

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements YEAR ENDED MARCH 31, 2004

Auditor's Report	124
Balance Sheet	125
Statement of Income and Retained Earnings	125
Statement of Cash Flow	126
Notes to the Financial Statements	127
Schedules to the Financial Statements	
A Schedule of Investments in Fixed Income Securities	137
B Schedule of Investments in Canadian Equities	138
C Schedule of Investments in United States Equities	139
D Schedule of Investments in Non-North American Equities	140
E Schedule of Investments in Real Estate	141
F Schedule of Investment Returns	142



AUDITOR'S REPORT

To the Minister of Revenue

I have audited the balance sheet of the Alberta Heritage Scholarship 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 SCHOLARSHIP FUND

BALANCE SHEET

March 31, 2004 (*thousands*)

	2004		2003
Assets			
Portfolio investments (Note 3)	\$ 251,236	\$	249,293
Contributions receivable	104		1,500
Administration expense receivable	14		11
Accrued investment income	-		179
	<u>\$ 251,354</u>	\$	<u>250,983</u>
Endowment and Retained Earnings			
Endowment (Note 6)	100,000		100,000
Retained earnings (Note 6)	151,354		150,983
	<u>\$ 251,354</u>	\$	<u>250,983</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)	\$ 9,983	\$ 22,513	\$ (27,766)
Contributions from Province of Alberta	200	104	5,030
Other contributions	70	18	286
	<u>10,253</u>	<u>22,635</u>	<u>(22,450)</u>
Expenses			
Scholarships	21,180	22,264	21,037
Net income (loss)	<u>\$ (10,927)</u>	371	(43,487)
Retained earnings at beginning of year		<u>150,983</u>	<u>194,470</u>
Retained earnings at end of year		<u>\$ 151,354</u>	<u>\$ 150,983</u>

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

ALBERTA HERITAGE SCHOLARSHIP FUND

STATEMENT OF CASH FLOW

Year Ended March 31, 2004 (*thousands*)

	2004		2003
Operating transactions			
Net income (loss)	\$ 371	\$	(43,487)
Non-cash items included in net income	(2,489)		6,167
	(2,118)		(37,320)
Increase (decrease) in receivables	1,572		(1,450)
Decrease in payables	-		(185)
Cash applied to operating transactions	(546)		(38,955)
Investing transactions			
Proceeds from disposals, repayments and redemptions of investments	36,230		57,150
Purchase of investments	(38,281)		(19,085)
Cash provided by (applied to) investing transactions	(2,051)		38,065
Decrease in cash	(2,597)		(890)
Cash at beginning of year	8,079		8,969
Cash at end of year	\$ 5,482	\$	8,079
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (Note 3)	\$ 5,482	\$	8,079

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

ALBERTA HERITAGE SCHOLARSHIP FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Scholarship Fund ("the Fund") operates under the authority of the *Alberta Heritage Scholarship Act*, Chapter A-24, 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 scholarships 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 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.

ALBERTA HERITAGE SCHOLARSHIP FUND

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.

