ALBERTA HERITAGE SAVINGS TRUST FUND

FIRST QUARTER UPDATE

2001-02 QUARTERLY REPORT

Heritage Fund

Alberta
REVENUE

FIRST QUARTER UPDATE

Alberta Heritage Savings Trust Fund

- On June 30, 2001, the fair value of the Heritage Fund was $12.0 billion, down from $12.1 billion at March 31, 2001. On a cost basis the value of the Fund remained unchanged at $12.3 billion.
- During the first quarter of the fiscal year 2001-02, the net income of the Heritage Fund was $158 million, a decrease of $55 million over the same period last year. Heritage Fund investments are accounted for on the cost basis. Unrealized capital gains and losses are not included in investment income of the fund.
- The net income of the Heritage Fund, less any amount retained for inflation-proofing in the Fund on the advice of the government, is transferred to the Province's main operating fund, the General Revenue Fund (GRF).
- During the quarter, $900 million was transferred within the Fund from the Transition Portfolio to the Endowment Portfolio.
- By March 31, 2003 all assets of the Transition Portfolio will have been transferred to the Endowment Portfolio. During the quarter, the Endowment Portfolio outperformed the benchmark by 30 basis points and over a four-year period it outperformed the benchmark by 40 basis points.

RETURN ON ENDOWMENT PORTFOLIO
Period Ending June 30, 2001
(Return at Market)

	Endowment Portfolio	Benchmark Return
Current quarter	0.4%	0.1%
One year	-7.1%	-8.1%
Four years	7.1%	6.7%

- In the Heritage Fund business plan, the Fund's forecasted net income is $582 million for the year ending March 31, 2002. On a consolidated basis, the forecasted net income is $551 million which excludes income from holdings of Alberta government securities and Provincial Corporation debentures.

HERITAGE FUND

Combined Summary of Net Assets *(at Fair Value)*
June 30, 2001

	Endowment Portfolio	Transition Portfolio	June 30,2001 Total	March 31,2001 Total
			(millions)	
Deposits and fixed-income securities	$ 3,195	$ 3,345	$ 6,540	$ 7,320
Foreign equities	2,541	—	2,541	2,288
Canadian equities	1,890	—	1,890	1,647
Provincial corporation debentures	—	307	307	327
Real estate	594	—	594	388
Loans (at cost)	—	97	97	97
	8,220	3,749	11,969	12,067
Receivables	14	63	77	119
Payables	(21)	—	(21)	(145)
Due from (to) GRF	8	(21)	(13)	82
Net assets at fair value	$ 8,221	$ 3,791	$ 12,012	$ 12,123
Net assets at cost	$ 8,548	$ 3,708	$ 12,256	$ 12,256

- The combined Heritage Fund returned a positive 0.4% over the quarter and negative 1.2% over a one-year period on a market value basis. In the Heritage Fund business plan, the return of the Fund is measured against the cost of the Province's total debt. On a market value basis, the Province's total debt cost (Canadian and U.S. dollar debt) was negative 0.9% for the quarter and positive 8.3% for a one-year period.

RETURN ON COMBINED PORTFOLIO
Period Ending June 30, 2001
(Return at Market)

	Hertiage Fund Investment Return	Province's Total Debt Cost
Current quarter	0.4%	-0.9%
One year	-1.2%	8.3%
Four years	5.2%	6.9%

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

ADMINISTRATIVE EXPENSES BREAKDOWN

	Three Months ended June 30,	
	2001	2000
Direct administrative expenses	$ 425	$ 391
Externally managed investment pools	1,518	1,171
Internally managed investment pools	412	230
Total	$ 2,355	$ 1,792
Expenses as a percent of net assets at fair value	0.020%	0.014%

