	-	212	222	-
	156,394	128,274	16.7	177,373	168,199	17.9
Real estate						
Private Real Estate Pool (o)	54,852	60,538	7.9	55,674	58,590	6.2
Absolute Return Strategies						
Absolute Return Strategy Pool (p)	20,304	20,299	2.6	-	-	-
Total equities, real estate and absolute return strategies	607,195	548,472	71.5	700,452	688,013	73.0
Total investments (q)	$ 825,576	$ 767,114	100.0	$ 959,906	$ 942,147	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, 2003, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2003	2002
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	2.3	2.4
Canadian Pooled Equity Fund	4.7	5.9
Domestic Passive Equity Pooled Fund	4.0	4.7
EAFE Structured Equity Pool	-	0.1
Foreign Private Equity Pool (02)	3.5	-
Private Equity Pool	6.6	6.6
Private Equity Pool (02)	5.3	-
Private Mortgage Pool	2.8	2.9
Private Real Estate Pool	3.0	3.6
S&P 500 Index Fund	6.9	-
United States Pooled Equity Fund	5.0	5.0
Externally Managed Investment Pools		
Absolute Return Strategy Pool	6.3	-
Canadian Large Cap Equity Pool	2.6	1.9
Canadian Small Cap Equity Pool	1.2	1.2
EAFE Core Equity Pool	2.6	3.1
EAFE Passive Equity Pool	5.5	4.7
EAFE Plus Equity Pool	2.7	2.9
US Large Cap Equity Pool	2.9	3.0
US Passive Equity Pool	5.3	5.8
US Small/Mid Cap Equity Pool	2.4	3.0

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 three years. As at March 31, 2003, securities held by the Fund have an average effective market yield of 3.23% per annum (2002: 2.57% per annum).

b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The 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, 2003, securities held by the Pool have an average effective market yield of 5.41% per annum (2002: 5.80% per annum) and the following term structure based on principal amount: under 1 year: 2% (2002: 7%); 1 to 5 years: 37% (2002: 34%); 5 to 10 years: 31% (2002: 31%); 10 to 20 years: 11% (2002: 10%); over 20 years: 19% (2002: 18%).

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 (94.6%) and provincial bond residuals (5.4%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2003, mortgages held by the Pool have an average effective market yield of 6.43% per annum (2002: 7.01% per annum) and the following term structure based on principal amount: under 1 year: 5% (2002: 10%); 1 to 5 years: 31% (2002: 21%); 5 to 10 years: 20% (2002: 23%); 10 to 20 years: 24% (2002: 26%); and over 20 years: 20% (2002: 20%).

d) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the S&P/TSX Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the S&P/TSX 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 Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

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

g) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the S&P/TSX Index total market capitalization at time of purchase. Each portfolio is actively managed by an external manager with expertise in the Canadian small cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX 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) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP02 and the Foreign Private Equity Pool 2002. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

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.

NOTE 3 (continued)

j) Publicly traded US equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool (see Note d).

k) Publicly traded US equities held in the externally managed US Passive Equity Pool replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period.

l) 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.

m) The Europe, Australasia and Far East (EAFE) Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. EAFE Core portfolios are actively managed by external managers with European and Pacific Basin mandates. EAFE core managers have constraints on foreign currency management and deviations from the MSCI EAFE index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE index over a four-year period.

n) 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.

o) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Consumer Price Index plus 5%. Real estate is held through intermediary companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns 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.

p) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6%. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

q) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short term market trends and are temporary in nature.

NOTE 4 INVESTMENT RISK MANAGEMENT

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

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2002-2003 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) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

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

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, 2003.

(thousands)

			Maturity		2003		2002
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	91%	9%	-	$ 47,487	$ (1,101)	$ 58,819	$ 894
Bond index swap contracts	100%	-	-	3,097	(10)	3,684	(33)
Interest rate swap contracts	33%	64%	3%	32,845	(1,110)	24,018	(856)
Forward foreign exchange contracts	100%	-	-	44,346	1,515	21,904	16
Equity index futures contracts	100%	-	-	1,109	35	_	_
Cross-currency interest rate swaps	25%	16%	59%	18,826	(3,290)	35,085	(b)
				$ 147,710	$ (3,961)	$ 143,510	$ 21

(a) The method of determining the fair value of derivative contracts is described in note 2 (e).
(b) Comparative figures at March 31, 2002 are not provided as the fair value of cross-currency interest rate swaps was not available in prior years.

NOTE 6 ENDOWMENT AND RETAINED EARNINGS

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

NOTE 7 NET INVESTMENT LOSS

(thousands)

	2003	2002
Deposits and fixed-income securities	$ 16,573	$ 16,406
Canadian equities	(29,258)	(7,547)
United States equities	(43,527)	(3,699)
Non-North American equities	(29,462)	(25,031)
Real estate	2,732	3,961
Absolute Return Strategies	327	-
Investment loss	(82,615)	(15,910)
Direct administrative expenses (Note 8)	(136)	(143)
Net Investment loss	$ (82,751)	$ (16,053)

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

The investment loss for the year ended March 31, 2003 includes writedowns of $54,680,000 (2002: $36,226,000).

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)

	2003	2002
Direct fund expenses	$ 136	$ 143
Externally managed investment pools	899	877
Internally managed investment pools	209	167
Total	$ 1,244	$ 1,187
Expenses as a percentage of net assets at fair value	0.162%	0.126%

NOTE 9 COMPARATIVE FIGURES

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

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2003 *(thousands)*

	2003 Cost	2003 Fund's share Fair Value	2002 Cost	2002 Fund's share Fair Value
Deposits and short-term securities	$ 12,852	$ 12,852	$ 12,541	$ 12,541
Fixed Income Securities (a)				
Corporate, public and private	127,503	128,253	136,274	134,955
Government of Canada, direct and guaranteed	36,852	36,559	63,808	61,518
Provincial, direct and guaranteed:				
Alberta	407	438	660	681
Other provinces	34,963	34,711	40,620	38,947
Municipal	3,730	3,755	3,295	3,236
	203,455	203,716	244,657	239,337
Receivable from sale of investments and accrued investment income	2,466	2,466	5,229	5,229
Accounts payable and accrued liabilities	(392)	(392)	(2,973)	(2,973)
	2,074	2,074	2,256	2,256
	$ 218,381	$ 218,642	$ 259,454	$ 254,134

(a) Fixed income securities held as at March 31, 2003 have an average effective market yield of 5.55% per annum (2002: 5.93% per annum) and the following term structure based on principal amount:

	2003 %	2002 %
under 1 year	2	7
1 to 5 years	36	32
5 to 10 years	29	30
10 to 20 years	13	12
over 20 years	20	19
	100	100

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2003 *(thousands)*

	2003 Cost	Fund's share 2003 Fair Value	2002 Cost	Fund's share 2002 Fair Value
Deposits and short-term securities	$ 2,076	$ 2,076	$ 3,791	$ 3,791
Public equities (a)(b)				
Financial	67,777	66,976	78,591	85,877
Energy	29,098	32,419	29,624	37,716
Materials	36,512	31,714	44,512	42,471
Industrials	17,224	15,013	28,415	27,652
Consumer discretionary	19,227	14,673	27,052	23,252
Information technology	15,306	10,686	28,199	23,922
Telecommunication services	12,293	10,520	11,477	10,512
Consumer staples	8,676	8,715	9,951	11,075
Health Care	8,372	7,440	12,175	11,972
Utilities	7,498	7,081	7,298	7,628
	221,983	205,237	277,294	282,077
Passive index	1,642	1,512	4,130	3,907
	223,625	206,749	281,424	285,984
Private equities	346	2,073	492	2,468
Receivable from sale of investments and accrued investment income	604	604	2,474	2,474
Accounts payable and accrued liabilities	(1,597)	(1,597)	(863)	(863)
	(993)	(993)	1,611	1,611
	$ 225,054	$ 209,905	$ 287,318	$ 293,854

(a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $45,615,000 (2002: $58,608,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.

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

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2003 *(thousands)*

	2003 Cost	2003 Fund's share Fair Value	2002 Cost	2002 Fund's share Fair Value
Deposits and short-term securities	$ 1,637	$ 1,637	$ 1,124	$ 1,124
Public equities (a) (b)				
Financial	29,791	25,003	31,663	29,891
Consumer discretionary	24,627	21,270	24,933	23,135
Health Care	20,934	18,943	22,177	20,857
Information technology	20,274	17,418	30,395	26,826
Industrials	16,909	14,180	19,486	18,785
Consumer staples	13,693	11,783	16,793	16,069
Energy	9,824	8,190	12,448	11,742
Telecommunication services	4,292	3,635	7,473	5,977
Materials	4,382	3,567	6,037	5,852
Utilities	3,607	3,232	6,728	6,283
	148,333	127,221	178,133	165,417
Passive index	12	14	25	24
	148,345	127,235	178,158	165,441
Private Equities	545	520	-	-
Receivable from sale of investments and accrued investment income	311	311	1,633	1,633
Accounts payable and accrued liabilities	(247)	(247)	(828)	(828)
	64	64	805	805
	$ 150,591	$ 129,456	$ 180,087	$ 167,370

(a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $2,981,000 (2002: $Nil) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2003 *(thousands)*

	Cost (2003)	Fund's share 2003 Fair Value	Cost (2002)	Fund's share 2002 Fair Value
Deposits and short-term securities	$ 4,765	$ 4,765	$ 2,597	$ 2,597
Public equities (a)				
United Kingdom	42,447	34,061	43,363	41,531
Japan	25,333	20,179	34,242	28,634
France	14,263	11,359	19,345	18,541
Switzerland	11,911	9,724	13,801	13,432
Netherlands	10,050	7,787	13,905	13,337
Australia	6,963	6,671	6,361	6,764
Germany	8,012	6,068	11,853	11,015
Italy	6,804	5,648	5,606	5,570
Hong Kong	4,444	3,684	4,608	4,718
Spain	4,143	3,435	4,883	4,371
Finland	2,710	2,180	2,961	3,168
Sweden	2,297	2,117	2,473	2,837
Other	13,201	11,545	11,533	11,842
	152,578	124,458	174,934	165,760
Receivable from sale of investments and accrued investment income	999	999	2,833	2,833
Accounts payable and accrued liabilities	(1,948)	(1,948)	(2,991)	(2,991)
	(949)	(949)	(158)	(158)
	$ 156,394	$ 128,274	$ 177,373	$ 168,199

(a) The Fund's effective net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $Nil (2002: $211,000) which are used as underlying securities to support the notional amount of Non-North American equity index swap contracts and equity index futures contracts.

