ALBERTA HERITAGE SAVINGS TRUST FUND
THIRD QUARTER UPDATE

2002-03 QUARTERLY REPORT

FOR THE NINE MONTHS ENDED DECEMBER 31, 2002

Heritage Fund

Alberta
REVENUE

THIRD QUARTER UPDATE

DECEMBER 31, 2002

Alberta Heritage Savings Trust Fund

QUARTER IN REVIEW

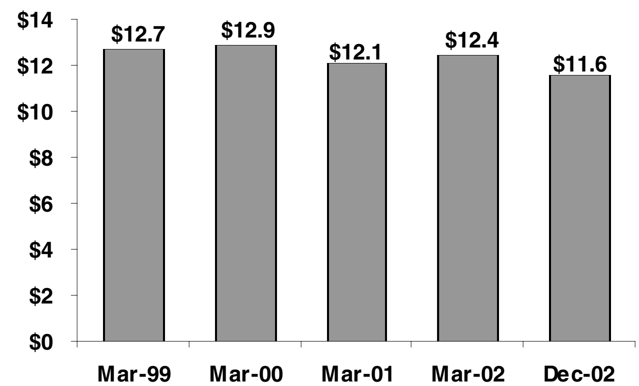
The fair value of the Heritage Fund increased by $522 million this quarter to $11.6 billion. Equity investments outperformed fixed income investments this quarter as world stock markets began to recover from one of the worst declines in history. Investor confidence stabilized as the outlook for corporate earnings improved and reports of corporate accounting irregularities subsided. However, there remains considerable uncertainty and volatility in financial markets due to tensions in the Middle East and weak investor confidence.

Overall, the Heritage Fund returned 4.8% this quarter. The Fund's public equity portfolio returned 7.1% this quarter while the Fund's bond portfolio returned 2.2%. Real estate investments returned 2.5%. Over the quarter, the Canadian stock market measured by the Toronto Stock Exchange, S&P/TSX, increased by 7.5% while US stocks measured by the Standard & Poor 500 increased by 8.0%. Non North American stocks, measured by the MSCI EAFE Index, rose 6.0% this quarter. The Canadian bond market measured by the Scotia Capital Universe Bond Index returned 2.3% over the current quarter.

At December 31, 2002, the fair value of the Fund stood at $11.6 billion up 4.5% from $11.1 billion at September 30, 2002 and down 6.5% from $12.4 billion at March 31, 2002.

HERITAGE FUND - FAIR VALUE

(billions of dollars)



The investment strategy of the Heritage Fund is focused on optimizing long-term investment returns. Historically, equities have outperformed fixed income securities over the long term.

The Fund is structured for long term returns with exposure to equities. Volatility is minimized through asset class diversification. The Fund maintains holdings in bonds, equities, real estate, mortgages and absolute return strategies.

Over the past nine months, the Heritage Fund recorded an overall negative rate of return of 6.8%, the total equity portfolio returned a negative 17.6%, bonds and other fixed income investments returned 9.4% while real estate returned 4.6%. Over four years the fund has recorded an overall rate of return of 1.7% per annum.

INVESTMENT VALUATION

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.

The Fund's policy is to write down the cost of those securities where the decline in value below cost is not considered temporary. On a quarterly basis, management reviews the Fund's investment portfolio to identify those securities where the fair value has declined significantly below cost. For the Quarter ended June 30, 2002, the Fund wrote down the cost of Canadian and US public equities by $98 million. During the quarter ended September 30, 2002, an estimated provision for additional writedowns totaling $342 million was recorded against the cost of Canadian, US and non-North American equities. For the current quarter, management decided to maintain the provision at $342 million until further evidence of sustained improvement in equity markets is identified. A final determination of writedowns will be completed at year-end.

INVESTMENT INCOME

The Fund recorded net income of $9 million this quarter reducing the net loss to $651 million over the nine months ended December 31, 2002. Realized capital losses from declining world stock markets, primarily in the information technology and telecommunication services sectors, contributed to the year to date loss. Over nine months, losses from equity investments totaling $901million were partially offset by income from bonds, notes and short term paper totaling $215 million and real estate income of $35 million.