ALBERTA HERITAGE SCHOLARSHIP FUND

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 SCHOLARSHIP FUND

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

	Cost	Fair Value	2004 %	Cost	Fair Value	2003 %
Fixed income securities (Schedule A)						
Deposit in the Consolidated Cash						
Investment Trust Fund (a)	\$ 5,482	\$ 5,482	2.1	\$ 8,079	\$ 8,079	3.3
Canadian Dollar Public Bond Pool (b)	57,806	59,084	22.2	54,105	53,504	23.0
Private Mortgage Pool (c)	9,390	10,477	3.9	7,552	8,387	3.6
	72,678	75,043	28.2	69,736	69,970	29.9
Canadian equities (Schedule B)						
Domestic Passive Equity Pooled Fund (d)	28,043	28,752	10.8	25,659	24,962	10.7
Canadian Pooled Equity Fund (e)	15,610	18,316	6.9	16,827	15,115	6.5
External Managers Canadian Large Cap Pool (f)	15,194	17,388	6.5	21,991	20,373	8.8
Growing Equity Income Pool (g)	4,532	4,752	1.8	–	–	–
External Managers Canadian Small Cap Pool (h)	1,067	1,425	0.5	1,444	1,524	0.6
	64,446	70,633	26.5	65,921	61,974	26.6
United States equities (Schedule C)						
S&P 500 Index Fund (i)	18,727	20,234	7.6	9,471	8,978	3.9
External Managers US Large Cap Equity Pool (j)	20,871	20,106	7.5	22,157	18,012	7.7
External Manager US Small/Mid Cap Equity Pool (k)	4,738	5,462	2.1	2,843	2,883	1.2
External Manager US Passive Equity Pool	–	–	–	10,207	8,739	3.8
United States Equity Pooled Fund	–	–	–	18	9	–
	44,336	45,802	17.2	44,696	38,621	16.6
Non-North American equities (Schedule D)						
External Managers EAFE Core Equity Pool (l)	24,194	24,246	9.1	25,381	19,419	8.3
External Managers EAFE Plus Equity Pool (l)	12,135	12,841	4.8	11,913	9,756	4.2
External Manager EAFE Passive Equity Pool (m)	7,687	10,187	3.8	9,781	9,381	4.0
EAFE Structured Equity Pool	–	–	–	–	–	–
	44,016	47,274	17.7	47,075	38,556	16.5
Real Estate (Schedule E)						
Private Real Estate Pool (n)	16,632	18,452	6.9	15,082	16,657	7.2
Absolute Return Strategies						
Absolute Return Strategy Pool (o)	7,930	7,926	3.0	6,394	6,392	2.8
Private Equities						
Private Equity and Income Pools (p)	1,198	1,428	0.5	389	919	0.4
Total investments (q)	\$ 251,236	\$ 266,558	100.0	\$ 249,293	\$ 233,089	100.0

ALBERTA HERITAGE SCHOLARSHIP FUND

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	0.7	0.7
Canadian Pooled Equity Fund	1.8	1.4
Domestic Passive Equity Pooled Fund	1.2	1.1
Foreign Private Equity Pool (02)	1.0	1.0
Growing Equity Income Pool	1.9	–
Private Equity Pool	2.2	2.2
Private Equity Pool (02)	0.9	0.9
Private Income Pool	0.8	–
Private Mortgage Pool	0.9	0.8
Private Real Estate Pool	0.8	0.8
Standard & Poor's 500 Index Fund	1.6	1.8
United States Pooled Equity Fund	–	1.6
Externally Managed Investment Pools		
Absolute Return Strategy Pool	1.4	2.0
Canadian Large Cap Equity Pool	0.6	0.8
Canadian Small Cap Equity Pool	0.2	0.4
EAFE Core Equity Pool	0.8	0.8
EAFE Passive Equity Pool	1.5	1.6
EAFE Plus Equity Pool	0.9	0.8
US Large Cap Equity Pool	1.0	1.0
US Small/Mid Cap Equity Pool	0.8	0.7
US Passive Equity Pool	–	1.4

- 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%).

ALBERTA HERITAGE SCHOLARSHIP FUND

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 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.
- f) 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.
- 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 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).

ALBERTA HERITAGE SCHOLARSHIP FUND

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 SCHOLARSHIP 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.

ALBERTA HERITAGE SCHOLARSHIP FUND

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%	–	\$ 26,248	\$ (174)	\$ 13,577	\$ (316)
Interest rate swap contracts	42%	46%	12%	16,057	(715)	9,405	(319)
Forward foreign exchange contracts	100%	–	–	9,970	79	13,656	467
Cross-currency interest rate swaps	1%	26%	73%	8,043	(841)	5,531	(979)
Credit default swap contracts	–	53%	47%	1,060	(9)	–	–
Bond index swap contracts	100%	–	–	836	20	930	(3)
Equity index futures contracts	100%	–	–	178	20	306	9
				\$ 62,392	\$ (1,620)	\$ 43,405	\$ (1,141)

- (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 Scholarship Act provides that money required by the Students Finance Board for providing scholarships or for paying for the costs of administering scholarships, shall be paid from the Fund, but no portion of the original endowment may be paid out of the Fund.

