

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements YEAR ENDED MARCH 31, 2004

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AUDITOR'S REPORT

To the Minister of Revenue

I have audited the balance sheet of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2004 and the statements of income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original Signed]

Edmonton, Alberta
May 21, 2004

Fred J. Dunn, FCA
Auditor General

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

BALANCE SHEET

March 31, 2004 (*thousands*)

	2004	2003
Assets		
Portfolio investments (Note 3)	\$ 848,503	\$ 825,576
Administration expense receivable	26	-
Accrued investment income	-	590
	<u>\$ 848,529</u>	<u>\$ 826,166</u>
Liabilities, Endowment and Retained Earnings		
Administration expense payable	-	5
Endowment (Note 6)	300,000	300,000
Retained earnings (Note 6)	548,529	526,161
	<u>\$ 848,529</u>	<u>\$ 826,166</u>

STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended March 31, 2004 (*thousands*)

	Budget	2004 Actual	2003 Actual
Income			
Net investment income (loss) (Note 7)	\$ 30,593	\$ 72,368	\$ (82,751)
Expenses			
Transfers to the Alberta Heritage Foundation for Medical Research	70,000	50,000	51,000
Net income (loss)	<u>\$ (39,407)</u>	22,368	(133,751)
Retained earnings at beginning of year		526,161	659,912
Retained earnings at end of year		<u>\$ 548,529</u>	<u>\$ 526,161</u>

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

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STATEMENT OF CASH FLOW

Year Ended March 31, 2004 (*thousands*)

	2004	2003
Operating transactions		
Net income (loss)	\$ 22,368	\$ (133,751)
Non-cash items included in net income	(4,905)	8,725
	17,463	(125,026)
Decrease in receivables	564	30
Decrease in payables	(5)	(609)
Cash provided by (applied to) operating transactions	18,022	(125,605)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	103,394	163,165
Purchase of investments	(125,024)	(35,205)
Cash provided by (applied to) investing transactions	(21,630)	127,960
Increase (decrease) in cash	(3,608)	2,355
Cash at beginning of year	12,347	9,992
Cash at end of year	\$ 8,739	\$ 12,347
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	\$ 8,739	\$ 12,347

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Foundation for Medical Research Endowment Fund ("the Fund") operates under the authority of the *Alberta Heritage Foundation for Medical Research Act*, Chapter A-21, Revised Statutes of Alberta 2000.

The purpose of the Fund is to invest the endowment made to the Fund. The Fund is managed with the objectives of providing an annual level of income for transfer to the Alberta Heritage Foundation for Medical Research while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality fixed-income securities, equities, real estate, absolute return strategy investments and derivative financial instruments.

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 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.

Gains and losses arising as a result of disposals of investments are included in the determination of investment income.

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NOTE 2 (continued)

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps and equity index futures contracts are recorded at fair value.

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.
- (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 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 including discounted cash flows and multiple analysis.
- (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 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 year-end exchange rate.

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NOTE 2 (continued)**e) Valuation of Derivative Contracts**

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. As disclosed in Note 5, 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 and exchange rates.
- (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 based on quoted market prices.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 3 PORTFOLIO INVESTMENTS (Schedules A to E)*(thousands)*

