ALBERTA HERITAGE SAVINGS TRUST FUND

SECOND QUARTER UPDATE

2001-02 QUARTERLY REPORT

Heritage Fund

Alberta
REVENUE

SECOND QUARTER UPDATE

Alberta Heritage Savings Trust Fund

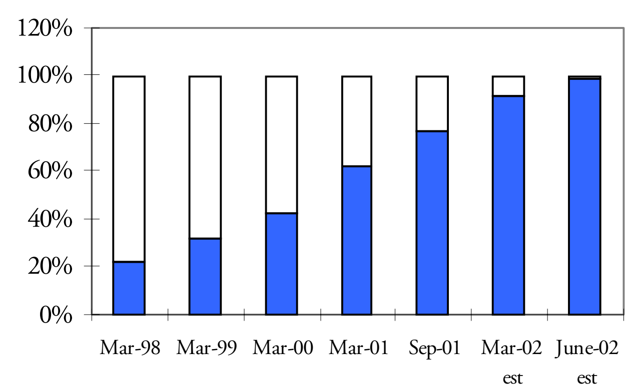
HERITAGE FUND BUSINESS PLAN

The Heritage Fund 2001-04 business plan identifies three main goals for the Fund:

1. Earn income to support the Government's consolidated fiscal plan.
2. Make investments to maximize long term financial returns.
3. Improve Albertans' understanding and the transparency of the Heritage Fund.

In order to improve Albertans' understanding and the transparency of the Fund and its operations in accordance with Goal 3, the fixed income securities held in the Transition Portfolio have been combined with the fixed income securities held in the Endowment Portfolio for reporting purposes. Previous quarterly and annual reports separated the two portfolios. Based on current transfers of $300 million per month, substantially all the assets held in the Transition Portfolio will be transferred to the Endowment Portfolio by June 30, 2002. The rapid decrease in the size of the Transition Portfolio makes separate comparisons of the portfolio's income and assets from period to period no longer meaningful.

ENDOWMENT AND TRANSITION PORTFOLIOS
(percent of total Heritage Fund, at cost)



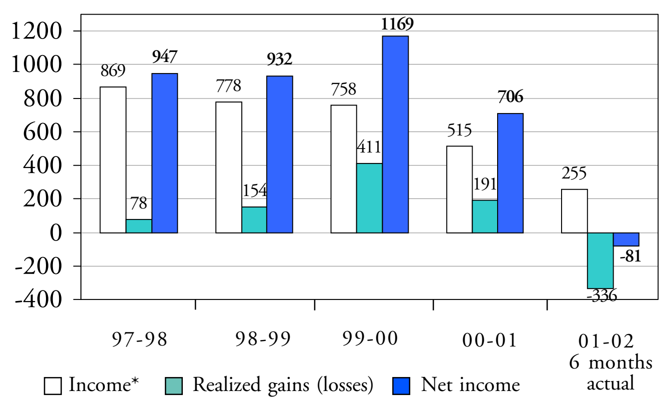
The Heritage Fund 2001-04 business plan outlines various performance measures and benchmarks which are reviewed annually to determine ongoing suitability. The performance returns of the Endowment Portfolio and Transition Portfolio are presented separately on page 6.

QUARTER IN REVIEW

The following management discussion and analysis reviews the quarter's results on a combined basis.

- The Fund recorded a realized investment loss of $239 million during the second quarter, resulting in a net loss of $81 million for the first half of fiscal 2001-02. Over six months, the Fund's earnings of $259 million from investments in bonds, notes, short-term paper and real estate were offset by net losses of $340 million from equity investments. Declining world equity markets over the past 12 months, the event of September 11, 2001, and writedowns of investments in technology stocks contributed to the net loss from equity investments. As a result of these factors, the forecasted net income of the Heritage Fund for the fiscal year ended March 31, 2002 was reduced from $582 million to $175 million. On the Province's consolidated statements, forecasted net income excludes income from holdings of Alberta government securities and Provincial Corporation Debentures. Forecasted income on a consolidated basis has been reduced from $551 million to $146 million.

HERITAGE FUND REALIZED INVESTMENT INCOME (LOSS)
($ millions)



* Includes interest, dividends, swap income, real estate income and expenses.

- The fund accounts for its investments on a cost basis. Investment income on a cost basis excludes unrealized gains and losses during the period. Investment income on a fair value basis (see Note 2(d)) would include unrealized gains and losses. The investment loss on a fair value basis for the second quarter would be $321 million and $274 million over six months.

- The realized investment income earned by the Heritage 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, and used for Albertans' priorities like health care, education, roads, tax reductions and debt repayment. Changes in unrealized capital gains and losses are not included in amounts transferred to the General Revenue Fund. The net loss during the second quarter resulted in a recovery of first quarter transfers to the General Revenue Fund. The accumulated net loss of $81 million for the past six months reduces the Fund's equity on a cost basis and is carried forward to reduce transfers resulting from income earned during the remaining six months of the fiscal year.