ALBERTA HERITAGE SCHOLARSHIP FUND

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

	2004	2003
Deposits and fixed-income securities	\$ 5,352	\$ 5,244
Canadian equities	10,808	(9,172)
United States equities	923	(15,233)
Non-North American equities	3,351	(9,399)
Private equities	349	(2)
Real estate	1,057	752
Absolute return strategies	738	103
Investment income (loss)	22,578	(27,707)
Direct administrative expenses (Note 8)	(65)	(59)
Net investment income (loss)	\$ 22,513	\$ (27,766)

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 \$74,000 (2003: \$15,248,000).

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	\$ 65	\$ 59
Externally managed investment pools	287	289
Internally managed investment pools	68	52
Total	\$ 420	\$ 400
Expenses as a percentage of net assets at fair value	0.158%	0.170%

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 SCHOLARSHIP FUND

SCHEDULE OF INVESTMENTS IN FIXED INCOME SECURITIES

Schedule A

March 31, 2004 (thousands)

	Cost	Fund's share 2004 Fair Value	Cost	Fund's share 2003 Fair Value
Deposits and short-term securities	\$ 5,576	\$ 5,576	\$ 8,231	\$ 8,231
Fixed-income securities (a)				
Corporate, public and private	38,685	39,925	38,121	38,451
Government of Canada, direct and guaranteed	14,001	14,078	11,048	10,983
Provincial, direct and guaranteed:				
Alberta	40	44	122	132
Other provinces	13,703	14,711	10,474	10,423
Municipal	767	803	1,118	1,128
	67,196	69,561	60,883	61,117
Receivable from sale of investments and accrued investment income	743	743	740	740
Accounts payable and accrued liabilities	(837)	(837)	(118)	(118)
	(94)	(94)	622	622
	\$ 72,678	\$ 75,043	\$ 69,736	\$ 69,970

- 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

ALBERTA HERITAGE SCHOLARSHIP FUND

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	\$ 506	\$ 506	\$ 631	\$ 631
Public equities (a) (b)				
Financials	20,297	22,962	19,960	19,973
Materials	10,598	11,527	10,712	9,486
Energy	8,568	10,322	8,549	9,691
Industrials	5,117	5,373	5,053	4,503
Information technology	4,549	5,220	4,472	3,195
Consumer discretionary	5,208	5,014	5,614	4,373
Telecommunications services	3,549	3,342	3,587	3,121
Consumer staples	2,571	2,832	2,541	2,597
Utilities	2,437	2,552	2,143	2,070
Health Care	1,517	1,455	2,439	2,148
	64,411	70,599	65,070	61,157
Passive index	18	17	505	471
Receivable from sale of investments and accrued investment income	276	276	184	184
Accounts payable and accrued liabilities	(765)	(765)	(469)	(469)
	(489)	(489)	(285)	(285)
	\$ 64,446	\$ 70,633	\$ 65,921	\$ 61,974

- a) The Fund's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling \$20,198,000 (2003: \$13,092,000) 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 SCHOLARSHIP 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	\$ 712	\$ 712	\$ 547	\$ 547
Public equities (a) (b)				
Financials	8,622	9,269	8,818	7,448
Consumer discretionary	7,446	7,627	7,606	6,536
Information technology	6,708	7,163	5,962	5,155
Health Care	5,756	5,467	6,139	5,631
Industrials	4,954	5,191	4,994	4,225
Consumer staples	4,246	4,216	4,100	3,538
Energy	2,601	2,625	2,944	2,462
Materials	1,460	1,720	1,311	1,068
Telecommunications services	1,318	1,255	1,222	1,047
Utilities	993	1,037	1,038	948
	44,104	45,570	44,134	38,058
Passive index	–	–	3	4
Receivable from sale of investments and accrued investment income	178	178	90	90
Accounts payable and accrued liabilities	(658)	(658)	(78)	(78)
	(480)	(480)	12	12
	\$ 44,336	\$ 45,802	\$ 44,696	\$ 38,621

a) The Fund's effective net investment in US public equities includes the fair value of deposits and floating rate notes, totalling \$6,228,000 (2003: \$791,000) 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.