	2004			2003		
	Cost	Fair Value	%	Cost	Fair Value	%
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash						
Investment Trust Fund (a)	\$ 8,739	\$ 8,739	1.0	\$ 12,347	\$ 12,347	1.6
Canadian Dollar Public Bond Pool (b)	197,301	201,362	22.4	180,469	178,099	23.2
Private Mortgage Pool (c)	30,267	33,837	3.8	25,565	28,196	3.7
	236,307	243,938	27.2	218,381	218,642	28.5
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	97,158	97,110	10.8	92,349	86,976	11.3
External Managers Canadian Large Cap Pool (e)	51,900	59,112	6.6	69,892	64,192	8.4
Canadian Pooled Equity Fund (f)	50,693	58,917	6.6	57,684	51,305	6.7
Growing Equity Income Pool (g)	15,106	15,839	1.8	–	–	–
External Managers Canadian Small Cap Pool (h)	3,274	4,469	0.5	4,641	5,024	0.7
	218,131	235,447	26.3	224,566	207,497	27.1
United States equities (Schedule C)						
S&P 500 Index Fund (i)	74,100	75,931	8.5	37,725	33,824	4.4
External Managers US Large Cap Equity Pool (j)	56,944	56,892	6.3	61,680	52,027	6.8
External Manager US Small/Mid Cap Equity Pool (k)	16,026	18,370	2.0	9,219	9,357	1.2
External Manager US Passive Equity Pool	–	–	–	41,338	33,672	4.4
United States Pooled Equity Fund	–	–	–	56	29	–
	147,070	151,193	16.8	150,018	128,909	16.8
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (l)	78,090	79,261	8.8	83,613	64,852	8.4
External Managers EAFE Plus Equity Pool (l)	37,085	39,292	4.4	38,449	31,533	4.1
External Manager EAFE Passive Equity Pool (m)	32,512	41,746	4.6	34,332	31,889	4.2
	147,687	160,299	17.8	156,394	128,274	16.7
Real Estate (Schedule E)						
Private Real Estate Pool (n)	58,197	64,758	7.2	54,852	60,538	7.9
Absolute Return Strategies						
Absolute Return Strategy Pool (o)	36,819	36,453	4.1	20,304	20,299	2.6
Private Equities						
Private Equity and Income Pools (p)	4,292	5,116	0.6	1,061	2,955	0.4
Total investments (q)	\$ 848,503	\$ 897,204	100.0	\$ 825,576	\$ 767,114	100.0

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NOTE 3 (continued)

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 March 31, 2004, the Fund's percentage ownership, at market, in pooled investment funds is as follows:

	% Ownership	
	2004	2003
Internally Managed Investment Pools		
Canadian Dollar Public Bond Pool	2.4	2.3
Canadian Pooled Equity Fund	5.7	4.7
Domestic Passive Equity Pooled Fund	4.1	4.0
Foreign Private Equity Pool (02)	3.5	3.5
Growing Equity Income Pool	6.2	–
Private Equity Pool	6.6	6.6
Private Equity Pool (02)	5.3	5.3
Private Income Pool	2.6	–
Private Mortgage Pool	2.8	2.8
Private Real Estate Pool	2.9	3.0
Standard & Poor's 500 Index Fund	6.0	6.9
United States Pooled Equity Fund	–	5.0
Externally Managed Investment Pools		
Absolute Return Strategy Pool	6.4	6.3
Canadian Large Cap Equity Pool	1.9	2.6
Canadian Small Cap Equity Pool	0.7	1.2
EAFE Core Equity Pool	2.6	2.6
EAFE Passive Equity Pool	6.2	5.5
EAFE Plus Equity Pool	2.6	2.7
US Large Cap Equity Pool	2.9	2.9
US Small/Mid Cap Equity Pool	2.7	2.4

- 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 March 31, 2004, securities held by the Fund have an average effective market yield of 2.11% per annum (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 March 31, 2004, securities held by the Pool have an average effective market yield of 4.20% per annum (2003: 5.41% per annum) and the following term structure based on principal amount: under 1 year: 2% (2003: 2%); 1 to 5 years: 40% (2003: 37%); 5 to 10 years: 30% (2003: 31%); 10 to 20 years: 10% (2003: 11%); over 20 years: 18% (2003: 19%).

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NOTE 3 (continued)

- c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the Scotia Capital Universe Bond Index over a four-year period or longer. The portfolio is comprised primarily of high quality commercial mortgage loans (94.1%) and provincial bond residuals (5.9%). 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 March 31, 2004, securities held by the Pool have an average effective market yield of 5.50% per annum (2003: 6.43% per annum) and the following term structure based on principal amount: under 1 year: 7% (2003: 5%); 1 to 5 years: 23% (2003: 31%); 5 to 10 years: 26% (2003: 20%); 10 to 20 years: 20% (2003: 24%); and over 20 years: 24% (2003: 20%).
- d) 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 S&P/TSX Composite Index. The portfolio is comprised of publicly traded Canadian equities and structured investments replicating the S&P/TSX 60 Index. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and domestic bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of five years or less.
- e) 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 Composite Index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.
- f) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Composite 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 Growing Equity Income Pool is managed with the objective of providing a steady and growing stream of dividend income to client portfolios by investing in mature companies with strong financial characteristics and growing distributions. Risk is reduced by holding established well capitalized companies. The performance of the pool is measured against the total return of the S&P/TSX Composite Index.
- h) 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 Composite 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 Composite 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.
- i) 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 3d).