SCHEDULE OF INVESTMENT RETURNS

Schedule E

Year Ended March 31, 2003

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

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

Investment returns for the Fund are as follows:

	One Year Return				4 Year Compound Annualized Return
	2003	**2002**	**2001**	**2000**	
Time-weighted rates of return					
Short-term fixed income	**2.7**	**3.9**	**5.9**	**5.1**	**4.4**
Scotia Capital 91-day T-Bill Index	2.7	3.7	5.7	4.7	4.2
Long-term fixed income	**9.6**	**5.9**	**9.3**	**1.5**	**6.6**
Scotia Capital Universe Bond Index	9.2	5.1	8.7	1.3	6.0
Canadian equities	**(17.4)**	**3.7**	**(16.5)**	**42.4**	**0.4**
S&P/TSX	(17.6)	4.9	(18.6)	45.5	0.6
United States equities	**(30.5)**	**1.6**	**(14.4)**	**12.0**	**(9.3)**
S&P 500 Index	(30.7)	1.6	(15.1)	13.2	(9.3)
Non-North American equities	**(29.1)**	**(5.8)**	**(23.2)**	**39.2**	**(8.1)**
MSCI EAFE Index	(29.3)	(7.3)	(19.6)	20.1	(10.8)
Private equities (1)	**(3.3)**	**n/a**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	5.7	n/a	n/a	n/a	n/a
Real estate (2)	**9.8**	**7.2**	**9.7**	**5.8**	**8.1**
Consumer Price Index (CPI) plus 5%	8.9	9.9	11.9	9.9	10.1
Absolute return strategies (1)	**1.6**	**n/a**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 6%	4.7	n/a	n/a	n/a	n/a
Overall	**(13.4)**	**2.4**	**(9.2)**	**20.1**	**(0.8)**
Policy Benchmark	**(13.7)**	**2.7**	**(9.5)**	**16.8**	**(1.6)**

1) Actual and benchmark returns are for six months.

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

ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

YEAR ENDED MARCH 31, 2003

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, 2003 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed]

Edmonton, Alberta
May 22, 2003

FCA
Auditor General

ALBERTA HERITAGE SAVINGS TRUST FUND

BALANCE SHEET

March 31, 2003 *(thousands)*

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

STATEMENT OF OPERATIONS

March 31, 2003 *(thousands)*

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

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

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

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003

NOTE 1 AUTHORITY AND MISSION

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) Portfolio investments

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

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

Investments are recorded as of the trade date.

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

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

b) Investment Income

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

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

NOTE 2 (continued)

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 Absolute Return Strategy Pool investments are estimated by external managers.

(vi) The fair value of loans is estimated by management based on the present value of discounted cash flows.

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

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

e) Valuation of Derivative Contracts

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

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

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields. The fair value of cross-currency interest rate swaps was not available in prior years. Consequently, no amount is provided for comparative purposes.

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

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

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

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, 2003, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

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

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

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

NOTE 3 (continued)

c) As at March 31, 2003, fixed-income securities held directly by the Fund have an average effective market yield of 4.36% per annum (2002: 4.02% per annum). As at March 31, 2003, fixed-income securities have the following term structure based on principal amount: under 1 year: Nil% (2002: 91%); 1 to 5 years: 100% (2002: 9%).

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

e) As at March 31, 2003, Provincial corporation debentures have an average effective market yield of 7.83% per annum (2002: 8.35% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100%.

f) Investment in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at March 31, 2003, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245,000 (2002: $91,245,000) and the Vencap loan amounting to $6,114,000 (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, 2003 amounted to $76,189,320 (2002: $60,049,081). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588,000, is due July 2046 and bears no interest. Amortization ceased being recorded on the loan from December 31, 2000 onward.

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

NOTE 3 (continued)

h) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

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

j) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the S&P/TSX Index total market capitalization at time of purchase. Each portfolio is actively managed by an external manager with expertise in the Canadian small cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Index over a four-year period and returns higher than the Nesbitt Burns Small Cap Index over shorter time periods. Return volatility is reduced through multiple manager investment style and small capitalization focus.

k) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02 and the Foreign Private Equity Pool 2002. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

l) The US Large Cap Equity Pool consists of multiple portfolios of publicly traded United States equities. Each portfolio is actively managed by an external manager with expertise in the US large cap equity market. The performance objective is to provide returns higher than the total return of the Standard & Poor's (S&P) 500 index over a four-year period. Return volatility is reduced through multiple manager investment style and large capitalization focus.

m) Publicly traded US equities held in the externally managed US Passive Equity Pool replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period.

n) Publicly traded US equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool (see Note 3g).

NOTE 3 (continued)

o) The US Small/Mid Cap Equity Pool consists of one portfolio of publicly traded United States equities. The portfolio is actively managed by an external manager with expertise in the small cap and mid cap US equity market. The performance objective is to provide returns higher than the total return of the Russell 2500 index over a four-year period.

p) The Europe, Australasia and Far East (EAFE) Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. EAFE Core portfolios are actively managed by external managers with European and Pacific Basin mandates. EAFE core managers have constraints on foreign currency management and deviations from the MSCI EAFE index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE index over a four-year period.

q) The externally managed EAFE Passive Equity Pool consists of one portfolio of non-North American publicly traded equities that replicate the MSCI EAFE index. The performance objective is to provide returns comparable to the total return of the MSCI EAFE index over a four-year period.

r) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Consumer Price Index plus 5%. Real estate is held through intermediary companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the Pool provides diversification from the securities market with opportunities for high return.

s) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6%. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

t) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short term market trends and are temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

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

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

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

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

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

(thousands)

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

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

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

NOTE 5 INVESTMENT RISK MANAGEMENT

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

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

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

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

NOTE 6 FUND EQUITY

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

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

NOTE 7 NET INCOME (LOSS)

(thousands)

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

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

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

NOTE 8 ADMINISTRATIVE EXPENSES

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

(thousands)

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

NOTE 9 COMPARATIVE FIGURES

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

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2003 *(thousands)*

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

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

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

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2003 *(thousands)*

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

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

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

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2003 *(thousands)*

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

(a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $37,864,000 (2002: $Nil) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

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

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2003 *(thousands)*

	2003		2002	
	Cost	Fund's share Fair Value	Cost	Fund's share Fair Value
Deposits and short-term securities	$ 64,941	$ 64,941	$ 31,001	$ 31,001
Public equities (a)				
United Kingdom	538,441	462,446	491,588	494,816
Japan	320,114	273,788	386,408	340,718
France	179,921	153,954	218,911	220,626
Switzerland	150,805	131,937	156,183	159,836
Netherlands	127,664	105,851	156,839	158,483
Australia	87,877	90,362	72,150	80,516
Germany	101,305	82,318	133,246	130,791
Italy	85,869	76,510	63,398	66,291
Hong Kong	56,369	50,019	51,803	55,963
Spain	52,331	46,591	55,380	52,077
Finland	34,540	29,649	33,728	37,807
Sweden	28,607	28,528	27,574	33,577
Other	169,376	157,056	132,306	141,565
	1,933,219	1,689,009	1,979,514	1,973,066
Receivable from sale of investments and accrued investment income	13,595	13,595	33,857	33,857
Accounts payable and accrued liabilities	(26,439)	(26,439)	(35,853)	(35,853)
	(12,844)	(12,844)	(1,996)	(1,996)
	$ 1,985,316	$ 1,741,106	$ 2,008,519	$ 2,002,071

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

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule E

Year Ended March 31, 2003

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

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

Investment returns for the Fund are as follows:

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

1) Actual and benchmark returns are for six months.
2) Effective April 1, 2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI plus 5%. Therefore, the benchmark for four years is a combination of RCPI and CPI plus 5%.
3) The Transition Portfolio was wound up in the first half of the year. The actual return of 0.5% is for six months.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

YEAR ENDED MARCH 31, 2003

AUDITOR'S REPORT

To the Minister of Revenue

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

[original signed]

Edmonton, Alberta
May 22, 2003

FCA
Auditor General

ALBERTA HERITAGE SCHOLARSHIP FUND

BALANCE SHEET

March 31, 2003 *(thousands)*

	2003	2002
Assets		
Portfolio investments (Note 3)	$ 249,293	$ 294,415
Accrued investment income	179	-
Contributions receivable	1,500	-
Receivable from sale of investments	-	239
Administration expense receivable	11	1
	$ 250,983	$ 294,655
Liabilities, Endowment and Retained Earnings		
Liabilities for investment purchases	$ -	$ 185
Endowment (Note 6)	100,000	100,000
Retained earnings (Note 6)	150,983	194,470
	$ 250,983	$ 294,655

STATEMENT OF LOSS AND RETAINED EARNINGS

Year Ended March 31, 2003 *(thousands)*

	Budget	2003 Actual	2002 Actual
Income			
Net investment income (loss) (Note 7)	$ 11,277	$ (27,766)	$ (5,701)
Contributions from Province of Alberta	200	5,030	2,200
Other contributions	60	286	1,167
	11,537	(22,450)	(2,334)
Expenses			
Scholarships	19,700	21,037	19,137
Net loss	$ (8,163)	(43,487)	(21,471)
Retained earnings at beginning of year		194,470	215,941
Retained earnings at end of year		$ 150,983	$ 194,470

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, 2003 *(thousands)*

	2003	2002
Operating transactions		
Net loss	$ (43,487)	$ (21,471)
Non-cash items included in net income	6,167	2,574
	(37,320)	(18,897)
Increase (decrease) in receivables	(1,450)	1,412
Decrease in payables	(185)	(2,888)
Cash applied to operating transactions	(38,955)	(20,373)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	57,150	57,370
Purchase of investments	(19,085)	(32,515)
Cash provided by investing transactions	38,065	24,855
Increase (decrease) in cash	(890)	4,482
Cash at beginning of year	8,969	4,487
Cash at end of year	$ 8,079	$ 8,969
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 8,079	$ 8,969

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

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) Portfolio Investments

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

Investments are recorded as of the trade date.

