ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

YEAR ENDED MARCH 31, 2004

AUDITOR GENERAL
Alberta

AUDITOR'S REPORT

To the Minister of Revenue

I have audited the balance sheet of the Alberta Heritage Savings Trust Fund as at March 31, 2004 and the statements of operations 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 — Fred J. Dunn, FCA
May 21, 2004 — Auditor General

ALBERTA HERITAGE SAVINGS TRUST FUND

BALANCE SHEET

March 31, 2004 *(thousands)*

	2004	2003
Assets		
Portfolio investments (Note 3)	$ 11,507,117	$ 11,346,295
Accrued investment income	7,542	16,145
Administrative expense receivable	310	2
	$ 11,514,969	$ 11,362,442
Liabilities and Fund Equity		
Liabilities		
Accounts payable	$ 42	$ –
Due to the General Revenue Fund	152,485	–
	152,527	–
Fund equity (Note 6)	11,362,442	11,362,442
	$ 11,514,969	$ 11,362,442

STATEMENT OF OPERATIONS

Year Ended March 31, 2004 *(thousands)*

	Budget	2004 Actual	2003 Actual
Net income (loss) (Note 7)	$ 440,170	$ 1,133,485	$ (893,877)
Transfers to the General Revenue Fund (Note 6)	440,170	1,133,485	–
Net change in fund equity (Note 6)	$ –	–	(893,877)
Fund equity at beginning of year		11,362,442	12,256,319
Fund equity at end of year		$ 11,362,442	$ 11,362,442

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

ALBERTA HERITAGE SAVINGS TRUST FUND

STATEMENT OF CASH FLOW

Year Ended March 31, 2004 *(thousands)*

	2004	2003
Operating transactions		
Net income (loss)	$ 1,133,485	$ (893,877)
Non-cash items included in net income	(166,266)	58,636
	967,219	(835,241)
Decrease in accounts receivable	8,295	20,640
Increase (decrease) in accounts payable	42	(269,287)
Cash provided by (applied to) operating transactions	975,556	(1,083,888)
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	1,576,492	5,524,009
Purchase of investments	(1,707,900)	(4,228,530)
Cash provided by (applied to) investing transactions	(131,408)	1,295,479
Transfers		
Transfers to the General Revenue Fund	(1,133,485)	–
Increase (decrease) in amounts due to the General Revenue Fund	152,485	(12,897)
Cash applied to transfers	(981,000)	(12,897)
Increase (decrease) in cash	(136,852)	198,694
Cash at beginning of year	250,514	51,820
Cash at end of year	$ 113,662	$ 250,514
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	$ 113,662	$ 250,514

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

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

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.

NOTE 2 (continued)

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. 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.

NOTE 2 (continued)

(iv) The fair value of real estate investments is 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, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. 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 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.

NOTE 3 PORTFOLIO INVESTMENTS (Schedules A to E)

(thousands)

	2004 Cost	2004 Fair Value	2004 %	2003 Cost	2003 Fair Value	2003 %
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 113,662	$ 113,662	0.9	$ 250,514	$ 250,514	2.3
Canadian Dollar Public Bond Pool (b)	3,135,075	3,223,579	25.7	3,012,610	2,996,258	27.1
Bonds, notes and short-term paper, directly held (c)	23,799	25,304	0.2	24,515	25,470	0.2
Private Mortgage Pool (d)	544,000	558,409	4.5	432,916	429,077	3.9
Provincial corporation debentures, directly held (e)	94,656	150,125	1.2	100,037	158,018	1.4
Loans, directly held (f)	93,144	93,144	0.7	97,359	97,359	0.9
	4,004,336	4,164,223	33.2	3,917,951	3,956,696	35.8
Canadian public equities (Schedule B)						
Domestic Passive Equity Pooled Fund (g)	989,162	1,152,226	9.2	907,115	1,050,459	9.5
Canadian Pooled Equity Fund (h)	581,354	699,381	5.6	647,209	596,641	5.4
External Managers Canadian Large Cap Equity Pool (i)	576,697	674,266	5.4	672,938	638,043	5.8
Growing Equity Income Pool (j)	182,284	191,135	1.5	–	–	–
External Managers Canadian Small Cap Equity Pool (k)	36,611	51,135	0.4	72,655	80,751	0.7
	2,366,108	2,768,143	22.1	2,299,917	2,365,894	21.4
United States public equities (Schedule C)						
S&P 500 Index Fund (l)	914,333	1,031,374	8.2	443,426	429,631	3.9
External Managers US Large Cap Equity Pool (m)	687,476	685,839	5.5	894,835	753,677	6.8
External Manager US Small/Mid Cap Equity Pool (n)	224,758	244,619	1.9	111,304	106,645	0.9
External Manager US Passive Equity Pool	–	–	–	505,192	462,155	4.2
United States Pooled Equity Fund	–	–	–	255	105	–
	1,826,567	1,961,832	15.6	1,955,012	1,752,213	15.8
Non-North American public equities (Schedule D)						
External Managers EAFE Core Equity Pool (o)	949,210	1,027,313	8.2	1,054,819	876,238	7.9
External Managers EAFE Plus Equity Pool (o)	460,474	500,339	4.0	518,725	437,568	3.9
External Manager EAFE Passive Equity Pool (p)	366,816	525,190	4.2	411,772	427,300	3.9
	1,776,500	2,052,842	16.4	1,985,316	1,741,106	15.7
Real Estate (Schedule E)						
Private Real Estate Pool (q)	871,959	949,771	7.6	804,855	869,948	7.9
Absolute Return Strategies						
Absolute Return Strategy Pool (r)	512,075	507,721	4.0	283,042	282,967	2.6
Private Equities						
Private Equity and Income Pools (s)	149,572	136,358	1.1	100,202	89,999	0.8
Total investments (t)	$ 11,507,117	$ 12,540,890	100.0	$ 11,346,295	$ 11,058,823	100.0

