Second Quarter Update

2003-04

Alberta Heritage Savings Trust Fund

2003-04 quarterly report
For the six months ended September 30, 2003

Heritage Fund

Alberta
REVENUE

Alberta Heritage Savings Trust Fund
Room 455, 9515 - 107 Street
Edmonton, Alberta T5K 2C3
Phone: (780) 427-5364

SECOND QUARTER UPDATE
SEPTEMBER 30, 2003

Alberta Heritage Savings Trust Fund

QUARTER IN REVIEW

The fair value of the Heritage Fund increased by $1.2 billion over the past six months, almost entirely reversing the decline in fair value of $1.3 billion for the previous year. World stock markets continued their upward trend this quarter, marking two consecutive quarters in which markets have increased. Low interest rates and better than expected corporate profits continued to fuel the recovery. The Canadian stock market increased again this quarter despite the appreciation in the Canadian dollar which has made exports more expensive and constrained growth. Growth in the information technology sector led all ten stock market industry sectors this quarter and over six months. The US economy continued to accelerate. Increases in the US gross domestic product (GDP), better than expected manufacturing reports and construction spending reports indicate a growing manufacturing sector in the US and strong consumer spending. Japan was a key contributor to the performance of the non-North American market. The Japanese economy continued to grow, supported by a stronger yen, rising external investment and a healthier domestic economy.

The value of the US dollar weakened slightly this quarter against the Canadian dollar. At September 30, 2003, $1 US dollar purchased $1.35 Canadian compared to $1.36 Canadian at June 30, 2003 and $1.47 Canadian at March 31, 2003. As a result, the appreciation in the value of US dollar equity investments is reduced when translated into Canadian dollars.

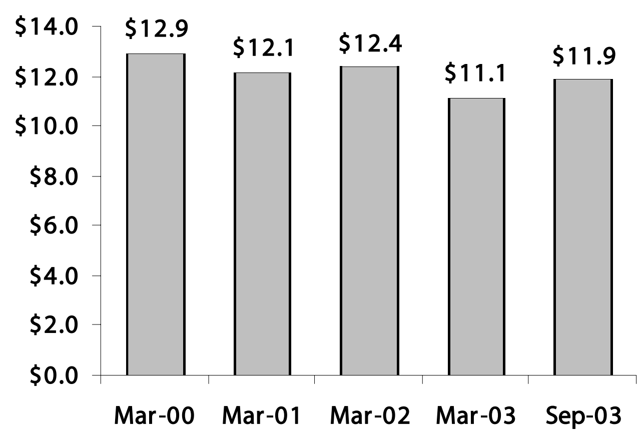
MARKET SUMMARY

Benchmark Index Returns as at September 30, 2003	Current Quarter %	Six Months %
Stock Markets		
Canadian		
S&P/TSX Index	6.7	18.0
United States		
S&P 500 Index (US $)	2.6	18.5
S&P 500 Index (Cdn $)	2.3	8.9
Non North American		
MSCI EAFE Index (Cdn $)	7.7	18.5
Canadian Bond Market		
SC Bond Universe Index	1.3	6.5

At September 30, 2003, the fair value of the Heritage Fund stood at $11.9 billion up from $11.7 billion at June 30, 2003 and $11.1 billion at March 31, 2003. Over the past six months, the increase in fair value of $1.2 billion was offset by transfers to the General Revenue Fund of $386 million, resulting in a net increase of $836 million. Overall, the Fund returned 3.7% from its investments this quarter and 11.0% over six months. Fund equity, at cost, remained unchanged at $11.4 billion.

HERITAGE FUND - FAIR VALUE

(billions)



INVESTMENT INCOME

The Fund recorded net income of $187 million this quarter bringing total net income over six months to $386 million. Over six months, the Fund earned $184 million from investments in equity markets, $158 million from investments in bonds, notes and short-term paper, $21 million from real estate investments and $23 million from absolute return strategies.

NET INVESTMENT INCOME (LOSS)

(millions)

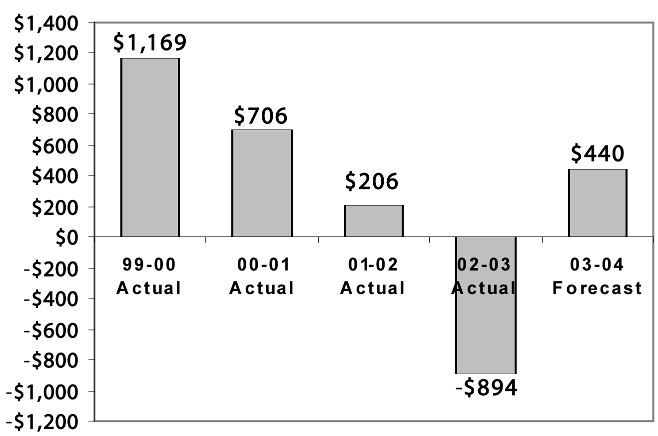
	Fixed Income	Equity Income	Real Estate	Absolute Return Strategies	Total
03-04 Six Mths	$ 158	$ 184	$ 21	$ 23	$ 386
02-03 Fiscal Yr	286	(1,224)	39	5	(894)
01-02 Fiscal Yr	444	(276)	38	-	206
00-01 Fiscal Yr	532	157	17	-	706
99-00 Fiscal Yr	610	539	20	-	1,169

