ALBERTA HERITAGE SAVINGS TRUST FUND
FIRST QUARTER UPDATE

2002-03 QUARTERLY REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2002

Heritage Fund

Alberta
REVENUE

FIRST QUARTER UPDATE
JUNE 30, 2002

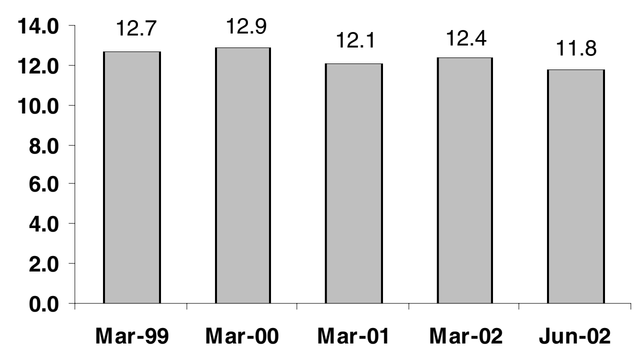
Alberta Heritage Savings Trust Fund

QUARTER IN REVIEW

Volatility in world equity markets over the past two years continued this quarter. The Canadian stock market measured by the Toronto Stock Exchange, S&P/TSX, declined by 8.6% this quarter, while US stocks measured by the Standard & Poor 500 declined by 17.4%. Information technology and telecommunication services sectors lead the decline in value of share prices on most world stock markets. Declining investor confidence in corporate governance, corporate accounting and corporate earnings forecasts contributed to the fall in share prices of major public corporations.

The performance of the Heritage Fund is measured over the long term. Over the long term, equities have outperformed fixed income securities. The Heritage Fund is comprised of a diversified portfolio of investments including equities, bonds, real estate, mortgages and derivative products. As a result, declines in equity investment values may be offset by increases in bonds, real estate and mortgages. However, over the short term and due to volatility of the equity markets the fair value of Heritage Fund investments declined by approximately 4.8% this quarter or $582 million. At June 30, 2002, the fair value of the Fund stood at $11.8 billion, down from $12.4 billion at March 31, 2002. The decline in value of $582 million includes a net loss of $84 million determined on a cost basis of accounting and $498 million of unrealized losses during the quarter.

HERITAGE FUND - FAIR VALUE
(billions)



VALUATION OF INVESTMENTS

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

On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. If the decline in value is not considered temporary, the cost of the investment is written down. Management is concerned about significantly volatile and declining world equity markets and is closely monitoring and reassessing the recorded values of the Fund's investments. During the quarter, the cost of certain equity investments was written down by approximately $98 million and included in the investment loss of $84 million on the financial statements.

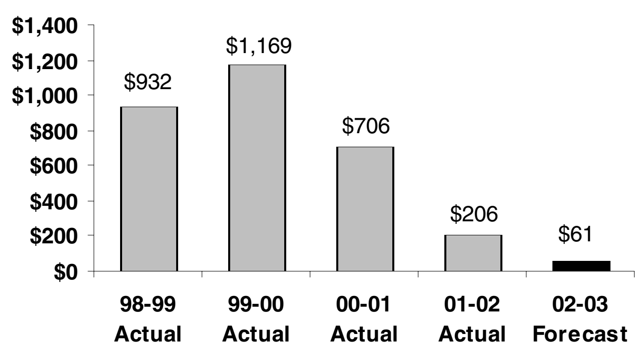
NET INVESTMENT INCOME

The Fund recorded a net loss of $84 million for the three months ended June 30, 2002. Realized capital losses from declining world stock markets, primarily in the information technology and telecommunication services sectors, contributed to the loss. Over the quarter, losses from equity investments of $165 million were offset by income from bonds, notes and short term paper of $75 million and real estate income of $6 million. A summary of investment income (loss) follows:

NET INVESTMENT INCOME (LOSS)
(millions) (actual)

	Fixed Income	Equity Income	Real Estate	Total
02-03 1st Qtr	$ 75	$ (165)	$ 6	$ (84)
01-02 year	444	(276)	38	206
00-01 year	532	157	17	706
99-00 year	610	539	20	1,169
98-99 year	769	159	4	932
	$ 2,430	$ 414	$ 85	$ 2,929

HERITAGE FUND NET INVESTMENT INCOME
(millions)



Forecasted net investment income of the Fund for the fiscal year ending March 31, 2003 was reduced from $589 million to $61 million. On a consolidated basis, forecasted net investment income was reduced from $573 million to $46 million. Consolidated forecasted net income exludes income from holdings of Alberta government securities and Provincial Corporation debentures.