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

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

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.

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 value of Absolute Return Strategy Pool investments is estimated by external managers.

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

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

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 and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields. The fair value of cross-currency interest rate swaps was not available in prior years. Consequently, no amount is provided for comparative purposes.

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

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

			2003			2002
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 8,079	$ 8,079	3.3	$ 8,969	$ 8,969	3.1
Canadian Dollar Public Bond Pool (b)	54,105	53,504	23.0	67,816	65,771	22.8
Private Mortgage Pool (c)	7,552	8,387	3.6	7,097	7,783	2.7
	69,736	69,970	29.9	83,882	82,523	28.6
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	25,659	24,962	10.7	37,013	38,348	13.3
External Managers Canadian Large Cap Equity Pool (e)	21,991	20,373	8.8	11,251	12,263	4.2
Canadian Pooled Equity Fund (f)	16,827	15,115	6.5	36,360	36,189	12.5
External Managers Canadian Small Cap Equity Pool (g)	1,444	1,524	0.6	1,345	1,660	0.6
	65,921	61,974	26.6	85,969	88,460	30.6
Private Equity Pools (h)	225	763	0.3	341	1,145	0.4
	66,146	62,737	26.9	86,310	89,605	31.0
United States equities (Schedule C)						
External Managers US Large Cap Equity Pool (i)	22,157	18,012	7.7	22,789	21,518	7.5
S&P 500 Index Fund (j)	9,471	8,978	3.9	-	-	-
External Manager US Passive Equity Pool (k)	10,207	8,739	3.8	29,267	24,603	8.5
External Manager US Small/Mid Cap Equity Pool (l)	2,843	2,883	1.2	3,078	3,777	1.3
United States Equity Pooled Fund	18	9	-	58	56	-
	44,696	38,621	16.6	55,192	49,954	17.3
Private Equity Pools (h)	164	156	0.1	-	-	-
	44,860	38,777	16.7	55,192	49,954	17.3
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (m)	25,381	19,419	8.3	27,540	25,480	8.8
External Managers EAFE Plus Equity Pool (m)	11,913	9,756	4.2	12,534	12,632	4.4
External Manager EAFE Passive Equity Pool (n)	9,781	9,381	4.0	13,585	12,448	4.3
EAFE Structured Equity Pool	-	-	-	64	67	-
	47,075	38,556	16.5	53,723	50,627	17.5
Real estate						
Private Real Estate Pool (o)	15,082	16,657	7.2	15,308	16,121	5.6
Absolute Return Strategies						
Absolute Return Strategy Pool (p)	6,394	6,392	2.8	-	-	-
Total equities, real estate and absolute return strategies	179,557	163,119	70.1	210,533	206,307	71.4
Total investments (q)	$ 249,293	$ 233,089	100.0	$ 294,415	$ 288,830	100.0

NOTE 3 (continued)

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

	% Ownership	
	2003	**2002**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	0.7	0.7
Canadian Pooled Equity Fund	1.4	1.8
Domestic Passive Equity Pooled Fund	1.1	1.4
EAFE Structured Equity Pool	-	0.02
Foreign Private Equity Pool (02)	1.0	-
Private Equity Pool	2.2	2.2
Private Equity Pool (02)	0.9	-
Private Mortgage Pool	0.8	0.9
Private Real Estate Pool	0.8	1.0
S&P 500 Index Fund	1.8	-
United States Pooled Equity Fund	1.6	1.6
Externally Managed Investment Pools		
Absolute Return Strategy Pool	2.0	-
Canadian Large Cap Equity Pool	0.8	0.6
Canadian Small Cap Equity Pool	0.4	0.4
EAFE Core Equity Pool	0.8	0.9
EAFE Passive Equity Pool	1.6	1.4
EAFE Plus Equity Pool	0.8	0.9
US Large Cap Equity Pool	1.0	0.9
US Passive Equity Pool	1.4	1.7
US Small/Mid Cap Equity Pool	0.7	0.9

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 three years. As at March 31, 2003, securities held by the Fund have an average effective market yield of 3.23% per annum (2002: 2.57% per annum).

b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The 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, 2003, securities held by the Pool have an average effective market yield of 5.41% per annum (2002: 5.80% per annum) and the following term structure based on principal amount: under 1 year: 2% (2002: 7%); 1 to 5 years: 37%(2002: 34%); 5 to 10 years: 31% (2002: 31%); 10 to 20 years: 11% (2002: 10%); over 20 years: 19% (2002: 18%).

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 (94.6%) and provincial bond residuals (5.4%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2003, securities held by the Pool have an average market yield of 6.43% per annum (2002: 7.01% per annum) and the following term structure based on principal amount: under 1 year: 5% (2002: 10%); 1 to 5 years: 31% (2002: 21%); 5 to 10 years: 20% (2002: 23%); 10 to 20 years: 24% (2002: 26%); and over 20 years: 20% (2002: 20%).

d) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the S&P/TSX Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the S&P/TSX 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 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.

e) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

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

g) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the S&P/TSX Index total market capitalization at time of purchase. Each portfolio is actively managed by an external manager with expertise in the Canadian small cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX 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) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool, PEP02 and the Foreign Private Equity Pool 2002. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

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.

NOTE 3 (continued)

j) Publicly traded US equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool (see Note 3d).

k) Publicly traded US equities held in the externally managed US Passive Equity Pool replicate the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period.

l) 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.

m) The Europe, Australasia and Far East (EAFE) Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. EAFE Core portfolios are actively managed by external managers with European and Pacific Basin mandates. EAFE core managers have constraints on foreign currency management and deviations from the MSCI EAFE index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE index over a four-year period.

n) 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.

o) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 5% over a four-year period. 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.

p) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6%. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

q) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short term market trends and are temporary in nature.

NOTE 4 INVESTMENT RISK MANAGEMENT

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

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2002-2003 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.

NOTE 5 (continued)

(ii) Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.
(iii) An equity index futures contract is an agreement to receive or pay cash based on changes in the level of the specified stock index.

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

	Maturity Under 1 Year	Maturity 1 to 3 Years	Maturity Over 3 Years	2003 Notional Amount	2003 Fair Value (a)	2002 Notional Amount	2002 Fair Value (a)
Equity index swap contracts	91%	9%	_	$ 13,577	$ (316)	$ 17,882	$ 272
Bond index swap contracts	100%	_	_	930	(3)	1,110	(10)
Interest rate swap contracts	33%	64%	3%	9,405	(319)	7,293	(260)
Forward foreign exchange contracts	100%	_	_	13,656	467	6,651	5
Equity index futures contracts	100%	_	_	306	9	-	-
Cross-currency interest rate swaps	25%	16%	59%	5,531	(979)	10,634	(b)
				$ 43,405	$ (1,141)	$ 43,570	$ 7

(a) The method of determining the fair value of derivative contracts is described in note 2 (e).
(b) Comparative figures at March 31, 2002 are not provided as the fair value of cross-currency interest rate swaps was not available in prior years.

NOTE 6 ENDOWMENT AND RETAINED EARNINGS

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

NOTE 7 NET INVESTMENT LOSS

(thousands)

	2003	2002
Deposits and fixed-income securities	$ 5,244	$ 5,141
Canadian equities	(9,174)	(2,777)
United States equities	(15,233)	(1,488)
Non-North American equities	(9,399)	(7,703)
Real estate	752	1,234
Absolute Return Strategies	103	-
Investment loss	(27,707)	(5,593)
Direct administrative expenses (Note 8)	(59)	(108)
Net investment loss	$ (27,766)	$ (5,701)

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

The investment loss for the year ended March 31, 2003 includes writedowns of $15,248,000 (2002: $11,111,000).