CHANGES IN NET ASSETS
(millions)

	2nd Qtr 2001-02	YTD 2001-02
Fair value, beginning of period	$ 12,012	$ 12, 123
Investment loss, cost basis*	(239)	(81)
Change in unrealized appreciation (depreciation) in value of investments	(82)	(193)
Investment loss, fair value basis	(321)	(274)
Transfers from the General Revenue Fund	158	—
Fair value, end of period	$ 11,849	$ 11,849

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

- Over the past six months, the transition of the Fund's investment portfolio continued towards its goal of 65% investment in equities and real estate and 35% investment in fixed income securities. Equities, which include common shares of corporations, now comprise 41.5% of the Fund's portfolio or $4.8 billion. Real estate increased to 5.1% of the portfolio or $0.6 billion. Fixed income securities such as bonds, notes, short term paper and other interest bearing securities continued to decrease. Fixed income securities now comprise 53.4% of the Fund's total investments or $6.2 billion.

- Generally, fixed income securities are less volatile and provide a steady stream of interest income. Equities are more volatile and can produce large capital gains or losses. An appropriate balance between fixed income securities and equities can minimize risk and optimize income.

HERITAGE FUND INVESTMENT MIX
(Fair value)

	(Percent %)				
	Sept. 30,	Year ended March 31,			
	2001	2001	2000	1999	1998
Total Fixed-income	53.4%	64.2%	71.1%	81.1%	87.1%
Canadian equities	17.0	13.6	11.3	8.0	7.5
US equities	12.7	9.9	7.1	2.7	1.2
EAFE equities*	11.8	9.1	7.8	6.8	3.9
Total Equities	41.5	32.6	26.2	17.5	12.6
Total Real Estate	5.1	3.2	2.7	1.4	0.3
Total Investments	100%	100%	100%	100%	100%

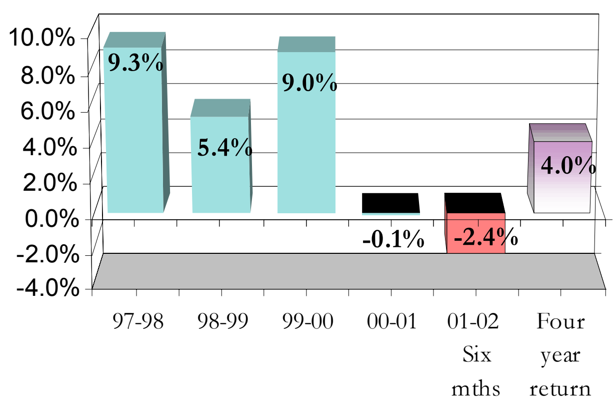
	(Billions $)				
	Sept. 30,	Year ended March 31,			
	2001	2001	2000	1999	1998
Total Fixed-income	$ 6.2	$ 7.8	$ 9.1	$10.3	$11.4
Canadian equities	2.0	1.6	1.5	1.0	1.0
US equities	1.5	1.2	0.9	0.3	0.2
EAFE equities*	1.3	1.1	1.0	0.9	0.4
Total Equities	4.8	3.9	3.4	2.2	1.6
Total Real Estate	0.6	0.4	0.4	0.2	0.0
Total Investments	$11.6	$12.1	$12.9	$12.7	$13.0

* Europe, Australasia and Far East

HERITAGE FUND RATE OF RETURN

- With declining long-term interest rates, it was decided that the only way to provide a sustainable level of income in real terms was to invest in assets that would provide higher long-term returns. This would mean a portfolio with a significant commitment to equities.
- As the Fund increases its investment in equities, there is greater potential for large variations in performance from year to year. During the three months ended September 30, 2001, the Heritage Fund posted a negative 2.8% return, resulting in a year to date return for fiscal 2001-02 of negative 2.4%. Positive returns from the Canadian bond market and real estate market were offset by negative returns in equity markets.
- 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 4.0%.

HERITAGE FUND ANNUAL RETURNS

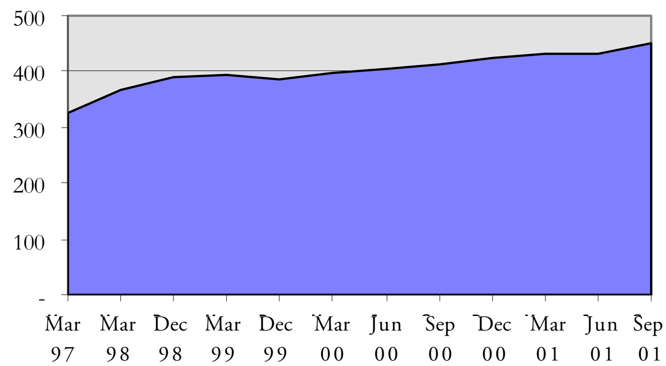


- The performance of Heritage Fund investments is measured against various market based indices. Value added by investment management is accomplished through security selection and sector rotation.