ALBERTA HERITAGE SCHOLARSHIP 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	\$ 986	\$ 986	\$ 1,442	\$ 1,442
Public equities (a)				
Financials	10,031	11,126	9,817	8,035
Consumer discretionary	6,641	7,268	6,691	5,293
Industrials	4,938	5,380	4,271	3,353
Materials	3,293	3,658	3,036	2,623
Telecommunications services	3,527	3,629	4,596	3,643
Health Care	3,707	3,567	4,843	3,766
Energy	3,452	3,531	3,846	3,251
Consumer staples	3,333	3,440	3,895	3,369
Information technology	2,430	2,865	2,489	1,978
Utilities	1,644	1,790	2,434	2,088
	42,996	46,254	45,918	37,399
Receivable from sale of investments and accrued investment income	520	520	301	301
Accounts payable and accrued liabilities	(486)	(486)	(586)	(586)
	34	34	(285)	(285)
	\$ 44,016	\$ 47,274	\$ 47,075	\$ 38,556

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	\$ 10,398	\$ 10,587	\$ 12,782	\$ 10,242
Japan	7,838	8,814	7,587	6,059
France	4,050	4,319	4,286	3,408
Switzerland	3,535	3,646	3,583	2,921
Germany	2,967	3,159	2,405	1,822
Netherlands	2,429	2,498	3,029	2,345
Australia	1,832	2,230	2,096	2,000
Italy	1,921	2,044	2,048	1,694
Spain	1,076	1,201	1,242	1,031
Hong Kong	981	1,035	1,344	1,108
Other	5,969	6,721	5,516	4,769
	\$ 42,996	\$ 46,254	\$ 45,918	\$ 37,399

ALBERTA HERITAGE SCHOLARSHIP 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	\$ 23	\$ 23	\$ 22	\$ 22
Real Estate (a)				
Office	7,055	8,209	6,686	7,776
Retail	7,222	7,815	6,997	7,375
Industrial	1,096	1,230	670	785
Residential	1,028	967	583	575
	16,401	18,221	14,936	16,511
Participation units	162	162	11	11
Accrued income and accounts receivable	46	46	113	113
	\$ 16,632	\$ 18,452	\$ 15,082	\$ 16,657

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	\$ 12,121	\$ 13,479	\$ 11,348	\$ 12,542
Alberta	3,930	4,365	3,252	3,610
British Columbia	350	377	336	359
	\$ 16,401	\$ 18,221	\$ 14,936	\$ 16,511

ALBERTA HERITAGE SCHOLARSHIP 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	2.9	4.1	6.0	4.0
<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	9.7	5.9	9.4	9.1
<i>Scotia Capital Universe Bond Index</i>	10.8	9.2	5.1	8.7	8.4
Canadian equities	36.2	(17.4)	3.4	(16.0)	(0.6)
<i>S&P/TSX Composite Index</i>	37.7	(17.6)	4.9	(18.6)	(0.8)
United States equities	22.2	(30.6)	1.4	(14.3)	(7.4)
<i>S&P 500 Index</i>	20.5	(30.7)	1.6	(15.1)	(7.9)
Non-North American equities	40.9	(29.1)	(5.9)	(23.1)	(7.8)
<i>MSCI EAFE Index</i>	40.5	(29.3)	(7.3)	(19.6)	(7.2)
Private equities (2)	1.3	(3.5)	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	8.5
<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	(13.3)	2.3	(8.9)	0.1
Policy Benchmark	23.4	(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.