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

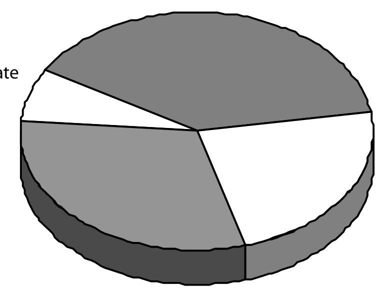
The Endowment Portfolio

- Objective: to optimize long-term financial returns.
- During the first quarter, the Endowment Portfolio recorded net income of $92 million, $61 million less than the same period last year. Net income for the past three months includes net realized capital losses of $2 million compared to net realized capital gains of $117 million for the same period last year.
- During the first quarter, $900 million was transferred from the Transition Portfolio to the Endowment Portfolio. The Alberta Heritage Savings Trust Fund's business plan provides that all assets in the Transition Portfolio be transferred to the Endowment Portfolio by March 31, 2003. Commencing in 2001-02, the Lieutenant Governor in Council has approved the annual transfer of assets with a book value of not less than $1.2 billion and not more than $3.6 billion.
- During the three months ended June 30, 2001, the cost of investments held in the Endowment Portfolio increased by the following amounts:

	(millions)
Foreign equities	$ 272
Canadian equities	242
Real estate	205
Deposits and fixed income securities	111
Total increase in investments at cost	830
Change in other assets	70
Transfers from Transition Portfolio	$ 900

- At June 30, 2001, the fair value of the investments held in the Endowment Portfolio was $8.2 billion.

ENDOWMENT PORTFOLIO INVESTMENTS
(% of total fair value*)



- During the first quarter, the fair value of the Endowment Portfolio's net assets increased by $823 million represented by:

ENDOWMENT PORTFOLIO
Change in Net Assets (at fair value)
Three Months Ended June 30,

	2001	2000
	(millions)	
Investment Income	$ 92	$ 153
Current period change in unrealized gains (losses)	(77)	(61)
Transfers from Transition Portfolio	900	450
Transfers to General Revenue Fund	(92)	(153)
Change in net assets at fair value	823	389
Net Assets at beginning of period	7,398	5,867
Net Assets at end of period	$8,221	$6,256

Endowment Portfolio Performance Measurement (period ending June 30, 2001)

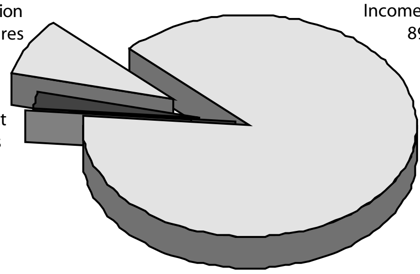
Actual Market Return					Benchmark Return				
	Weight	Current Quarter	One Year	Four Years		Weight	Current Quarter	One Year	Four Years
Short-term Fixed Income	1.4%	1.4%	5.9%	5.1%	SC91 Day T-Bill Index	3%	1.1%	5.5%	4.8%
Long-term Fixed Income	37.5%	-0.4%	7.1%	6.3%	SC Universe Bond Index	37%	-0.7%	6.2%	6.3%
Canadian Equities	23.0%	2.8%	-19.7%	7.1%	TSE 300 Index	23%	2.1%	-23.1%	6.2%
US Equities	16.0%	1.4%	-11.4%	10.1%	S & P 500 Index	15%	2.0%	-12.8%	12.6%
EAFE Equities	14.9%	-3.4%	-21.8%	6.6%	MSCI EAFE Index	15%	-4.6%	-21.8%	3.0%
Real Estate	7.2%	1.7%	10.0%	12.5%	Russell Index (estimate)	7%	1.7%	11.1%	14.0%
Total	100%	0.4%	-7.1%	7.1%	Total	100%	0.1%	-8.1%	6.7%