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)

	2003	2002
Direct fund expenses	$ 59	$ 108
Externally managed investment pools	279	264
Internally managed investment pools	62	51
Total	$ 400	$ 423
Expenses as a percentage of net assets at fair value	0.170%	0.147%

NOTE 9 COMPARATIVE FIGURES

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

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2003 *(thousands)*

	2003 Cost	2003 Fund's share Fair Value	2002 Cost	2002 Fund's share Fair Value
Deposits and short-term securities	$ 8,231	$ 8,231	$ 9,737	$ 9,737
Fixed Income Securities (a)				
Corporate, public and private	38,121	38,451	40,892	40,657
Government of Canada, direct and guaranteed	11,048	10,983	19,179	18,534
Provincial, direct and guaranteed:				
Alberta	122	132	198	205
Other provinces	10,474	10,423	12,205	11,734
Municipal	1,118	1,128	990	975
	60,883	61,117	73,464	72,105
Receivable from sale of investments and accrued investment income	740	740	1,575	1,575
Accounts payable and accrued liabilities	(118)	(118)	(894)	(894)
	622	622	681	681
	$ 69,736	$ 69,970	$ 83,882	$ 82,523

(a) Fixed income securities held as at March 31, 2003 have an average effective market yield of 5.55% per annum (2002: 5.93% per annum) and the following term structure based on principal amount:

	2003 %	2002 %
under 1 year	2	7
1 to 5 years	36	32
5 to 10 years	29	30
10 to 20 years	13	12
over 20 years	20	19
	100	100

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2003 *(thousands)*

	2003 Cost	2003 Fund's share Fair Value	2002 Cost	2002 Fund's share Fair Value
Deposits and short-term securities	$ 638	$ 638	$ 1,156	$ 1,156
Public equities (a)(b)				
Financial	19,960	19,973	23,669	26,141
Energy	8,549	9,691	8,900	11,513
Materials	10,712	9,486	13,351	12,969
Industrials	5,053	4,503	8,523	8,456
Consumer discretionary	5,614	4,373	8,080	7,076
Information technology	4,473	3,196	8,436	7,298
Telecommunication services	3,587	3,121	3,417	3,176
Consumer staples	2,541	2,597	2,979	3,369
Health Care	2,514	2,250	3,726	3,689
Utilities	2,143	2,070	2,116	2,263
	65,146	61,260	83,197	85,950
Passive index	505	471	1,240	1,195
	65,651	61,731	84,437	87,145
Private equities	142	653	225	812
Receivable from sale of investments and accrued investment income	184	184	754	754
Accounts payable and accrued liabilities	(469)	(469)	(262)	(262)
	(285)	(285)	492	492
	$ 66,146	$ 62,737	$ 86,310	$ 89,605

(a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $13,092,000 (2002: $17,819,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.

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

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2003 *(thousands)*

	2003 Cost	2003 Fund's share Fair Value	2002 Cost	2002 Fund's share Fair Value
Deposits and short-term securities	$ 550	$ 550	$ 339	$ 339
Public equities (a) (b)				
Financial	8,818	7,448	9,690	8,918
Consumer discretionary	7,606	6,536	7,651	6,913
Health Care	6,139	5,631	6,760	6,217
Information technology	5,962	5,155	9,334	8,008
Industrials	4,994	4,225	5,967	5,611
Consumer staples	4,100	3,538	5,165	4,793
Energy	2,944	2,462	3,812	3,501
Materials	1,311	1,068	1,859	1,752
Telecommunication services	1,222	1,047	2,286	1,776
Utilities	1,038	948	2,080	1,878
	44,134	38,058	54,604	49,367
Passive index	3	4	8	7
	44,137	38,062	54,612	49,374
Private equities	156	148	-	-
Receivable from sale of investments and accrued investment income	95	95	494	494
Accounts payable and accrued liabilities	(78)	(78)	(253)	(253)
	17	17	241	241
	$ 44,860	$ 38,777	$ 55,192	$ 49,954

(a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $791,000 (2002: $Nil) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

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

ALBERTA HERITAGE SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2003 *(thousands)*

	2003 Cost	Fund's share 2003 Fair Value	2002 Cost	Fund's share 2002 Fair Value
Deposits and short-term securities	$ 1,442	$ 1,422	$ 788	$ 788
Public equities (a)				
United Kingdom	12,782	10,242	13,139	12,494
Japan	7,587	6,059	10,358	8,604
France	4,286	3,408	5,860	5,588
Switzerland	3,583	2,921	4,181	4,043
Netherlands	3,029	2,345	4,211	4,019
Australia	2,096	2,000	1,928	2,036
Germany	2,405	1,822	3,585	3,309
Italy	2,048	1,694	1,697	1,675
Hong Kong	1,344	1,108	1,395	1,423
Spain	1,242	1,031	1,480	1,314
Finland	817	657	899	954
Sweden	688	630	746	849
Other	4,011	3,482	3,507	3,582
	45,918	37,399	52,986	49,890
Receivable from sale of investments and accrued investment income	301	301	857	857
Accounts payable and accrued liabilities	(586)	(586)	(908)	(908)
	(285)	(285)	(51)	(51)
	$ 47,075	$ 38,556	$ 53,723	$ 50,627

(a) The Fund's effective net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $Nil (2002: $63,000) 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, 2003

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

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

Investment returns for the Fund are as follows:

	One Year Return				4 Year Compound Annualized Return
	2003	2002	2001	2000	
Time-weighted rates of return					
Short-term fixed income	**2.9**	**4.1**	**6.0**	**5.1**	**4.5**
Scotia Capital 91-day T-Bill Index	2.7	3.7	5.7	4.7	4.2
Long-term fixed income	**9.7**	**5.9**	**9.4**	**1.6**	**6.6**
Scotia Capital Universe Bond Index	9.2	5.1	8.7	1.3	6.0
Canadian equities	**(17.4)**	**3.4**	**(16.0)**	**40.9**	**0.3**
S&P/TSX	(17.6)	4.9	(18.6)	45.5	0.6
United States equities	**(30.6)**	**1.4**	**(14.3)**	**12.3**	**(9.3)**
S&P 500 Index	(30.7)	1.6	(15.1)	13.2	(9.3)
Non-North American equities	**(29.1)**	**(5.9)**	**(23.1)**	**38.7**	**(8.2)**
MSCI EAFE Index	(29.3)	(7.3)	(19.6)	20.1	(10.8)
Private equities (1)	**(3.5)**	**n/a**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	5.7	n/a	n/a	n/a	n/a
Real estate (2)	**9.8**	**7.2**	**9.7**	**5.8**	**8.1**
Consumer Price Index (CPI) plus 5%	8.9	9.9	11.9	9.9	10.1
Absolute Return Strategies (1)	**1.6**	**n/a**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 6%	4.7	n/a	n/a	n/a	n/a
Overall	**(13.3)**	**2.3**	**(8.9)**	**19.7**	**(0.8)**
Policy Benchmark	**(13.7)**	**2.7**	**(9.5)**	**16.8**	**(1.6)**

1) Actual and benchmark returns are for six months.

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

YEAR ENDED MARCH 31, 2003

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, 2003 and the statements of loss and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2003 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

I also report that Section 8 (2) of the A*lberta 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.

[original signed]

Edmonton, Alberta — FCA

May 22, 2003 — Auditor General

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

BALANCE SHEET

March 31, 2003 *(thousands)*

	2003	2002
Assets		
Portfolio investments (Note 3)	$ 473,192	$ 513,146
Accrued investment income	319	-
Receivable from sale of investments	-	428
Administration expense receivable	-	3
	$ 473,511	$ 513,577
Liabilities, Endowment and Retained Earnings		
Administration expense payable	$ 1	$ -
Liabilities for investment purchases	-	428
	1	428
Endowment (Note 6)	500,000	500,000
Retained earnings (deficit) (Note 6)	(26,490)	13,149
	$ 473,511	$ 513,577

STATEMENT OF LOSS AND DEFICIT

Year Ended March 31, 2003 *(thousands)*

	Budget	2003 Actual	2002 Actual
Income			
Investment income (loss) (Note 7)	$ 12,664	$ (33,314)	$ (4,754)
Expenses			
Transfers to the Alberta Heritage Foundation for Science and Engineering Research	10,700	6,325	1,550
Net income (loss)	$ 1,964	(39,639)	(6,304)
Retained earnings at beginning of year		13,149	19,453
Retained earnings (deficit) at end of year		$ (26,490)	$ 13, 149

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, 2003 *(thousands)*

	2003	2002
Operating transactions		
Net loss	$ (39,639)	$ (6,304)
Non-cash items included in net loss	796	4,669
	(38,843)	(1,635)
Decrease in receivables	112	161
Decrease in payables	(427)	(4,010)
Cash applied to operating transactions	(39,158)	(5,484)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	81,542	68,799
Purchase of investments	(40,557)	(64,440)
Cash provided by investing transactions	40,985	4,359
Increase (decrease) in cash	1,827	(1,125)
Cash at beginning of year	12,563	13,688
Cash at end of year	$ 14,390	$ 12,563
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 14,390	$ 12,563

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, 2003

NOTE 1 AUTHORITY AND PURPOSE

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

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

a) Portfolio investments

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

Investments are recorded as of the trade date.

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

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

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 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) 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 value of Absolute Return Strategy Pool investments is estimated by external managers.

(v) The fair value 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 and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields. The fair value of cross-currency interest rate swaps was not available in prior years. Consequently, no amount is provided for comparative purposes.