FIXED INCOME INVESTMENTS

- The Canadian bond market improved 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. During the quarter, the Scotia Capital Universe Bond Index increased by 4.7% while the short term Scotia Capital 91-Day T-Bill Index increased by 1.2%. The Scotia Capital Universe Bond index has steadily increased over the past number of years.

SC UNIVERSE BOND INDEX



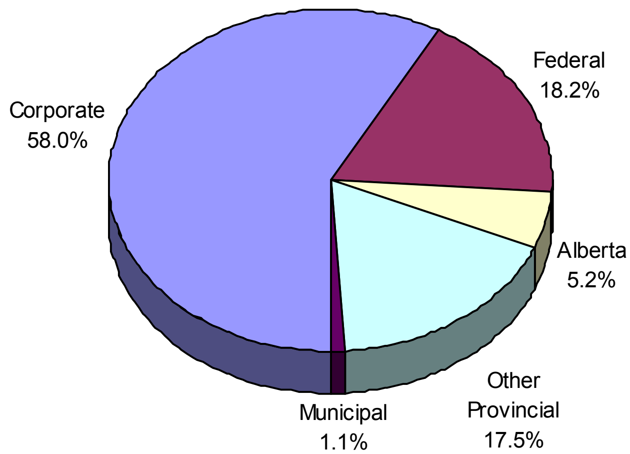
- The Fund's actual rate of return over the quarter from Canadian bonds was 4.7% equal to the benchmark, SC Universe Bond Index. The Fund's return from short-term securities was 1.1% under-performing the benchmark, SC 91-Day T-Bill Index by 10 basis points (bps).

	Actual Return	*Benchmark SC Universe Bond Index*	*Over (Under)*
LT Fixed income	%	%	
Current quarter	4.7	4.7	0 bps
Six months	4.3	4.1	20 bps
One year	9.6	*8.9*	70 bps
Four Years (annualized)	6.6	6.4	20 bps

	Actual Return	*Benchmark SC 91-day T-Bill Index*	*Over (Under)*
ST Fixed income	%	%	
Current quarter	1.1	*1.2*	-10 bps
Six months	2.4	*2.4*	0 bps
One year	5.5	*5.3*	20 bps
Four Years (annualized)	5.2	*4.9*	30 bps

- Investments in bonds, notes, short term paper, provincial corporation debentures and loans continued to decline this quarter as the Fund continues its transition to 65% equity investments and real estate. Fixed income securities now form 53.4% of the Fund's investment portfolio or $6.2 billion.
- The Fund's Canadian fixed-income portfolio is comprised of diversified holdings in corporate, federal, provincial and municipal bonds, notes and short term paper.

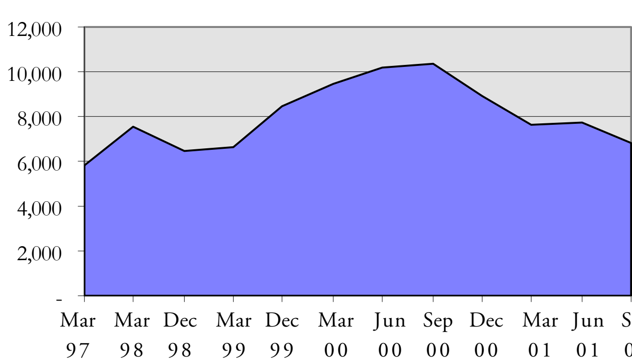
SUMMARY OF FIXED INCOME HOLDINGS
(issued and guaranteed by)



CANADIAN EQUITY INVESTMENTS

- The Canadian equity market continued it's decline this quarter. The TSE 300, which measures the performance of Canada's top 300 companies in 14 industrial sectors, decreased by 11.3% from the previous quarter. The Canadian equity market, as measured by the TSE 300 index, has declined by 33.1% from its peak in September 2000.

TSE 300



- The Fund's actual rate of return over the quarter from Canadian equities was negative 12.3% or 100 basis points below the benchmark TSE 300. Over weight holdings in technology stocks contributed to the under performance.

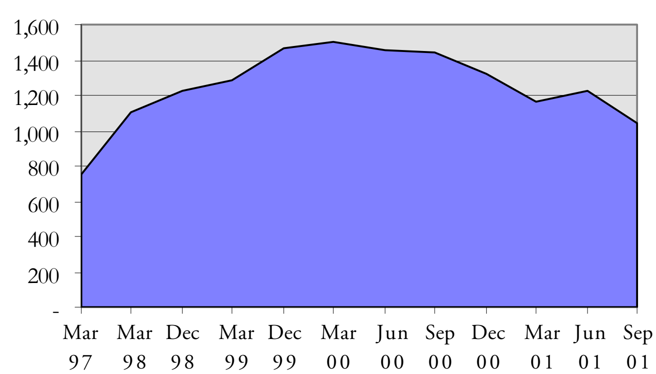
	Actual Return	*Benchmark TSE 300 Index*	*Over (Under)*
Canadian equities	%	%	
Current quarter	-12.3	*-11.3*	-100 bps
Six months	-9.9	*-9.4*	-50 bps
One year	-31.9	*-33.1*	120 bps
Four Years (annualized)	1.6	*0.7*	90 bps

- Investments in Canadian equities rose to 17.0% or $2.0 billion of the Fund's total investments at September 30, 2001.

