2004 Annual Report

a critical balance

Alberta Securities Commission

ASC	Alberta Securities Commission
CSA	Canadian Securities Administrators
IDA	Investment Dealers Association
MFDA	Mutual Fund Dealers Association of Canada
MI	Multilateral Instrument
NI	National Instrument
NP	National Policy
NRD	National Registration Database
SEDAR	System for Electronic Document Analysis and Retrieval
SEDI	System for Electronic Disclosure by Insiders
USL	Uniform Securities Legislation
AIF	Annual Information Form

About the ASC

The Alberta Securities Commission (ASC or Commission), located in Calgary, is the industry-funded organization responsible for overseeing the capital market in Alberta. The Commission administers securities laws in the Province, including the *Securities Act*, the *Securities Regulation* and the *ASC Rules*.

These securities laws are designed to ensure that Alberta's capital market operates fairly and efficiently and that investors are protected from fraudulent, manipulative and misleading practices. To accomplish this, Alberta securities laws require that investors have access to timely, accurate information on which to base investment decisions. Further, it requires that those who sell securities in Alberta are registered and conduct themselves according to the terms of their registration.

In addition to directly regulating Alberta's capital market, the ASC recognizes and oversees the activities of the TSX Venture Exchange (TSXV), Market Regulation Services Inc. (RS Inc.), the Investment Dealers Association of Canada (IDA) and the Mutual Fund Dealers Association of Canada (MFDA).

The ASC is a member of the Canadian Securities Administrators (CSA), a council of the 13 securities regulators of Canada's provinces and territories whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets.

Message from the Chair

I am very pleased to report that the past year has been one of great accomplishment for the Alberta Securities Commission. Not only were a number of very important initiatives completed, but the ASC began to play a more influential role in the development and administration of securities regulatory policy in Canada.

This past year, the ASC continued work on its multi-phased Alberta Capital Market Project. The first phase of the project clearly demonstrated three important factors: (1) Alberta has the second largest capital market in Canada; (2) the Alberta capital market is multi-tiered in terms of the size of issuers; and (3) the predominant industry sectors in Alberta's capital market (oil and gas and industrial) are different from the predominant sectors in the other provinces. These findings support the ASC playing a leadership role in securities regulatory matters in Canada and reaffirm our commitment to proportionate regulation and our continuing emphasis on issues of importance to the oil and gas industry.

During this past year the ASC continued to lead the CSA's most important and ambitious project ever undertaken – the Uniform Securities Legislation (USL) Project. The USL Project, which entails both a *Uniform Securities Act* for Canada and a single regulator for market participants, reached a major milestone with the publication last December of the draft legislation. The ASC is also leading two important spin-offs from the USL Project – preparation of a new national prospectus and registration exemptions rule and a new national registration requirements rule. Both of these rules are intended to be adopted across Canada before the USL Project is completed.

Last September, a national rule prescribing new standards of disclosure for oil and gas activities came into effect across Canada. This new rule (NI 51-101) is the culmination of several years of analysis and consultation by ASC staff, beginning with the creation of the ASC's Oil and Gas Securities Taskforce in 1998.

The ASC also led a project which resulted in the new capital raising exemptions rule (MI 45-103) – originally developed and adopted in Alberta and British Columbia – being adopted in June 2003 in all provinces and territories other than Ontario and Québec.

In keeping with our increasing emphasis on compliance and enforcement, the ASC continued – for the 13th year – our continuous disclosure review program whereby the ASC conducts annual reviews of financial statements and other filings of Alberta-based reporting issuers. In addition, in order to bolster this ongoing program, we established a Petroleum Reserves Evaluation Team. The Team has already had an important impact by reviewing 42 oil and gas reserves reports last year and assisting in the development of NI 51-101.

Our enforcement department was very active last year and saw success in a number of high-profile cases. Vigorous enforcement of our securities laws is a priority for the ASC and we intend to pursue more enforcement cases in the next year.

Last year, the ASC launched its new website and initiated its public awareness campaign aimed at directing Albertans between the ages of 25 and 34 to the website to learn about the investing process.

Our many accomplishments are a result of the commitment and efforts of the entire staff of the ASC, to whom I am grateful. I would also like to acknowledge the contributions of two of our Members who left the Commission this past year. John Cranston retired from the Commission after six years of service. We benefited enormously from John's prior experience as a broker and his active involvement in Commission matters, including the Human Resources Committee. John McCarthy resigned in November, 2003 to accept an appointment to the Provincial Court of Alberta. We wish him well in his new career.

The next year will bring new challenges to the Alberta capital markets and its participants. The Alberta Securities Commission is committed to playing a proactive yet pragmatic role in maintaining a fair and efficient capital market in Alberta and Canada.

Stephen P. Sibold, Q.C.

Commission Members

(L-R): James E. Allard, Glenda A. Campbell, Q.C., Vice-Chair, Jerry A. Bennis, FCA, Thomas G. Cooke, Q.C., Mazhar (Mike) H. Shaikh, CA, David W. Betts, CFA, James A. Millard, Q.C., Stephen P. Sibold, Q.C., Chair, Stephen R. Murison, Vice-Chair, John W. Cranston, Dennis A. Anderson, FCA.

The ASC has two operational levels: Members and Management staff. The Lieutenant Governor-in-Council appoints the Members. With the exception of the Chair and two Vice-Chairs, each of whom serves full-time, the Members serve on a part-time basis. The Chair acts as the ASC's Chief Executive Officer and is responsible for the overall operation of the Commission.

Members determine policy, consider and approve new Rules and recommend changes to the *Securities Act* and the *Securities Regulation*. They are also empowered to grant discretionary exemptions from the requirements of Alberta securities laws and to conduct hearings with respect to matters that affect the public interest in Alberta's capital market. In addition, the Members act as the Commission's board of directors, overseeing the management of the business and the operational affairs of the ASC.

Stephen P. Sibold, Q.C. was appointed Chair of the ASC in May 2000. He joined the ASC with more than 20 years of legal experience primarily in securities and corporate/commercial law. Before joining the ASC, Mr. Sibold was the Senior Vice-President and General Counsel of Canadian Airlines Corporation and prior to that he was a partner with Bennett Jones LLP in Calgary.

Glenda A. Campbell, Q.C. was appointed Vice-Chair in September 1999. Prior to that she served the ASC as Director, Legal Services & Policy Development and was instrumental in creating a national voice for Alberta through the development of polices and legislation at the national and local levels, with a view to harmonizing the securities regime in Canada. Ms. Campbell has lectured extensively in professional continuing education seminars and has authored a number of papers.

Stephen R. Murison was appointed Vice-Chair in April 2003. He first joined the Alberta Securities Commission as legal counsel in 1997, where he worked extensively on a number of key policy initiatives. Prior to his employment with the Commission, he was a partner with a national law firm where he specialized in taxation, securities and corporate law.

James E. Allard became a Member in January 1999 and is a member of the Audit Committee. He comes to the ASC with 35 years of experience in operations, finance, international business, and the oil and gas industry. Mr. Allard is the past senior vice-president of a major international oil and gas corporation, has launched a publicly traded oil company and has brought his corporate governance skills to several companies.

Dennis A. Anderson, FCA became a Member in April 2003 and retired from a successful accounting career in 1991, after serving as a managing partner with the KPMG office in Calgary, and as a member of KPMG's National Policy Board and Western Region Management Committee. His career has also included a number of positions with firms involved in the energy sector. Most recently, Mr. Anderson served as a public member of the Alberta Insurance Council. Mr. Anderson has devoted countless hours to his community, and has served as chairman of the board and president of the Calgary Stampede Foundation.

Jerry A. Bennis, FCA became a Member in January 1999 and is currently Chair of the Audit Committee. He has been in the accounting profession for almost 40 years during which time he built up a successful practice in Peace River, Alberta. Mr. Bennis is past president of the Institute of Chartered Accountants of Alberta.

David W. Betts, CFA is a corporate financial consultant with over 30 years of experience as an investment analyst and investment banker. Most recently, Mr. Betts acted as a corporate financial consultant primarily to the oil and gas industry. Prior to that, he was employed with RBC Dominion Securities Inc. As a consultant, Mr. Betts has extensive experience advising executive management of both private and public companies in merger, acquisition and equity financing situations.