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

			2003			2002
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 14,390	$ 14,390	3.4	$ 12,563	$ 12,563	2.6
Canadian Dollar Public Bond Pool (b)	126,849	128,755	30.7	151,668	151,362	31.8
Private Mortgage Pool (c)	19,491	19,784	4.7	18,114	17,912	3.8
	160,730	162,929	38.8	182,345	181,837	38.2
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	45,870	38,892	9.3	58,252	53,000	11.2
External Managers Canadian Large Cap Equity Pool (e)	40,117	30,011	7.1	17,039	15,838	3.3
Canadian Pooled Equity Fund (f)	36,984	24,502	5.8	67,981	50,755	10.7
External Managers Canadian Small Cap Equity Pool (g)	2,726	2,586	0.6	4,438	4,997	1.1
	125,697	95,991	22.8	147,710	124,590	26.3
Private Equity Pools (h)	61	61	-	-	-	-
	125,758	96,052	22.8	147,710	124,590	26.3
United States equities (Schedule C)						
External Managers US Large Cap Equity Pool (i)	31,923	24,805	5.9	33,762	30,980	6.5
External Manager US Passive Equity Pool (j)	20,718	18,156	4.3	41,100	35,169	7.4
S&P 500 Index Fund (k)	17,284	15,506	3.7	-	-	-
External Manager US Small/Mid Cap Equity Pool (l)	3,737	3,731	0.9	4,041	4,887	1.0
	73,662	62,198	14.8	78,903	71,036	14.9
Private Equity Pools (h)	286	274	0.1	-	-	-
	73,948	62,472	14.9	78,903	71,036	14.9
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (m)	41,770	31,181	7.4	41,950	36,893	7.8
External Managers EAFE Plus Equity Pool (m)	18,724	15,352	3.6	18,693	18,598	3.9
External Manager EAFE Passive Equity Pool (n)	17,308	15,787	3.8	19,074	17,672	3.7
	77,802	62,320	14.8	79,717	73,163	15.4
Real estate						
Private Real Estate Pool (o)	24,124	25,546	6.1	24,471	24,724	5.2
Absolute Return Strategies						
Absolute Return Strategy Pool (p)	10,830	10,827	2.6	-	-	-
Total equities and real estate	312,462	257,217	61.2	330,801	293,513	61.8
Total investments (q)	$ 473,192	$ 420,146	100.0	$ 513,146	$ 475,350	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, 2003, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2003	**2002**
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	1.6	1.7
Canadian Pooled Equity Fund	2.3	2.5
Domestic Passive Equity Pooled Fund	1.8	2.0
Foreign Private Equity Pool (02)	1.8	-
Private Equity Pool (02)	1.8	-
Private Mortgage Pool	2.0	2.0
Private Real Estate Pool	1.3	1.5
S&P 500 Index Fund	3.1	-
Externally Managed Investment Pools		
Absolute Return Strategy Pool	3.4	-
Canadian Large Cap Equity Pool	1.2	0.7
Canadian Small Cap Equity Pool	0.6	1.1
EAFE Core Equity Pool	1.3	1.3
EAFE Passive Equity Pool	2.7	2.0
EAFE Plus Equity Pool	1.3	1.3
US Large Cap Equity Pool	1.4	1.3
US Passive Equity Pool	2.9	2.4
US Small/Mid Cap Equity Pool	0.9	1.2

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 three years. As at March 31, 2003, securities held by the Fund have an average effective market yield of 3.23% per annum (2002: 2.57% per annum).

b) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The 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, 2003, securities held by the Pool have an average effective market yield of 5.41% per annum (2002: 5.80% per annum) and the following term structure based on principal amount: under 1 year: 2% (2002: 7%); 1 to 5 years: 37% (2002: 34%); 5 to 10 years: 31% (2002: 31%); 10 to 20 years: 11% (2002: 10%); over 20 years: 19% (2002: 18%).

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 (94.6%) and provincial bond residuals (5.4%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at March 31, 2003, mortgages held by the Pool have an average market yield of 6.43% per annum (2002: 7.01% per annum) and the following term structure based on principal amount: under 1 year: 5% (2002: 10%); 1 to 5 years: 31% (2002: 21%); 5 to 10 years: 20% (2002: 23%); 10 to 20 years: 24% (2002: 26%); and over 20 years: 20% (2002: 20%).

d) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the S&P/TSX Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the S&P/TSX 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 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 TSX Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

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

g) The Canadian Small Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities with market capitalization of .15% of the S&P/TSX Index total market capitalization at time of purchase. Each portfolio is actively managed by an external manager with expertise in the Canadian small cap equity market. The performance objective is to provide returns higher than the total return of the S&P/TSX 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) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8.0%. The Private Equity Portfolio consists of the Private Equity Pool (02) and the Foreign Private Equity Pool (02). Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

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.

NOTE 3 (continued)

j) Publicly traded US equities held in the externally managed US Passive Equity Pool replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period.

k) Publicly traded US equities held in the S&P 500 Index Fund replicate the Standard & Poor's (S&P) 500 Index. The performance objective is to provide returns comparable to the total return of the S&P 500 Index over a four-year period. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the Pool (see Note 3d).

l) 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.

m) The Europe, Australasia and Far East (EAFE) Core and Plus Equity Pools consist of multiple portfolios of publicly traded non-North American equities. EAFE Core portfolios are actively managed by external managers with European and Pacific Basin mandates. EAFE core managers have constraints on foreign currency management and deviations from the MSCI EAFE index asset mix by country. The EAFE Plus portfolios are actively managed by external managers with less constraints on country allocation, stock selection, currency management and investments in emerging markets. The performance objective is to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) EAFE index over a four-year period.

n) 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.

o) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 5% over a four-year period. 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.

p) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 6%. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

q) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short term market trends and are temporary in nature.

NOTE 4 INVESTMENT RISK MANAGEMENT

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

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2002-2003 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) An equity 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, 2003.

(thousands)

	Maturity			2003		2002	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	91%	9%	-	$ 21,261	$ (492)	$ 24,627	$ 372
Bond index swap contracts	100%	-	-	2,239	(7)	2,555	(23)
Interest rate swap contracts	34%	64%	2%	15,079	(516)	11,003	(403)
Forward foreign exchange contracts	100%	-	-	23,405	807	9,683	7
Equity index futures contracts	100%	-	-	502	16	-	-
Cross-currency interest rate swaps	20%	15%	65%	11,200	(2,206)	17,966	(b)
				$ 73,686	$ (2,398)	$ 65,834	$ (47)

(a) The method of determining the fair value of derivative contracts is described in note 2 (e).
(b) Comparative figures at March 31, 2002 are not provided as the fair value of cross-currency interest rate swaps was not available in prior years.

NOTE 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.

NOTE 7 NET INVESTMENT LOSS

(thousands)

	2003	2002
Deposits and fixed-income securities	$ 12,615	$ 11,956
Canadian equities	(14,413)	(4,805)
United States equities	(19,501)	(2,372)
Non-North American equities	(13,258)	(11,002)
Real estate	1,153	1,585
Absolute return strategies	175	-
Investment loss	(33,229)	(4,638)
Direct administrative expenses (Note 8)	(85)	(116)
Net investment loss	$ (33,314)	$ (4,754)

NOTE 7 (continued)

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

The investment loss for the year ended March 31, 2003 includes writedowns of $25,999,000 (2002: $15,249,000).

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)

	2003	2002
Direct fund expenses	$ 85	$ 116
Externally managed investment pools	419	371
Internally managed investment pools	104	88
Total	$ 608	$ 575
Expenses as a percentage of net assets at fair value	0.145%	0.121%

NOTE 9 SUBSEQUENT EVENT

On April 8, 2003, the Government of Alberta announced in Budget 2003 that it intends to transfer $21 million in assets to the Fund in 2003-04 to increase the endowment's net assets, at cost, to above $500 million.

NOTE 10 COMPARATIVE FIGURES

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

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2003 *(thousands)*

		Fund's share 2003		Fund's share 2002
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits and short-term securities	$ 14,751	$ 14,751	$ 14,331	$ 14,331
Fixed Income Securities (a)				
Corporate, public and private	91,018	92,158	93,504	93,570
Government of Canada, direct and guaranteed	25,893	26,430	42,868	42,653
Provincial, direct and guaranteed:				
Alberta	286	317	443	472
Other provinces	24,665	25,062	27,421	27,003
Municipal	2,621	2,715	2,214	2,244
	144,483	146,682	166,450	165,942
Receivable from sale of investments and accrued investment income	1,779	1,779	3,625	3,625
Accounts payable and accrued liabilities	(283)	(283)	(2,061)	(2,061)
	1,496	1,496	1,564	1,564
	$ 160,730	$ 162,929	$ 182,345	$ 181,837

(a) Fixed income securities held as at March 31, 2003 have an average effective market yield of 5.55% per annum (2002: 5.93% per annum) and the following term structure based on principal amount:

	2003 %	**2002 %**
under 1 year	2	7
1 to 5 years	36	32
5 to 10 years	29	30
10 to 20 years	13	12
over 20 years	20	19
	100	100

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2003 *(thousands)*

	2003 Cost	2003 Fund's share Fair Value	2002 Cost	2002 Fund's share Fair Value
Deposits and short-term securities	$ 965	$ 965	$ 1,616	$ 1,616
Public equities (a)(b)				
Financial	37,129	30,907	39,635	36,699
Energy	16,207	14,990	15,198	16,156
Materials	20,684	14,663	23,259	18,187
Industrials	9,839	6,979	14,894	11,884
Consumer discretionary	10,969	6,817	14,201	9,997
Information technology	8,740	4,949	14,753	10,249
Telecommunication services	6,853	4,846	5,892	4,481
Consumer staples	4,925	4,041	5,215	4,758
Health Care	4,707	3,314	6,308	4,965
Utilities	4,183	3,252	3,751	3,240
	124,236	94,758	143,106	120,616
Passive index	940	712	2,311	1,681
	125,176	95,470	145,417	122,297
Private equities	59	59	-	-
Receivable from sale of investments and accrued investment income	282	282	1,038	1,038
Accounts payable and accrued liabilities	(724)	(724)	(361)	(361)
	(442)	(442)	677	677
	$ 125,758	$ 96,052	$ 147,710	$ 124,590

(a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $20,396,000 (2002: $24,627,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2003 *(thousands)*