- The Canadian and US equity markets performed better than the non-North American equity markets during the quarter. Canadian equities as measured by the TSE 300 Index posted a positive return of 2.1% in the quarter. US equities as measured by the S & P 500 Index posted a positive return of 2.0%. Non-North American markets as measured by the MSCI EAFE Index recorded a negative return of 4.6%. In the bond market, the Scotia Capital Universe Bond Index recorded a negative return of 0.7% for the quarter.
- On a one-year basis, the bond market dominated returns. The SC Universe Bond Index returned 6.2% for the year. The equity markets performed poorly. The TSE 300 Index returned a negative 23.1% for the year. The S & P 500 Index returned negative 12.8% and the MSCI EAFE Index returned negative 21.8% for the one-year period.
- The Endowment Portfolio's return for the first quarter was a positive 0.4% which was better than the benchmark return of 0.1%. On a one-year basis, the Endowment Portfolio performed better than the benchmark, returning a negative 7.1% compared to the benchmark return of negative 8.1%.
- Canadian equities outperformed the TSE 300 Index in the first quarter returning a positive 2.8% compared to the TSE 300 Index of 2.1%. International equities out-performed the benchmark, returning a negative 3.4% versus a negative 4.6% for the MSCI EAFE Index. The out-performance by Canadian and International managers was due to an under-weight position in technology stocks. US equities under-performed the benchmark returning a positive 1.4% compared to the S & P 500 return of 2.0% due primarily to the stock selection by a growth manager.

The Transition Portfolio

- Objective: to earn income to support the government's fiscal plan.
- At June 30, 2001, the Transition Portfolio had investments with a fair value of $3.8 billion (including project loans totaling $97.4 million at cost).

TRANSITION PORTFOLIO INVESTMENTS
(% of fair value)



* Project loans are included at cost

- During the first quarter, investment income for the Transition Portfolio totaled $66 million, $6 million more than the same period last year. Net income for the past three months includes net realized capital gains of $6 million compared to net realized capital losses of $46 million for the same period last year.
- During the three month period ended June 30, 2001, $12 million of Alberta provincial corporation debentures were repaid or redeemed, bringing the book value of holdings down to $239 million.
- A performance benchmark for the Transition Portfolio is not provided for the current year since all of the assets held in the portfolio will be transferred to the Endowment Portfolio by March 31, 2003.

TRANSITION PORTFOLIO PERFORMANCE
Period Ending June 30, 2001
(Return at Market)

	Actual Return
Current quarter	0.8%
One year	7.4%
Four years	5.5%

- The net assets of the Transition Portfolio, on a fair value basis, decreased by $934 million during the quarter, represented by:

TRANISTION PORTFOLIO
Change in Net Assets (at fair value)
Three Months Ended June 30,

	2001	2000
	(millions)	
Investment Income	$ 66	$ 60
Current period change in unrealized gains (losses)	(34)	44
Transfers to Endowment Portfolio	(900)	(450)
Transfers to General Revenue Fund	(66)	(60)
Change in net assets at fair value	(934)	(406)
Net Assets at beginning of period	4,725	6,987
Net Assets at end of period	$ 3,791	$ 6,581

ALBERTA HERITAGE SAVINGS TRUST FUND

FINANCIAL STATEMENTS

JUNE 30, 2001
(unaudited)

BALANCE SHEET

June 30, 2001 (unaudited)

	(thousands)	
	June 30, 2001	**March 31, 2001**
Assets		
Portfolio investments:		
Endowment Portfolio (Schedule 1)	$ 8,547,142	$ 7,716,884
Transition Portfolio (Schedule 2)	3,666,189	4,483,416
Accrued interest receivable	62,385	77,276
Receivable from sale of investments	14,690	41,934
Due from the General Revenue Fund	—	81,824
	$ 12,290,406	$ 12,401,334
Liabilities and fund equity		
Liabilities:		
Accrued administration expense	$ 81	$ 52
Liabilities for investment purchases	20,845	144,963
Due to the General Revenue Fund	13,161	—
	34,087	145,015
Fund equity (Note 5):		
Endowment Portfolio	8,548,649	7,648,649
Transition Portfolio	3,707,670	4,607,670
	12,256,319	12,256,319
	$ 12,290,406	$ 12,401,334

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

STATEMENT OF OPERATIONS

for the Three Months ended June 30, 2001 (unaudited)

	(thousands)	
	Three Months Ended June 30, 2001	**Three Months Ended June 30, 2000**
Investment income (Note 6):		
Endowment Portfolio	$ 92,020	$ 153,459
Transition Portfolio	66,441	60,239
	158,461	213,698
Expenses		
Direct administrative expenses (Note 7)	425	391
Net Income (Note 6)	158,036	213,307
Transfers to the General Revenue Fund	158,036	213,307
Net change in fund equity (Note 5)	—	—
Fund equity at beginning of period	12,256,319	12,256,319
Fund equity at end of period	$ 12,256,319	$ 12,256,319