Thomas G. Cooke, Q.C. became a Member in April 2000 and is a member of the Audit Committee. Mr. Cooke comes to the ASC with close to 25 years of experience in corporate, commercial and administrative law, having been a partner at a number of law firms in Edmonton. In April 2000, he was appointed president of a private land development company conducting business both in Canada and internationally. He is an active member of the Legal Education Society of Alberta.

John W. Cranston was appointed in 1998 and is a member of the Human Resources Committee. He is president, Simcoe Press Limited and former associate director of a national investment dealer. As well, Mr. Cranston has wide-ranging directorship experience. He is chair of the Alberta Capital Market Foundation, past chairman of The Alberta Stock Exchange, and director of the Alberta & Calgary Scout Foundations. He also served as director and governor of several national governing bodies for the investment industry.

James A. Millard, Q.C. has practised in the corporate/commercial and securities law areas in Calgary for over 40 years, as a partner in the former Mackimmie Matthews law firm. Most recently, Mr. Millard has been involved as a practice review investigator with the Law Society of Alberta. He is a former director of a number of public and private corporations and is a former governor of the Calgary Petroleum Club.

Mazhar (Mike) H. Shaikh, CA became a Member in April 2003 and has been a Chartered Accountant since 1980. He is an active member of the Calgary business community and has run his own accounting corporation since 1982. He currently sits as a senator for the University of Calgary and has also taught at the University of Calgary and Mount Royal Community College.

a sound strategy

ASC STRATEGIC PRINCIPLES

In 2001, the ASC adopted a number of strategic principles that it has used and continues to use to formulate objectives and set priorities for its annual business plan. In addition, the strategic principles serve as guidelines for the Commission and staff in determining the appropriate regulatory response to emerging policy issues and new developments in the Alberta capital market.

THE ASC'S SIX STRATEGIC PRINCIPLES ARE:

1. To increase confidence in the integrity of Alberta's capital market through:

- timely and relevant education programs
- proactive and effective compliance programs
- effective and visible enforcement activities;

2. To be an effective advocate locally, nationally and internationally for issues of importance to the Alberta capital market;

3. To be and to be acknowledged by all stakeholders as a highly professional, efficient, effective and responsive securities regulator and, accordingly, to be recognized as a leader within the CSA;

4. To actively promote and assist the development of an efficient and cost-effective national system of securities regulation;

5. To explore and pursue with other regulatory bodies opportunities for cooperation and coordination of activities so as to minimize the duplication of resources in those areas of regulation where there is a mutual interest; and

6. To be and to be recognized as an attractive employer based on quality of work, training, remuneration and potential for career development.

a dynamic and distinct market

ALBERTA'S CAPITAL MARKET

Approximately one year ago, the ASC commenced the Alberta Capital Market Project which involves research into Alberta's capital market that is intended to focus and enhance regulatory efforts by giving the Commission insights into the capital market it regulates. The information gathered will be used to help identify priorities for the ASC and provide background information for other projects and rules, including those relating to continuous disclosure, corporate governance, proportionate regulation, prospectuses and capital-raising in the exempt market.

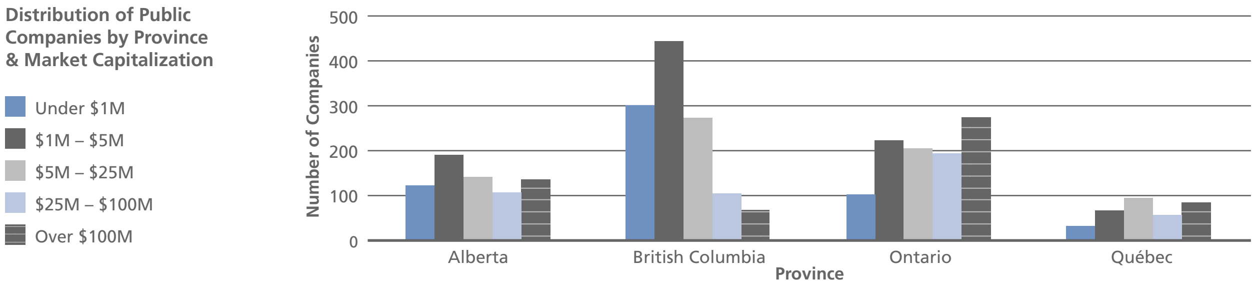
The first phase of the Alberta Capital Market Project, completed in March 2004, included an overview of the public companies, that is, reporting issuers (corporations, limited partnerships and income trusts) with securities listed on either the Toronto Stock Exchange or the TSX Venture Exchange. The ASC published a report setting out the conclusions of phase one including a review of the number, size (by market capitalization) and industry classifications of these public companies. The report also analyzed Alberta's capital market relative to the markets in British Columbia, Ontario and Québec, focusing on these provinces because public companies based in those provinces accounted for 92% of all public companies listed on the two exchanges and 83% of aggregate market capitalization. (A copy of the report can be obtained from the ASC website at www.albertasecurities.com or by contacting the ASC.)

Distribution of Public Companies by Province and Market Capitalization

The chart below illustrates the aggregate market capitalization of public companies listed on the Toronto Stock Exchange and the TSX Venture Exchange according to the jurisdiction in which the company is headquartered. Based on aggregate market capitalization, Alberta has the second most significant provincial capital market in Canada. Ontario has the largest aggregate market capitalization at $531 billion or 45% of the total, followed by Alberta at $210 billion or 18%, Québec at $167 billion or 14% and British Columbia at $64 billion or 5%. The combined market capitalization of all the other provinces and territories is $60 billion or 5% of the Canadian total. As also demonstrated in the chart below, the distribution of small, medium and large public companies differs as between jurisdictions.

Distribution of Alberta-Based Public Companies by Industry and Market Capitalization

The chart on the next page shows the industries in which Alberta-based public companies are engaged and the relative size of those companies (based on market capitalization). Clearly, the oil and gas industry is the most significant to Alberta's capital market. Approximately 40% of the companies are engaged in oil and gas and they represent 63% of aggregate market capitalization. Although less significant than oil and gas, the industrial, mining and technology sectors also play a significant role in the Alberta capital market: 15% of public companies



are engaged in the industrial sector (representing 14% of aggregate market capitalization), 11% are engaged in mining (1.9% of aggregate market capitalization), and 10% are technology companies (approximately 0.3% of aggregate market capitalization).

The following chart also indicates that Alberta-based public companies are represented in all market capitalization ranges. Oil and gas public companies are represented in all sizes; however, there are more large companies than small. For example, there are twice as many oil and gas public companies with market capitalization of over $100 million than with market capitalization under $1 million. The industrial category is relatively equally represented in all public company market capitalization ranges, while mining companies and particularly the technology-based companies tend to be smaller. For example, 44% of Alberta's mining companies and 68% of technology companies have market capitalization of under $5 million.

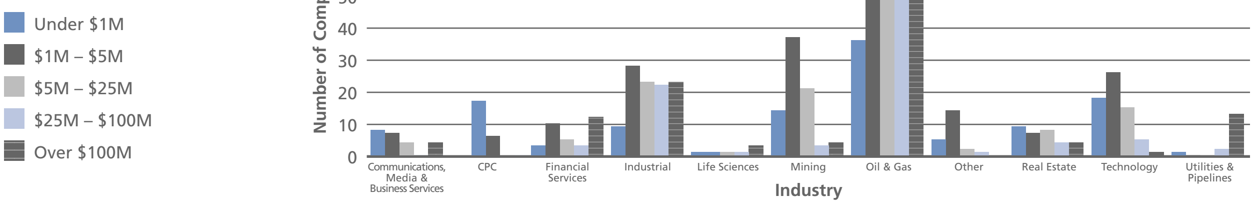
Three main conclusions were drawn from the findings of the published report:

1. Alberta's capital market is distinct from those of other jurisdictions both in respect of the predominant industries and in the relative proportions of small, mid-size and large public companies. In fact, the Canadian capital market is made up of very distinct provincial capital markets, each of which may demand, and offer, a unique perspective to policy formulation.

2. Because the capital markets in Alberta and Canada are very clearly tiered markets, with a large number of small companies and a much smaller but still significant number of mid-size and very large companies, the ASC and the CSA should continue investigating avenues where proportionate regulation – regulation tailored to the size of the company – might be appropriate.

3. The prominent position of Alberta's capital market in the overall Canadian capital market – being second only to Ontario in terms of aggregate market capitalization – warrants a very active ASC role in policy development and other regulatory initiatives within the CSA.