	2003 Cost	2003 Fund's share Fair Value	2002 Cost	2002 Fund's share Fair Value
Deposits and short-term securities	$ 778	$ 778	$ 465	$ 465
Public equities (a) (b)				
Financial	14,608	12,065	13,844	12,699
Consumer discretionary	12,188	10,219	10,942	9,804
Health Care	10,275	9,171	9,632	8,848
Information technology	9,927	8,407	13,319	11,339
Industrials	8,265	6,819	8,514	7,967
Consumer staples	6,758	5,719	7,433	6,857
Energy	4,841	3,951	5,459	4,996
Telecommunication services	2,109	1,782	3,283	2,545
Materials	2,144	1,716	2,656	2,480
Utilities	1,745	1,546	2,994	2,676
	72,860	61,395	78,076	70,211
Passive index	5	6	12	10
	72,865	61,401	78,088	70,221
Private Equities	272	260	-	-
Receivable from sale of investments and accrued investment income	149	149	690	690
Accounts payable and accrued liabilities	(116)	(116)	(340)	(340)
	33	33	350	350
	$ 73,948	$ 62,472	$ 78,903	$ 71,036

(a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $1,367,000 (2002: $Nil) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

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

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2003 *(thousands)*

	2003 Cost	2003 Fund's share Fair Value	2002 Cost	2002 Fund's share Fair Value
Deposits and short-term securities	$ 2,303	$ 2,303	$ 1,148	$ 1,148
Public equities (a)				
United Kingdom	21,124	16,552	19,479	18,050
Japan	12,613	9,831	15,300	12,416
France	7,112	5,514	8,718	8,084
Switzerland	5,930	4,726	6,219	5,842
Netherlands	4,999	3,782	6,287	5,809
Germany	3,990	2,951	5,317	4,771
Australia	3,472	3,238	2,867	2,941
Italy	3,393	2,738	2,510	2,418
Hong Kong	2,213	1,784	2,093	2,060
Spain	2,063	1,673	2,189	1,898
Finland	1,346	1,061	1,334	1,379
Sweden	1,151	1,027	1,112	1,221
Other	6,549	5,596	5,222	5,204
	75,955	60,473	78,647	72,093
Receivable from sale of investments and accrued investment income	486	486	1,245	1,245
Accounts payable and accrued liabilities	(942)	(942)	(1,323)	(1,323)
	(456)	(456)	(78)	(78)
	$ 77,802	$ 62,320	$ 79,717	$ 73,163

(a) The Fund's effective net investment in Non-North American public equities includes the fair value of deposits and floating rate notes, totalling $Nil (2002: $63,000) which are used as underlying securities to support the notional amount of Non-North American equity index swap contracts and equity index futures contracts.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule E

Year Ended March 31, 2003

The Fund uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Fund over a specified period and is a measure of the total return 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		Two Year Compound Annualized Return
	2003	**2002**	
Time-weighted rates of return			
Short-term fixed income	**2.9**	**4.0**	**3.5**
Scotia Capital 91-day T-Bill Index	2.7	3.7	3.2
Long-term fixed income	**9.6**	**5.9**	**7.7**
Scotia Capital Universe Bond Index	9.2	5.1	7.1
Canadian equities	**(17.1)**	**4.2**	**(7.1)**
S&P/TSX	(17.6)	4.9	(7.0)
United States equities	**(30.4)**	**1.4**	**(16.0)**
S&P 500 Index	(30.7)	1.6	(16.1)
Non-North American equities	**(29.1)**	**(5.6)**	**(18.2)**
MSCI EAFE Index	(29.3)	(7.3)	(19.0)
Private equities (1)	**(4.3)**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	5.7	n/a	n/a
Real estate (2)	**9.8**	**7.3**	**8.6**
Consumer Price Index (CPI) plus 5%	8.9	9.9	9.4
Absolute Return Strategies (1)	**1.6**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 6%	4.7	n/a	n/a
Overall	**(10.2)**	**3.0**	**(3.9)**
Policy Benchmark	**(10.6)**	**3.1**	**(4.0)**

1) Actual and benchmark returns are for six months.
2) Effective June 1, 2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI plus 5%. Therefore, the benchmark for two years is a combination of RCPI and CPI plus 5%.

ALBERTA RISK MANAGEMENT FUND

Financial Statements

YEAR ENDED MARCH 31, 2003

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, 2003 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, 2003 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed]

Edmonton, Alberta
May 23, 2003

FCA
Auditor General

ALBERTA RISK MANAGEMENT FUND

BALANCE SHEET

March 31, 2003 *(thousands)*

	2003	2002
Assets		
Cash and cash equivalent (Note 3)	$ 18,237	$ 17,014
Accounts receivable (Note 4)	34	28
Accrued recoveries (Note 5)	147	827
	$ 18,418	$ 17,869
Liabilities and Net Assets		
Liabilities		
Payable to the Revenue Department	$ 275	$ 196
Liability for accrued claims (Note 6)	14,584	10,633
	14,859	10,829
Net Assets	3,559	7,040
	$ 18,418	$ 17,869

The accompanying notes are part of these financial statements.

STATEMENT OF OPERATIONS

Year Ended March 31, 2003 *(thousands)*

	Budget	2003 Actual	2002 Actual
Income			
Insurance services			
Province of Alberta departments, funds and agencies	$ 6,000	$ 6,725	$ 7,163
Other entities	550	363	385
Subrogation and salvage	-	278	927
Interest	650	564	646
	7,200	7,930	9,121
Expenses			
Insurance claims	5,206	8,560	3,813
Insurance premiums	1,400	1,770	1,103
Administration	939	881	703
Other services	240	200	305
	7,785	11,411	5,924
Net (loss) income	$ (585)	(3,481)	3,197
Net assets at beginning of year		7,040	3,843
Net assets at end of year		$ 3,559	$ 7,040

The accompanying notes are part of these financial statements.

ALBERTA RISK MANAGEMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003

NOTE 1 AUTHORITY, PURPOSE AND FINANCIAL STRUCTURE

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

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

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

b) 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. As at March 31, 2003, securities held by the CCITF have an average effective market yield of 3.23% (2002 2.58%) per annum and an average duration of 71 days (2002 68 days).

NOTE 4 ACCOUNTS RECEIVABLE

(thousands)

	2003	2002
Receivable from Province of Alberta departments, funds and agencies	$ 30	$ 18
Other	4	10
	$ 34	$ 28

NOTE 5 ACCRUED RECOVERIES

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

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

(thousands)

	2003	2002
Outstanding claims (a)	$ 8,384	$ 5,033
Incurred but not reported losses (b)	6,200	5,600
	$ 14,584	$ 10,633

a) Outstanding Claims

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

NOTE 6 (continued)

(b) Incurred But Not Reported (IBNR) Losses

Liability for IBNR losses is an estimate of liabilities for claims that have been incurred but have not yet been reported, 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.

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. Based on that review, management determined that $6.2 million was an appropriate estimate of the Fund's liability for IBNR losses at March 31, 2003, taking into account the significant growth in claims and new claim types up to that date.

Liability for IBNR losses as at March 31, 2001 was determined using accepted actuarial practices, including selection of appropriate assumptions and methods, which include using weighted averages of estimated losses paid and reported.

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

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

NOTE 7 CONTINGENCIES

At March 31, 2003, the Province was named as defendant in various legal actions relating to insurance claims. The resulting loss, if any from these claims and other potential claims cannot be determined.

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA SECURITIES COMMISSION

Financial Statements

YEAR ENDED MARCH 31, 2003

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, 2003 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, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[original signed]

Edmonton, Alberta
May 23, 2003

FCA
Auditor General

ALBERTA SECURITIES COMMISSION

BALANCE SHEET

As at March 31, 2003 *(thousands)*

	2003	2002 (restated Note 3)
Assets		
Current		
Cash		
Cash (Note 5)	$ 2,472	$ 2,897
Funds held for others (Note 10)	655	-
Accounts and advances receivable (Note 15)	749	182
Lease inducement receivable (Note 8)	400	-
Prepaid expense	55	18
	4,331	3,097
Non-current		
Restricted assets (Note 4)	786	729
Investments (Note 5)	15,320	18,646
Capital assets (Note 7)	1,727	1,619
Lease inducement receivable (Note 8)	588	-
	18,421	20,994
Total assets	$ 22,752	$ 24,091
Liabilities and Retained Earnings		
Current		
Funds held for others (Note 10)	$ 655	$ -
Accounts payable and accrued liabilities	1,551	926
Accrued vacation and benefit liabilities	607	777
Lease inducement (Note 8)	170	40
	2,983	1,743
Lease Inducement (Note 8)	955	120
Accrued benefit liability (Note 9)	1,033	748
Total liabilities	4,971	2,611
Retained earnings (Note 4)	17,781	21,480
Total liabilities and retained earnings	$ 22,752	$ 24,091

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

Approved on behalf of the members:

Stephen P. Sibold, Q.C., Chair

Jerry A. Bennis, FCA, Member

ALBERTA SECURITIES COMMISSION

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2003 *(thousands)*

	Budget (Note 13)	2003 Actual	2002 Actual (restated Note 3)
Revenue			
Fees (Note 14)	$ 15,172	$ 14,647	$ 14,409
Investment income (Note 6)	1,000	551	437
Settlement cost recoveries	-	12	365
Other	20	8	16
	16,192	15,218	15,227
Expense			
Salaries and benefits (Schedule A)	11,567	10,613	10,298
Edmonton office closure (Note 11)	-	2,096	-
Premises	1,146	1,264	1,109
Contract services	1,601	1,820	1,088
Amortization	645	556	557
Other	612	657	541
Travel	622	394	388
CSA project costs (Note 12)	431	780	359
Materials and supplies	368	301	299
Telephone and communications	223	218	229
Member fees (Schedule A)	410	275	199
Total expense	17,625	18,974	15,067
Income (loss) from operations	(1,433)	(3,756)	160
Administrative penalties revenue (Note 4)	(57)	57	104
Net income (loss)	$ (1,490)	(3,699)	264
Opening retained earnings, as originally reported		20,920	20,154
Change in accounting policy (Note 3)		560	1,062
Opening retained earnings, as restated		21,480	21,216
Closing retained earnings (Note 4)		$ 17,781	$ 21,480