NOTE 3 (continued)

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 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	38.3	38.1
Canadian Pooled Equity Fund	67.8	55.0
Domestic Passive Equity Pooled Fund	49.2	47.7
Foreign Private Equity Pool (02)	43.8	43.8
Growing Equity Income Pool	75.3	–
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	38.8	–
Private Mortgage Pool	46.6	42.8
Private Real Estate Pool	43.1	42.8
Standard & Poor’s 500 Index Fund	82.1	87.2
United States Pooled Equity Fund	–	18.0
Externally Managed Investment Pools		
Absolute Return Strategy Pool	88.5	88.2
Canadian Large Cap Equity Pool	21.9	25.5
Canadian Small Cap Equity Pool	8.2	18.6
EAFE Core Equity Pool	33.5	35.6
EAFE Passive Equity Pool	78.4	74.0
EAFE Plus Equity Pool	33.4	37.1
US Large Cap Equity Pool	35.2	41.6
US Passive Equity Pool	–	73.3
US Small/Mid Cap Equity Pool	35.5	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 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%).

NOTE 3 (continued)

c) As at March 31, 2004, fixed-income securities held directly by the Fund have an average effective market yield of 2.69% per annum (2003: 4.36% per annum). As at March 31, 2004, 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 (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%).

e) As at March 31, 2004, Provincial corporation debentures have an average effective market yield of 7.10% per annum (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 March 31, 2004, investment in loans, at cost, include the Ridley Grain loan amounting to $91,245,000 (2003: $91,245,000) and the Vencap loan amounting to $1,899,000 (2003: $6,114,000). The decrease in the carrying value of the Vencap loan resulted from a change to the constant yield method of amortization. The decrease of $4.215 million was charged to income of the current period.

- 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 March 31, 2004 amounted to $88,414,959 (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.

g) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange S&P/TSX Composite Index. The portfolio is comprised of both 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.

ALBERTA HERITAGE SAVINGS TRUST FUND

NOTE 3 **(continued)**

h) 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.

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

j) 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.

k) 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 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.

l) 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).

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

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

NOTE 3 (continued)

o) 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.

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

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

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

s) 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.

t) 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. 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.

(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%	–	$ 1,117,982	$ (8,244)	$ 575,028	$ (13,298)
Interest rate swap contracts	42%	47%	11%	684,837	(30,484)	404,230	(13,765)
Forward foreign exchange contracts	100%	–	–	590,114	4,825	616,346	21,069
Cross-currency interest rate swaps	1%	25%	74%	398,256	(45,969)	275,384	(52,399)
Credit default swap contracts	–	49%	51%	49,141	(384)	–	–
Bond index swap contracts	100%	–	–	45,613	1,114	52,107	(173)
Equity index futures contracts	100%	–	–	8,919	965	13,754	421
				$ 2,894,862	$ (78,177)	$ 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 2003-2006 business plan proposes the following asset mix policy for the Endowment Portfolio.

Public equities	45%
Fixed income securities	35%
Real estate	10%
Private equities	5%
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(4) 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)	2004	2003
Deposits and fixed-income securities	$ 304,331	$ 286,427
Canadian equities	509,551	(246,871)
United States equities	46,191	(591,603)
Non-North American equities	175,183	(390,325)
Private equities	7,934	6,445
Real estate	54,392	39,265
Absolute return strategies	38,069	4,563
Investment income (loss)	1,135,651	(892,099)
Direct administrative expenses (Note 8)	(2,166)	(1,778)
Net income (loss)	$ 1,133,485	$ (893,877)

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 8).

The investment income for the year ended March 31, 2004 includes writedowns totalling $2,630,000 (March 31, 2003: $668,553,000).