FORECAST NET INCOME

The Fund's forecast net income for the year ended March 31, 2004 is $440 million. On a consolidated basis, the forecast net income is $426 million. The consolidated forecast net income excludes income from holdings of Provincial Corporation debentures.

HERITAGE FUND NET 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 for the three months ended September 30, 2003 totals $436 million and $1.2 billion over six months.

CHANGES IN NET ASSETS

(millions)

	Three Months Sept 30, 2003	Six Months Sept 30, 2003	Six Months Sept 30, 2002
Fair value, beginning of period	$ 11,662	$11,075	$ 12,414
Investment income (loss), cost basis*	187	386	(660)
Change in unrealized appreciation (depreciation) in value of investments	249	836	(682)
Investment income (loss), fair value basis	436	1,222	(1,342)
Transfers to the General Revenue Fund**	(187)	(386)	-
Fair value, end of period***	$ 11,911	$11,911	$ 11,072

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

** see financial statements (Note 6)

*** includes investments of $ 12,062 billion less net current liabilities of $ 151 million.

TRANSFERS TO THE GENERAL REVENUE FUND

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 net income determined by the cost basis of accounting and therefore not transferred to the General Revenue Fund. The Fund's net income for the six months ended September 30, 2003, amounted to $386 million of which $220 million was transferred to the General Revenue Fund and $166 million remains payable to GRF. Actual cash transfers of $220 over six months or $110 million per quarter are based on one quarter of the original budget estimate of income of $440 million for fiscal year 2003-2004.

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. The Fund's net income of $386 million for the six months ended September 30, 2003 includes write-downs of public equities totaling $2.4 million.

INVESTMENT ASSET MIX

The investment strategy is to invest in a diversified portfolio to optimize long-term returns at an acceptable level of risk. The policy asset allocation is reported in the Fund's 2003-06 business plan.

The long term policy asset mix for fixed income securities remains the same as the previous year at 35.0%. The policy asset mix for public equity investments decreases from 50.0% to 45.0% due to a reduction in Canadian equity investments by 5.0%. Real estate investments remain unchanged at 10.0%. Private equities are expected to increase from 2.0% to to 5.0% of total portfolio investments while absolute return strategies are expected to increase from 3.0% to 5.0%.

The actual investment mix changed over the six months. Fixed income securities declined from 35.8% to 33.9%. Public equity investments increased from 52.9% to 54.7% largely due to the increase in market value of public equity investments relative to other investments. Real estate investments decreased from 7.9% to 7.7% of the Fund's total investment portfolio. Absolute Return Strategies also increased from 2.6% to 2.9% of the Fund's investment portfolio while private equity investments remained unchanged at 0.8%.

ASSET MIX POLICY
PERCENT OF FAIR VALUE
(percent)

	2003-04		2002-03	
	Policy Target	Actual Sep 03	Policy Target	Actual Mar 03
ASSET CLASS				
Fixed income securities	35.0	33.9	35.0	35.8
Public equities				
Canadian	15.0	22.5	20.0	21.4
United States*	15.0	15.7	15.0	15.8
Non-north American*	15.0	16.5	15.0	15.7
	45.0	54.7	50.0	52.9
Private equities*	5.0	0.8	2.0	0.8
Absolute Return Strategies*	5.0	2.9	3.0	2.6
Real Estate	10.0	7.7	10.0	7.9
	100.0	100.0	100.0	100.0

*The underlying exposure is in local currency.

PERFORMANCE MEASUREMENT

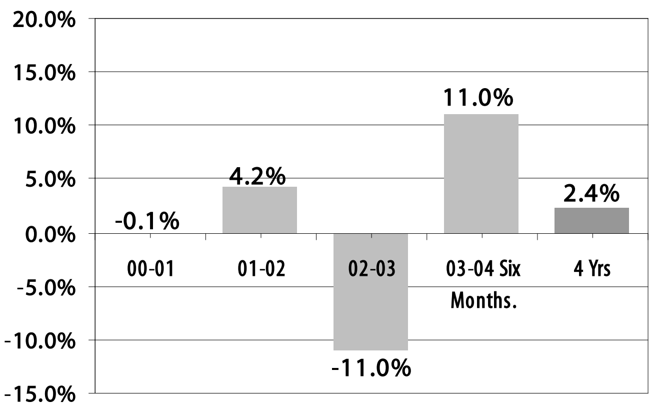
HERITAGE FUND RATE OF RETURN

The Heritage Fund posted an overall positive rate of return of 3.7% this quarter, the same as the Fund's benchmark return. Over six months, fund investments returned 11.0%, 30 basis points better than the benchmark of 10.7%. The Fund earned positive returns from all asset classes.