CHANGE IN NET ASSETS

The Heritage Fund accounts for its investments on a cost basis of accounting. Investment income on a cost basis excludes unrealized gains and losses. Investment income on a fair value basis includes unrealized gains and losses. The investment loss on a fair value basis for the first quarter is $582 million.

CHANGES IN NET ASSETS
FAIR VALUE
(millions)

	Three Months Ended June 30, 2002	June 30, 2001
Fair value, beginning of period	$ 12,414	$ 12,123
Investment income, cost basis*	(84)	158
Change in unrealized appreciation (depreciation) in value of investments	(498)	(111)
Investment income, fair value basis	(582)	47
Transfers to the General Revenue Fund**	-	(158)
Fair value, end of period***	$ 11,832	$ 12,012

* includes interest, dividends, realized gains and losses, derivative income and administration expenses
** see financial statements (Note 6)
*** includes investments of $11.804 billion & net current assets of $28 million.

TRANSFERS TO GENERAL REVENUE FUND

The realized investment income earned by the Fund is not reinvested in the Fund. Instead, all of the net income is transferred to the Province's main operating fund, the General Revenue Fund (GRF), and used for Albertans' priorities like health care, education, roads, tax reductions and debt repayment. Changes in unrealized gains and losses are not included in amounts transferred to the General Revenue Fund. The Fund recorded a net loss of $84 million during the quarter. As a result, at June 30, 2002, the Fund's total receivable from GRF amounted to $147 million, representing transfers made to GRF for the three months ended June 30, 2002 based on forecasted income The loss of $84 million reduces the Fund's equity on a cost basis and is carried forward to reduce transfers resulting from income earned during the remaining nine months of the year.

INVESTMENT MIX

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

ASSET MIX POLICY
PERCENT OF FAIR VALUE
(percent)

	Policy Target 02-03	Actual Jun 02	Policy Target 01-02	Actual Mar 02
ASSET CLASS				
Fixed income	35.0	39.1	35.0	43.0
Equities				
Public equities:				
Canadian	20.0	20.5	23.0	20.1
United States	15.0	16.1	17.5	15.8
Non-north American	15.0	16.5	17.5	15.8
	50.0	53.1	58.0	51.7
Private equities	2.0	0.7	-	0.6
Absolute return strategies	3.0	-	-	-
	55.0	53.8	58.0	52.3
Real estate	10.0	7.1	7.0	4.7
	65.0	60.9	65.0	57.0
	100.0	100.0	100.0	100.0

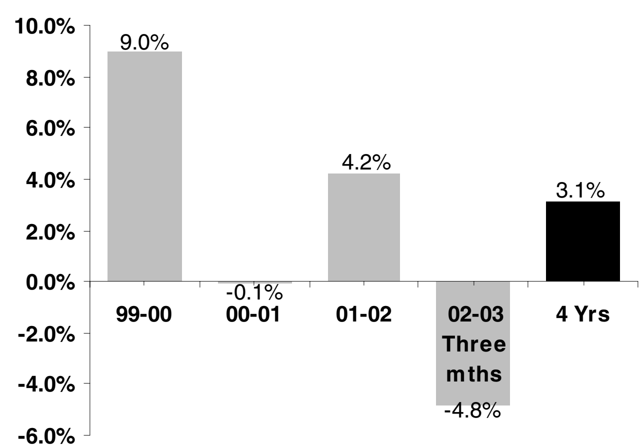
For the 2002-03 fiscal year, the policy asset mix for fixed income securities remains the same as the previous year at 35%. The policy mix for equity investments decreases from 58% to 55% while real estate investments increased from 7% to 10% of the total portfolio. The actual investment mix changed over the quarter. Fixed income securities declined from 43% to 39.1% as the transition portfolio was wound down. Equity investments increased slightly from 52.3% to 53.8% and real estate investments increased from 4.7% to 7.1%.

HERITAGE FUND RATE OF RETURN

A decision was made a few years ago to invest in assets that provide higher long-term rates of return. This would mean a portfolio with a significant commitment to equities and real estate. Equity investments have a greater potential for variations in performance from year to year.