NOTE 8 ADMINISTRATIVE EXPENSES

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

(thousands)	2004	2003
Direct fund expenses (Note 7)	$ 2,166	$ 1,778
Externally managed investment pools	12,338	11,883
Internally managed investment pools	3,425	2,286
Total	$ 17,929	$ 15,947
Expenses as a percentage of net assets at fair value	0.145%	0.144%

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 SAVINGS TRUST 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	$ 118,768	$ 118,768	$ 258,716	$ 258,716
Fixed-income securities (a)				
Corporate, pulbic and private	2,130,560	2,165,983	2,134,498	2,115,369
Government of Canada, direct and guaranteed	783,122	793,410	639,630	640,529
Provincial, direct and guaranteed:				
Alberta	2,159	2,377	6,786	7,370
Other provinces	745,529	801,819	584,015	581,516
Municipal	41,586	43,785	62,260	63,169
Provincial corporation debentures	94,656	150,125	100,037	158,018
Loans	93,144	93,144	97,359	97,359
	3,890,756	4,050,643	3,624,585	3,663,330
Receivable from sale of investments and accrued investment income	40,472	40,472	41,239	41,239
Accounts payable and accrued liabilities	(45,660)	(45,660)	(6,589)	(6,589)
	(5,188)	(5,188)	34,650	34,650
	$ 4,004,336	$ 4,164,223	$ 3,917,951	$ 3,956,696

a) Fixed income securities held as at March 31, 2004 have an average effective market yield of 4.53% per annum (2003: 5.68% per annum) and the following term structure based on principal amount:

	2004 %	2003 %
under 1 year	3	2
1 to 5 years	35	36
5 to 10 years	32	31
10 to 20 years	11	13
over 20 years	19	18
	100	100

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

Schedule B

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 19,490	$ 19,490	$ 22,098	$ 22,098
Public equities (a) (b)				
Financials	769,038	901,733	717,653	759,882
Materials	381,880	451,810	363,479	359,403
Energy	317,651	404,651	297,762	368,554
Industrials	184,151	209,612	174,582	172,681
Information technology	161,932	204,279	151,777	122,169
Consumer discretionary	185,183	196,016	193,152	171,206
Telecommunications services	133,260	131,202	126,947	120,503
Consumer staples	90,335	110,909	88,729	101,180
Utilities	90,691	100,631	76,729	83,199
Health Care	51,479	56,827	82,581	80,367
	2,365,600	2,767,670	2,273,391	2,339,144
Passive index	628	593	16,456	16,680
	2,366,228	2,768,263	2,289,847	2,355,824
Receivable from sale of investments and accrued investment income	10,835	10,835	6,579	6,579
Accounts payable and accrued liabilities	(30,445)	(30,445)	(18,607)	(18,607)
	(19,610)	(19,610)	(12,028)	(12,028)
	$ 2,366,108	$ 2768,143	$ 2,299,917	$ 2,365,894

a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $809,440,000 (2003: $550,918,000) 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.

SCHEDULE OF INVESTMENTS IN UNITED STATES EQUITIES

Schedule C

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 29,995	$ 29,995	$ 23,085	$ 23,085
Public equities (a) (b)				
Financials	357,904	400,188	386,731	338,718
Information technology	282,604	313,416	262,253	235,478
Consumer discretionary	292,063	311,021	326,894	291,626
Health Care	240,502	238,498	270,831	257,347
Industrials	204,356	220,671	218,911	191,605
Consumer staples	175,500	183,849	179,069	161,325
Energy	107,832	112,968	128,498	111,492
Materials	59,136	70,825	57,080	48,294
Telecommunications services	55,511	55,753	54,907	49,260
Utilities	43,449	46,933	45,953	43,141
	1,818,857	1,954,122	1,931,127	1,728,286
Passive index	–	–	132	174
	1,818,857	1,954,122	1,931,259	1,728,460
Receivable from sale of investments and accrued investment income	7,408	7,408	4,023	4,023
Accounts payable and accrued liabilities	(29,693)	(29,693)	(3,355)	(3,355)
	(22,285)	(22,285)	668	668
	$ 1,826,567	$ 1,961,832	$ 1,955,012	$ 1,752,213

a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling $317,461,000 (2003: $37,864,000) 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 conforms to the Global Industry Classification Standard followed by the Standard & Poor's S&P 500 Index.