UNITED STATES EQUITY INVESTMENTS

- The United States equity market continued its decline this quarter similar to the Canadian market. The Standard & Poor 500 total return index, S&P 500, which measures the performance of the top 500 American companies, decreased by 11.2% from the previous quarter.

S&P 500



- The Fund's actual rate of return over the quarter from US equities was negative 11.3% or 10 basis points lower than the benchmark S&P 500.

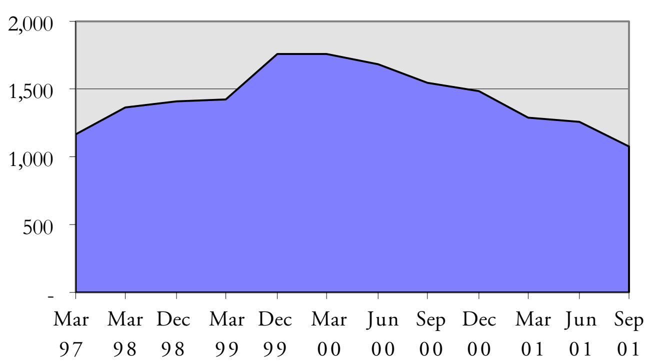
US equities	Actual Return %	Benchmark S&P 500 Index %	Over (Under)
Current quarter	-11.3	*-11.2*	-10 bps
Six months	-10.1	*-9.4*	-70 bps
One year	-22.7	*-23.0*	30 bps
Four Years (annualized)	2.4	*7.3*	-490 bps

- Investments in United States companies rose to 12.7% or $1.5 billion of the Fund's total investments at September 30, 2001.

EUROPE, AUSTRALASIA & FAR EAST (EAFE) EQUITY INVESTMENTS

- The non-North American equity market continued to lose ground this quarter. The Morgan Stanley Consumer index for Europe, Australasia and the Far East, MSCI EAFE, measures the performance of approximately 1,000 companies on 21 stock exchanges around the world. The index fell by 10.5% this quarter.

MSCI EAFE



- The Fund's actual rate of return over the quarter from non-North American equities was negative 10.1% or 40 basis points better than the benchmark MSCI EAFE index.

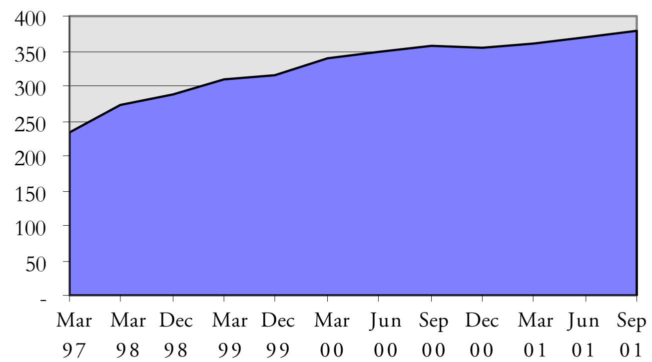
EAFE equities	Actual Return %	Benchmark MSCI EAFE Index %	Over (Under)
Current quarter	-10.1	*-10.5*	40 bps
Six months	-13.2	*-14.6*	140 bps
One year	-25.1	*-25.0*	-10 bps
Four Years (annualized)	3.5	*0.3*	320 bps

- Investments in non-North American companies rose to 11.8% or $1.3 billion of the Fund's total investments at September 30, 2001.

REAL ESTATE INVESTMENTS

- The real estate market in Canada continued to gain ground this quarter. The Russell Canadian Property Index, which measures the performance of institutionally held real estate investments situated across Canada, grew by 1.6% during the quarter based on estimated results.

RUSSELL PROPERTY INDEX (CDN)



- The rate of return this quarter from the Fund's real estate portfolio was 1.6%, equal to the portfolio's benchmark return.

Real estate	Actual Return %	Benchmark RCPI Index %	Over (Under)
Current quarter	1.6	*1.6*	0 bps
Six months	3.3	*4.0*	-70 bps
One year	8.6	*10.8*	-220 bps
Four Years (annualized)	12.8	*13.2*	-40 bps

- Investments in real estate grew to 5.1% this quarter or approximately $600 million.