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 2.4%. The Heritage Fund is expected to generate a real rate of return of 5.0% at an acceptable level of risk over a moving four-year period.

HERITAGE FUND ANNUAL RETURNS AT FAIR VALUE

(percent)

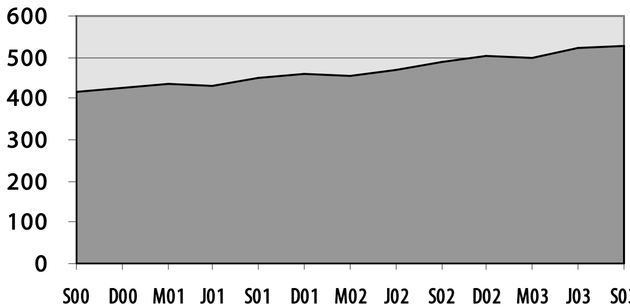


The performance of the Heritage Fund investments is measured against various market-based indices. Value added by investment management is accomplished through asset mix decisions and security selection. The following sections describe the performance of the Fund's major asset classes in relation to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

FIXED INCOME INVESTMENTS

The Canadian bond market posted modest returns this quarter. The Scotia Capital (SC) Bond Universe Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past quarter, the SC Bond Universe Index increased by 1.3% while the short term SC 91-Day T-Bill Index increased by 0.8%.

SC UNIVERSE BOND INDEX



LT Fixed income	Actual Return %	Benchmark SC Bond Universe Index %	Over (Under) bps*
Current quarter	1.3	1.3	0
Six months	6.9	6.5	40
One year	8.8	8.1	70
Four years (annualized)	8.6	7.9	70

* bps is basis points, where 1bps equals 0.01%.

ST Fixed Income	Actual Return %	Benchmark SC 91-Day T-Bill Index %	Over (Under) bps
Current quarter	0.8	0.8	0
Six months	1.6	1.6	0
One year	3.3	3.0	30
Four years (annualized)	4.2	4.0	20

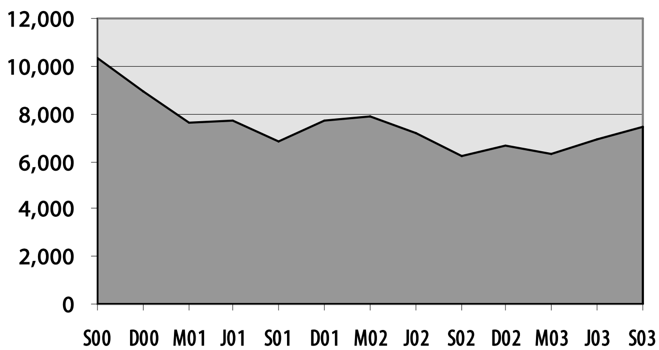
The Fund's actual rate of return over the quarter from Canadian bonds was 1.3%, equal to the benchmark SC Bond Universe Index. The Fund's return from short-term securities was 0.8% the same as the benchmark SC 91-Day T-Bill Index. Over four years, returns from long-term and short-term securities exceeded their benchmarks by 70 and 20 basis points respectively. The out-performance over four years was primarily due to a higher weight in corporate bonds and duration management. The Heritage Fund's total fixed income portfolio is internally managed through various pools and direct holdings.

Over the past six months, investments in bonds, notes, short term paper, provincial corporation debentures and loans declined from 35.8% to 33.9% of total investments. Total fixed income securities increased to $4.08 billion from $3.96 billion at March 31, 2003.

CANADIAN EQUITY INVESTMENTS

The Canadian stock market increased this quarter. The information technology sector led the increase among the ten industry sectors followed by the materials and industrials sectors. The Toronto Stock Exchange (S&P/TSX) Composite Index measures the performance of Canada's top companies in ten industrial sectors. The S&P/TSX Index increased by 6.7% for the three months ending September 30, 2003 and 18.0% over six months.