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

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the Three Months ended June 30, 2001 (unaudited)

	(thousands)	
	Three Months Ended June 30, 2001	**Three Months Ended June 30, 2000**
Operating transactions:		
Net income	$ 158,036	$ 213,307
Non-cash items included in net income	(5,460)	(28,765)
	152,576	184,542
Decrease in receivables	42,135	2,714
Decrease in payables	(124,089)	(1,145)
Cash provided by operating transactions	70,622	186,111
Investing transactions:		
Proceeds from disposals, repayments and redemptions of investments	3,495,339	3,307,809
Purchase of investments	(3,661,423)	(3,028,756)
Cash provided by (applied to) investing transactions	(166,084)	279,053
Transfers:		
Transfers to the General Revenue Fund	(158,036)	(213,307)
Increase (decrease) in amounts due to the General Revenue Fund	94,985	(161,808)
Cash applied to transfers	(63,051)	(375,115)
Increase (decrease) in cash	(158,513)	90,049
Cash at beginning of period	263,875	187,754
Cash at end of period	$ 105,362	$ 277,803
Consisting of Deposits in the Consolidated Cash Investment Trust Fund:		
Endowment Portfolio (Schedule 1)	$ 18,489	$ 168,458
Transition Portfolio (Schedule 2)	86,873	109,345
	$ 105,362	$ 277,803

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

Notes to the Financial Statements

June 30, 2001 (unaudited)

NOTE 1 AUTHORITY AND MISSION

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

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

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

Investments of the Fund are held in an Endowment Portfolio and a Transition Portfolio. The Endowment Portfolio has the objective of optimizing long-term financial returns. The Transition Portfolio has the objective of providing income support to the Government's consolidated fiscal plan over the short term to medium term. The Fund's business plan provides that all assets in the Transition Portfolio will be transferred to the Endowment Portfolio by March 31, 2003.

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 unearned revenue and allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a specific provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Investments are recorded as of the trade date.

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

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

(b) **Investment Income**

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

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

(c) **Foreign Currency**

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

(d) **Investment Valuation**

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of investments held either directly by the Fund or by pooled investment funds are determined as follows:

(unaudited)

NOTE 2 (continued)

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

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

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

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

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

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

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

(e) **Valuation of Derivative Contracts**

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

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

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

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

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

NOTE 3 RISK MANAGEMENT

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

The *Standing Committee on the Alberta Heritage Savings Trust Fund* reviews and approves the business plan of the Fund. In order to earn an optimal financial return at an acceptable level of risk, the 2001-2002 business plan limits investments of the Transition Portfolio to include only fixed-income securities other than

(unaudited)

NOTE 3 (continued)

securities transferred from the previous structure and proposes the following asset mix policy for the Endowment Portfolio:

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

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

NOTE 4 DERIVATIVE CONTRACTS

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

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

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

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

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

	June 30, 2001		March 31, 2001	
	Notional Amount	Fair Value[a]	Notional Amount	Fair Value[a]
	($ thousands)			
Equity index swap contracts	$ 385,477	$ (10,387)	$ 335,850	$ (32,415)
Bond index swap contracts	91,157	(542)	154,001	(769)
Forward foreign exchange contracts	168,040	383	142,373	(366)
Interest rate swap contracts	104,716	(3,353)	117,965	(4,352)
Equity index futures contracts	—	—	683	(11)
	749,390	$ (13,899)	750,872	$ (37,913)
Cross-currency interest rate swap contracts[b]	483,467		497,806	
	$ 1,232,857		$ 1,248,678	

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

[b] Cross-currency swaps are valued as a package including the underlying security. As at June 30, 2001, the combined fair value of cross-currency interest rate swaps and underlying securities amounted to $483,927,000 (March 31, 2001: $503,753,000).