BUSINESS PLAN PERFORMANCE MEASURES

HERITAGE FUND (COMBINED)

(period ending September 30, 2001)

	Current Quarter	Six Months	One Year	Four Years*
Actual return	-2.8%	-2.4%	-5.4%	4.0%

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

TRANSITION PORTFOLIO

(period ending September 30, 2001)

	Current Quarter	Six Months	One Year	Four Years*
Actual return	2.7%	3.5%	8.1%	5.9%

ENDOWMENT PORTFOLIO

(period ending September 30, 2001)

	Current Quarter	Six Months	One Year	Four Years*
Actual return	-4.8%	-4.4%	-12.4%	4.4%
Benchmark	-4.3%	-4.2%	-12.4%	4.0%
Over (under) benchmark	-50bp	-20bp	–	+40bp

Actual	Weight	Current Quarter	Six Months	One Year	Four Years*
ST Fixed Income	2.3%	1.1%	2.4%	5.5%	5.2%
LT Fixed Income	35.7%	4.7%	4.3%	9.6%	6.6%
Canadian Equities	22.6%	-12.3%	-9.9%	-31.9%	1.6%
US Equities	16.9%	-11.3%	-10.1%	-22.7%	2.4%
EAFE Equities	15.7%	-10.1%	-13.2%	-25.1%	3.5%
Real Estate	6.8%	1.6%	-3.3%	8.6%	12.8%
Total	100%	-4.8%	-4.4%	-12.4%	4.4%

Benchmark	Weight	Current Quarter	Six Months	One Year	Four Years*
SC91 Day T-Bill Index	3%	1.2%	2.4%	5.3%	4.9%
SC Universe Bond Index	37%	4.7%	4.1%	8.9%	6.4%
TSE 300 Index	23%	-11.3%	-9.4%	-33.1%	0.7%
S & P 500 Index	15%	-11.2%	-9.4%	-23.0%	7.3%
MSCI EAFE Index	15%	-10.5%	-14.6%	-25.0%	0.3%
Russell Index (estimate)	7%	1.6%	4.0%	10.8%	13.2%
Total	100%	-4.3%	-4.2%	-12.4%	4.0%

* annualized

ADMINISTRATIVE EXPENSES

Administrative expense include investment management, cash management, custodial and other expenses. External management and custodial fees are deducted directly from the income of the externally managed pooled funds. Internal administrative expenses are deducted from the internally managed pooled funds and directly from the Endowment Portfolio and the Transition Portfolio.

	Six Months Ended Sept. 30, 2001	Sept. 30, 2000
	(thousands)	
Direct fund expenses (Note 7)	$ 711	$ 788
Externally managed investment pools	3,430	2,295
Internally managed investment pools	840	540
Total	$ 4,981	$ 3,623
Expenses as a percentage of net assets at fair value	0.042%	0.029%

The increase in administrative expenses is related to the transfers from the Transition Portfolio to the Endowment Portfolio. The Endowment Portfolio is more expensive to administer because it is predominately invested in equities, a large portion of which are foreign equities which are externally managed.

RIDLEY GRAIN

- On October 29, 2001, the Fund received $7,500,000 of $11,619,066 due from Ridley Grain. The payment related to available cash flow distributable to the Fund as disclosed in Note 3(f). Alberta Revenue agreed to extend the period to pay the balance of the interest on the loan that was due on the payment date of October 29, 2001 to December 3, 2001.

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

SEPTEMBER 30, 2001
(unaudited)

BALANCE SHEET

September 30, 2001 (unaudited)

	(thousands)	
	September 30, 2001	**March 31, 2001**
Assets		
Portfolio investments (Note 3)	$ 11,908,559	$ 12,200,300
Due from the General Revenue Fund (Note 6)	288,875	81,824
Accrued interest receivable	63,331	77,276
Receivable from sale of investments	50,811	41,934
Administration expense receivable	61	—
	$ 12,311,637	$ 12,401,334
Liabilities and fund equity		
Liabilities:		
Accrued administration expense	$ —	$ 52
Liabilities for investment purchases	136,179	144,963
	136,179	145,015
Fund equity (Note 6)	12,175,458	12,256,319
	$ 12,311,637	$ 12,401,334

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

STATEMENT OF OPERATIONS

for the Six Months ended September 30, 2001 (unaudited)

	(thousands)			
	Three Months Ended Sept. 30, 2001	**Three Months Ended Sept. 30, 2000**	**Six Months Ended Sept. 30, 2001**	**Six Months Ended Sept. 30, 2000**
Net income (loss) (Note 7)	$ (238,897)	$ 316,466	$ (80,861)	$ 529,773
Transfers from (to) the General Revenue Fund (Note 6)	158,036	(316,466)	—	(529,773)
Net change in fund equity (Note 6)	(80,861)	—	(80,861)	—
Fund equity at beginning of period	12,256,319	12,256,319	12,256,319	12,256,319
Fund equity at end of period	$ 12,175,458	$ 12,256,319	$ 12,175,458	$ 12,256,319

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

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the Six Months ended September 30, 2001 (unaudited)

(thousands)