S&P / TSX



		Benchmark	
	Actual	S&P/TSX	Over
	Return	Index	(Under)
Canadian Public Equities	%	%	bps
Current quarter	6.7	6.7	0
Six months	17.7	18.0	(30)
One year	23.0	22.5	50
Four years (annualized)	2.5	3.3	(80)

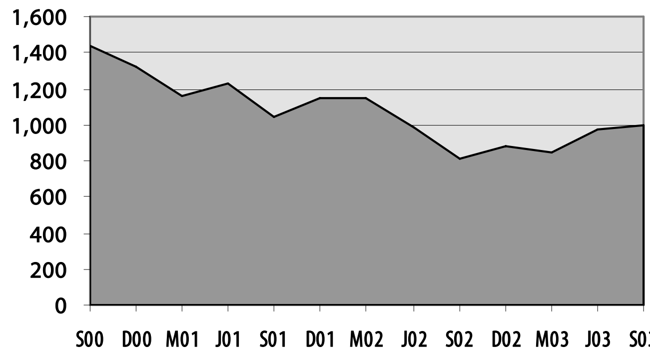
The Heritage Fund's Canadian equity portfolio is held in various investment pools managed by internal and external managers. Over the quarter, the Fund's actual return from Canadian equities was 6.7% equal to the benchmark S&P/TSX. Over four years, the fund's return from Canadian equities was 2.5% or 80 basis points less than the benchmark S&P/TSX. Over the long term, the under-performance was due to an over-weight position in growth orientated equities.

At September 30, 2003, investments in Canadian public equities totaled 22.5% or $2.7 billion of the Heritage Fund investment portfolio compared to 21.4% or $2.4 billion at March 31, 2003.

US EQUITY INVESTMENTS

The United States equity market recorded modest gains this quarter. Technology stocks led the increase followed by materials and industrials stocks. The Standard & Poor's 500 Index, S&P 500, which measures the performance of the top 500 American companies, increased by 2.3% during the past three months and 8.9% over six months in Canadian dollars.

S&P 500



		Benchmark	
	Actual	S&P 500	Over
	Return	Index	(Under)
US Public Equities	%	%	bps
Current quarter	2.2	2.3	(10)
Six months	10.0	8.9	110
One year	6.8	5.9	90
Four years (annualized)	(6.1)	(6.8)	70

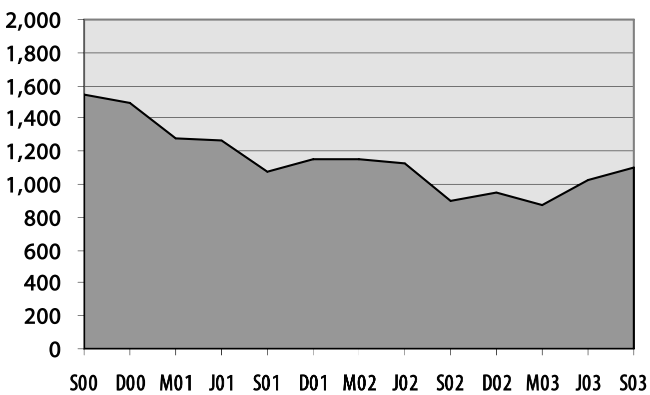
The Fund's actual rate of return over the quarter from US equities was 2.2%, 10 basis points less than the benchmark S&P 500. Over four years, the Fund's US equity portfolio returned a negative 6.1%, 70 basis points better than the benchmark S&P 500 Index. Over the long term, the out-performance was due to a weighting towards US small capitalization stocks and positive currency hedge returns.

At September 30, 2003, investments in US equities totaled 15.7% or $1.9 billion of the Heritage Fund investment portfolio compared to 15.8% or $1.8 billion at March 31, 2003.

NON-NORTH AMERICAN EQUITY INVESTMENTS

The Non-North American equity market recorded strong gains this quarter. The Morgan Stanley Capital International Index for Europe, Australasia and the Far East, MSCI EAFE Index, measures the performance of approximately 1,000 companies on 21 stock exchanges around the world. The index increased by 7.7% this quarter in Canadian Dollars and 18.5% over the past six months.

MSCI EAFE



EAFE Public Equities	Actual Return %	Benchmark MSCI EAFE Index %	Over (Under) bps
Current quarter	7.6	7.7	(10)
Six months	19.7	18.5	120
One year	8.0	7.3	70
Four years (annualized)	(7.0)	(7.9)	90

The Fund's actual return over the quarter from Non-North American equities was 7.6%, 10 basis points less than the benchmark MSCI EAFE Index. Over four years the Fund's Non-North American equity portfolio returned a negative 7.0%, 90 basis points better than the benchmark MSCI EAFE Index. The out-performance over the longer term was due to superior stock selection for Europe and Pacific region investments.

At September 30, 2003, investments in non-North American equities totaled 16.5% or $2.0 billion of the Heritage Fund investment portfolio compared to 15.7% or $1.7 billion at March 31, 2003.