ALBERTA HERITAGE SAVINGS TRUST FUND INVESTMENT INCOME (LOSS)

(millions)

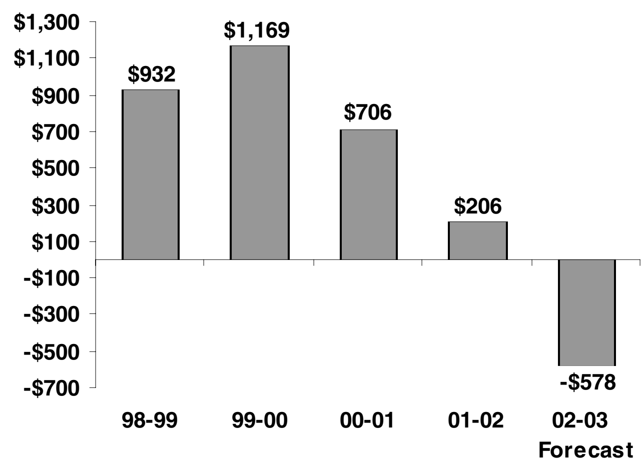
	Fixed Income	Equity Income	Real Estate	Total
02-03 nine months	$ 215	$ (901)	$ 35	$ (651)
01-02 year	444	(276)	38	206
00-01 year	532	157	17	706
99-00 year	610	539	20	1,169
98-99 year	769	159	4	932
	$ 2,570	$ (322)	$ 114	$ 2,362

FORECASTED INCOME

As a result of declining equity markets, a net loss of $578 million is forecasted for the fiscal year ending March 31, 2003. On a consolidated basis, the forecasted net loss is $595 million. The consolidated net loss excludes income from holdings of Alberta government securities and Provincial Corporation debentures.

HERITAGE FUND INVESTMENT INCOME

(millions)



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 income on a fair value basis was $522 million for the current quarter reducing the net loss over nine months to $820 million.

CHANGE IN NET ASSETS
FAIR VALUE
(millions)

	Quarter Ended Dec. 31, 2002	Nine Months Ended Dec. 31, 2002	Nine Months Ended Dec. 31, 2001
Fair value, beginning of period	$ 11,072	$ 12,414	$ 12,123
Investment income (loss), cost basis*	9	(651)	70
Change in unrealized appreciation (depreciation) in value of investments	513	(169)	337
Investment income (loss), fair value basis	522	(820)	407
Transfers to the General Revenue Fund**	–	–	(70)
Fair value, end of period***	$ 11,594	$ 11,594	$ 12,460

* includes interest, dividends, realized gains and losses, derivative income and administration expenses
** see financial statements (Note 6)
*** includes investments of $11,402 million and net current assets of $192 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. As a result of the Fund's net loss of $651 million over the past nine months, no transfers are payable to the General Revenue Fund. The net loss of $651 million reduces the equity of the Heritage Fund. At December 31, 2002, the Fund's receivable from the General Revenue Fund of $180 million represents a recovery of transfers made to GRF during the first four months of the fiscal year based on the original budget estimate of income for the fiscal year.

INVESTMENT MIX

The investment objective, as outlined in the *Alberta Heritage Savings Trust Fund Act*, is to invest in a diversified portfolio to maximize 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:

For the 2002-03 fiscal year, the policy asset mix for fixed income securities remains the same as the previous year at 35.0%. The policy mix for public equity investments decreases from 58.0% to 50.0% while real estate investments are expected to increase from 7.0% to 10.0%, private equities increase to 2.0% and absolute return strategies increase to 3.0%.

The actual investment mix changed over the past nine months. Fixed income securities declined from 43.0% to 34.9%. Public equity investments increased from from 51.7% to 54.5%. Actual public equities exceed the target policy by 4.5% until new funding opportunities for private equities and real estate are achieved. Real estate investments increased from 4.7% to 7.3 % of the Fund's total investment portfolio. A new investment asset class called Absolute Return Strategies was initiated late last quarter and comprises 2.5% of the Fund's investment portfolio. Private equity investments increased from 0.6% to 0.8%.