	Three Months Ended Sept. 30, 2001	Three Months Ended Sept. 30, 2000	Six Months Ended Sept. 30, 2001	Six Months Ended Sept. 30, 2000
Operating transactions:				
Net income (loss)	$ (238,897)	$ 316,466	$ (80,861)	$ 529,773
Non-cash items included in net income	(9,851)	(64,050)	(15,311)	(92,815)
	(248,748)	252,416	(96,172)	436,958
Decrease (increase) in receivables	(37,128)	15,309	5,007	18,023
Increase (decrease) in payables	115,253	(1,928)	(8,836)	(3,073)
Cash provided by (applied to) operating transactions	(170,623)	265,797	(100,001)	451,908
Investing transactions:				
Proceeds from disposals, repayments and redemptions of investments	3,184,650	2,750,548	6,679,989	6,058,357
Purchase of investments	(2,658,209)	(2,843,911)	(6,319,632)	(5,872,667)
Cash provided by (applied to) investing transactions	526,441	(93,363)	360,357	185,690
Transfers:				
Transfers from (to) the General Revenue Fund	158,036	(316,466)	—	(529,773)
Increase (decrease) in amounts due to the General Revenue Fund	(302,036)	104,466	(207,051)	(57,342)
Cash applied to transfers	(144,000)	(212,000)	(207,051)	(587,115)
Increase (decrease) in cash	211,818	(39,566)	53,305	50,483
Cash at beginning of period	105,362	277,803	263,875	187,754
Cash at end of period	$ 317,180	$ 238,237	$ 317,180	$ 238,237
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 317,180	$ 238,237	$ 317,180	$ 238,237

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

Notes to the Financial Statements

September 30, 2001 (unaudited)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund (the Fund) operates under the authority of the *Alberta Heritage Savings Trust Fund Act* (the Act), Chapter A-27.01, Revised Statutes of Alberta 1980, 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."

As a result of amendments to the Fund's act on January 1, 1997, investments of the Fund are held in two portfolios, the Endowment Portfolio and the Transition Portfolio. Based on current transfers of $300 million per month, substantially all of the assets in the Transition Portfolio will be transferred to the Endowment Portfolio by June 30, 2002. These financial statements present the Fund's investments held in the two portfolios on a combined basis (see Note 3 and Note 3(m)).

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.

(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

(unaudited)

Note 2 (continued)

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) Fair value of loans are reported at cost due to there being no organized financial market for the instruments and it is not practical within constraints of timeliness or cost to estimate the fair values with sufficient reliability.

(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, equity index futures contracts and cross-currency interest rate swaps.

As disclosed in Note 4, the value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

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

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

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

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

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

	September 30, 2001			March 31, 2001		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed income						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 317,180	$ 317,180	2.7	$ 263,875	$ 263,875	2.2
Bonds, notes & short-term paper, directly held (b)	2,553,039	2,596,655	22.4	4,263,948	4,305,040	35.7
Canadian Dollar Public Bond Pool (c)	2,577,476	2,559,592	22.1	2,449,498	2,404,033	19.9
Private Mortgage Pool (d)	358,642	352,651	3.1	318,808	310,398	2.6
Provincial corporation debentures (e)	191,307	265,044	2.3	250,387	327,228	2.7
Loans (f)	97,359	97,359	0.8	97,359	97,359	0.8
Floating Rate Note Pool	—	—	—	36,702	36,449	0.3
	6,095,003	6,188,481	53.4	7,680,577	7,744,382	64.2
Canadian equities						
Domestic Passive Equity Pooled Fund (g)	724,689	860,147	7.4	532,863	674,804	5.6
Canadian Pooled Equity Fund (h)	805,054	728,718	6.3	693,550	635,305	5.2
External Managers Fund (Canadian) (i)	302,039	298,850	2.6	244,756	267,000	2.2
Private Equity Pool (98) (j)	68,228	68,228	0.6	58,724	58,720	0.5
Private Equity Pool (j)	11,547	9,604	0.1	11,645	11,082	0.1
Public equities, direct	1,526	2,480	—	—	—	—
	1,913,083	1,968,027	17.0	1,541,538	1,646,911	13.6
Foreign equities						
External Managers Fund (United States) (i)	1,768,702	1,472,951	12.7	1,337,970	1,191,412	9.9
External Managers Fund (International) (i)	1,565,069	1,365,203	11.8	1,275,442	1,095,185	9.1
EAFE Structured Equity Pool	731	750	—	858	875	—
United States Pooled Equity Fund	802	558	—	800	707	—
	3,335,304	2,839,462	24.5	2,615,070	2,288,179	19.0
Real Estate (k)	565,169	587,108	5.1	363,115	388,258	3.2
Total equities and real estate	5,813,556	5,394,597	46.6	4,519,723	4,323,348	35.8
Total investments (l)(m)	$11,908,559	$11,583,078	100.0	$12,200,300	$12,067,730	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 September 30, 2001, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	Sept. 30, 2001	March 31, 2001
Canadian Dollar Public Bond Pool	31.8	28.9
Canadian Pooled Equity Fund	33.1	29.0
Domestic Passive Equity Pooled Fund	35.0	33.0
External Managers Fund	34.4	28.0
EAFE Structured Equity Pool	0.2	0.2
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Mortgage Pool	38.7	34.8
Private Real Estate Pool	36.2	28.9
United States Pooled Equity Fund	18.0	18.0
Floating Rate Note Pool	—	1.9

(unaudited)

Note 3 *(continued)*

(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 September 30, 2001, securities held by the Fund have an average effective market yield of 3.55% per annum (March 31, 2001: 5.09% per annum).