REAL ESTATE INVESTMENTS

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 70% of real estate holdings are located in Ontario, 28% in Alberta and 2% in British Columbia. The Fund's real estate portfolio earned 0.8% this quarter and 8.1% over 4 years. The real estate portfolio returned 160 basis points below the benchmark over four years due to a relatively larger position in lower performing Ontario and Alberta office properties. However, the market dominant nature of these properties make them highly sought after and lower yielding.

Real estate	Actual Return %	Benchmark CPI plus 5%* %	Over (Under) bps
Current quarter	0.8	1.4	(60)
Six months	2.0	2.4	(40)
One year	9.7	6.8	290
Four years (annualized)	8.1	9.7	(160)

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

At September 30, 2003, investments in real estate totaled 7.7% or $928 million of the Heritage Fund investment portfolio compared to 7.9% or $870 million at March 31, 2003.

ABSOLUTE RETURN STRATEGIES

Absolute return strategy investments were initiated late in the second quarter of last year. These strategies encompass a wide variety of investments with the objective of realizing positive returns regardless of the overall market direction. A common feature of many of these strategies is buying undervalued securities and selling short overvalued securities. Over the quarter, absolute return strategies generated a return of 1.2%, 50 basis points less than the benchmark Consumer Price Index (CPI) plus 6.0%. Over six months, absolute return strategies returned 4.0%, 110 basis better than the benchmark. The out-performance over six months was due to strong performance of underlying managers. The Absolute Return Strategy Pool uses currency hedges to manage foreign exchange risk.

Absolute Return Strategies	Actual Return %	Benchmark CPI plus 6% %	Over (Under) bps
Current quarter	1.2	1.7	(50)
Six months	4.0	2.9	110
One year	n/a	n/a	-
Four years (annualized)	n/a	n/a	-

At September 30, 2003, investments in absolute return strategies totaled 2.9% or $364 million of the Heritage Fund investment portfolio compared to 2.6% or $283 million at March 31, 2003.

ADMINISTRATIVE EXPENSES

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

The Fund's total administrative expense for the six months ending September 30, 2003, including amounts deducted from the investment income of the pooled funds, amounted to $9.550 million or 0.080% of the Funds net assets at fair value compared to $8.024 million or 0.072% of net assets for the same period last year.

ADMINISTRATIVE EXPENSE BREAKDOWN

Six months ended September 30, 2003 (thousands)

	Six Months Ended Sept. 30, 2003	Sept. 30, 2002
Direct fund expenses	$ 1,279	$ 895
Externally managed investment pools	6,420	5,908
Internally managed investment pools	1,851	1,221
Total	$ 9,550	$ 8,024
Expenses as a percent of net assets at fair value	0.080%	0.072%

Over the past six months, expenses of direct and internally managed investment pools increased by $1.014 million over the same period last year. The net increase in expense was due to additional staffing requirements, system improvements and the transfer of US passively managed investments from external managers to internal managers.

Expenses for externally managed investment pools increased by $512,000 over the same period last year. The net increase was primarily due to the new Absolute Return Strategy Pool, which was initiated late in the second quarter of 2002-03. Over six months, expenses of the Absolute Return Strategy Pool totaling $1.867 million (September 30, 2002: nil) were offset by reductions in expenses of other externally managed pools totaling $1.355 million.

BUSINESS PLAN PERFORMANCE MEASURES

HERITAGE FUND (COMBINED) (1)

	Current Quarter	Six Months	One Year	Four Years(2)
Actual return (%)	3.7	11.0	11.1	2.4

ENDOWMENT PORTFOLIO

	Current Quarter	Six Months	One Year	Four Years(2)
Actual return (%)	3.7	11.0	11.1	2.2
Benchmark (%)	3.7	10.7	10.6	2.0
Over (under) benchmark	-	0.3	0.5	0.2

		Actual Return - %			
	Actual Weight	Current Quarter	Six Months	One Year	Four Years(2)
ST Fixed Income	0.7	0.8	1.6	3.3	4.2
LT Fixed Income	33.2	1.3	6.9	8.8	8.6
Canadian public equities	22.5	6.7	17.7	23.0	2.5
US public equities	15.7	2.2	10.0	6.8	(6.1)
EAFE public equities	16.5	7.6	19.7	8.0	(7.0)
Private equities	0.8	0.6	0.6	n/a	n/a
Real Estate	7.7	0.8	2.0	9.7	8.1
Absolute Return Strategies	2.9	1.2	4.0	n/a	n/a
Total	100.0	3.7	11.0	11.1	2.2

		Benchmark Return - %			
	Long-term Policy Weight	Current Quarter	Six Months	One Year	Four Years(2)
ST Fixed Income	2.0	0.8	1.6	3.0	4.0
LT Fixed Income	33.0	1.3	6.5	8.1	7.9
Canadian public equities	15.0	6.7	18.0	22.5	3.3
US public equities	15.0	2.3	8.9	5.9	(6.8)
EAFE public equities	15.0	7.7	18.5	7.3	(7.9)
Private Equities	5.0	2.1	3.9	n/a	n/a
Real Estate	10.0	1.4	2.4	6.8	9.7
Absolute Return Strategies	5.0	1.7	2.9	n/a	n/a
Total	100.0	3.7	10.7	10.6	2.0

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 the first half of 2002-03. The combined Heritage Fund return includes the past performance of the Transition Portfolio.
(2) Annualized.