Distribution of Alberta Public Companies by Industry & Market Capitalization



a harmonized approach

LOCAL OR NATIONAL?

Securities regulation requires regulators to strike a balance between protecting investors and fostering an effective market that provides fair and efficient access to capital. Delivering securities regulation appropriate to the Alberta capital market also requires an understanding of that capital market and a balancing of the competing interests represented in it. As illustrated by the Alberta Capital Market Project, Alberta is home to both a large number of small public companies and a smaller number of mid-size and large public companies. In developing appropriate regulation, we must be mindful of the potentially differing effects our regulatory initiatives may have on small-cap and large-cap public companies. Regulation cannot always be "one-size-fits-all" when dealing with such a diverse group of companies.

As also demonstrated by the Alberta Capital Market Project, each of the provincial capital markets has certain unique features. We must strive to strike a balance between the obvious benefits of harmonizing securities laws and the need to be responsive to the unique characteristics of our dynamic local capital market.

A frequent complaint about Canada's securities regulatory system is that there are too many different laws and too many decision-makers, increasing burdens of time and cost for issuers and registrants. Industry and government at all levels have expressed views on the ideal securities regulatory structure. With the establishment of the provincial and territorial Ministerial Securities Review Committee, the release of the report of the federally-appointed Wise Persons' Committee, and much attention in the financial media, issues surrounding securities regulation and regulatory structure are being vigorously debated across the country.

The resolution of some of these issues clearly lies in the political arena. However, even before the debate began, Canada's securities regulators were taking steps to improve the regulatory system now, while still accommodating the regional realities and differences among Canada's various capital markets. The ASC and its counterparts in the CSA have been working together – and continue to do so – on updating and harmonizing key components of securities laws. In this way, the CSA and the ASC are making practical, achievable and significant improvements to our current regulatory system.

Some of the more significant improvements to Canada's securities laws accomplished during this last year are described in this Annual Report.

CSA RESTRUCTURING

In a move to become a more effective and efficient organization, the CSA commenced significant structural reform in September 2003. As an informal organization, the CSA has been very successful in coordinating and harmonizing securities regulation in Canada. To improve upon the existing cooperation and coordination among jurisdictions, the CSA further developed and formalized its policies and practices by:

- creating a Policy Coordination Committee, a committee of the CSA chairs, to oversee and coordinate ongoing policy and rule development and facilitate decision-making among jurisdictions;
- establishing a permanent secretariat located in Montréal to provide the organizational stability necessary for the effective functioning of a multi-jurisdictional organization;

- appointing a Secretary General, responsible for the general management and supervision of CSA operations; and
- formalizing a governance structure that involves rotating the positions of Chair and Vice-Chair of the CSA among the provinces for two-year terms.

With a formal governance structure and dedicated resources, the CSA will be in a stronger position to achieve its strategic objectives, including the creation of harmonized legislation across jurisdictions and a globally competitive regulatory environment.

In April 2003, ASC Chair Stephen Sibold was named the Chair of the CSA. In addition, ASC Executive Director David Linder was named Chair of the CSA Executive Directors' Committee in 2003.

The opportunity to perform a strong leadership role within the CSA is important to the ASC in continuing to represent the needs of the Alberta capital market at a national level.

UNIFORM SECURITIES LEGISLATION (USL)

Reform of Canada's system of securities regulation is a topical issue. The CSA believes that uniform securities laws across Canada would provide significant efficiency benefits to participants in Canada's capital markets. The CSA's USL Project, led by the ASC, represents an achievable, practical and substantial reform of our current system of securities regulation.

In addition to harmonizing securities laws, the USL Project proposes mutual recognition and delegation of authority between securities regulators. This very significant feature would make possible "one-stop shopping" (or a "passport" system) for capital market participants across Canada.

The CSA began the USL Project in March 2002 with the objective of developing uniform securities legislation within two years. In January 2003, the CSA published a Concept Proposal requesting and receiving extensive public comment. Throughout 2003 the CSA addressed the public comment and developed proposed legislation. In December 2003, the CSA published consultation drafts of both a *Uniform Securities Act* and a *Model Securities Administration Act* and requested public comment on those drafts by May 2004.

The *Uniform Securities Act* contains the proposed core substantive provisions of securities laws that would be virtually uniform across the country. The *Model Securities Administration Act* contains the procedural components of securities laws and is based on Alberta securities laws. Each jurisdiction would prepare its own Securities Administration Act based on this model.

The CSA has also undertaken the development of a number of harmonized instruments that flow from the USL Project but that would also assist in implementing a passport system as proposed by the provincial and territorial Ministerial Securities Review Committee.

National Exemptions Rule (NI 45-106)

The ASC is leading the development of a national prospectus and registration exemptions rule. National Instrument 45-106 is an ambitious undertaking: it will consolidate the prospectus and registration exemptions that exist in each of the 13 provinces and territories into one harmonized national exemptions rule. The CSA hopes to have NI 45-106 implemented in all Canadian jurisdictions early in 2005.

National Registration Rule (NI 31-103)

The ASC is also leading, with the Ontario Securities Commission, the drafting of a national registration rule. National Instrument 31-103 will consolidate and harmonize the registration requirements (including registration categories and application forms) in each of the 13 provinces and territories into one uniform registration rule. The CSA hopes to have this rule implemented in all Canadian jurisdictions early in 2005.

National Registration System (NRS)

In January 2004, the ASC and the other members of the CSA published for comment proposed National Instrument 31-101 *Requirements Under the National Registration System* and National Policy 31-201 *National Registration System*. When adopted, these instruments will implement a registration approval system that is a significantly enhanced version of the mutual reliance model used in other areas of securities regulation. Under NRS, firms or individuals will be able to register across Canada based solely on satisfying the requirements of their principal regulator. All other non-principal regulators will rely on the principal regulator's review in deciding whether to grant or refuse the registration.

OIL AND GAS DISCLOSURE STANDARDS (NI 51-101)

The oil and gas industry has long been a cornerstone of Alberta's economy, and timely and accurate information about reporting issuers engaged in oil and gas activities is necessary for investors to make informed investment decisions. As part of an overall focus on continuous disclosure, National Instrument 51-101 *Standards of*

Disclosure for Oil and Gas Activities was developed by the ASC on behalf of the CSA. The new standards took effect on September 30, 2003.

Under NI 51-101, oil and gas reporting issuers, at the same time as they release their annual financial statements, must disclose estimates of their oil and gas reserves and related future net revenue reported on by an independent reserves evaluator, comparisons to prior-year estimates and other prescribed information about their oil and gas activities. The oil and gas statement must be consistent with industry-developed terminology and procedures and be reviewed and approved by the issuer's directors.

The new standards are the product of extensive public and industry consultation. NI 51-101 responds to the recommendations of the ASC's Oil and Gas Securities Taskforce, which were issued in January 2001. It also addresses issues identified in public comments received in response to the initial publication for comment of NI 51-101, for example, by offering scope for the largest producing issuers to continue to rely on in-house evaluation expertise, and for reporting issuers active in US capital markets to apply US-style oil and gas disclosure practices in certain circumstances.

CONTINUOUS DISCLOSURE OBLIGATIONS (NI 51-102)

On March 30, 2004, in another significant step towards a uniform legislative and regulatory framework for reporting issuers in Canada, the ASC and its counterparts in the CSA adopted new harmonized continuous disclosure requirements for reporting issuers.

Historically, issuers reporting in more than one province have faced different disclosure rules in each jurisdiction. The new rule, National Instrument 51-102 *Continuous Disclosure Obligations*, harmonizes the continuous disclosure requirements across Canada. The rule also enhances the quality, timeliness and consistency of information available to secondary market investors.

The continuous disclosure requirements governed by NI 51-102 include: annual and interim financial statements, management's discussion and analysis (MD&A), annual information forms (AIFs), material change reports, business acquisition reports, proxy circulars and statements of executive compensation.

INVESTOR CONFIDENCE RULES (NI 52-108, MI 52-109, MI 52-110)

Recent corporate scandals and the implementation of the *Sarbanes-Oxley Act 2002* in the United States have triggered extensive debate regarding the investor confidence measures appropriate for Canada, given the unique characteristics of our capital markets.