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NOTE 3 (continued)

- j) 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.
- k) 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.
- l) 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.
- m) 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.
- n) 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.
- o) 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.
- p) Private Equity Pools are managed with the objective of providing investment returns higher than the Consumer Price Index (CPI) plus 8%. The Private Equity Portfolio consists of the Private Equity Pool, PEP98, PEP02 and the Foreign Private Equity Pool 2002. Private equity investments are held in institutionally sponsored private equity pools. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

NOTE 3 (continued)

- q) Where there has been a loss in value of an investment that is other than a temporary decline, the cost of the investment is written down to recognize the loss (see Note 2 (a)). Where the fair value remains less than cost, 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 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.

In order to earn an optimal financial return at an acceptable level of risk, management of the Fund established the following long-term policy asset mix for the 2003-2004 fiscal year:

Fixed-income securities	35% to 25%
Equities	65% to 75%

Risk is reduced through asset class diversification, diversification within each asset class, quality 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 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

NOTE 5 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. 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. There are underlying securities supporting all swaps. Leveraging is not allowed.

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NOTE 5 (continued)

- (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 March 31, 2004.

(thousands)

	Maturity			2004		2003	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Fair Value (a)	Notional Amount	Fair Value (a)
Equity index swap contracts	93%	7%	–	\$ 90,928	\$ (631)	\$ 47,487	\$ (1,101)
Interest rate swap contracts	42%	47%	11%	55,590	(2,473)	32,845	(1,110)
Forward foreign exchange contracts	100%	–	–	42,946	352	44,346	1,515
Cross-currency interest rate swaps	–	27%	73%	27,604	(2,869)	18,826	(3,290)
Credit default swap contracts	–	53%	47%	3,724	(31)	–	–
Bond index swap contracts	100%	–	–	2,849	70	3,097	(10)
Equity index futures contracts	100%	–	–	663	72	1,109	35
				\$ 224,304	\$ (5,510)	\$ 147,710	\$ (3,961)

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

NOTE 6 ENDOWMENT AND RETAINED EARNINGS

The endowment was received from the Alberta Heritage Savings Trust Fund on March 31, 1980. The Alberta Heritage Foundation for Medical Research Act provides that money required by the Foundation for the furtherance of its objectives shall be paid from the Fund, but no money shall be paid out of the Fund if the payment would result in the value of the assets of the Fund, at cost, being less than the endowment received by the Fund.

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NOTE 7 NET INVESTMENT INCOME (LOSS)*(thousands)*

	2004	2003
Deposits and fixed-income securities	\$ 17,351	\$ 16,573
Canadian equities	34,638	(29,253)
United States equities	2,985	(43,540)
Non-North American equities	9,892	(29,462)
Private equities	1,225	8
Real estate	3,721	2,732
Absolute return strategies	2,713	327
Investment income (loss)	72,525	(82,615)
Direct administrative expenses (Note 8)	(157)	(136)
Net investment income (loss)	\$ 72,368	\$ (82,751)

Investment income (loss) is comprised of interest, dividends, amortization of discount or premium, 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 8).

The investment income for the year ended March 31, 2004 includes writedowns of \$245,000 (2003: \$54,680,000).

NOTE 8 ADMINISTRATIVE EXPENSES

Administrative expenses include investment management, cash management and safekeeping costs and other expenses charged on a cost-recovery basis directly by Alberta Revenue. The Fund's total administrative expenses for the period, including amounts deducted directly from investment income of pooled investment funds is as follows:

(thousands)

	2004	2003
Direct fund expenses	\$ 157	\$ 136
Externally managed investment pools	922	931
Internally managed investment pools	232	177
Total	\$ 1,311	\$ 1,244
Expenses as a percentage of net assets at fair value	0.146%	0.162%

NOTE 9 COMPARATIVE FIGURES

Certain 2003 figures have been reclassified to conform to 2004 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

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

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2004 (*thousands*)