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

BALANCE SHEET

September 30, 2003 (unaudited)

	(thousands) September 30, 2003	March 31, 2003
Assets		
Portfolio investments (Note 3)	$ 11.513,460	$ 11,346,295
Accrued investment income	14,747	16,145
Administration expense receivable	-	2
	$ 11,528,207	$ 11,362,442
Liabilities and Fund Equity		
Liabilities		
Due to the General Revenue Fund	$ 165,765	$ -
Fund equity (Note 6)	11,362,442	11,362,442
	$ 11,528,207	$ 11,362,442

STATEMENT OF OPERATIONS

for the Six Months ended September 30, 2003 (unaudited)

(thousands)	Three Months Ended Sept. 30, 2003	Three Months Ended Sept. 30, 2002	Six Months Ended Sept. 30, 2003	Six Months Ended Sept. 30, 2002
Net income (loss) (Note 7)	$ 186,536	$ (575,548)	$ 385,765	$ (659,670)
Transfers to the General Revenue Fund (Note 6)	186,536	-	385,765	-
Net change in fund equity (Note 6)	-	(575,548)	-	(659,670)
Fund equity at beginning of period	11,362,442	12,172,197	11,362,442	12,256,319
Fund equity at end of period	$ 11,362,442	$ 11,596,649	$ 11,362,442	$ 11,596,649

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

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the Six Months ended September 30, 2003 (unaudited)

	(thousands)			
	Three Months Ended Sept. 30, 2003	**Three Months Ended Sept. 30, 2002**	**Six Months Ended Sept. 30, 2003**	**Six Months Ended Sept. 30, 2002**
Operating transactions:				
Net income (loss)	$ 186,536	$ (575,548)	$ 385,765	$ (659,670)
Non-cash items included in net income	(13,340)	66,192	(13,441)	60,128
	173,196	(509,356)	372,324	(599,542)
Decrease in accounts receivable	1,207	642	1,400	26,173
Decrease in accounts payable	-	(130,497)	-	(269,150)
Cash provided by (applied to) operating transactions	174,403	(639,211)	373,724	(842,519)
Investing transactions:				
Proceeds from disposals, repayments and redemptions of investments	233,721	1,881,578	294,305	4,438,981
Purchase of investments	(316,787)	(1,163,881)	(614,543)	(3,298,514)
Cash provided by (applied to) investing transactions	(83,066)	717,697	(320,238)	1,140,467
Transfers				
Transfers to the General Revenue Fund	(186,536)	-	(385,765)	-
Increase (decrease) in amounts due to the General Revenue Fund	76,536	(33,000)	165,765	(192,897)
Cash applied to transfers	(110,000)	(33,000)	(220,000)	(192,897)
Increase (decrease) in cash	(18,663)	45,486	(166,514)	105,051
Cash at beginning of period	102,663	111,385	250,514	51,820
Cash at end of period	$ 84,000	$ 156,871	$ 84,000	$ 156,871
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 84,000	$ 156,871	$ 84,000	$ 156,871

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

Notes to the Financial Statements

September 30, 2003 (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, real estate investments and absolute return strategy investments held directly by the Fund or by pooled investment funds are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

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

Investments are recorded as of the trade date.

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

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

(b) **Investment Income**

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

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

(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 managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The conservative value or cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods such as discounted cash flows and market multiples.

(iv) The fair value of 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. Appraisers use a combination of methods to determine fair value including the replacement cost approach, direct comparison approach, direct capitalization of earnings approach and the discounted cash flows approach.

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

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

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

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

(e) Valuation of Derivative Contracts

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

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

(ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

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

NOTE 3 PORTFOLIO INVESTMENTS

(thousands)