To maintain and enhance investor confidence in Canada's capital markets, the CSA developed three new rules that came into effect on March 30, 2004. In recognition that there are similar interests and concerns between Canada and the US, the rules were modelled after the US initiatives but modified to reflect uniquely Canadian issues. NI 52-108 *Auditor Oversight* requires reporting issuers to retain auditors who are participants in good standing with the Canadian Public Accountability Board (CPAB), a new independent public oversight body for accounting firms that audit reporting issuers. MI 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* requires chief executive officers and chief financial officers of reporting issuers to provide annual and interim certifications of financial statements, MD&A and AIFs. MI 52-110 *Audit Committees* requires reporting issuers to have independent and financially literate audit committees and prescribes responsibilities for those audit committees. Exemptions from certain requirements of MI 52-110 are available to venture issuers, controlled companies and US-listed companies that are subject to substantially similar US requirements.
(MI 52-109 and MI 52-110 were adopted in all CSA jurisdictions except British Columbia.)

CAPITAL RAISING EXEMPTIONS (MI 45-103)

In June 2003, all Canadian provinces and territories except Ontario and Québec adopted Multilateral Instrument 45-103 *Capital Raising Exemptions*. MI 45-103 was first developed and adopted in March 2002 by the ASC and the British Columbia Securities Commission. MI 45-103 provides four harmonized exemptions from the prospectus and registration requirements of securities law – the "private issuer" exemption, the "family, friends and business associates" exemption, the "accredited investor" exemption and the "offering memorandum" exemption. The purpose of MI 45-103 is to make it easier for issuers to gain access to capital, reducing the time and costs usually associated with a financing, while still providing appropriate investor protection.

UNIFORM EXEMPTION FOR EMPLOYEES, DIRECTORS AND OFFICERS (MI 45-105)

The ASC led the drafting and implementation of a rule, based on a blanket order issued by the ASC in 2002, that harmonized existing prospectus and registration exemptions and resale rules for issuances of securities to employees, directors, senior officers and consultants. MI 45-105 became effective in all jurisdictions except Québec in June 2003.

RESALE RULES (MI 45-102)

On March 30, 2004, the ASC and all members of the CSA other than Québec implemented significant amendments to MI 45-102 *Resale of Securities* – the rule that prescribes the resale restrictions applicable to securities issued under prospectus exemptions. The changes were designed to harmonize this instrument with the new continuous disclosure rule (NI 51-102) that also came into force on March 30, 2004. In most instances, MI 45-102 permits securities issued under an exemption to be subject to only a four-month restricted or seasoning period rather than the 12-month period that formerly would have applied to many issuers. The ASC anticipates that the changes will be welcomed by issuers and investors and will facilitate capital-raising.

INCOME TRUSTS AND OTHER INDIRECT OFFERINGS (NP 41-201)

On October 24, 2003, the ASC and other CSA members published for comment proposed National Policy 41-201 providing guidance and clarification with respect to the disclosure to be provided by income trusts and other indirect offering structures. The principal purpose of this policy is to provide guidance to issuers converting to an income trust and income trusts filing a prospectus. Disclosure matters addressed in the policy include distributable cash, use of non-GAAP measures, short-term debt, stability ratings, executive compensation, comparative financial information and recognition of intangible assets. The policy also provides guidance with respect to undertakings that the CSA may request with respect to, for example, reporting of insider trades. The CSA believes that the new policy provides useful guidance that will enhance the information furnished to investors in these popular investment vehicles.

a proactive regulator

To be an effective and responsive securities regulator, the ASC employs a variety of regulatory approaches. These include education of both industry and investors, monitoring market participants' compliance with securities laws and, in appropriate circumstances, enforcement action. These regulatory efforts play an important role in fostering regulatory compliance, protecting investors and providing an efficient capital market.

ISSUER COMPLIANCE

Securities laws are designed to protect investors and foster a fair and efficient capital market and investor confidence in that market. One key mechanism for achieving these goals is the dissemination by reporting issuers of timely and reliable information that investors can use to make educated decisions before buying or selling securities. It is important that reporting issuers comply with their continuous disclosure obligations under securities laws so that investors can continue to participate confidently in the markets. To improve the understanding of market participants in respect of these requirements and to improve the level of compliance with Alberta securities laws, the ASC conducts reviews of the continuous disclosure filings of reporting issuers and participates in educational initiatives for industry.

2003 Continuous Disclosure Review Program

In light of the significant amount of activity that occurs in the secondary market – trading after an initial public offering of securities by an issuer – it is crucial that investors have access to current material information about reporting issuers. Securities laws therefore require that reporting issuers provide "continuous disclosure" – financial statements and other specified documents and information – during the course of the year.

To encourage high-quality continuous disclosure, the ASC conducts annual reviews of financial statements and other filings made by reporting issuers headquartered in Alberta. In their review, ASC staff identify deficiencies and require reporting issuers and their professional advisors to address significant issues identified. Although the majority of reviews in 2003 indicated satisfactory compliance, there were a number of recurring issues, particularly in financial statement presentation.

Staff noted a difference in the quality of filings between large and small issuers. While the information provided by large issuers generally met existing accounting standards, information provided by smaller issuers was often missing disclosure, especially for interim financial statements and management's discussion and analysis (MD&A). In particular:

- *Financial Statements:* Recurring areas of concern include disclosure of revenue recognition accounting policies, related party transactions, income taxes, the statement of cash flows and interim financial statements.

- *MD&A:* While some issuers provided an excellent discussion and analysis, others needed to expand their discussion and analysis to include more forward-looking information.

- *Material Change Reports:* Some issuers issued news releases to disclose what appeared to be a material change but did not subsequently file the required material change report.

The 2003 *Continuous Disclosure Review Program Report* was posted on the ASC website under *Company Disclosure and Compliance – Disclosure Review Programs*, and sent to all Alberta reporting issuers as well as many professional advisors. The ASC believes that an awareness of its observations and expectations encourages improved disclosure by reporting issuers and is pleased to see continued improvement over the 13 years the review program has been in place.

Oil and Gas Reserve Report Reviews

In 2003, the ASC established a Petroleum Reserves Evaluation Team. The Team assisted with the development of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* and the Canadian Oil and Gas Evaluation (COGE) Handbook. The Team reviewed 42 reserves reports in 2003 and is now reviewing and analyzing disclosure made by oil and gas issuers under NI 51-101. A number of monitoring programs have been established in regard to these reports and further monitoring will be carried out in coming years. In addition, the Petroleum Reserves Evaluation Team is engaged in a communication program with respect to NI 51-101 and the COGE Handbook that, among other things, has involved several presentations to industry, including with respect to reserves definitions, evaluation practices and procedures and disclosure of reserves data.

By adding a senior reserves evaluator, a senior petroleum evaluation geologist and technical support to its staff, the ASC has proactively responded to the needs of the Alberta market. This new Team of skilled professionals will greatly assist the ASC in addressing industry and investor needs for reliable oil and gas information.

Industry Education

To enhance communication of significant securities regulatory developments, the ASC continues to host industry events where issuers and their professional advisors can get in-depth information about current issues and changing regulatory requirements. Free seminars were held on NI 51-101 *Standards of Disclosure for Oil and Gas Activities* and NI 51-102 *Continuous Disclosure Obligations*, with approximately 1,000 people attending the sessions. In addition, in March 2004, the ASC co-hosted with the Legal Education Society of Alberta its third annual seminar for legal securities professionals, *Dialogue with the ASC*. This year's seminar attracted 123 attendees.

In June 2003, the ASC held its sixth Chief Accountant's Conference, presenting a variety of guest speakers from across Canada and the United States who provided updates on changing legal and accounting requirements and addressed emerging issues in accounting and finance. More than 200 industry professionals attended the annual conference.

ENFORCEMENT

The ASC monitors and responds to complaints of violation of Alberta securities laws. The ASC's enforcement team assesses and investigates alleged contraventions and, where appropriate, proceeds to litigation before an ASC administrative tribunal or prosecution in the Provincial Court of Alberta.

The ASC has the authority to levy monetary administrative penalties and to order payment of the costs of investigations and hearings, as well as the ability to issue cease trade orders and ban individuals from acting as directors and officers. As special agents for the Crown, ASC staff may prosecute contraventions of the *Securities Act* in Provincial Court where imprisonment and significant monetary fines can be ordered.