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

ALBERTA SECURITIES COMMISSION

STATEMENT OF CASH FLOWS

Year Ended March 31, 2003 *(thousands)*

	2003	2002
Cash flows from operating activities		
Cash receipts from fees	$ 14,580	$ 14,411
Cash receipts from settlement cost recoveries	12	365
Cash paid to and on behalf of employees	(10,254)	(9,550)
Cash paid to suppliers for goods and services	(5,741)	(4,465)
Edmonton office closure	(1,966)	-
Investment income	561	980
Cash flows from (used in) operating activities	(2,808)	1,741
Administrative penalties	57	104
Cash flows from (used in) operating activities and administrative penalties	(2,751)	1,845
Cash flows from investing activities		
Lease inducement received	19	200
Increase in restricted assets	(57)	(104)
Cash used for capital assets (1)	(727)	(595)
Cash (used for) provided from investments (2)	3,327	(2,786)
Cash advanced to CSA for NRD funding (Note 15)	(236)	-
Cash from investing activities	2,326	(3,285)
Decrease in cash	(425)	(1,440)
Opening cash	2,897	4,337
Closing cash	$ 2,472	$ 2,897
Supplemental cash flow information		
(1) Additions to capital assets	$ (847)	$ (321)
Increases (decreases) in capital asset liabilities	120	(274)
	(727)	(595)
(2) (Additions) reductions in investments	3,337	(2,241)
Loss on disposal of investments	(10)	(545)
	$ 3,327	$ (2,786)

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

ALBERTA SECURITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003 *(thousands)*

NOTE 1 NATURE OF OPERATIONS

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

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

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

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

a) Portfolio Investments

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

b) Investment Income

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

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) Valuation of Financial Assets and Liabilities

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

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

NOTE 2 (continued)

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

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

Private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

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. Equity index futures 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 interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields.

d) Capital Assets

Capital assets are recorded at cost.

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

Computer equipment	3 years
Furniture and equipment	10 years
Leasehold improvements	8 years

e) Fee Revenue Recognition

Fees are recognized when cash is received (see Note 3).

f) Employee Future Benefits

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 employees of the Plan is 11 years.

NOTE 2 (continued)

The Commission also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the Commission. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution of $13.5. The expense included in these financial statements represents the current contributions made on behalf of the employees.

g) Lease Inducement

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

h) Use of Estimates

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

i) Restricted 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.

NOTE 3 CHANGE IN ACCOUNTING POLICY - FEE RECOGNITION

The Commission changed its accounting method for fees from distributions, registrations, and filing of annual financial statements and applications. Fees are now recognized when cash is received. This change reflects the new regulator model where fees are not based on specific services provided to a filer, rather fees are charged to enable the Commission to fulfill its overall regulatory responsibilities. Further, as fees are not refundable, except at the Commission's discretion, fees represent revenue when received. In addition, the new policy is consistent with other Canadian Securities Commissions.

The change in accounting policy has been applied retroactively, with restatement of comparative figures. The restatement has the effect of eliminating the work in progress and unearned revenue balances at March 31, 2002 of $103 and $664, increasing opening retained earnings by $1,062 and reducing 2002 net income by $502 (revenue decrease of $510; distributions $217, registrations $267, orders $26 and expense increase of $8).

If the policy change had not been made, work in progress and unearned revenue would have been $84 and $890 at March 31, 2003, and the loss for the year 2003 would have increased by $245.

NOTE 4 RESTRICTED ASSETS AND RETAINED EARNINGS

Retained earnings include $786 (2002 $729) of restricted assets, as described in Note 2(i).

NOTE 5 CASH AND INVESTMENTS

a) Summary

		2003			2002	
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Bank deposit	$ 627	$ 627		$ 2,897	$ 2,897	
Less funds held for others (Note 10)	(655)	(655)		-	-	
CCITF cash	2,500	2,500		-	-	
	$ 2,472	$ 2,472		$ 2,897	$ 2,897	
Investments						
Deposit in the CCITF	$ 6,206	$ 6,206	35.2	$ 7,114	$ 7,114	38.5
Fixed-income securities (Schedule B)	8,755	8,544	48.5	8,786	8,399	45.4
Canadian equities (Schedule C)	2,859	2,877	16.3	2,746	2,980	16.1
	17,820	17,627	100.0	18,646	18,493	100.0
Less CCITF cash held for current purposes	(2,500)	(2,500)		-	-	
	$ 15,320	$ 15,127		$ 18,646	$ 18,493	

Cash consists of deposits in the Consolidated Cash Investment Trust Fund that is managed by the Ministers of Alberta Revenue and Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

The Commission's investments are held in investment funds established and managed by the Ministers of Alberta Revenue and Alberta Finance. Investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of units.

b) Investment Risk Management

The value of investments is exposed to credit and price risk.

Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of interest rate risk and market risk. Interest rate risk relates to the possibility that the investments will change in value due to fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

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

NOTE 5 (continued)

c) Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The 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. There are underlying securities supporting all swaps, and leveraging is not allowed.

As at March 31, 2003, the Commission's proportionate share of the notional amount of derivative contracts amounted to $1,921 (2002 $1,801) and 28% (2002 38%) of these contracts mature within three years. As at March 31, 2003, index swaps and equity index futures contracts, with a notional amount of $1,315 (2002 $1,101), had a negative fair value of $34 (2002 $5). Cross-currency interest rate swap contracts, which comprised the remaining notional amount of $606 (2002 $700), are valued as a package, including the underlying security. As at March 31, 2003, the combined fair value of cross-currency swaps and underlying securities amounted to $621 (2002 $696).

NOTE 6 NET INVESTMENT INCOME

	2003	2002
Interest	$ 873	$ 945
Net realized loss on investments	(257)	(545)
Derivative income (loss)	(106)	2
Dividends	41	35
	$ 551	$ 437

NOTE 7 CAPITAL ASSETS

	Cost	Accumulated Amortization	2003 Net Book Value	2002 Net Book Value
Computer equipment	$ 1,560	$ 1,162	$ 398	$ 353
Furniture and equipment	481	167	314	322
Leasehold improvements	1,684	669	1,015	944
	$ 3,725	$ 1,998	$ 1,727	$ 1,619

NOTE 8 LEASE INDUCEMENTS

Lease inducement balances and current amortization includes:

Lease	Term	Current Inducement	Future Inducement
Calgary, old	10 years, ending 2006	$ 40	$ 80
Calgary, new	8 years, ending March 2011	123	865
Calgary sublease	3 years, ending October 2005	7	10
		$ 170	$ 955

The new Calgary lease inducement of $988 is receivable over three years with $400 due in May 2003.

NOTE 9 ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability includes:

	2003	2002
Retirement Plan	$ 201	$ 207
Supplemental Pension	832	541
	$ 1,033	$ 748

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

	2003	2002
Public Service Pension Plan	$ 194	$ 180
Registered Retirement Savings Plan	240	242
Retirement Plan	6	13
Supplemental Pension Plan	292	212
	$ 732	$ 647

a) Public Service Pension Plan

The Commission participates in the Public Service Pension Plan (the PSPP). The expense for this pension plan equals the amount recorded in the accounts for the year ending March 31, 2003. At December 31, 2002 the PSPP reported an actuarial deficiency of $175,528 and in 2001 an actuarial surplus of $320,487.

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.

NOTE 9 (continued)

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 commencing in September 2002 and ending in 2017. 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 executives which 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.

An actuarial valuation of the Plan and retirement plan was performed by an independent actuary in March, 2001 and updated to March 31, 2002. The accrued benefit liability was determined as at March 31, 2001. During the current year management has estimated, based on information from prior actuarial valuations, the incremental costs of employee change within the plans of approximately $55 in addition to the actuarial valuation determined expense (prior to employee change) of $237.

ALBERTA SECURITIES COMMISSION

NOTE 9 (continued)

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

Balance Sheet at March 31	**2003**	**2002**
Market value of assets	$ -	$ -
Accrued benefit obligation	1,033	829
Unfunded obligation	1,033	829
Unamortized transitional obligation	(229)	(255)
Unamortized actuarial gain	(33)	(33)
Employee change cost estimate	61	-
Accrued benefit liability	$ 832	$ 541

Accrued Benefit Obligation	**2003**	**2002**
Accrued benefit obligation at beginning of period	$ 829	$ 596
Service cost	190	134
Interest cost	60	54
Net actuarial loss (gain)	(46)	45
Accrued benefit obligation at end of period	$ 1,033	$ 829

Pension Expense	**2003**	**2002**
The pension expense for the Plan is as follows:		
Service cost	$ 206	$ 134
Interest cost	60	54
Amortization of transitional obligation	26	24
Pension expense	$ 292	$ 212

Actuarial Assumptions for Actuarial Valuation of the Plan

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 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.

	2003	**2002**
Discount rate	7.15%	7.15%
Rate of inflation	2.20%	2.20%
Salary increases	3.70%	3.70%

NOTE 10 FUNDS HELD FOR OTHERS

The Commission holds $655 in cash for participants in the Market Integrity Computer Analysis (MICA) system upgrade project. In addition, the Commission is committed to contributing $170 to the project, of which $35 has been spent and recorded as a Commission expense. Funds are disbursed as payments are made for approved expenditures. Expenditures, if any, in excess of the amounts held for others and the Commission's MICA commitment, require further participant approval and contribution. The MICA project will assist participants in the analysis of trading activities.