	September 30, 2003			March 31, 2003		
	Cost	Fair Value	% of Fair Value	Cost	Fair Value	% of Fair Value
Fixed income securities						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 84,000	$ 84,000	0.7	$ 250,514	$ 250,514	2.3
Canadian Dollar Public Bond Pool (b)	3,119,370	3,188,735	26.5	3,012,610	2,996,258	27.1
Bonds, notes and short-term paper, directly held (c)	24,160	25,568	0.2	24,515	25,470	0.2
Private Mortgage Pool (d)	522,878	532,641	4.4	432,916	429,077	3.9
Provincial corporation debentures, directly held (e)	97,595	155,410	1.3	100,037	158,018	1.4
Loans, directly held (f)	97,359	97,359	0.8	97,359	97,359	0.9
	3,945,362	**4,083,713**	**33.9**	**3,917,951**	**3,956,696**	**35.8**
Public equities						
Canadian public equities:						
Domestic Passive Equity Pooled Fund (g)	1,023,261	1,209,650	10.0	907,115	1,050,459	9.5
External Managers Canadian Large Cap Equity Pool (h)	675,518	734,381	6.1	672,938	638,043	5.8
Canadian Pooled Equity Fund (i)	630,497	671,613	5.6	647,209	596,641	5.4
External Managers Canadian Small Cap Equity Pool (j)	70,864	93,229	0.8	72,655	80,751	0.7
	2,400,140	2,708,873	22.5	2,299,917	2,365,894	21.4
United States public equities:						
S&P 500 Index Fund (k)	898,516	950,563	7.9	443,426	429,631	3.9
External Managers US Large Cap Equity Pool (l)	888,716	818,095	6.8	894,835	753,677	6.8
External Manager US Small/Mid Cap Equity Pool (m)	115,681	126,173	1.0	111,304	106,645	0.9
United States Pooled Equity Fund	164	115	-	255	105	-
External Manager US Passive Equity Pool	-	-	-	505,192	462,155	4.2
	1,903,077	1,894,946	15.7	1,955,012	1,752,213	15.8
Non-North American public equities:						
External Managers EAFE Core Equity Pool (n)	1,066,488	1,045,190	8.7	1,054,819	876,238	7.9
External Managers EAFE Plus Equity Pool (n)	457,877	460,553	3.8	518,725	437,568	3.9
External Manager EAFE Passive Equity Pool (o)	395,839	486,932	4.0	411,772	427,300	3.9
	1,920,204	1,992,675	16.5	1,985,316	1,741,106	15.7
Total public equities	**6,223,421**	**6,596,494**	**54.7**	**6,240,245**	**5,859,213**	**52.9**
Real estate						
Private Real Estate Pool (p)	**865,491**	**927,780**	**7.7**	**804,855**	**869,948**	**7.9**
Absolute Return Strategies						
Absolute Return Strategy Pool (q)	**364,456**	**351,932**	**2.9**	**283,042**	**282,967**	**2.6**
Private Equities						
Private Equity and Income Pools (r)	**114,730**	**102,289**	**0.8**	**100,202**	**89,999**	**0.8**
Total investments (s)	**$ 11,513,460**	**$ 12,062,208**	**100.0**	**$ 11,346,295**	**$ 11,058,823**	**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, 2003, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	September 30, 2003	March 31, 2003
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	39.4	38.1
Canadian Pooled Equity Fund	59.4	55.0
Domestic Passive Equity Pooled Fund	51.8	47.7
Foreign Private Equity Pool (02)	43.8	43.8
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Equity Pool (02)	62.1	62.1
Private Income Pool	88.8	-
Private Mortgage Pool	46.3	42.8
Private Real Estate Pool	43.2	42.8
S&P 500 Index Fund	82.5	87.2
United States Pooled Equity Fund	18.0	18.0
Externally Managed Investment Pools		
Absolute Return Strategy Pool	88.5	88.2
Canadian Large Cap Equity Pool	25.2	25.5
Canadian Small Cap Equity Pool	17.6	18.6
EAFE Core Equity Pool	35.7	35.6
EAFE Passive Equity Pool	78.6	74.0
EAFE Plus Equity Pool	35.4	37.1
US Large Cap Equity Pool	41.6	41.6
US Passive Equity Pool	-	73.3
US Small/Mid Cap Equity Pool	24.2	26.9

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at September 30, 2003, securities held by the Fund have an average effective market yield of 2.7% per annum (March 31, 2003: 3.23% 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 September 30, 2003, securities held by the Pool have an average effective market yield of 4.58% per annum (March 31, 2003: 5.41% per annum) and the following term structure based on principal amount: under 1 year: 1%; 1 to 5 years: 40%; 5 to 10 years: 32%; 10 to 20 years: 7%; over 20 years: 20%.

(c) As at September 30, 2003, fixed-income securities held directly by the Fund have an average effective market yield of 3.38% per annum (March 31, 2003: 4.36% per annum). As at September 30, 2003, fixed-income securities have the following term structure based on principal amount: 1 to 5 years: 100%.

(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 (95.3%) and provincial bond residuals (4.7%). 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, 2003, securities held by the Pool have an average effective market yield of 5.84% per annum (March 31, 2003: 6.43% per annum) and the following term structure based on principal amount: under 1 year: 5%; 1 to 5 years: 27%; 5 to 10 years: 29%; 10 to 20 years: 23%; and over 20 years: 16%.