In its ongoing efforts to enhance its effectiveness, an important ASC enforcement policy initiative during the coming year will be the assessment of the current procedures for conducting illegal insider trading cases to explore ways to complete investigations and institute enforcement action in such situations more quickly.

Enforcement Activity

	F 2004	F 2003	F 2002
Inquiries Received	4,108	5,041	6,397
Complaints Received	488	912	434
Concluded Investigations	192	269	302
Current Investigations	95	117	137
Interim Orders(1)	280	299	280
Final Orders(2)	211	244	260
Settlements(3)	3	7/6	26/20
Hearings	15	12	29
ASC Costs Levied	$ 248,000(4)	–	–
ASC Costs Recovered	$ 236,750	$ 48,925	$ 365,000
Administrative Penalties Levied	$ 192,500	$ 80,000	$ 287,454
Administrative Penalties Recovered	$ 215,000(5)	–	–
Prosecutions Initiated in Provincial Court	0	2	1
Other Court Proceedings (including appeals)	2	8	24

(1) *Pursuant to Section 33 of the Securities Act.*

(2) *Pursuant to Section 198 of the Securities Act.*

(3) *Number of respondents/number of agreements.*

(4) *These figures were not provided in prior years.*

(5) *These figures were not provided in prior years.*

ASC staff investigate a variety of cases throughout the year. Some of the more noteworthy enforcement proceedings that took place during this last year are described below.

Rajendra Agrawal

In August 2003, the ASC approved a settlement agreement with Rajendra Agrawal, who agreed to pay a $30,000 administrative penalty for illegally trading securities on inside information.

Mr. Agrawal, a professional engineer specializing in oil and gas reserves evaluation, made illegal insider trades. He did so after he had been retained to provide professional advice to Calgary-based Western Facilities Fund and performed due diligence regarding a proposed merger with Danoil Energy Ltd. During the proposed merger talks, Mr. Agrawal purchased 90,000 shares of Western Facilities Fund with knowledge of the proposed transaction before it had been publicly disclosed. Mr. Agrawal later sold the shares for a profit of nearly $29,000.

Mr. Agrawal also agreed to a restricted cease trade order for a period of two years, and the payment of $8,000 towards costs of the investigation.

Proprietary Industries Inc.

In September 2003, the ASC approved a settlement agreement with Proprietary Industries Inc. in response to allegations that the company made misrepresentations in its 1998, 1999 and 2000 financial statements. A panel of the ASC ordered that Proprietary Industries pay $125,000 towards costs of the investigation.

An earlier order that trading in the company's shares cease and that the company be denied the use of exemptions had been issued in August 2002. This order was lifted in November 2003. However, the company was again cease traded in December, this time for failure to file and send financial statements in accordance with generally accepted accounting principles (GAAP).

Iain Harris

In December 2003, in connection with allegations of illegal insider trading in the shares of Newport Petroleum Corp., Iain Harris entered into a partial settlement with ASC staff in which he agreed to pay a $25,000 administrative penalty for breaching the *Securities Act* and an additional $25,000 towards costs of the investigation.

A panel accepted that those sanctions were appropriate in this case, but agreed with ASC staff that monetary penalties alone were not sufficient to address the seriousness of the misconduct. Acknowledging that Mr. Harris had already stepped down from board responsibilities with several companies approximately six months prior to the proceedings, the panel ordered that Mr. Harris resign as a board member and refrain from acting as a director or officer of any reporting issuer for a further six months.

Summit Aurum Financial Group Inc.

In February 2004, ASC staff concluded a settlement with Summit Aurum Financial Group Inc. (Summit Aurum) and two branch managers of its predecessor firm, Summit Securities Inc., regarding their failure to adequately supervise one of Summit Aurum's mutual fund salespersons between May 1999 and April 2001. It was agreed that the salesperson had recommended unsuitable investments to clients, failed to disclose material risks of such investments and inappropriately recommended that clients incur debt to fund those investments. Losses in excess of $1 million were incurred as a result. Under the terms of the settlement agreement, the respondents agreed to pay $165,000, including $65,000 towards costs of investigation.

(Luciano) John Podorieszach & (Secondo) Pietro Podorieszach

In March 2004, a panel found that John and Pietro Podorieszach made purchases of common shares of Anthony Clark International Insurance Brokers Ltd. that they knew or ought reasonably to have known would create or result in an artificial price. The hearing will continue in May 2004 to determine whether sanctions are appropriate.

J. Gordon Ironside & Robert W. Ruff

An ASC hearing continued into allegations against J. Gordon Ironside and Robert W. Ruff. ASC staff allege that Mr. Ironside and Mr. Ruff authorized or permitted Blue Range Resource Corporation to make incomplete and inaccurate disclosure in publicly filed documents. The hearing is scheduled to continue into Fall 2004.

Peter J. Workum & Theodor Hennig

In December 2003, the ASC commenced a hearing into allegations by staff against the former CEO and CFO of Proprietary Industries Inc. – Peter J. Workum and Theodor Hennig – concerning their alleged responsibility for misstatements in the company's financial statements. This hearing is scheduled to continue in 2004.

Christopher Henry Steffensen

In June 2003, Christopher Henry Steffensen was sentenced in Calgary Provincial Court to serve one year in prison on charges of contravening the *Securities Act* in April 2002. The Court found that Mr. Steffensen had illegally raised over $1.1 million from 77 investors in Alberta by failing to comply with the registration and filing requirements of the *Securities Act*. At no time was Mr. Steffensen registered under Alberta securities laws to trade in securities or to act as an advisor in the trade of securities in Alberta. The court also found that Mr. Steffensen had misrepresented the existence of certain technology to induce investors to buy stock in PowerSkor Canada Inc. In addition to the prison term, Mr. Steffensen was ordered to cease trading in securities for 10 years, and prohibited from becoming a director or officer of an Alberta issuer for 10 years.

INVESTOR EDUCATION

Impartial, credible information is a powerful tool for individuals who are considering investing in securities. During the past year, the ASC has taken steps to establish itself as the primary source of information about the investing process.

Through activities ranging from cooperative programs with Alberta teachers aimed at educating tomorrow's investors to presentations to seniors groups on investment fraud, the ASC works actively to equip investors with the knowledge they need to make wise decisions about investing in a rapidly changing world.

Redesign of ASC Website

In response to research conducted by the ASC that indicated Albertans want to receive information online about investing, the ASC launched its redesigned website in October 2003. Information about investing is available to all Albertans at no cost, as a public service, and is accessible at www.albertasecurities.com under the heading *Investor Education*. There is a wealth of investor education tools and resources, including interactive tutorials, videos, a glossary of terms and easy-to-navigate information on a wide variety of topics about investing. In a self-serve format that makes learning easy at any time, website users can explore investment basics such as how to choose a financial advisor, understanding risk and return, and tips on avoiding investment fraud.

In addition to providing information to investors, the redesigned website also presents the regulatory instruments administered by the ASC, instruments under development on which we are inviting public comment, and frequently asked questions designed to help issuers and other market participants understand and comply with their obligations.

Public Awareness Campaign

In Fall 2003, the ASC initiated a public awareness campaign, consisting of radio, print and online advertisements, to encourage young Albertans to educate themselves before making investment decisions. The campaign targeted Albertans between the ages of 25 and 34, in response to research conducted in 2002 that showed Alberta residents strongly support investor education efforts aimed at this age group. The public awareness campaign ran during the fall and winter months, and directed Albertans to the newly redesigned ASC website to learn about the investing process. Young Albertans were also encouraged to visit the website to enter for a chance to win "The Ultimate Office"– one more way to get young adults to think about educating themselves before they invest.

Education Partners

To bring valuable information about wise investing to the classroom, the ASC established a partnership with Edmonton's Grant MacEwan College and Calgary's Mount Royal College to present non-credit courses on *The Basics of Investing* and *Choosing a Financial Advisor.* Mount Royal College offered the courses for the first time in February and March 2004.

For the second year, the ASC participated in the four largest teachers' conventions in Alberta. In support of the curriculum for CALM (Career & Life Management), Math, CTS (Career & Technology Studies), and Social Studies, the ASC provided over 800 teachers with non-promotional, interactive tools and printed materials to assist them in teaching about the stock market, investing and money management. Teachers are further served through the "For Teachers & Parents" section of the ASC website.

Investor Education Month 2003

Each April, the ASC and other securities regulators across North America mark Investor Education Month with a series of events and activities designed to educate and alert the public to the pitfalls of investment fraud and the importance of informed investing.