SCHEDULE OF INVESTMENTS IN NON-NORTH AMERICAN EQUITIES — Schedule D

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 40,551	$ 40,551	$ 64,941	$ 64,941
Public equities (a)				
Financials	405,030	484,429	414,562	362,993
Consumer discretionary	266,480	314,210	280,984	239,047
Industrials	197,744	232,027	179,573	151,420
Telecommunications services	142,311	158,735	193,406	164,414
Health Care	150,885	156,468	203,489	170,131
Materials	130,807	155,861	128,579	118,296
Energy	140,245	154,046	161,419	146,925
Consumer staples	135,141	150,389	163,886	152,151
Information technology	97,954	125,276	104,922	89,339
Utilities	67,353	78,851	102,399	94,293
	1,733,950	2,010,292	1,933,219	1,689,009
Receivable from sale of investments and accrued investment income	21,318	21,318	13,595	13,595
Accounts payable and accrued liabilities	(19,319)	(19,319)	(26,439)	(26,439)
	1,999	1,999	(12,844)	(12,844)
	$ 1,776,500	$ 2,052,842	$ 1,985,316	$ 1,741,106

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

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
United Kingdom	$ 421,563	$ 462,861	$ 538,441	$ 462,446
Japan	318,432	385,621	320,114	273,788
France	163,625	188,025	179,921	153,954
Switzerland	142,150	157,843	150,805	131,937
Germany	119,043	136,328	101,305	82,318
Netherlands	98,481	109,348	127,664	105,851
Australia	73,965	98,036	87,877	90,362
Italy	77,319	88,605	85,869	76,510
Spain	44,093	53,543	52,331	46,591
Hong Kong	38,962	43,950	56,369	50,019
Other	236,317	286,132	232,523	215,233
	$ 1,733,950	$ 2,010,292	$ 1,933,219	$ 1,689,009

ALBERTA HERITAGE SAVINGS TRUST FUND

SCHEDULE OF INVESTMENTS IN REAL ESTATE

Schedule E

March 31, 2004 *(thousands)*

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Deposits and short-term securities	$ 1,162	$ 1,162	$ 1,129	$ 1,129
Real Estate (a)				
Office	369,962	422,531	356,881	406,099
Retail	378,702	402,264	373,473	385,180
Industrial	57,490	63,298	35,741	41,008
Residential	53,909	49,782	31,132	30,033
	860,063	937,875	797,227	862,320
Participation units	8,355	8,355	559	559
Accrued income and accounts receivable	2,379	2,379	5,940	5,940
	$ 871,959	$ 949,771	$ 804,855	$ 869,948

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

	2004 Cost	2004 Fund's share Fair Value	2003 Cost	2003 Fund's share Fair Value
Ontario	635,609	693,793	605,698	655,052
Alberta	$ 206,072	$ 224,660	$ 173,597	$ 188,541
British Columbia	18,382	19,422	17,932	18,727
	$ 860,063	$ 937,875	$ 797,227	$ 862,320

ALBERTA HERITAGE SAVINGS TRUST 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:

	One Year Return				4 Year Compound Annualized Return
	2004	**2003**	**2002**	**2001**	
Time-weighted rates of return					
Short-term fixed income	**2.9**	**3.0**	**3.8**	**5.7**	**3.9**
Scotia Capital 91-day T-Bill Index	*3.0*	*2.7*	*3.7*	*5.7*	*3.8*
Long-term fixed income	**11.3**	**9.5**	**5.9**	**9.5**	**9.0**
Scotia Capital Universe Bond Index	*10.8*	*9.2*	*5.1*	*8.7*	*8.4*
Canadian equities	**36.6**	**(16.6)**	**4.2**	**(16.0)**	**(0.1)**
S&P/TSX Composite Index	*37.7*	*(17.6)*	*4.9*	*(18.6)*	*(0.8)*
United States equities	**22.0**	**(30.6)**	**1.4**	**(14.4)**	**(7.4)**
S&P 500 Index	*20.5*	*(30.7)*	*1.6*	*(15.1)*	*(7.9)*
Non-North American equities	**40.9**	**(29.1)**	**(5.8)**	**(22.6)**	**(7.6)**
MSCI EAFE Index	*40.5*	*(29.3)*	*(7.3)*	*(19.6)*	*(7.2)*
Private equities (2)	**4.6**	**(3.3)**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 8%	*8.7*	*5.7*	*n/a*	*n/a*	*n/a*
Real estate (1)	**7.5**	**9.8**	**7.3**	**9.7**	**8.6**
Consumer Price Index (CPI) plus 5%	*5.7*	*9.6*	*9.9*	*11.9*	*9.3*
Absolute Return Strategies (2)	**10.7**	**1.6**	**n/a**	**n/a**	**n/a**
Consumer Price Index (CPI) plus 6%	*6.7*	*4.7*	*n/a*	*n/a*	*n/a*
Total Endowment portfolio	**22.5**	**(11.3)**	**3.3**	**(6.1)**	**1.3**
Policy Benchmark	*21.7*	*(11.7)*	*3.4*	*(6.2)*	*1.1*
Transition portfolio	**n/a**	**0.5**	**5.3**	**8.2**	**n/a**
Overall Return	**22.5**	**(11.0)**	**4.2**	**(0.1)**	**3.2**

(1) 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%.

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