ASSET MIX POLICY
(percent of fair value)

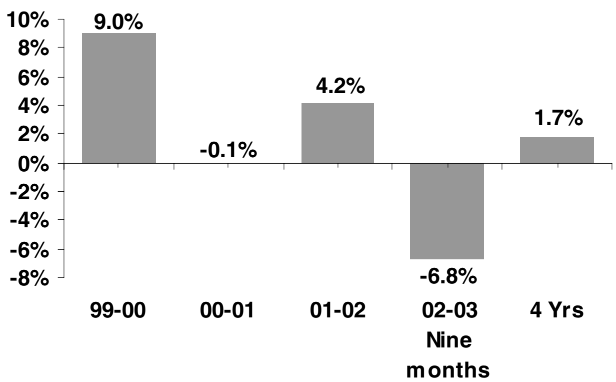
	Policy Target 02-03	Actual Dec 02	Policy Target 01-02	Actual Mar 02
ASSET CLASS				
Fixed income	**35.0**	**34.9**	**35.0**	**43.0**
Equities				
Public equities:				
Canadian	20.0	21.5	23.0	20.1
United States	15.0	16.8	17.5	15.8
Non-north American	15.0	16.2	17.5	15.8
	50.0	**54.5**	58.0	51.7
Private equities	**2.0**	**0.8**	–	0.6
Absolute return strategies	**3.0**	**2.5**	–	–
Real estate	**10.0**	7.3	7.0	4.7
	100.0	100.0	100.0	100.0

HERITAGE FUND RATE OF RETURN

The Heritage Fund posted an overall positive rate of return of 4.8% this quarter and negative 6.8% over nine months. Over nine months, negative returns from Canadian, US, and non-North American public equity investments were partially offset by positive returns from fixed income investments, real estate and private equities. Over the past four-year period, the fund generated an annualized return of 1.7%.

The following table summarizes the Fund's returns for various periods.

HERITAGE FUND ANNUAL RETURNS AT FAIR VALUE
(percent)

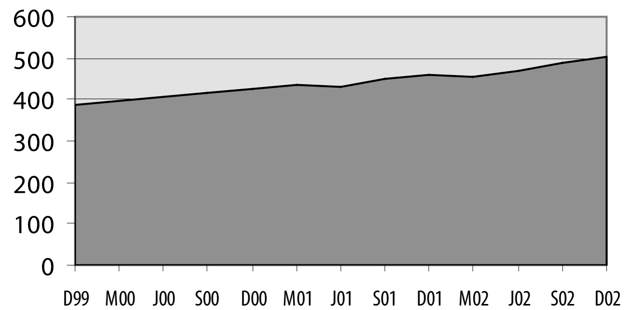


The performance of the Heritage Fund investments is measured against various market-based indices. Value added by investment management is accomplished through asset mix decisions and security selection. The following sections describe the performance of the Fund's major asset classes in relation to their benchmarks.

FIXED INCOME INVESTMENTS

The Canadian bond market recorded lower returns 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 2.3% while the short term SC 91-Day T-Bill Index increased by 0.7%.

SC UNIVERSE BOND INDEX



LT Fixed income	Actual Fund Return %	*SC Universe Bond Index* %	Over (Under)	
Current Quarter	2.4	2.3	10	bps
Nine months	10.1	9.9	20	bps
One year	9.4	8.7	70	bps
Four years (annualized)	6.9	6.4	50	bps

ST Fixed income	Actual Fund Return %	*Benchmark SC 91-Day T-Bill Index* %	Over (Under)	
Current Quarter	0.9	0.7	20	bps
Nine months	2.3	2.1	20	bps
One year	2.8	2.5	30	bps
Four years (annualized)	4.6	4.3	30	bps

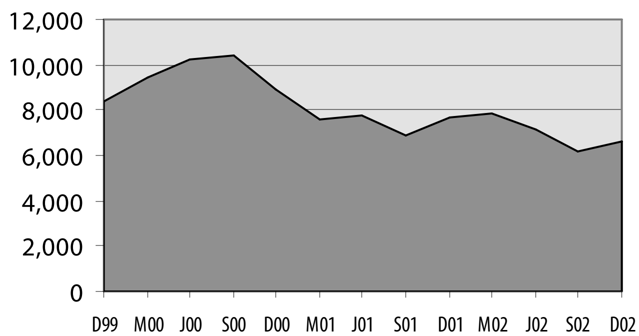
The Fund's actual rate of return over the quarter from long-term Canadian bonds was 2.4%, 10 basis points more than the benchmark SC Universe Bond Index. The Fund's actual return from short-term securities was 0.9% or 20 basis points better than the benchmark SC 91-Day T-Bill Index. Over four-years, the returns from long-term and short-term securities exceeded their benchmarks by 50 basis points and 30 basis points respectively. The out-performance over four years was primarily due to higher weight in corporate bonds and duration management.