As part of its 2003 Investor Education Month efforts, the ASC launched a series of advertisements in rural Alberta newspapers to show Albertans how easy it can be to lose money in fraudulent investment schemes. The ASC placed an advertisement in several rural Alberta newspapers, similar to those run by con artists, with a toll-free telephone number that encouraged callers to leave their personal information to receive details about the investment opportunity. Individuals calling the line received investor education kits from the ASC to help them identify and avoid potential investment fraud. The ASC impressed upon Albertans the need to exercise caution in considering these types of opportunities, urging investors to always get an informed second opinion and reinforcing the adage "if it sounds too good to be true, it probably is."

CSA Investor Education

The ASC is an active participant in education initiatives at a national level through the CSA, working with other provinces and territories to develop investor education programs for all Canadians. The CSA's Financial IQ Contest generated 400 essay submissions from young people across the country. The national grand prize was awarded to Alberta's own Elizabeth Penner, 14, of DeBolt, whose essay "Spending My Money Wisely" discussed how her saving and investment strategy will allow her to meet her personal goals. The CSA continued its partnership with CBC's *StreetCents*, developing three new segments on investing wisely for the popular television show, as well as featuring information for young investors on the *StreetCents* website.

Senior Management Team

(L-R): Fred R.N. Snell, FCA, Chief Accountant, Denise F. Hendrickson, General Counsel, David C. Linder, Executive Director, Stephen P. Sibold, Q.C., Chair, John Petch, Q.C., Director, Enforcement, Kenneth Parker, CA, Director, Capital Markets, Patricia M. Johnston, Q.C., Director, Legal Services & Policy Development, Grahame Newton, CFA, Director, Administrative Services.

Staff responsibilities include policy and rule development; registering firms and individuals that advise on or trade in securities or exchange contracts; reviewing prospectuses; monitoring continuous disclosure; processing applications for discretionary exemptions from securities laws; and investigating and, where appropriate, commencing enforcement proceedings in respect of suspected violations of securities laws. Staff are also responsible for the ASC's ongoing business operations.

The Executive Director is the Chief Administrative Officer of the ASC and reports to the Chair. The Executive Director is responsible for the following departments:

The Legal Services & Policy Development Department is responsible for formulating recommendations for policy development, rules and legislative changes; analyzing and making recommendations to the ASC Members on applications for exemptive relief from the requirements of Alberta securities laws; and handling contested take-over bids. The department is also responsible for oversight of the TSX Venture Exchange and the activities of the IDA and the MFDA within Alberta.

The Enforcement Department's role is to provide effective and visible enforcement of Alberta securities laws. Department staff include securities investigators who investigate suspected violations of securities laws and enforcement counsel who conduct enforcement proceedings before the ASC and prosecutions under the *Securities Act* in the Provincial Court of Alberta.

The Capital Markets Department is responsible for compliance, principally by reviewing and monitoring continuous disclosure filings (including oil and gas reserve filings) by reporting issuers; reviewing prospectuses, offering memoranda, and other offering documents; registering companies and individuals that trade in or advise on trading in securities and exchange contracts; conducting compliance reviews of registrants; and analyzing and making recommendations to the Executive Director on certain applications for exemption from the requirements of Alberta securities laws.

The Office of the General Counsel provides specialized legal advisory services to the Commission, its staff and market participants. The department conducts research and provides advice on emerging regulatory issues such as corporate governance initiatives and proportionate regulation.

The Office of the Chief Accountant provides expert advice to ASC staff and Members on accounting, auditing and financial matters. The department also provides assistance to reporting issuers and their advisors on the practical implementation of accounting and financial disclosure standards and other financial reporting matters.

The Administrative Services Department contributes to the ASC operations by providing support in the areas of finance, human resources, information technology, administration, communications and investor education.

Three-year Statistical Summary[1]

	F 2004	F 2003	F 2002
Active Reporting Issuers			
Short-Form Eligible	586	532	502
Non Short-Form Eligible	3,065	3,182	3,325
Mutual Fund	2,537	2,531	2,421
Prospectus and Rights Offerings Filed			
Prospectuses	710	530	619
Mutual Fund Prospectuses	88[2]	90	89
Capital Pool Company Prospectuses	48	28	51
Rights Offerings	16	25	39
Exemption and Escrow Applications			
Exemption Applications	929	982	1,022
Escrow Applications	24	52	87
Registered Firms			
Dealers (mutual funds, securities, exchange contracts, scholarship plans, security issuers)	85	83	83
Advisors	186	162	136
Total Companies Registered	265[3]	240	211
Registered Salespeople			
Mutual Funds	11,649	10,434	10,566
Securities	–	–	4
Scholarship Plans	371	450	381
Exchange Contracts	30	12	18
Total Salespeople Registered	12,050	10,896	10,969

(1) References to F2004, F2003 and F2002 mean the ASC's fiscal years ending March 31, 2004, 2003 and 2002 respectively.

(2) 81 mutual fund prospectuses qualified 2,537 individual mutual funds for distribution (2003 – 2,531; 2002 – 2,421).

(3) 6 firms are registered as both dealer and advisor (2003 – 5; 2002 – 8).

2003/04 Advisory Committees

ASC staff have established four advisory committees of industry representatives which provide an extremely valuable service and help inform ASC staff of industry views and current business practices.

FINANCIAL ADVISORY COMMITTEE

This committee assists and advises the Office of the Chief Accountant on current and proposed accounting, auditing and securities matters.

Raymond D. Crossley, CA
PricewaterhouseCoopers LLP

Ronald E. Ellis, CA
Ernst & Young LLP

Wilf A. Gobert, CFA
Peters & Co. Limited

Donald R. Hyndman, CA
Deloitte & Touche LLP

Arthur N. Korpach, FCA
CIBC World Markets

Melinda Park
Borden Ladner Gervais LLP

Philip J. Scherman, CA
KPMG LLP

John A. Thomson, CA
Independent Businessman

Michael A. Williams, FCA (Chair)
West Canadian Oil & Gas Inc.

SECURITIES ADVISORY COMMITTEE

This committee reviews and comments on proposed amendments to Alberta securities laws and on various policy initiatives.

Mark Brown, CA
TSX Venture Exchange Inc.

V.E. Dale Burstall
Burstall Winger LLP

Nicholas P. Fader
Bennett Jones LLP

Leanne C. Krawchuk
Parlee McLaws LLP

Stan Magidson
Osler Hoskin & Harcourt LLP

Gail McDermott
Raymond James Ltd.

Melinda Park
Borden Ladner Gervais LLP

William H. Smith, Q.C. (Chair)
McCarthy Tétrault LLP

David A. Spencer
Fraser Milner Casgrain LLP

Lloyd E. Symons
Heenan Blaikie LLP

James D. Thomson
Parlee McLaws LLP

Grant A. Zawalsky
Burnet, Duckworth & Palmer LLP

FINANCIAL REVIEW COMMITTEE

This committee reviews and comments on the ASC's annual business plan.

Ian Bruce
Peters & Co. Limited

Terry W. Melling
Investment Dealers Association

Richard A. Shaw, Q.C.
McCarthy Tétrault LLP

Michael A. Williams, FCA
West Canadian Oil & Gas Inc.

RESERVES ADVISORY COMMITTEE

This newly established committee reviews and provides independent advice and opinions on current and proposed securities laws and regulatory policies concerning oil and gas activities.

Stephen E. Balog, P. Eng.
Tasman Exploration Ltd.

Mike Brusset, P. Eng. (retired)
Martin and Brusset Associates

Steven Gordon, P. Eng.
Petro-Canada

J. Richard Harris, P. Geol.
Harris Consultants

Roy Hennig, P. Eng.
Burlington Resources Canada Ltd.

Dr. John R. Lacey, P. Eng.
John R. Lacey International Ltd.

Management's Discussion and Analysis

The financial statements present the financial position, results of operation and cash flows of the Alberta Securities Commission in accordance with Canadian generally accepted accounting principles for the fiscal year ended March 31, 2004. The following comments analyze the Commission's financial performance during the fiscal year ended March 31, 2004 and future prospects. The document should be read in conjunction with the financial statements.

Note: Fiscal (F) 2002, 2003, 2004 and 2005 refer to the fiscal years of the Commission ending March 31, 2002, 2003, 2004 and 2005 respectively.