NOTE 11 EDMONTON OFFICE CLOSURE

The Commission closed its Edmonton Office on February 1, 2003. Closure costs of $2,096 include: employee severances of $1,400, lease termination of $140, litigation settlement with Edmonton employees of $250, furniture fixtures and leasehold write-offs of $200 and operational costs of $100.

NOTE 12 COMMITMENTS, CONTINGENCIES AND GUARANTEES

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

a) Commitments

Commitments arising from contractual obligations associated primarily with the eight-year lease of premises and three-year average rental of office equipment at March 31, 2003 amounted to $ 12,656 (2002 $5,058). These commitments become expenses of the Commission when the terms of the contracts are met.

The commitment amount includes the Commission's remaining contribution of $135 for the Market Integrity Computer Analysis project (see Note 10).

2003-04	$ 1,617
2004-05	1,463
2005-06	1,542
2006-07	1,573
2007-08	1,658
Thereafter	4,803
Total	$ 12,656

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

NOTE 12 (continued)

b) Guarantees

The Commission, along with the Ontario Securities Commission and the British Columbia Securities Commission guaranteed the liabilities of the Mutual Fund Dealers Association of Canada. The Commission's share of the guarantee is limited to $2,160.

c) Contingency, National Registration Database

The Commission is contingently liable in the amount of $518, which represents the Commission's share of certain development costs of the National Registration Database System ("NRD System"), should the NRD System fail and cannot be restored. Otherwise, these costs are contractually recoverable from system users. Subsequent to March 31, 2003 the NRD system was implemented, certain of these costs have been recovered and, based on current NRD system operations, the contingency will be eliminated in early 2004. No provision has been made in the financial statements for any potential cost to the Commission, as the Commission does not expect to pay any amount.

d) Legal Actions

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

NOTE 13 BUDGET

The Commission members approved the original budget in February 2002. The following changes were subsequently authorized by the Commission members: Fees and investment income reductions of $1,300, net expense reductions of $300, Edmonton office closure expense of $2,200 (not previously budgeted), a contract services increase of $518 to provide additional funding for the National Registration Database, and capital expenditures for premises increases of $1,000 for Calgary leasehold capital renovations and expansions.

NOTE 14 FEES

	2003	2002
Distribution of securities (Note 3)	$ 6,172	$ 6,986
Registrations (Note 3)	5,686	4,822
Annual financial statements	2,448	2,168
Orders (Note 3)	341	433
Total	$ 14,647	$ 14,409

NOTE 15 ADVANCES

The Commission advanced $236 to the NRD project in late fiscal 2003 and consistent with the terms of this advance will be repaid this amount during fiscal 2004.

SCHEDULES TO THE FINANCIAL STATEMENTS

SCHEDULE OF SALARIES AND BENEFITS

Schedule A

For the Year Ended March 31, 2003 *(dollars)*

	2003				2002	
	Number of Individuals (1)	Salary (2)	Benefits and Allowances (3)	Total	Number of Individuals (1)	Total
Securities Commission Members (part-time)	9	$ 275,405	$ -	$ 275,405	9	$ 198,681
Chair, Securities Commission (4)	1.0	$ 435,150	$ 33,155	$ 468,305	1.0	$ 456,485
Vice Chair, Securities Commission (4)	1.0	$ 212,150	$ 18,731	$ 230,881	1.0	$ 222,532
Vice Chair, Securities Commission (4,5)	0.8	$ 494,025	$ 47,221	$ 541,246	1.0	$ 221,148
Executive Director (6)	1.0	$ 242,900	$ 19,981	$ 262,881	1.0	$ 260,763
Director, Legal/Policy	1.0	$ 192,650	$ 17,986	$ 210,636	1.0	$ 204,137
Director, Capital Markets	1.0	$ 181,151	$ 17,499	$ 198,650	1.0	$ 190,922
Director, Enforcement	1.0	$ 168,350	$ 17,836	$ 186,186	1.0	$ 177,990
Director, Administration (7)	0.6	$ 93,346	$ 12,756	$ 106,102	-	-

(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, club memberships and Chair's automobile allowance.

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

(5) The Vice Chair resigned effective January 31, 2003. Retiring allowance and bonus amounts included in Salary. Vacation payout included in Benefits and Allowances. A new Vice Chair was appointed on April 9, 2003.

(6) Automobile provided, no dollar amount included in benefits and allowance figures.

(7) Director, Administration was hired September 9, 2002 as a new member of the Senior Management team.

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule B

March 31, 2003 *(thousands)*

	Commission's share 2003		Commission's share 2002	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Deposits in the Consolidated Cash Investment Trust Fund	$ 15	$ 15	$ 94	$ 94
Public fixed-income securities				
Government of Canada, direct and guaranteed	1,788	1,754	2,485	2,368
Provincial, direct and guaranteed:				
Alberta	20	21	26	26
Other	1,617	1,592	1,525	1,446
Municipal	181	180	128	124
Corporate	4,067	3,949	3,337	3,218
Private fixed-income securities				
Corporate	975	941	1,110	1,042
	8,663	**8,452**	**8,705**	**8,318**
Accounts receivable and accrued investment income	111	111	193	193
Accounts payable and accrued liabilities	(19)	(19)	(112)	(112)
	92	**92**	**81**	**81**
	$ 8,755	**$ 8,544**	**$ 8,786**	**$ 8,399**

(a) Fixed income securities held as at March 31, 2003 have an average effective market yield of 5.41% per annum (2002: 5.80% per annum) and the following term structure based on principal amounts:

	2003 %	**2002 %**
under 1 year	2	7
1 to 5 years	37	34
5 to 10 years	31	31
10 to 20 years	11	10
over 20 years	19	18
	100	100

b) The Commission's fixed income securities are held in the Canadian Dollar Public Bond Pool (the Pool). The Pool is managed by the Ministry of Revenue with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

ALBERTA SECURITIES COMMISSION

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule C

March 31, 2003 *(thousands)*

	Commission's share 2003 Cost	Commission's share 2003 Fair Value	Commission's share 2002 Cost	Commission's share 2002 Fair Value
Deposits in the CCITF	$ 25	$ 25	$ 38	$ 38
Public equities (a)(b)				
Financial	887	952	772	897
Energy	361	446	273	380
Materials	457	437	417	430
Consumer discretionary	243	199	256	232
Industrials	209	193	261	267
Telecommunication services	168	155	120	116
Information technology	191	145	265	241
Consumer staples	109	119	93	111
Utilities	113	117	86	97
Health Care	98	92	108	111
	2,836	2,855	2,651	2,882
Passive index	11	10	39	42
	2,847	2,865	2,690	2,924
Receivable from sale of investments and accrued investment income	8	8	26	26
Accounts payable and accrued liabilities	(21)	(21)	(8)	(8)
	(13)	(13)	18	18
	$ 2,859	**$ 2,877**	**$ 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, totalling $667 (2002: $612) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and futures contracts.

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

Schedule C (continued)

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

	2003 Cost	2003 Fair Value	2002 Cost	2002 Fair Value
Domestic Passive Equity Pooled Fund (i)	$ 1,250	$ 1,272	$ 1,222	$ 1,318
Canadian Pooled Equity Fund (ii)	1,156	1,173	1,160	1,279
External Managers Canadian Large Cap Equity Pool (iii)	453	432	364	383
	$ 2,859	$ 2,877	$ 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 (TSX) Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the TSX Index. To enhance investment returns with no substantial increase in risks, the pool uses structured investments such as domestic equity index swaps. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of ten years or less.

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

SCHEDULE OF INVESTMENT RETURNS

Schedule D

Year Ended March 31, 2003

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 funds or indices.

Investment returns for the Commission are as follows:

	One Year Return				4 Year Compound Annualized Return
	2003	**2002**	**2001**	**2000**	
Time-weighted rates of return					
Short-term fixed income	**2.9**	**4.0**	**5.8**	**5.1**	**4.4**
Scotia Capital 91-day T-Bill Index	2.7	3.7	5.7	4.7	4.2
Long-term fixed income	**9.5**	**5.7**	**9.4**	**1.3**	**6.4**
Scotia Capital Universe Bond Index	9.2	5.1	8.7	1.3	6.0
Canadian equities	**(17.5)**	**n/a**	**n/a**	**n/a**	**n/a**
Toronto Stock Exchange (S&P/TSX)	(17.6)	n/a	n/a	n/a	n/a
Overall Return	**2.3**	**4.3**	**8.6**	**2.1**	**4.3**

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

Statement of Remissions, Compromises and Write-Offs

MARCH 31, 2003

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	$ 5,274,872
Fuel tax	19,418
Hotel tax	151,768
Tobacco tax	170,509
	$ 5,616,567

ALPHABETICAL LIST OF ENTITIES' FINANCIAL STATEMENTS

2003

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 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 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 Boards:	Community Development
Calgary Region Community Board	
Central Region Community Board	
Edmonton Region Community Board	
Michener Centre Facility Board[2]	
Northeast Region Community Board	
Northwest Region Community Board	
Provincial Board	
South Region Community Board	
Provincial Judges and Masters in Chambers Reserve Fund	Finance
Supplementary Retirement Plan Reserve Fund	Finance
Victims of Crime Fund	Solicitor General
Wild Rose Foundation, The	Community Development

ENTITIES 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
Workers' Compensation Board	Human Resources and Employment

[2] Dissolved July 23, 2002