(unaudited)

NOTE 4 (continued)

All derivative contracts mature within one year except for bond index swaps, cross-currency swaps and interest rate swaps with a notional value of $294,183,000 (March 31, 2001: $294,850,000) that mature between 1 and 3 years and $194,669,000 (March 31, 2001: $208,033,000) that mature over 3 years.

NOTE 5 FUND EQUITY

By no later than 2003, all assets of the Transition Fund will be transferred to the Endowment Fund. For the year ended March 31, 2002, the Lieutenant Governor in Council approved the transfer of assets with a book value of not less than $1.2 billion and not more than $3.6 billion.

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 Provincial Treasurer. 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 Provincial Treasurer is not required to retain any income in the Heritage Fund to maintain its value, but may retain such amounts as the Provincial Treasurer considers advisable.

NOTE 6 NET INCOME

	Three Months Ended June 30,			
	Endowment Portfolio	Transition Portfolio	2001 Total	2000 Total
	(thousands)			
Deposits and fixed-income securities				
Deposits in the Consolidated Cash Investment Trust Fund	$ 856	$ 843	$ 1,699	$ 1,678
Fixed-income securities, directly held	2,179	57,472	59,651	45,556
Provincial Corporation debentures	—	8,094	8,094	13,461
Canadian Dollar Public Bond Pool	39,985	—	39,985	29,036
Private Mortgage Pool	6,745	—	6,745	4,792
Floating Rate Note Pool	81	—	81	2,007
	49,846	66,409	116,255	96,530
Equities				
External Managers Fund (United States)	18,453	—	18,453	4,889
Canadian Pooled Equity Fund	15,980	—	15,980	5,916
External Managers Fund (Canadian)	15,254	—	15,254	3,658
Domestic Passive Equity Pooled Fund	12,739	—	12,739	—
Private Real Estate Pool	7,225	—	7,225	5,441
Private Equity Pool	214	—	214	100
Private Equity Pool (98)	84	—	84	4
Security lending	—	32	32	81
Public Canadian equities, directly held	—	—	—	84,735
United States Pooled Equity Fund	—	—	—	(416)
Swaps, direct	—	—	—	4,523
US Structured Equity Pool	—	—	—	(4,188)
US Passive Equity Pooled Fund	—	—	—	(9,430)
EAFE Structured Equity Pool	(18)	—	(18)	(18,328)
External Managers Fund (International)	(27,757)	—	(27,757)	40,183
	42,174	32	42,206	117,168
Investment income	92,020	66,441	158,461	213,698
Direct Administrative expenses (Note 7)	(257)	(168)	(425)	(391)
Net Income	$ 91,763	$ 66,273	$ 158,036	$ 213,307

(unaudited)

NOTE 6 (continued)

Investment income is comprised of interest, dividends, amortization of discount and premiums, swap income, security lending income and realized gains and losses, net of write-downs, on investments. The Fund's share of income earned from externally and internally managed investment pools is net of administrative expenses incurred by the pools. (see Note 7).

Investment income from the Endowment portfolio for the three months ended June 30, 2001 includes a net loss from disposal of investments totalling $1,637,000 (June 30, 2000 net gain: $117,262,000). Investment income from the Transition portfolio includes a net gain of $5,873,000 (June 30, 2000 net loss: $45,968,000).

NOTE 7 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:

	Three Months ended June 30, 2001	Three Months ended June 30, 2000
	(thousands)	
Direct administrative expenses (Note 6)	$ 425	$ 391
Externally managed investment pools	1,518	1,171
Internally managed investment pools	412	230
Total	$ 2,355	$ 1,792
Expenses as a percentage of net assets at fair value	0.020%	0.014%

NOTE 8 COMPARATIVE FIGURES

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

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

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

SCHEDULE OF ENDOWMENT PORTFOLIO INVESTMENTS — Schedule 1

June 30, 2001 (unaudited)