At December 31, 2002, investments in fixed income securities totaled $4.0 billion or 34.9% of the portfolio, down from $5.4 billion or 43.0% at March 31, 2002.

CANADIAN PUBLIC EQUITIES

The Canadian stock market increased over the quarter. The Standard & Poor/Toronto Stock Exchange Composite Index (S&P/TSX), which measures the performance of Canada's largest companies, increased by 7.5% over the quarter ending December 31, 2002.

S&P / TSX



Canadian Public Equities	Actual Fund Return %	*Benchmark S&P/TSX Index* %	Over (Under)	
Current Quarter	8.0	7.5	50	bps
Nine months	-13.7	-14.6	90	bps
One year	-12.2	-12.4	20	bps
Four years (annualized)	1.4	2.0	(60)	bps

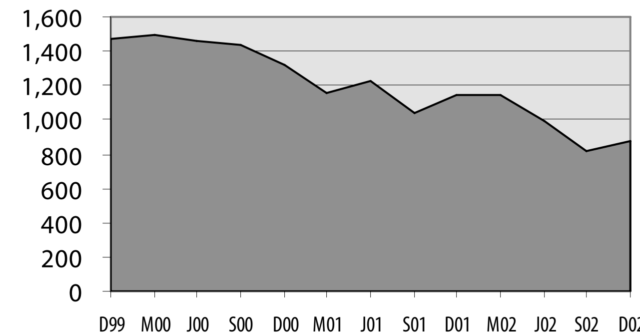
The Heritage Fund's Canadian public equity portfolio is managed by internal and external managers. Over the quarter, the Fund's return from Canadian equities was 8.0%, 50 basis points better than the benchmark S&P/TSX. Over four years, the Fund's return from Canadian equities was 1.4%, 60 basis points less than the benchmark due to an orientation towards growth securities which underperformed.

At December 31, 2002, Canadian public equity investments totaled $2.4 billion or 21.5% of the Heritage Fund investment portfolio compared to $2.5 billion or 20.1% at March 31, 2002.

US PUBLIC EQUITIES

An improvement in corporate earnings forecasts and reduced corporate governance concerns contributed to the increase in the US equity market over the quarter. The Standard & Poor 500 Index (S&P 500), which measures the performance of the top 500 American companies, increased by 8.0% over the quarter in Canadian dollars.

S&P 500



US Public Equities	Actual Fund Return %	*Benchmark S&P 500 Index* %	Over (Under)	
Current Quarter	7.1	8.0	(90)	bps
Nine months	-23.5	-23.1	(40)	bps
One year	-22.6	-22.9	30	bps
Four years (annualized)	-5.7	-6.1	40	bps

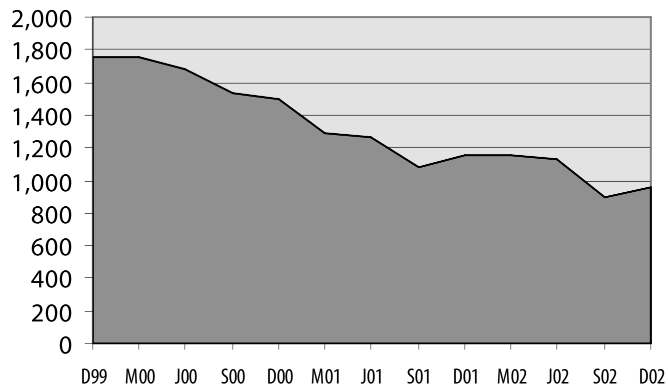
The Fund's income over the quarter from US public equities was 7.1%, 90 basis points less than the S&P 500 due to the underperformance in the growth portion of the portfolio. Over four years, the Fund's return from US equities was negative 5.7%, 40 basis points better than the benchmark from an overweight position in small capitalization stocks.

At December 31, 2002, US public equity investments totaled $1.9 billion or 16.8% of the Heritage Fund investment portfolio compared to $2.0 billion or 15.8% at March 31, 2002.