However, during the three months ended June 30, 2002, the Heritage Fund posted an overall loss of 4.8%. Negative returns from Canadian, U.S. and non-North American equity investments were offset by positive returns from the fixed income investments and real estate. The performance of the Heritage Fund is measured over the long term. Over the past four-year period, the fund generated an annualized return of 3.1%.

HERITAGE FUND ANNUAL RETURNS
(percent)

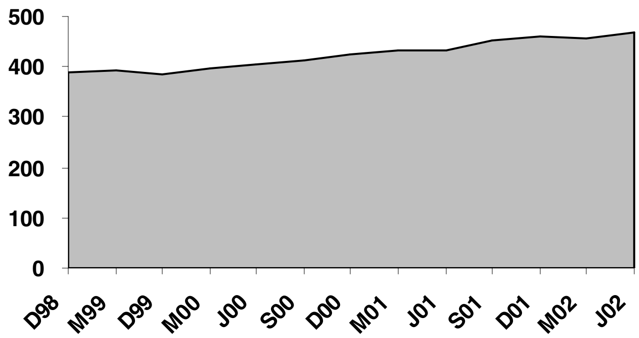


The performance of the Heritage Fund investments is measured against various market-based indices. Value added by investment management is accomplished through asset mix decisions and security selection.

FIXED INCOME INVESTMENTS

The Canadian bond market performed well this quarter. The Scotia Capital (SC) Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past quarter, the SC Universe Bond Index increased by 3.1% while the short term SC 91-Day T-Bill Index increased by 0.6%.

SC UNIVERSE BOND INDEX



	Actual Return	Benchmark SC 91-Day T-Bill Index	Over (Under)	
ST Fixed income	%	%		
Current Quarter	0.6	0.6	0	bps
One year	3.1	3.1	0	bps
Four years (annualized)	4.8	4.6	20	bps
	Actual Return	*SC Universe Bond Index*	Over (Under)	
LT Fixed income	%	%		
Current Quarter	3.2	3.1	10	bps
One year	9.8	9.1	70	bps
Four years (annualized)	6.4	5.9	50	bps

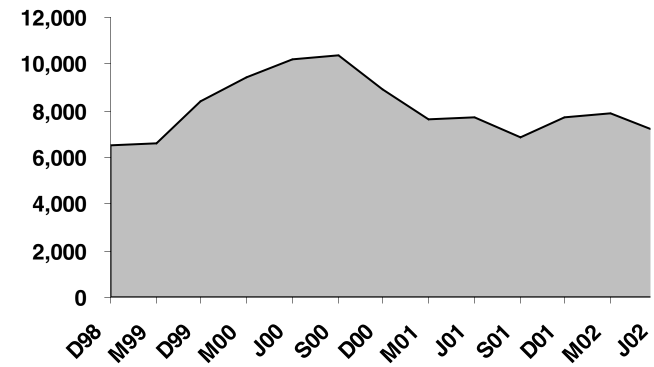
The Fund's actual return from short-term securities was 0.6%, equal to the benchmark. The Fund's actual rate of return over the quarter from long-term Canadian bonds was 3.2%, 10 basis points better than the benchmark SC Universe Bond Index. Over four-years, the returns from both short-term and long-term securities exceeded their benchmarks by 20 basis points and 50 basis points respectively. The out-performance was due to higher weight in corporate bonds and good duration management.

At June 30, 2002, investments in fixed income securities totaled \$4.6 billion or 39.1%, down from \$5.4 billion or 43.0% at March 31, 2002, due to the phasing out of the transition portfolio.

CANADIAN EQUITY INVESTMENTS

The Canadian stock market declined over the quarter with the information technology sector leading the way. Declining investor confidence in corporate earnings forecasts, accounting information and corporate governance contributed to the decline. The Toronto Stock Exchange (S&P/TSX), which measures the performance of Canada's largest companies in ten industrial sectors, decreased by 8.6% over the quarter ending June 30, 2002.