(b) As at September 30, 2001, fixed-income securities held directly by the Fund have an average effective market yield of 4.42% per annum for securities maturing within a year (March 31, 2001: 5.01% per annum), and 4.43% per annum for securities maturing between 1 and 35 years (March 31, 2001: 5.10% per annum). As at September 30, 2001, fixed-income securities have the following term structure based on principal amount: under 1 year: 54%; 1 to 5 years: 41%; and over 5 years: 5%.

(c) 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 September 30, 2001, securities held by the Pool have an average effective market yield of 5.60% per annum (March 31, 2001: 5.75% per annum) and the following term structure based on principal amount: under 1 year: 3%; 1 to 5 years: 34%; 5 to 10 years: 32%; 10 to 20 years: 14%; over 20 years: 17%.

(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 (95.8%) and provincial bond residuals (4.2%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at September 30, 2001, securities held by the Pool have an average effective market yield of 6.58% per annum (March 31, 2001: 7.14% per annum) and the following term structure based on principal amount: under 1 year: 12%; 1 to 5 years: 17%; 5 to 10 years: 26%; 10 to 20 years: 27%; and over 20 years: 18%.

(e) As at September 30, 2001, Provincial corporation debentures have an average effective market yield of 7.82% per annum (March 31, 2001: 7.84% per annum). The maturity profile based on expected repayments is as follows: under 1 year $88,753,000; 1 to 5 years: $25,655,000; and over 5 years: $76,899,000.

(f) Investment in loans are recorded at cost. The fair value of loans are reported at cost due to there being no organized financial market for the instruments and it is not practical within constraints of timeliness or cost to determine the fair values with sufficient reliability. As at September 30, 2001, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245,000 (March 31, 2001: $91,245,000) and the Vencap loan amounting to $6,114,000 (March 31, 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 September 30, 2001 amounted to $60,049,081 (March 31, 2001: $55,125,291). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.

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

(h) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange 300 Index while preserving participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(i) The External Managers Fund is comprised of a variety of portfolios which are managed by numerous external managers with expertise in Canadian small and large stock market capitalization companies, the United States market, and international equity markets. The international equity market consists of non-North American investments in Europe, Australasia, the Far East, the Pacific Basin and Emerging Markets. The objective of the Fund is to provide investment returns higher than the total return of the applicable Morgan Stanley, Standard and Poor's and Toronto Stock Exchange indices over a four-year period. The portfolio is comprised of publicly traded equity securities on Canadian and approved foreign markets. Risk is reduced through manager style and market diversification.

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

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

(l) 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 declines in value are caused by short term market trends and are temporary in nature.

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

	(thousands)					
	September 30, 2001			March 31, 2001		
	Cost	Fair Value	%	Cost	Fair Value	%
Endowment Portfolio:						
Deposits and fixed income securities	$ 3,325,959	$ 3,302,852	38.0	$ 3,197,161	$ 3,143,179	42.1
Canadian equities	1,913,083	1,968,027	22.6	1,541,538	1,646,911	22.1
Foreign equities	3,335,304	2,839,462	32.6	2,615,070	2,288,179	30.6
Real estate	565,169	587,108	6.8	363,115	388,258	5.2
	9,139,515	8,697,449	100.0	7,716,884	7,466,527	100.0
Transition Portfolio:						
Deposits and fixed income securities	$ 2,480,378	$ 2,523,226	87.4	$ 4,135,670	$ 4,176,616	90.8
Provincial Corporation Debentures	191,307	265,044	9.2	250,387	327,228	7.1
Loans	97,359	97,359	3.4	97,359	97,359	2.1
	2,769,044	2,885,629	100.0	4,483,416	4,601,203	100.0
Total Investments	$11,908,559	$11,583,078	100.0	$12,200,300	$12,067,730	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.