FORWARD LOOKING STATEMENTS

Certain statements included in this annual report are forward looking and are subject to certain risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations are described under the heading "Risks and Uncertainties."

Readers should note that some assumptions, although reasonable at the date of publication, are not guarantees of future performance.

Selected Annual Information

($ Thousands)	F 2004		F 2003	F 2002
	Budget	Actual	Actual	Actual
Revenue	$ 17,610	$ 18,567	$ 15,275	$ 15,331
Expense	19,423	17,510	18,974	15,067
Net income (loss)	$ (1,813)	$ 1,057	$ (3,699)	$ 264
Assets				
Cash		$ 1,599	$ 2,472	$ 2,897
Investments		$ 17,258	$ 15,320	$ 18,646
Capital assets		$ 2,218	$ 1,727	$ 1,619
Total assets		$ 22,991	$ 22,752	$ 24,091
Noncurrent financial liabilities				
Lease inducement		$ 785	$ 955	$ 120
Accrued benefit liability		$ 1,267	$ 1,033	$ 748
Retained earnings		$ 18,838	$ 17,781	$ 21,480

HIGHLIGHTS

The Commission's net income of $1,057,000 in the fiscal year ended March 31, 2004 compares to the budgeted loss of $1,813,000 and an actual loss of $3,699,000 in the prior year. The improvement in net income in fiscal 2004 was largely a result of:

- non-recurring expenses of $2,614,000 in fiscal 2003 (which were partially offset by expense increases in fiscal 2004 of $1,150,000 incurred primarily for staff and professional service costs),
- additional investment income in fiscal 2004 of $1,147,000,
- a one-time acceleration in fiscal 2004 registration fees that added approximately $1,000,000 in revenues,
- incremental settlement cost recovery and administrative penalty receipts of $394,000, and
- increased distribution and financial statement filing fees of $763,000 resulting from equity market improvements.

At March 31, 2004, the Commission had cash and investments of $18,857,000. Capital asset increases over prior years primarily result from leasehold improvements for renovations of new and existing space of approximately $1,000,000. The lease inducements are being amortized over the lease life. The accrued benefit liability is primarily based on an actuarial valuation that was updated effective April 1, 2004.

Actual Results Compared to Budget

Budgets set important reporting and accountability standards for measuring performance. The ASC prepares an annual budget that is approved by the Minister of Revenue and consolidated with the Revenue Department's budget.

Operating results for the year exceeded budget because of additional investment income and a budget provision for unanticipated expenses (contingency) that was not required.

Outlook

Financial trends that are expected to continue and are a focus of management include:

- **revenues that will remain flat** after adjusting for a one-time registration fee acceleration and unexpected investment income in fiscal 2004,
- **expenditures that will include only modest growth** for inflation and net staff additions of 2.6 positions in fiscal 2005, and
- **a projected loss in fiscal 2005 of $2,200,000** that is expected to grow in future years without a fee increase or cost reductions.

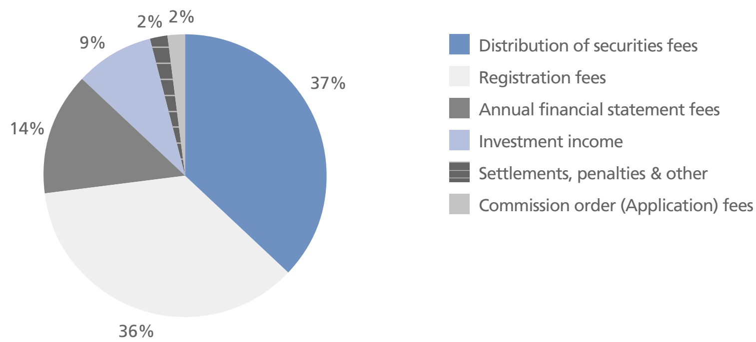
The Commission's operating results for the fiscal year ended March 31, 2004 and plans and expectations for future operations are analyzed in detail under the following headings:

- Analysis of Fiscal 2004 Operations and Financial Position
- Fiscal 2005 Outlook

ANALYSIS OF FISCAL 2004 OPERATIONS AND FINANCIAL POSITION

Revenue

Fiscal 2004 Actual Revenue Analysis



($ Thousands)	F2004		F2003	F2002
	Budget	Actual	Actual	Actual
Distribution of securities fees	$ 7,655	$ 6,879	$ 6,172	$ 6,986
Registration fees	5,171	6,715	5,686	4,822
Annual financial statement fees	3,476	2,504	2,448	2,168
Order (Application) fees	608	305	341	433
Total fees	16,910	16,403	14,647	14,409
Investment income	700	1,698	551	437
Settlement cost recoveries	–	248	12	365
Other	–	3	8	16
Administrative penalties	–	215	57	104
	$ 17,610	$ 18,567	$ 15,275	$ 15,331

Commission revenues are obtained primarily from registrants and reporting issuers.

Distribution of securities fees arise from specific activities such as prospectus and other distributions of securities in Alberta and consist of both fees required to be paid on filing of a prospectus and other specified disclosure documents and fees required to be paid on completion of a distribution, the latter being calculated based on the proceeds obtained from the distribution. Public (prospectus) and private (prospectus-exempt) distribution of securities fees (see Three-year Statistical Summary, page 31) contribute approximately 35% to 40% of total Commission revenues and are the most variable component of the Commission's revenue base.

A major component of distribution of securities fees (exempt distribution fees and fees paid with notices of proceeds in respect of prospectus offerings) is based on the size of each distribution in Alberta. Distribution of securities fee revenue decreased in fiscal 2004 because of reductions in mutual fund sales and related fees from Alberta distributions.

Annual financial statement filing fees account for approximately 15% of total fee revenue and are relatively stable from year to year. Fees for these filings are $2,000 for issuers eligible to use the short form prospectus system and $250 for all others. The total number of reporting issuers in Alberta is approximately 6,200 (see Three-year Statistical Summary, page 31) and remains reasonably stable from year to year. However, for the fiscal year ended March 31, 2004 the number of issuers eligible to use a short form prospectus increased, accounting for the increase in actual fees when compared to the prior year. The budgeted fees for fiscal 2004 contemplated a general fee increase that was not implemented.

Current and proposed changes to continuous disclosure filing requirements for reporting issuers will affect the ASC fee model. For example, the timing for financial statement filings is accelerated in respect of the ASC's fiscal year ended March 31, 2005 as a result of the implementation of NI 51-102 *Continuous Disclosure Obligations*. These changes are further commented on in the Fiscal 2005 Outlook.

Registration fees from dealers, advisors and salespersons account for approximately 36% of revenues or $6,715,000 in fiscal 2004. These fees are relatively stable as there is a base in Alberta of 400 companies and more than 16,500 salespersons (see Three-year Statistical Summary, page 31) and an average 20% salesperson turnover rate that fluctuates minimally even in years of poor market performance. Registration fees increased in fiscal 2004 primarily because of a one-time acceleration of registration renewal fees. Previously, registration renewal occurred throughout the year but this was changed so that it occurs December 31.

Other revenue sources are:

- **investment income,** which includes interest and capital losses or gains from cash, bonds and equities. The increase of $1,147,000 in fiscal 2004 was a result of equity investment returns of 17%, compared to the prior year's loss on equity investments;

- **application fees (Commission orders)** of $150, $300 or $500 (depending on the type of application) paid in connection with the approximately 900 applications for exemptive relief processed in fiscal 2004. This represents a decline from fiscal 2003 resulting from rule amendments that have intentionally reduced the need for exemptive relief applications in a number of circumstances; and

- revenues for **administrative penalties, settlements and cost recoveries** that are discretionary, depending on the circumstances of specific cases and which vary from year to year.

The mutual fund industry is a significant contributor to Commission revenues, with approximately 2,500 active mutual fund issuers (included in the 6,200 reporting issuer population) and more than 10,000 salespersons (included in the 16,500 salesperson total) in Alberta. Revenues related to mutual funds include fees of: $2,500,000 from annual mutual fund prospectus filings; approximately $1,000,000 from mutual fund prospectus distributions and $300,000 from exempt distributions; $600,000 from mutual fund annual financial statement filings; and approximately $3,200,000 from mutual fund registration fees, totalling $7,600,000 or 46% of total fee revenues.