S&P / TSX



	Actual Return	Benchmark S&P/TSX Index	Over (Under)	
Canadian equities	%	%		
Current Quarter	-8.5	-8.6	10	bps
One year	-7.2	-6.1	-110	bps
Four years (annualized)	0.3	0.7	-40	bps

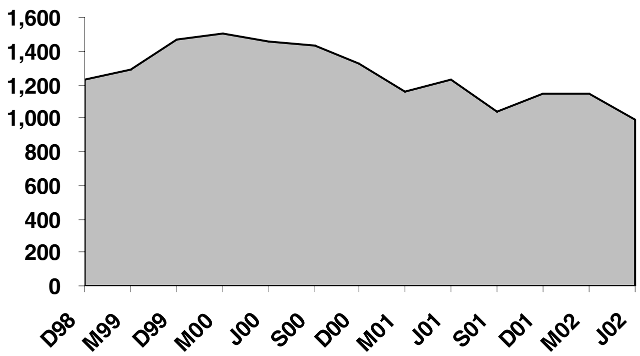
The Heritage Fund's Canadian equity portfolio is held in various investment pools, which are managed by internal and external managers. Over the quarter, the Fund's loss from Canadian equities was 8.5%, 10 basis points better than the benchmark S&P/TSX. Over four years, the Fund's return from Canadian equities was 0.3%, 40 basis points less than the benchmark.

At June 30, 2002, Canadian equity investments totaled \$2.5 billion or 21.2% of the Heritage Fund investment portfolio compared to \$2.6 billion or 20.7% at March 31, 2002.

US EQUITY INVESTMENTS

The US equity market declined over the quarter. The Standard & Poor 500 Index, S&P 500, which measures the performance of the top 500 American companies, decreased by 17.4% over the quarter when measured in Canadian dollars.

S&P 500



US equities	Actual Return %	*Benchmark S&P 500 Index* %	Over (Under)	
Current Quarter	-16.9	-17.4	50	bps
One year	-16.9	-17.8	90	bps
Four years (annualized)	-1.2	-1.2	0	bps

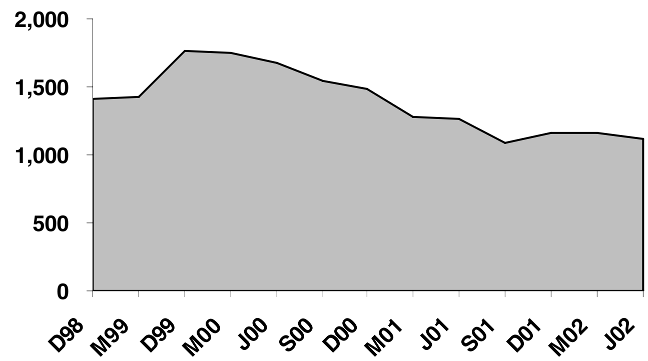
The Fund's loss over the quarter from US equities was 16.9%, 50 basis points better than the S&P 500. Over four years, the Fund's return from US equities was negative 1.2%, equal to the benchmark.

At June 30, 2002, US equity investments totaled $1.9 billion or 16.1% of the Heritage Fund investment portfolio compared to $2.0 billion or 15.8% at March 31, 2002.

NON-NORTH AMERICAN EQUITY INVESTMENTS

Various external managers who have expertise in foreign equity markets, manage the Heritage Fund's non-North American equity portfolio. The Morgan Stanley Composite Index for Europe, Australasia and the Far East, MSCI EAFE, measures the performance of approximately 1000 companies on 21 stock exchanges around the world. The index recorded a loss of 6.7% this quarter.

MSCI EAFE



Non-North American equities	Actual Return %	*Benchmark MSCI EAFE Index* %	Over (Under)	
Current Quarter	-6.5	-6.7	20	bps
One year	-8.8	-9.3	50	bps
Four years (annualized)	0.7	-2.6	330	bps

The Fund's actual loss from non-North American equities was 6.5%, 20 basis points better than the MSCI EAFE Index. Over four years, the Fund returned 0.7% from non-North American equities, 330 basis points better than the benchmark.

At June 30, 2002, investments in non-North American equities totaled $1.9 billion or 16.5% of the Heritage Fund investment portfolio compared to $2.0 billion or 15.8% at March 31, 2002.

REAL ESTATE INVESTMENTS

The real estate market in Canada continued to grow this quarter. The Fund's real estate investments are held in the internally managed Private Real Estate Pool. Nearly half of the real estate portfolio is invested in retail, half in office and a small portion in industrial and residential properties. Approximately two-thirds of the real estate portfolio is invested in Ontario, one quarter in Alberta and a small portion in British Columbia and Quebec.