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

(unaudited)

Note 4 *(continued)*

The following is a summary of the Fund's proportionate share of the notional amount and fair value of derivative contracts held directly by pooled funds at September 30, 2001:

	September 30, 2001		March 31, 2001	
	Notional Amount	Fair Value[a]	Notional Amount	Fair Value[a]
	($ thousands)			
Equity index swap contracts	$ 419,951	$ (31,452)	$ 335,850	$ (32,415)
Bond index swap contracts	72,658	677	154,001	(769)
Forward foreign exchange contracts	150,787	(271)	142,373	(366)
Interest rate swap contracts	130,692	(6,959)	117,965	(4,352)
Equity index futures contracts	—	—	683	(11)
	774,088	$ (38,005)	750,872	$ (37,913)
Cross-currency interest rate swap contracts[b]	480,048		497,806	
	$ 1,254,136		$ 1,248,678	

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

[b] Cross-currency swaps are valued as a package including the underlying security. As at September 30, 2001, the combined fair value of cross-currency interest rate swaps and underlying securities amounted to $487,485,000 (March 31, 2001: $503,753,000).

All derivative contracts mature within one year except for bond index swaps, cross-currency swaps and interest rate swaps with a notional value of $228,480,000 (March 31, 2001: $294,850,000) that mature between 1 and 3 years and $189,948,000 (March 31, 2001: $208,033,000) that mature over 3 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 2001-02 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 annually in a manner determined by the Minister of Revenue. The Fund's net loss for the three months ended September 30, 2001 totalling $238,897,000 resulted in a recovery of transfers from the General Revenue Fund of $158,036,000 representing income earned from the quarter ended June 30, 2001. The accumulated net loss for the six months ended September 30, 2001 of $80,861,000 has been applied against retained earnings and is carried forward to reduce transfers resulting from income earned during the remaining six months of the

(unaudited)
Note 6 *(continued)*

fiscal year ending March 31, 2002. As at September 30, 2001, the Fund's total receivable from the General Revenue Fund amounted to $288,875,000 representing the recovery of transfers of $158,036,000 referred to above plus a recovery of additional transfers made to the General Revenue Fund totaling $130,839,000 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 (LOSS)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
	(thousands)			
Deposits and fixed-income securities				
Deposits in the Consolidated Cash Investment Trust Fund	$ 1,316	$ 2,358	$ 3,015	$ 4,036
Fixed-income securities, directly held	50,173	83,683	109,856	129,065
Loans	11,619	17,054	11,619	17,309
Canadian Dollar Public Bond Pool	44,738	39,201	84,723	68,237
Provincial Corporation debentures	7,871	12,608	15,965	26,069
Private Mortgage Pool	6,476	5,071	13,221	9,863
Floating Rate Note Pool	—	409	81	2,416
	122,193	160,384	238,480	256,995
Canadian equities				
External Managers Fund (Canadian)	(4,623)	6,423	10,631	10,081
Private Equity Pool (98)	158	652	242	656
Private Equity Pool	(148)	1,819	66	1,919
Public Canadian equities, directly held	—	50,160	—	134,895
Swaps, direct	—	(6,070)	—	(1,547)
Domestic Passive Equity Pooled Fund	(96,862)	51,878	(84,123)	51,878
Canadian Pooled Equity Fund	(109,900)	37,082	(93,920)	42,998
	(211,375)	141,944	(167,104)	240,880
Foreign equities				
United States Pooled Equity Fund	2	—	2	(416)
US Structured Equity Pool	—	—	—	(4,188)
US Passive Equity Pooled Fund	—	2,613	—	(6,817)
EAFE Structured Equity Pool	(108)	(6,087)	(126)	(24,415)
External Managers Fund (United States)	(24,024)	(658)	(5,571)	4,231
External Managers Fund (International)	(138,333)	14,319	(166,090)	54,502
	(162,463)	10,187	(171,785)	22,897
Real estate				
Private Real Estate Pool	13,034	4,348	20,259	9,789
Investment income (loss)	(238,611)	316,863	(80,150)	530,561
Direct Administrative expenses (Note 8)	(286)	(397)	(711)	(788)
Net Income (loss)	$ (238,897)	$ 316,466	$ (80,861)	$ 529,773

(unaudited)

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
	(thousands)			
Endowment Portfolio	$ (307,050)	$ 208,106	$ (215,287)	$ 361,358
Transition Portfolio	68,153	108,360	134,426	168,415
Net Income (loss)	$ (238,897)	$ 316,466	$ (80,861)	$ 529,773

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 six months ended September 30, 2001 includes a net loss from disposals of investments and writedowns totalling $336,045,000 (September 30, 2000: net gain $221,294,000).

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:

	Six Months Ended Sept. 30, 2001	Sept. 30, 2000
	(thousands)	
Direct fund expenses (Note 7)	$ 711	$ 788
Externally managed investment pools	3,430	2,295
Internally managed investment pools	840	540
Total	$ 4,981	$ 3,623
Expenses as a percentage of net assets at fair value	0.042%	0.029%

NOTE 9 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to September 30, 2001 presentation.

NOTE 10 SUBSEQUENT EVENT

On October 29, 2001, the Fund received $7,500,000 of $11,619,066 due from Ridley Grain. The payment related to available cash flow distributable to the Fund as disclosed in Note 3(f). Alberta Revenue agreed to extend the period to pay the balance of the interest on the loan that was due on the payment date of October 29, 2001 to December 3, 2001.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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