NON-NORTH AMERICAN PUBLIC EQUITIES

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 return of 6.0% this quarter.

MSCI EAFE



EAFE Public Equities	Actual Fund Return %	*Benchmark MSCI EAFE Index* %	Over (Under)	
Current Quarter	6.0	6.0	0	bps
Nine months	-16.7	-17.2	50	bps
One year	-15.8	-16.8	100	bps
Four years (annualized)	-3.5	-7.3	380	bps

The Fund's actual return from non-North American equities was 6.0%, the same as the MSCI EAFE Index. Over four years, the Fund returned negative 3.5% from non-North American equities, 380 basis points better than the benchmark due to superior stock selection and country allocation in Asia-Pacific region investments.

At December 31, 2002, investments in non-North American public equities totaled $1.9 billion or 16.2% 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. 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 2.5% this quarter, 70 basis points better than the benchmark, CPI plus 5%. Over 4 years the real estate portfolio returned 7.2%, 330 basis points below the benchmark due to underperformance from Alberta retail properties and below average performance from Ontario retail and Alberta office properties. The market-dominant nature of these properties make them highly sought after and lower yielding.

Real Estate	Actual Fund Return %	*CPI plus 5%** %	Over (Under)	
Current Quarter	2.5	1.8	70	bps
Nine months	4.6	7.0	(240)	bps
One year	6.2	9.4	(320)	bps
Four years (annualized)	7.2	10.5	(330)	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%.

At December 31, 2002, investments in real estate totaled $838 million or 7.3% of the Heritage Fund, up from $594 million or 4.7% at March 31, 2002.

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)

	Nine Months Ended Dec. 31, 2002	Nine Months Ended Dec. 31, 2001
Direct fund expenses	$ 1,208	$ 949
Externally managed investment pools	9,111	6,212
Internally managed investment pools	1,864	1,148
Total	$ 12,183	$ 8,309
Expenses as a percent of net assets at fair value	0.105%	0.067%

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

BUSINESS PLAN PERFORMANCE MEASURES

HERITAGE FUND (COMBINED)[1]

(period ending December 31, 2002)

	Current Quarter	Nine Months	One Year	Four Years[2]
Actual return (%)	4.8	-6.8	-6.1	1.7

ENDOWMENT PORTFOLIO

(period ending December 31, 2002)

	Current Quarter	Nine Months	One Year	Four Years[2]
Actual return (%)	4.8	-7.1	-6.4	2.1
Benchmark return (%)	5.0	-7.2	-6.7	1.5
Over (under) benchmark	(0.2)	0.1	0.3	0.6

Actual Return (%)	Actual Weight	Current Quarter	Nine Months	One Year	Four Years[2]
ST Fixed income	1.6	0.9	2.3	2.8	4.6
LT Fixed income	33.3	2.4	10.1	9.4	6.9
Canadian public equities	21.5	8.0	-13.7	-12.2	1.4
US public equities	16.8	7.1	-23.5	-22.6	-5.7
EAFE public equities	16.2	6.0	-16.7	-15.8	-3.5
Private equities	0.8	-3.1	n/a	n/a	n/a
Real Estate	7.3	2.5	4.6	6.2	7.2
Absolute Return Strategies	2.5	1.2	n/a	n/a	n/a
Total	100.0	4.8	-7.1	-6.4	2.1

Benchmark Return (%)	Policy Weight	Current Quarter	Nine Months	One Year	Four Years[2]
ST Fixed Income	2.0	0.7	2.1	2.5	4.3
LT Fixed Income	33.0	2.3	9.9	8.7	6.4
Canadian Equities	20.0	7.5	-14.6	-12.4	2.0
US Equities	15.0	8.0	-23.1	-22.9	-6.1
EAFE Equities	15.0	6.0	-17.2	-16.8	-7.3
Private Equities	2.0	2.5	n/a	n/a	n/a
Real Estate	10.0	1.8	7.0	9.4	10.5
Absolute Return Strategies	3.0	2.0	n/a	n/a	n/a
Total	100.0	5.0	-7.2	-6.7	1.5

TRANSITION PORTFOLIO[1]

Historical Performance Returns

	Six Months Ended Sept. 30, 2002	Year Ended Mar. 31, 2002	Year Ended Mar. 31, 2001	Year Ended Mar. 31, 2000
Actual return (%)	0.5	5.3	8.2	3.0

1 The Transition Portfolio was wound up in July 2002. The combined Heritage Fund return for nine months, one year and four years includes the past performance of the Transition Portfolio.