The Fund's real estate portfolio earned 1.3% this quarter, 100 basis points less than the benchmark, CPI plus 5%. Over four years, the real estate portfolio returned 9.2%, 240 basis points less than the benchmark. Real estate investments are reported at their most recent appraised value. Real estate properties are appraised annually, on a staggered basis, by qualified external real estate appraisers.

Real estate	Actual Return %	*CPI plus 5%** %	Over (Under)	
Current Quarter	1.3	2.3	-100	bps
One year	6.9	9.7	-280	bps
Four years (annualized)	9.2	11.6	-240	bps

* Effective April 1, 2002, the benchmark changed from the Russell Canadian Property Index (RCPI) to CPI + 5%. Therefore, the benchmark for one year and four years is a combination of RCPI and CPI + 5%. The RCPI benchmark performance excludes various capital and operating expenditures which are deducted in the determination of the actual return.

At June 30, 2002, investments in real estate totaled $842 million or 7.1%, up from $594 million or 4.7% at March 31, 2002. Management intends to increase the Fund's investment in real estate to the policy target of 10% of total investments as real estate investment opportunities become available.

BUSINESS PLAN PERFORMANCE MEASURES

HERITAGE FUND (COMBINED)

(period ending June 30, 2002)

	Current Quarter	One Year	Four Years*
Actual return	-4.8%	-1.2%	3.1%

The combined rate of return is determined by adding the proportionate market value returns of each portfolio and adjusting for the timing of cash flows from the Transition Portfolio to the Endowment Portfolio.

TRANSITION PORTFOLIO

(period ending June 30, 2002)

	Current Quarter	One Year	Four Years*
Actual return	-0.2%	4.3%	5.2%

ENDOWMENT PORTFOLIO

(period ending June 30, 2002)

	Current Quarter	One Year	Four Years*
Actual return	-5.1%	-2.4%	2.9%
Benchmark	-5.2%	-2.1%	2.4%
Over (under) benchmark	10 bp	-30 bp	50 bp

Actual Return	Weight	Current Quarter	One Year	Four Years*
ST Fixed Income	3.3%	0.6%	3.1%	4.8%
LT Fixed Income	34.2%	3.2%	9.8%	6.4%
Canadian Equities	21.8%	-8.5%	-7.2%	0.3%
US Equities	16.5%	-16.9%	-16.9%	-1.2%
EAFE Equities	16.9%	-6.5%	-8.8%	0.7%
Real Estate	7.3%	1.3%	6.9%	9.2%
Total	100.0%	-5.1%	-2.4%	2.9%

Benchmark Return	Weight	Current Quarter	One Year	Four Years*
ST Fixed Income	2.0%	0.6%	3.1%	4.6%
LT Fixed Income	33.0%	3.1%	9.1%	5.9%
Canadian Equities	23.0%	-8.6%	-6.1%	0.7%
US Equities	17.5%	-17.4%	-17.8%	-1.2%
EAFE Equities	17.5%	-6.7%	-9.3%	-2.6%
Real Estate	7.0%	2.3%	9.7%	11.6%
Total	100.0%	-5.2%	-2.1%	2.4%

* annualized

ADMINISTRATIVE EXPENSES

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

ADMINISTRATIVE EXPENSE BREAKDOWN

(thousands)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Direct fund expenses	$ 420	$ 425
Externally managed investment pools	3,041	1,518
Internally managed investment pools	519	412
Total	$ 3,980	$ 2,355
Expenses as a percent of net assets at fair value	0.034%	0.020%

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

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

JUNE 30, 2002

BALANCE SHEET

June 30, 2002 (unaudited)

	(thousands) June 30, 2002	March 31, 2002
Assets		
Portfolio investments (Note 3)	$ 12,144,575	$ 12,501,716
Due from the General Revenue Fund	147,000	-
Accrued interest receivable	11,256	20,617
Administration expense receivable	-	7
Receivable from sale of investments	-	16,163
	$ 12,302,831	$ 12,538,503
Liabilities and Fund Equity		
Liabilities		
Liabilities for investment purchases	$ 130,616	$ 269,287
Due to the General Revenue Fund	-	12,897
Administration expense payable	18	-
	130,634	282,184
Fund equity (Note 6)	12,172,197	12,256,319
	$ 12,302,831	$ 12,538,503

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

STATEMENT OF OPERATIONS

for the Three Months ended June 30, 2002 (unaudited)