	Fund's share 2004		Fund's share 2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	\$ 9,058	\$ 9,058	\$ 12,852	\$ 12,852
Fixed-income securities (a)				
Corporate, public and private	130,390	134,320	127,503	128,253
Government of Canada, direct and guaranteed	47,786	47,980	36,852	36,559
Provincial, direct and guaranteed:				
Alberta	136	149	407	438
Other provinces	46,649	50,025	34,963	34,711
Municipal	2,617	2,735	3,730	3,755
	227,578	235,209	203,455	203,716
Receivable from sale of investments and accrued investment income	2,523	2,523	2,466	2,466
Accounts payable and accrued liabilities	(2,852)	(2,852)	(392)	(392)
	(329)	(329)	2,074	2,074
	\$ 236,307	\$ 243,938	\$ 218,381	\$ 218,642

- a) Fixed income securities held as at March 31, 2004 have an average effective market yield of 4.39% per annum (2003: 5.55% per annum) and the following term structure based on principal amount:

	2004	2003
	%	%
under 1 year	3	2
1 to 5 years	37	36
5 to 10 years	30	29
10 to 20 years	11	13
over 20 years	19	20
	100	100

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SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2004 (thousands)

	Fund's share 2004		Fund's share 2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	\$ 1,697	\$ 1,697	\$ 2,047	\$ 2,047
Public equities (a) (b)				
Financials	68,423	76,603	67,777	66,976
Materials	36,023	38,450	36,512	31,714
Energy	29,005	34,413	29,098	32,419
Industrials	17,325	17,899	17,224	15,013
Information technology	15,472	17,388	15,304	10,684
Consumer discretionary	17,710	16,705	19,227	14,673
Telecommunications services	11,947	11,147	12,293	10,520
Consumer staples	8,751	9,431	8,676	8,715
Utilities	8,211	8,478	7,498	7,081
Health Care	5,168	4,841	8,261	7,136
	218,035	235,355	221,870	204,931
Passive index	56	52	1,642	1,512
Receivable from sale of investments and accrued investment income	926	926	604	604
Accounts payable and accrued liabilities	(2,583)	(2,583)	(1,597)	(1,597)
	(1,657)	(1,657)	(993)	(993)
	\$ 218,131	\$ 235,447	\$ 224,566	\$ 207,497

- a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling \$68,220,000 (2003: \$45,615,000) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and equity index futures contracts.
- b) The sector classification conforms to the Global Industry Classification Standard followed by the Toronto Stock Exchange S&P/TSX Composite Index.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2004 (thousands)

	Fund's share 2004		Fund's share 2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	\$ 2,300	\$ 2,300	\$ 1,628	\$ 1,628
Public equities (a) (b)				
Financials	28,828	30,775	29,791	25,003
Consumer discretionary	23,443	24,305	24,627	21,270
Information technology	22,595	23,998	20,274	17,418
Health Care	19,428	18,283	20,934	18,944
Industrials	16,424	17,042	16,909	14,180
Consumer staples	14,297	14,116	13,693	11,783
Energy	8,698	8,696	9,824	8,190
Materials	4,752	5,523	4,382	3,567
Telecommunications services	4,488	4,256	4,292	3,635
Utilities	3,478	3,560	3,607	3,232
	146,431	150,554	148,333	127,222
Passive Index	–	–	12	14
Receivable from sale of investments and accrued investment income	573	573	292	292
Accounts payable and accrued liabilities	(2,234)	(2,234)	(247)	(247)
	(1,661)	(1,661)	45	45
	\$ 147,070	\$ 151,193	\$ 150,018	\$ 128,909

a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling \$23,371,000 (2003: \$2,981,000) which are used as underlying securities to support the notional amount of US equity index swap contracts and equity index futures contracts.

b) The sector classification conform to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES

Schedule D

March 31, 2004 (thousands)

	Fund's share 2004		Fund's share 2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	\$ 3,152	\$ 3,152	\$ 4,765	\$ 4,765
Public equities (a)				
Financials	33,732	37,879	32,623	26,720
Consumer discretionary	22,142	24,517	22,229	17,635
Industrials	16,413	18,115	14,196	11,164
Telecommunications services	11,864	12,368	15,232	12,106
Health Care	12,616	12,220	16,119	12,551
Materials	10,813	12,171	10,029	8,685
Energy	11,718	12,026	12,837	10,849
Consumer staples	11,281	11,739	12,950	11,216
Information technology	8,154	9,792	8,271	6,581
Utilities	5,645	6,163	8,092	6,951
	144,378	156,990	152,578	124,458
Receivable from sale of investments and accrued investment income	1,670	1,670	999	999
Accounts payable and accrued liabilities	(1,513)	(1,513)	(1,948)	(1,948)
	157	157	(949)	(949)
	\$ 147,687	\$ 160,299	\$ 156,394	\$ 128,274

a) The sector classification conforms to the Global Industry Classification Standard followed by Standard & Poor's. Public equities by geographic location are as follows:

	Fund's share 2004		Fund's share 2003	
	Cost	Fair Value	Cost	Fair Value
United Kingdom	\$ 35,184	\$ 36,158	\$ 42,447	\$ 34,061
Japan	26,583	30,192	25,333	20,179
France	13,638	14,671	14,263	11,359
Switzerland	11,823	12,317	11,911	9,724
Germany	9,885	10,656	8,012	6,068
Netherlands	8,226	8,518	10,050	7,787
Australia	6,166	7,647	6,963	6,671
Italy	6,435	6,906	6,804	5,648
Spain	3,698	4,185	4,143	3,435
Hong Kong	3,221	3,430	4,444	3,684
Other	19,519	22,310	18,208	15,842
	\$ 144,378	\$ 156,990	\$ 152,578	\$ 124,458

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2004 (thousands)

	Fund's share 2004		Fund's share 2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	\$ 79	\$ 79	\$ 79	\$ 79
Real Estate (a)				
Office	24,685	28,809	24,317	28,259
Retail	25,268	27,428	25,448	26,804
Industrial	3,836	4,316	2,435	2,854
Residential	3,597	3,394	2,121	2,090
	57,386	63,947	54,321	60,007
Participation units	570	570	39	39
Accrued income and accounts receivable	162	162	413	413
	\$ 58,197	\$ 64,758	\$ 54,852	\$ 60,538

a) The following is a summary of real estate investments by geographic location:

	Fund's share 2004		Fund's share 2003	
	Cost	Fair Value	Cost	Fair Value
Ontario	\$ 42,410	\$ 47,305	\$ 41,271	\$ 45,584
Alberta	13,750	15,318	11,828	13,120
Other	1,226	1,324	1,222	1,303
	\$ 57,386	\$ 63,947	\$ 54,321	\$ 60,007

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

SCHEDULE OF INVESTMENT RETURNS

Schedule F

Year Ended March 31, 2004

The Fund uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the fund over a specified period and is a measure of the total return received from an investment dollar initially invested. Total return includes cash distributions (interest and dividend payments) and capital gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the returns of funds with other funds or indices.

Investment returns for the Fund are as follows:

	2004	One Year Return			4 Year Compound Annualized Return
		2003	2002	2001	
Time-weighted rates of return					
Short-term fixed income	3.0	2.7	3.9	5.9	3.9
<i>Scotia Capital 91-day T-Bill Index</i>	3.0	2.7	3.7	5.7	3.8
Long-term fixed income	11.6	9.6	5.9	9.3	9.1
<i>Scotia Capital Universe Bond Index</i>	10.8	9.2	5.1	8.7	8.4
Canadian equities	36.3	(17.4)	3.7	(16.5)	(0.7)
<i>S&P/TSX Composite Index</i>	37.7	(17.6)	4.9	(18.6)	(0.8)
United States equities	22.2	(30.5)	1.6	(14.4)	(7.3)
<i>S&P 500 Index</i>	20.5	(30.7)	1.6	(15.1)	(7.9)
Non-North American equities	40.9	(29.1)	(5.8)	(23.2)	(7.8)
<i>MSCI EAFE Index</i>	40.5	(29.3)	(7.3)	(19.6)	(7.2)
Private equities (2)	1.1	(3.3)	n/a	n/a	n/a
<i>Consumer Price Index (CPI) plus 8%</i>	8.7	5.7	n/a	n/a	n/a
Real estate (1)	7.5	9.8	7.2	9.7	8.6
<i>Consumer Price Index (CPI) plus 5%</i>	5.7	8.9	9.9	11.9	9.1
Absolute Return Strategies (2)	10.7	1.6	n/a	n/a	n/a
<i>Consumer Price Index (CPI) plus 6%</i>	6.7	4.7	n/a	n/a	n/a
Overall Return	24.0	(13.4)	2.4	(9.2)	0.0
Policy Benchmark	23.3	(13.7)	2.7	(9.5)	(0.3)

(1) Effective June 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%.

(2) Actual and benchmark returns for 2003 are for six months.