2 annualized

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2002

BALANCE SHEET

December 31, 2002 (unaudited)

	(thousands)	
	December 31, 2002	March 31, 2002
Assets		
Portfolio investments (Note 3)	$ 11,413,219	$ 12,501,716
Due from the General Revenue Fund	180,000	–
Accrued investment income	12,445	20,617
Administration expense receivable	293	7
Receivable from sale of investments	–	16,163
	$ 11,605,957	$ 12,538,503
Liabilities and Fund Equity		
Liabilities		
Liabilities for investment purchases	$ 530	$ 269,287
Due to the General Revenue Fund	–	12,897
	530	282,184
Fund equity (Note 6)	11,605,427	12,256,319
	$ 11,605,957	$ 12,538,503

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

STATEMENT OF OPERATIONS

for the Nine Months ended December 31, 2002 (unaudited)

	(thousands)			
	Three Months Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Nine Months Ended Dec. 31, 2002	Nine Months Ended Dec. 31, 2001
Net income (loss) (Note 7)	$ 8,778	$ 150,844	$ (650,892)	$ 69,983
Transfers to the General Revenue Fund (Note 6)	–	69,983	–	69,983
Net decrease in fund equity (Note 6)	8,778	80,861	(650,892)	–
Fund equity at beginning of period	11,596,649	12,175,458	12,256,319	12,256,319
Fund equity at end of period	$ 11,605,427	$ 12,256,319	$ 11,605,427	$ 12,256,319

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

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the Nine Months ended December 31, 2002 (unaudited)

	(thousands)			
	Three Months Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Nine Months Ended Dec. 31, 2002	Nine Months Ended Dec. 31, 2001
Operating transactions:				
Net income (loss)	$ 8,778	$ 150,844	$ (650,892)	$ 69,983
Non-cash items included in net income	(62)	(27,416)	60,066	(42,727)
	8,716	123,428	(590,826)	27,256
Decrease (increase) in accounts receivable	(2,124)	84,198	24,049	89,205
Increase (decrease) in accounts payable	393	(116,179)	(268,757)	(125,015)
Cash provided by (applied to) operating transactions	6,985	91,447	(835,534)	(8,554)
Investing transactions:				
Proceeds from disposals, repayments and redemptions of investments	905,068	3,258,391	5,344,049	9,938,380
Purchase of investments	(883,056)	(3,558,732)	(4,181,570)	(9,878,364)
Cash provided by investing transactions	22,012	(300,341)	1,162,479	60,016
Transfers				
Transfers to the General Revenue Fund	–	(69,983)	–	(69,983)
Decrease in amounts due to the General Revenue Fund	–	69,983	(192,897)	(137,068)
Cash applied to transfers	–	–	(192,897)	(207,051)
Increase (decrease) in cash	28,997	(208,894)	134,048	(155,589)
Cash at beginning of period	156,871	317,180	51,820	263,875
Cash at end of period	$ 185,868	$ 108,286	$ 185,868	$ 108,286
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 185,868	$ 108,286	$ 185,868	$ 108,286

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

Notes to the Financial Statements

December 31, 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."

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. The estimated provision for writedowns, determined on an interim basis, is subject to change with the final determination of writedowns to be completed at year end.

(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 price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

(unaudited)

Note 2 (continued)

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

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

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

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

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

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

(viii) The fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the 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 valued 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 interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields.