	(thousands) Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Net income (loss) (Note 7)	$ (84,122)	$ 158,036
Transfers to the General Revenue Fund (Note 6)	-	158,036
Net change in fund equity (Note 6)	(84,122)	-
Fund equity at beginning of period	12,256,319	12,256,319
Fund equity at end of period	$ 12,172,197	$ 12,256,319

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

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the Three Months ended June 30, 2002 (unaudited)

	(thousands)	
	Three Months Ended June 30, 2002	**Three Months Ended June 30, 2001**
Operating transactions:		
Net income (loss)	$ (84,122)	$ 158,036
Non-cash items included in net income	(6,064)	(5,460)
	(90,186)	152,576
Decrease in accounts receivable	25,531	42,135
Decrease in accounts payable	(138,653)	(124,089)
Cash provided by (applied to) operating transactions	(203,308)	70,622
Investing transactions:		
Proceeds from disposals, repayments and redemptions of investments	2,557,403	3,495,339
Purchase of investments	(2,134,633)	(3,661,423)
Cash provided by (applied to) investing transactions	422,770	(166,084)
Transfers		
Transfers to the General Revenue Fund	-	(158,036)
Increase (decrease) in amounts due to the General Revenue Fund	(159,897)	94,985
Cash applied to transfers	(159,897)	(63,051)
Increase (decrease) in cash	59,565	(158,513)
Cash at beginning of period	51,820	263,875
Cash at end of period	$ 111,385	$ 105,362
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 111,385	$ 105,362

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

Notes to the Financial Statements

June 30, 2002 (unaudited)

NOTE 1 AUTHORITY AND MISSION

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

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

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

Investments of the Fund are held in two portfolios, the Endowment Portfolio and the Transition Portfolio. The remaining assets held in the Transition Portfolio at June 30, 2002, totalling approximately $292 million, at cost, will be transferred to the Endowment Portfolio in July 2002. These financial statements present the Fund's investments held in the two portfolios on a combined basis (see note 3 and note 3r).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

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

(a) **Portfolio investments**

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

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

Investments are recorded as of the trade date.

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

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

(b) **Investment Income**

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

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

(c) **Foreign Currency**

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

(unaudited)

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) Mortgages, provincial corporation debentures and private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

(iii) The fair value of private equities is estimated by management.

(iv) Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

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

(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 period-end exchange rate.

(e) Valuation of Derivative Contracts

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

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

(ii) Interest rate swaps are valued based on discounted cash flows using current market yields.

(iii) Forward foreign exchange contracts are based on quoted market prices.

(iv) The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency fixed to fixed interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields. Cross-currency fixed to floating interest rate swaps are valued at the principal amount plus accrued interest.

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

	June 30, 2002			March 31, 2002		
	Cost	Fair Value	% of Fair Value	Cost	Fair Value	% of Fair Value
Fixed income						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 111,385	$ 111,385	1.0	$ 51,820	$ 51,820	0.4
Canadian Dollar Public Bond Pool (b)	3,425,434	3,397,056	28.8	3,372,717	3,291,655	26.0
Bonds, notes & short-term paper, directly held (c)	450,326	452,364	3.8	1,440,792	1,445,674	11.4
Private Mortgage Pool (d)	401,939	392,019	3.3	404,966	389,516	3.1
Provincial corporation debentures, directly held	103,565	165,226	1.4	104,622	165,178	1.3
Loans, directly held (e)	97,359	97,359	0.8	97,359	97,359	0.8
	4,590,008	4,615,409	39.1	5,472,276	5,441,202	43.0
Canadian equities						
Domestic Passive Equity Pooled Fund (f)	851,834	1,041,056	8.8	886,167	1,097,763	8.7
Canadian Pooled Equity Fund (g)	719,558	705,389	5.9	931,972	945,662	7.5
External Managers Canadian Large Cap Equity Pool (h)	589,074	588,062	5.0	380,554	406,097	3.2
External Managers Canadian Small Cap Equity Pool (i)	69,258	89,573	0.8	67,471	88,027	0.7
Private Equity Pool (98) (j)	77,213	76,159	0.6	75,580	75,843	0.6
Private Equity Pool (j)	10,548	6,521	0.1	10,489	7,204	-
Public equities, directly held	7	7	-	1,526	2,716	-
	2,317,492	2,506,767	21.2	2,353,759	2,623,312	20.7
United States equities						
External Managers US Passive Equity Pool (k)	1,268,064	967,531	8.2	1,104,863	994,944	7.9
External Manager US Large Cap Equity Pool (l)	946,494	798,012	6.8	891,430	879,969	6.9
External Manager US Small/Mid Cap Equity Pool (m)	124,371	127,511	1.1	102,321	122,653	1.0
United States Pooled Equity Fund	803	575	-	803	640	-
	2,339,732	1,893,629	16.1	2,099,417	1,998,206	15.8
Non-North American equities						
External Managers EAFE Core Equity Pool (n)	1,045,210	963,901	8.2	1,013,353	994,087	7.8
External Managers EAFE Plus Equity Pool (n)	496,953	475,405	4.0	488,475	499,732	4.0
External Manager EAFE Passive Equity Pool (o)	542,905	506,555	4.3	505,888	507,434	4.0
EAFE Structured Equity Pool	742	757	-	803	818	-
	2,085,810	1,946,618	16.5	2,008,519	2,002,071	15.8
Real estate (p)	811,533	841,532	7.1	567,745	594,463	4.7
Total equities and real estate	7,554,567	7,188,546	60.9	7,029,440	7,218,052	57.0
Total investments (q) (r)	$ 12,144,575	$ 11,803,955	100.0	$ 12,501,716	$ 12,659,254	100.0