(e) As at September 30, 2003, Provincial corporation debentures have an average effective market yield of 7.36% per annum (March 31, 2003: 7.83% per annum) and the following term structure based on principal amounts: 5 to 10 years: 100%.

(f) Investment in loans are recorded at cost. The fair value of loans is estimated by management based on the present value of discounted cash flows. As at September 30, 2003, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245,000 (March 31, 2003: $91,245,000) and the Vencap loan amounting to $6,114,000 (March 31, 2003: $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, 2003 amounted to $88,414,959 (March 31, 2003: $76,189,320). Grain throughput volumes are the main determinant of profitability of the grain terminal and the value of the loan to the Fund. Due to the uncertainty of forecasting the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.
- The principal amount of the Vencap loan, amounting to $52,588,000, is due July 2046 and bears no interest. Amortization ceased being recorded on the loan from December 31, 2000 onward.

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

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

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

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

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

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

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

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

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

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

(q) 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.

(r) Private Equity and Income 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, Foreign Private Equity Pool 2002 and the Private Income Pool. 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. The Private Income Pool allows unit holders to participate as equity investors in infrastructure related projects.

(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 (see Note 2 (a)). Where the fair value remains less than cost, after recording a writedown, it is management's best judgement that the decline in value is caused by short term market trends and are temporary in nature.

NOTE 4 DERIVATIVE CONTRACTS

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

(i) A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter party to a second counter party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

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

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

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 September 30, 2003.

	Maturity			September 30, 2003 (thousands)		March 31, 2003 (thousands)	
	Under 1 Year	1 to 3 Year	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	63%	37%	-	$ 1,063,829	$ (7,653)	$ 575,028	$ (13,298)
Bond index swap contracts	100%	-	-	56,710	228	52,107	(173)
Forward foreign exchange contracts	100%	-	-	457,454	10,785	616,346	21,069
Interest rate swap contracts	32%	64%	4%	703,405	(29,453)	404,230	(13,765)
Equity index futures contracts	100%	-	-	17,962	301	13,754	421
Credit default swap contracts	-	100%	-	19,370	(44)	-	-
Cross-currency interest rate swaps	1%	36%	63%	264,963	(26,131)	275,384	(52,399)
				$ 2,583,693	$ (51,967)	$ 1,936,849	$ (58,145)

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

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 Fund's business plan proposes the following long term asset mix policy:

Fixed income securities	35%
Public equities	45%
Private equities	5%
Real Estate	10%
Absolute Return Strategies	5%

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

NOTE 6 FUND EQUITY

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

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

NOTE 7 NET INCOME (LOSS)

	(thousands)			
	Three Months Ended Sept. 30, 2003	Three Months Ended Sept. 30, 2002	Six Months Ended Sept. 30, 2003	Six Months Ended Sept. 30, 2002
Deposits and fixed-income securities	$ 80,840	$ 69,748	$ 158,366	$ 144,144
Canadian equities	96,046	(135,752)	175,412	(285,693)
United States equities	(25,589)	(352,896)	(18,681)	(371,015)
Non-North American equities	17,081	(167,527)	24,889	(166,838)
Private equities	1,945	1,364	3,004	4,356
Real estate	10,949	9,990	20,885	16,271
Absolute Return Strategies	5,878	-	23,169	-
Investment income (loss)	187,150	(575,073)	387,044	(658,775)
Direct administrative expenses (Note 9)	(614)	(475)	(1,279)	(895)
Net investment income (loss)	$ 186,536	$ (575,548)	$ 385,765	$ (659,670)

Investment income (loss) is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income (loss) earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools. (see Note 9).

The investment income for the six months ended September 30, 2003 includes writedowns of public equities totalling $2,355,000 (September 30, 2002: $342,405,000).

NOTE 8 INVESTMENT PERFORMANCE

The following is a summary of the investment performance results attained by the Fund determined on a fair value basis:

Time weighted rates of return	Three Month Return	Six Month Return	Four-Year Compound Annualized Return
Overall actual return	3.7%	11.0%	2.4%
Benchmark return*	3.7%	10.7%	2.0%

* The overall benchmark return is a product of the weighted average policy sector weights and sector benchmark returns.

NOTE 9 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 Sept. 30, 2003	Three Months Ended Sept. 30, 2002	Six Months Ended Sept. 30, 2003	Six Months Ended Sept. 30, 2002
Direct fund expenses (Note 7)	$ 614	$ 475	$ 1,279	$ 895
Externally managed investment pools	2,538	2,867	6,420	5,908
Internally managed investment pools	880	702	1,851	1,221
Total	$ 4,032	$ 4,044	$ 9,550	$ 8,024
Percent of net assets at fair value	0.034%	0.037%	0.080%	0.072%

NOTE 10 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to September 30, 2003 presentation.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

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

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