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

	December 31, 2002			March 31, 2002		
	Cost	Fair Value	% of Fair Value	Cost	Fair Value	% of Fair Value
Fixed income securities						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 185,868	$ 185,868	1.6	$ 51,820	$ 51,820	0.4
Canadian Dollar Public Bond Pool (b)	2,940,235	2,999,288	26.3	3,372,717	3,291,655	26.0
Bonds, notes and short-term paper, directly held (c)	124,690	126,414	1.1	1,440,792	1,445,674	11.4
Private Mortgage Pool (d)	400,785	403,645	3.5	404,966	389,516	3.1
Provincial corporation debentures, directly held (e)	101,463	164,853	1.5	104,622	165,178	1.3
Loans, directly held (f)	97,359	97,359	0.9	97,359	97,359	0.8
	3,850,400	**3,977,427**	**34.9**	**5,472,276**	**5,441,202**	**43.0**
Canadian equities						
Public equities:						
Domestic Passive Equity Pooled Fund (g)	905,537	1,081,349	9.5	886,167	1,097,763	8.7
Canadian Pooled Equity Fund (h)	698,652	664,174	5.8	931,972	945,662	7.5
External Managers Canadian Large Cap Equity Pool (i)	632,095	614,938	5.4	380,554	406,097	3.2
External Managers Canadian Small Cap Equity Pool (j)	69,428	84,775	0.8	67,471	88,027	0.7
Public equities, directly held	7	–	–	1,526	2,716	–
	2,305,719	2,445,236	21.5	2,267,690	2,540,265	20.1
Private Equity Pools (k)	92,518	82,934	0.7	86,069	83,047	0.6
	2,398,237	**2,528,170**	**22.2**	**2,353,759**	**2,623,312**	**20.7**
United States equities						
Public equities:						
External Managers US Passive Equity Pool (l)	1,045,565	952,418	8.4	1,104,863	994,944	7.9
External Manager US Large Cap Equity Pool (m)	939,482	844,554	7.4	891,430	879,969	6.9
External Manager US Small/Mid Cap Equity Pool (n)	115,217	118,888	1.0	102,321	122,653	1.0
United States Pooled Equity Fund	256	134	–	803	640	-
	2,100,520	1,915,994	16.8	2,099,417	1,998,206	15.8
Private Equity Pool (02) (k)	6,996	7,098	0.1	–	–	–
	2,107,516	**1,923,092**	**16.9**	**2,099,417**	**1,998,206**	**15.8**
Non-North American equities						
Public equities:						
External Managers EAFE Core Equity Pool (o)	1,045,956	980,408	8.6	1,013,353	994,087	7.8
External Managers EAFE Plus Equity Pool (o)	532,997	492,839	4.3	488,475	499,732	4.0
External Manager EAFE Passive Equity Pool (p)	389,696	379,847	3.3	505,888	507,434	4.0
EAFE Structured Equity Pool	–	–	–	803	818	–
	1,968,649	**1,853,094**	**16.2**	**2,008,519**	**2,002,071**	**15.8**
Real estate						
Private Real Estate Pool (q)	**808,937**	**837,673**	**7.3**	**567,745**	**594,463**	**4.7**
Absolute Return Strategies						
Absolute Return Strategy Pool (r)	**279,480**	**282,233**	**2.5**	**–**	**–**	**–**
Total equities, real estate and absolute return strategies	7,562,819	7,424,262	65.1	7,029,440	7,218,052	57.0
Total investments (s)	**$ 11,413,219**	**$ 11,401,689**	**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 December 31, 2002, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	December 31, 2002	March 31, 2002
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	35.7	36.9
Canadian Pooled Equity Fund	49.7	47.0
Domestic Passive Equity Pooled Fund	47.5	41.3
EAFE Structured Equity Pool	–	0.2
Foreign Private Equity Pool (02)	87.5	–
Private Equity Pool (02)	62.1	–
Private Equity Pool (98)	100.0	100.0
Private Equity Pool	13.6	13.6
Private Mortgage Pool	42.1	43.2
Private Real Estate Pool	42.8	36.3
United States Pooled Equity Fund	18.0	18.0
Externally Managed Investment Pools		
Absolute Return Strategy Pool	88.2	–
Canadian Large Cap Equity Pool	25.0	18.8
Canadian Small Cap Equity Pool	18.7	18.7
EAFE Core Equity Pool	37.9	36.2
EAFE Passive Equity Pool	57.7	56.6
EAFE Plus Equity Pool	36.8	35.4
US Large Cap Equity Pool	44.0	37.0
US Passive Equity Pool	79.3	68.9
US Small/Mid Cap Equity Pool	27.5	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 December 31, 2002, securities held by the Fund have an average effective market yield of 2.90% 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 December 31, 2002, securities held by the Pool have an average effective market yield of 4.95% per annum (March 31, 2002: 5.80% per annum) and the following term structure based on principal amount: under 1 year: 2%; 1 to 5 years: 34%; 5 to 10 years: 34%; 10 to 20 years: 12%; over 20 years: 18%.