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 June 30, 2002, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	June 30, 2002	March 31, 2002
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	36.9	36.9
Canadian Pooled Equity Fund	49.3	47.0
Domestic Passive Equity Pooled Fund	43.2	41.3
EAFE Structured Equity Pool	0.2	0.2
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Mortgage Pool	43.2	43.2
Private Real Estate Pool	42.8	36.3
United States Pooled Equity Fund	18.0	18.0
Externally Managed Investment Pools		
Canadian Large Cap Equity Pool	24.6	18.8
Canadian Small Cap Equity Pool	18.7	18.7
EAFE Core Equity Pool	36.6	36.2
EAFE Passive Equity Pool	60.5	56.6
EAFE Plus Equity Pool	35.8	35.4
US Large Cap Equity Pool	38.4	37.0
US Passive Equity Pool	75.3	68.9
US Small/Mid Cap Equity Pool	29.9	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 five years. As at June 30, 2002, securities held by the Fund have an average effective market yield of 3.0% per annum (March 31, 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 June 30, 2002, securities held by the Pool have an average effective market yield of 5.49% per annum (March 31, 2002: 5.80% per annum) and the following term structure based on principal amount: under 1 year: 6%; 1 to 5 years: 33%; 5 to 10 years: 32%; 10 to 20 years: 11%; over 20 years: 18%.

(c) As at June 30, 2002, fixed-income securities held directly by the Fund have an average effective market yield of 3.71% per annum (March 31, 2002: 4.02% per annum) and the following term structure based on principal amount: under 1 year: 95%; 1 to 5 years: 5%.

(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 (94.7%) and provincial bond residuals (5.3%). 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 June 30, 2002, securities held by the Pool have an average effective market yield of 6.78% per annum (March 31, 2002: 7.01% per annum) and the following term structure based on principal amount: under 1 year: 4%; 1 to 5 years: 31%; 5 to 10 years: 18%; 10 to 20 years: 27%; and over 20 years: 20%.

(e) 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 June 30, 2002, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245,000 (March 31, 2002: $91,245,000) and the Vencap loan amounting to $6,114,000 (March 31, 2002: $6,114,000).

- Under the terms of the loan to Ridley Grain, 11% Participating First Mortgage Bonds due July 31, 2015, interest is compounded semi-annually and payable annually to the extent of available cash flow and any shortfall is to be deferred and capitalized. The principal of $91,245,000 and deferred interest is repayable on or before July 31, 2015. Deferred interest at June 30, 2002 amounted to $60,049,081 (March 31, 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.

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

(g) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange 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.

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

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

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

(k) The US Passive Equity Pool consists of units in an externally managed US Passive Equity Pool that replicates the Standard & Poor's (S&P) 500 index. The performance objective is to provide returns comparable to the total return of the S&P 500 index over a four-year period.

(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) 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.

(n) 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.

(o) 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.

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

(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, it is management's best judgement that the decline in value is caused by short term market trends and is temporary in nature.