	June 30, 2001 (thousands)			March 31, 2001 (thousands)		
	Cost	Fair Value	%	Cost	Fair Value	%
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 18,489	$ 18,489	0.2	$ 178,204	$ 178,204	2.4
Fixed-income securities:						
Public, directly held (b)						
Corporate	54,979	54,973	0.7	188,055	188,033	2.5
Government of Canada	65,771	65,464	0.8	25,894	26,062	0.3
Canadian Dollar Public Debt Pool (c)	2,800,318	2,704,189	32.9	2,449,498	2,404,033	32.2
Private Mortgage Pool (d)	368,587	352,272	4.3	318,808	310,398	4.2
Floating Rate Note Pool	—	—	—	36,702	36,449	0.5
Total deposit and fixed-income securities	3,308,144	3,195,387	38.9	3,197,161	3,143,179	42.1
Canadian Equities:						
Domestic Passive Equity Pooled Fund (e)	663,139	807,381	9.8	532,863	674,804	9.0
Canadian Pooled Equity Fund (f)	792,232	732,454	8.9	693,550	635,305	8.5
External Managers Fund (Canadian) (g)	251,821	274,864	3.4	244,756	267,000	3.6
Private Equity Pool (98) (h)	64,539	64,534	0.8	58,724	58,720	0.8
Private Equity Pool (h)	11,696	11,104	0.1	11,645	11,082	0.1
Total Canadian equities	1,783,427	1,890,337	23.0	1,541,538	1,646,911	22.0
Foreign equities:						
External Managers Fund (United States) (g)	1,467,159	1,317,435	16.0	1,337,970	1,191,412	16.0
External Managers Fund (International) (g)	1,418,659	1,222,140	14.9	1,275,442	1,095,185	14.7
EAFE Structured Equity Pool	840	856	—	858	875	—
United States Pooled Equity Fund	800	645	—	800	707	—
Total foreign equities	2,887,458	2,541,076	30.9	2,615,070	2,288,179	30.7
Real Estate (i)	568,113	594,030	7.2	363,115	388,258	5.2
Total equities and real estate	5,238,998	5,025,443	61.1	4,519,723	4,323,348	57.9
Total Investments (j)	$ 8,547,142	$ 8,220,830	100.0	$ 7,716,884	$ 7,466,527	100.0

The majority of the Endowment portfolio investments are held in pooled investment funds established and administered by the Alberta Revenue. Pooled investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at June 30, 2001, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership June 30, 2001	% Ownership March 31, 2001
Canadian Dollar Public Bond Pool	32.8	28.9
Canadian Pooled Equity Fund	31.3	29.0
Domestic Passive Equity Pooled Fund	36.2	33.0
External Managers Fund	30.2	28.0
EAFE Structured Equity Pool	0.2	0.2
Private Equity Pool	13.6	13.6
Private Equity Pool (98)	100.0	100.0
Private Mortgage Pool	39.2	34.8
Private Real Estate Pool	36.2	28.9
United States Pooled Equity Fund	18.0	18.0
Floating Rate Note Pool	—	1.9

(unaudited)
Schedule 1 *(continued)*

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of five years. As at June 30, 2001, securities held by the Fund have an average effective market yield of 4.77% per annum (March 31, 2001: 5.09% per annum).

(b) As at June 30, 2001, directly held fixed income securities have an average effective market yield of 5.5% per annum (March 31, 2001: 5.5% per annum) and the following term structure: under 1 year: 80%; 1 to 5 years: 20%.

(c) The Canadian Dollar Public Bond Pool is managed with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The excess return is achieved through management of portfolio duration and sector rotation. The portfolio is comprised of high quality Canadian fixed-income instruments and debt related derivatives. As at June 30, 2001, securities held by the Pool have an average effective market yield of 6.12% per annum (March 31, 2001: 5.75% per annum) and the following term structure based on principal amount: under 1 year: 4%; 1 to 5 years: 35%; 5 to 10 years: 32%; 10 to 20 years: 13%; over 20 years: 16%.

(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 (95.9%) and provincial bond residuals (4.1%). To limit investment risk, mortgage loans are restricted to first mortgage loans, diversified by property usage and geographic location, and include a small portion of NHA insured loans. As at June 30, 2001, securities held by the Pool have an average effective market yield of 7.33% per annum (March 31, 2001: 7.14% per annum) and the following term structure based on principal amount: under 1 year: 13%; 1 to 5 years: 17%; 5 to 10 years: 25%; 10 to 20 years: 27%; and over 20 years: 18%.