(c) As at December 31, 2002, fixed-income securities held directly by the Fund have an average effective market yield of 3.05% per annum (March 31, 2002: 4.02% per annum) and the following term structure based on principal amount: under 1 year: 81%; 1 to 5 years: 19%.

(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 (94.2%) and provincial bond residuals (5.8%). 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 December 31, 2002, securities held by the Pool have an average effective market yield of 6.19% 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: 33%; 5 to 10 years: 18%; 10 to 20 years: 24%; and over 20 years: 21%.

(e) As at December 31, 2002, Provincial corporation debentures held directly by the Fund have an average effective market yield of 8.32% per annum (March 31, 2002: 8.35% per annum) and the following term structure based on principal amount: 5 to 10 years: 100%.

(f) Investment in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at December 31, 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 December 31, 2002 amounted to $76,189,320 (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.

(g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (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.

(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 (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.

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

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

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

(l) The US 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.

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

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

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

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

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

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

(s) 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. Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short term market trends and are temporary in nature. At December 31, 2002, an estimated provision for writedowns totaling $342 million was applied against the cost of public equity investments (see Note 2(a)).

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 December 31, 2002.

(thousands)

	Maturity			December 31, 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	86%	14%	–	$ 531,608	$ 25,154	$ 510,859	$ 7,733
Bond index swap contracts	100%	–	–	54,561	471	55,553	(491)
Forward foreign exchange contracts	100%	–	–	481,695	1,217	260,664	182
Interest rate swap contracts	44%	55%	1%	287,457	(12,965)	230,634	(8,479)
				1,355,321	$ 13,877	1,057,710	$ (1,055)
Cross-currency interest rate swap contracts (b)	22%	12%	66%	264,251		380,982	
				$ 1,619,572		$ 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 December 31, 2002, the combined fair value of cross-currency interest rate swaps and underlying securities amounted to $270,221,000 (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 proposes the following asset mix policy for the fund.

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 nine months ended December 31, 2002, amounting to $650,892,000 has been applied against retained earnings and is carried forward to reduce transfers to GRF resulting from income earned in the remaining three months of the fiscal year ending March 31, 2003. As at December 31, 2002 the Fund's total receivable from GRF, amounting to $180,000,000, represents total transfers made to GRF during the four months ended July 31, 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 LOSS

Investment income (loss) is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, writedowns and provision for writedowns. 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).

The investment loss for the nine months ended December 31, 2002 includes a provision for writedown of public equities totaling $342,405,000 (December 31, 2001: $nil) and writedowns of public equities totaling $98,330,000 (December 31, 2001: $265,386,000).

A summary of investment income (loss) is as follows:

	(thousands)			
	Three Months Ended Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Nine Months Ended Dec. 31, 2002	Nine Months Ended Dec. 31, 2001
Deposit and fixed-income securities	$ 70,603	$ 114,296	$ 214,747	$ 352,776
Canadian equities	47,826	64,326	(233,511)	(102,778)
United States equities	(59,400)	(3,859)	(430,415)	(9,428)
Non-North American equities	(69,163)	(34,419)	(236,001)	(200,635)
Real estate	18,224	10,738	34,495	30,997
Absolute Return Strategies	1,001	–	1,001	–
Investment income (loss)	9,091	151,082	(649,684)	70,932
Direct administrative expenses (Note 8)	(313)	(238)	(1,208)	(949)
Net income (loss)	$ 8,778	$ 150,844	$ (650,892)	$ 69,983

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 Dec. 31, 2002	Three Months Ended Dec. 31, 2001	Nine Months Ended Dec. 31, 2002	Nine Months Ended Dec. 31, 2001
Direct fund expenses (Note 7)	$ 313	$ 238	$ 1,208	$ 949
Externally managed investment pools	3,203	2,782	9,111	6,212
Internally managed investment pools	643	308	1,864	1,148
Total	$ 4,159	$ 3,328	$ 12,183	$ 8,309
Percent of net assets at fair value	0.036%	0.027%	0.105%	0.067%

NOTE 9 COMPARATIVE FIGURES

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

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

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