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

(thousands)

	June 30, 2002			March 31, 2002		
	Cost	Fair Value	%	Cost	Fair Value	%
Endowment Portfolio:						
Deposits and fixed income securities	$ 4,297,941	$ 4,303,145	37.5	$ 4,274,817	$ 4,178,459	36.7
Canadian equities	2,317,492	2,506,767	21.8	2,353,759	2,623,312	23.0
United States equities	2,339,732	1,893,629	16.5	2,099,417	1,998,206	17.5
Non-North American equities	2,085,810	1,946,618	16.9	2,008,519	2,002,071	17.6
Real estate	811,533	841,532	7.3	567,745	594,463	5.2
	11,852,508	11,491,691	100.0	11,304,257	11,396,511	100.0
Transition Portfolio:						
Deposits and fixed income securities	$ 162,716	$ 164,087	52.5	$ 995,478	$ 1,000,206	79.2
Provincial Corporation Debentures	31,992	50,818	16.3	104,622	165,178	13.1
Loans	97,359	97,359	31.2	97,359	97,359	7.7
	292,067	312,264	100.0	1,197,459	1,262,743	100.0
Total investments	$ 12,144,575	$ 11,803,955	100.0	$ 12,501,716	$ 12,659,254	100.0

NOTE 4 DERIVATIVE CONTRACTS

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

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

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

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 June 30, 2002.

(thousands)

	Maturity			June 30, 2002		March 31, 2002	
	Under 1 Year	1 to 3 Year	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	66%	34%	-	$ 563,241	$ (31,372)	$ 510,859	$ 7,733
Bond index swap contracts	100%	-	-	56,501	453	55,553	(491)
Forward foreign exchange contracts	100%	-	-	217,233	1,144	260,664	182
Interest rate swap contracts	44%	54%	2%	252,550	(8,652)	230,634	(8,479)
				1,089,525	$(38,427)	1,057,710	$ (1,055)
Cross-currency interest rate swap contracts (b)	47%	3%	50%	390,666		380,982	
				$ 1,480,191		$ 1,438,692	

(a) The method of determining the fair value of derivative contracts is described in note 2 (e).
(b) Cross-currency swaps are valued as a package including the underlying security. As at June 30, 2002, the combined fair value of cross-currency interest rate swaps and underlying securities amounted to $392,872,000 (March 31, 2002: $380,037,000).

NOTE 5 INVESTMENT RISK MANAGEMENT

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

The Standing Committee on the Alberta Heritage Savings Trust Fund reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2002-2003 business plan limits investments of the Transition Portfolio to include only fixed-income securities other than securities transferred from the previous structure and proposes the following asset mix policy for the Endowment Portfolio.

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

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 (GRF) annually in a manner determined by the Minister of Revenue. The Fund's net loss for the three months ended June 30, 2002, amounting to $84,122,000 has been applied against retained earnings and is carried forward to reduce transfers to GRF resulting from income earned in the remaining nine months of the fiscal year ending March 31, 2003. As at June 30, 2002, the Fund's total receivable from GRF amounted to $147,000,000 representing transfers made to GRF for the three months ended June 30, 2002 based on forecasted income.

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

NOTE 7 NET INCOME

	(thousands)	
	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Deposit and fixed-income securities	$ 74,396	$ 116,255
Canadian equities	(146,949)	44,303
United States equities	(18,119)	18,453
Non-North American equities	689	(27,775)
Real estate	6,281	7,225
Investment income	(83,702)	158,461
Direct administrative expenses (Note 8)	(420)	(425)
Net income	$ (84,122)	$ 158,036

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

Investment income for the three months ended June 30, 2002 includes a net loss from disposals of investments and writedowns totalling $140,718,000 (June 30, 2001: net gain $4,236,000).

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

	(thousands)	
	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001
Endowment Portfolio	$ (95,637)	$ 91,763
Transition Portfolio	11,515	66,273
Net income (loss)	$ (84,122)	$ 158,036

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)	
	Three Months Ended June 30, 2002	**Three Months Ended June 30, 2001**
Direct fund expenses (Note 7)	$ 420	$ 425
Externally managed investment pools	3,041	1,518
Internally managed investment pools	519	412
Total	$ 3,980	$ 2,355
Percent of net assets at fair value	0.034%	0.020%

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to June 30, 2002 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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