(e) 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 (TSE) 300 Index. A portion of the portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the TSE 100 Index and the TSE 60 Index. The other portion of the portfolio fully replicates the TSE 300. The Pool's investment in units of the Floating Rate Note Pool (FRNP) 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.

(f) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange 300 Index while 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.

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

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

(i) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over a four-year period or longer. Real estate is held through intermediate 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.

(j) Where the fair value is less than cost, in management's best judgement, and based on market trends, the fair value will likely recover overtime.

SCHEDULE OF TRANSITION PORTFOLIO INVESTMENTS — Schedule 2

June 30, 2001 (unaudited)

	(thousands)			
	June 30, 2001		March 31, 2001	
	Cost	Fair Value	Cost	Fair Value
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 86,873	$ 86,873	$ 85,671	$ 85,671
Fixed-income securities (b)				
Public, directly held				
Government of Canada, direct and guaranteed	651,785	654,346	1,043,784	1,051,955
Provincial:				
Alberta, direct and guaranteed	27,750	27,842	57,717	58,388
Other, direct and guaranteed	602,835	606,710	1,015,814	1,025,335
Municipal	44,371	45,742	69,645	71,914
Corporate	1,725,586	1,734,175	1,671,894	1,692,318
Private fixed-income securities				
Corporate	191,004	188,927	191,145	191,035
Total deposit and fixed income securities	3,330,204	3,344,615	4,135,670	4,176,616
Provincial corporation debentures (c)				
Agriculture Financial Services Corporation	94,266	98,090	104,796	110,124
Alberta Social Housing Corporation	144,360	208,779	145,591	217,104
Total Provincial corporation debentures	238,626	306,869	250,387	327,228
Total deposit, debentures and fixed-income securities	3,568,830	$ 3,651,484	4,386,057	$ 4,503,844
Loans				
Ridley Grain Ltd. (d)	91,245		91,245	
Vencap Acquisition Corporation (e)	6,114		6,114	
Total loans	97,359		97,359	
Total investments (f)	$ 3,666,189		$ 4,483,416	

(unaudited)

Schedule 2 *(continued)*

(a) See Schedule 1, Note (a).

(b) As at June 30, 2001, fixed-income securities held have an average effective market yield of 4.86% per annum for securities maturing within a year (March 31, 2001: 5.01% per annum), and 5.56% per annum for securities maturing between 1 and 35 years (March 31, 2001: 5.10% per annum). As at June 30, 2001, fixed-income securities have the following term structure based on principal amount: under 1 year: 46%; 1 to 5 years: 47%; and over 5 years: 7%.

(c) As at June 30, 2001, Provincial corporation debentures have an average effective market yield of 7.79% per annum (March 31, 2001: 7.84% per annum). The maturity profile based on expected repayments is as follows: under 1 year: $135,693,000; 1 to 5 years: $24,016,000; and over 5 years: $78,917,000.

(d) Under the terms of the loans 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 unpaid interest is repayable on or before July 31, 2015. Unpaid interest at June 30, 2001 amounted to $55,125,291 (March 31, 2001: $55,125,291).

Grain throughput volumes are the main determinant of profitability of the grain terminal and its ability to service its loan from the province, and therefore the value is sensitive to changes in grain throughput volumes. Grain throughputs are difficult to forecast because they are dependent in part upon port allocation decisions of the Canadian Wheat Board and other factors such as crop size and composition. Accordingly, due to the uncertainty of the grain throughput volumes, income from the participating bonds is recognized when it is measurable and collectable.

(e) The principal amount of the Vencap loan, amounting to $52,588,000, is due on July 2046 and bears no interest. Investment in the loan is recorded at cost. Cost includes the present value of the anticipated loan repayment amounting to $1 million at December 31, 1995 plus accumulated amortization on the discount.

(f) During the period, $900,000,000 was transferred from the Transition Portfolio to the Endowment Portfolio in accordance with the investment provisions of the *Alberta Heritage Savings Trust Fund Act*.