Settlements and administrative penalty revenues include settlement payments of $248,000 and administrative penalties of $215,000, totalling $463,000. The fiscal 2004 revenue compares to $69,000 for the prior year and a historic five-year average of approximately $160,000. Administrative penalties and settlements are discretionary, depending on the circumstances of specific cases, and vary from year to year.

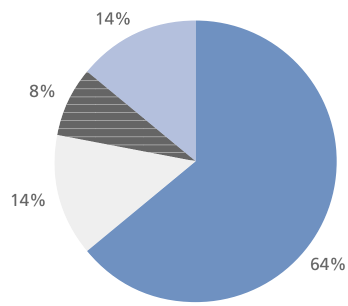
Administrative penalty revenue is segregated from other assets because of restrictions on the use of these funds. In fiscal 2004, the *Securities Act* was amended to allow certain expenses that are used to educate investors and enhance the knowledge of persons regarding the operation of the securities markets to be funded by administrative penalty revenue. The administrative penalties account earned interest for the year of $21,000 while eligible expenses of $69,000 were incurred, principally for registrant and reporting issuer education seminars. Restricted cash, composed of interest-bearing deposits, was $932,000 at year-end.

Fee revenue sensitivity – Approximately 20% ($3,300,000) of total revenue from fees is derived from fees paid on completion of a distribution. Because these fees are calculated based on proceeds obtained from the distribution, they vary with the level of capital market activity, equity appreciation and mutual fund sales activity. While fees paid in connection with prospectus distributions and exempt financings for non-mutual fund issuers are received shortly after the distribution date, mutual fund fee revenue is deferred an average of six months from sale date. There is therefore always a lag between receipt of mutual fund distribution of securities fees and changes in mutual fund sales.

Experience suggests that when equity market values are rising, ASC distribution revenues also increase because of increases in public and private securities distributions and increased mutual fund sales. While increased equity market activity and valuation swings have an impact on ASC revenues, the impact is not proportionately as large, with only 20% of revenues directly affected. Prospectus filing fees for securities distributions also will vary with market activity. However this fee source is only 5% of total fee revenue and has little impact on overall fee results. Other revenue sources, including registration fees, mutual fund prospectus filings and annual financial statements, account for 65% of revenues and are reasonably stable with minimal change to total fees.

Expenses

Fiscal 2004 Actual Expense Analysis



($ Thousands)	F 2004		F 2003	F 2002
	Budget	Actual	Actual	Actual
Salaries and benefits	$ 11,345	$ 11,363	$ 10,613	$ 10,298
Professional services	2,217	2,467	1,820	1,088
Premises	1,443	1,315	1,264	1,109
Amortization	542	519	556	557
Other	513	441	657	541
Materials and supplies	422	429	301	299
Travel	402	269	394	388
Member fees	353	288	275	199
CSA project costs	247	226	780	359
Telephone and communications	173	193	218	229
Edmonton office closure	–	–	2,096	–
Contingency	1,766	–	–	–
Total expenses	$ 19,423	$ 17,510	$ 18,974	$ 15,067

EXPENSE ANALYSIS

Expenses in fiscal 2004 decreased 8% to $17,510,000 (fiscal 2003 – $18,974,000) as compared to fiscal 2003 due primarily to non-recurring costs in fiscal 2003 of $2,614,000 offset by the following increases of $1,150,000:

Salaries and benefits account for 64% of operating expenses (fiscal 2003 – 55%). There was an average 117 full-time staff during the year (fiscal 2003 – 114). Because professional staff are recruited from legal firms, accounting firms, the securities industry and other regulators, salaries must be competitive. Compensation includes a performance-based incentive program that represents approximately 5% of total salary and benefit costs.

Salary and benefit costs increased 7% to $11,363,000 (2003 – $10,613,000) because of merit increases of 3.4%, benefit cost increases and three additional staff.

Professional services – The significant components of professional service expenses are:

- fees for outsourced IDA registration administration of $532,000 that increased $225,000 from the prior year because the change in registration renewal timing increased IDA registration revenue in fiscal 2004;
- professional service contracts primarily for litigation support prior to and during hearings that increased $250,000 in the current year because of higher enforcement hearing costs that resulted from an unbudgeted extension of a hearing; and
- $450,000 in respect of an investor education program that represents a $350,000 increase from the prior year because of website design, advertising preparation and media costs.

Premises – The increase in premises costs in fiscal 2004 represents additional lease expense incurred as a result of the expansion of leased space in Calgary following the closure of the Edmonton office in January 2003.

Travel – Most travel expenses relate to coordinating with other CSA jurisdictions on national projects, policy research and rule formulation. Travel costs reflect reductions in air travel cost and travel frequency.

CSA costs – The ASC, as a member of CSA, funds a portion of CSA operations. The ASC's portion of these costs in fiscal 2004 decreased relative to fiscal 2003 because fiscal 2003 included a non-recurring $518,000 funding requirement for the national registration database (NRD) system that is now operational. All CSA projects, including the development of harmonized securities policies and rules and shared CSA information systems, are coordinated through a permanent Secretariat located in Montréal that commenced in March 2004. The operating costs of the Secretariat are borne on a formula basis by CSA members. In fiscal 2004, the ASC contributed $53,000 toward the cost of the Secretariat and the former project office. Total CSA spending on projects was $1,800,000 in fiscal 2004 (fiscal 2003 — $1,900,000) of which the ASC contributed $194,000 (fiscal 2003 — $200,000).

2004 BUDGET

The fiscal 2004 budget approved by the Minister of Revenue included proposed fee increases of $1,880,000. These fee increases were not implemented because ASC financial results improved during fiscal 2004. The approved budget also included a contingency of $1,766,000 for unplanned expenses and revenue shortfalls. The contingency was not used in fiscal 2004 because revenues exceeded budget and expenses were consistent with budget. During fiscal 2004, the Commission approved additional expenses of $145,000 in respect of legal staff salary and professional recruitment fees for a senior officer position.

Fiscal 2004 Budget to Actual Variances

Actual expenses for the year of $17,510,000 were $147,000 less than budgeted, exclusive of the contingency.

Expenses that exceeded budget estimates included:

- **Professional services legal costs –** investigations and hearings required more time and resources than originally budgeted.

- **Professional services IDA costs –** the IDA registration service fee is calculated on registration receipts and these exceeded budgeted amounts.

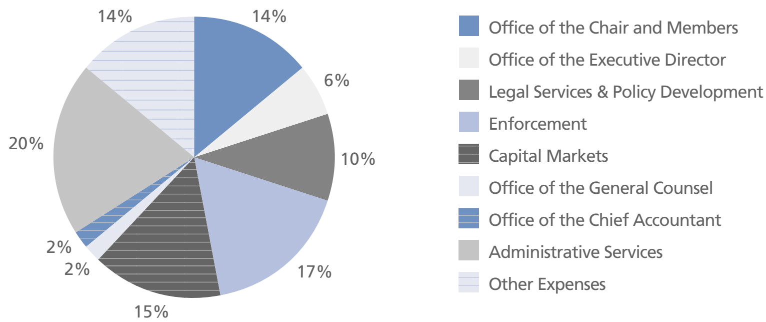
Expenses that were less than budgeted included:

- **Travel costs –** Travel costs decreased because of travel reductions and use of discount air fares. However, travel is an ongoing requirement as much of ASC staff's work is done jointly with other securities regulators through the CSA.

- **Member fees –** Fees paid to part-time Members for meeting attendance, hearing panel participation and related expenses were projected to increase significantly because of an expected increase in hearing days during fiscal 2004. While hearing activity did increase, certain anticipated hearings were deferred into the next year.

DEPARTMENT EXPENSES

Fiscal 2004 Department Expenses



($ Thousands)	F 2004		F 2003	F 2002
	Budget	Actual	Actual	Actual
Office of the Chair and Members	$ 2,200	$ 2,370	$ 2,081	$ 1,974
Office of the Executive Director	945	989	1,502	859
Legal Services & Policy Development	1,974	1,737	1,797	1,660
Enforcement	2,973	3,004	2,933	2,787
Capital Markets	2,920	2,664	2,668	2,608
Office of the General Counsel	359	352	–	–
Office of the Chief Accountant	427	336	393	492
Administrative Services	3,799	3,581	3,221	2,689
Edmonton office closure	–	–	2,096	–
Other expenses (not allocated)	3,826	2,477	2,283	1,998
Total	$ 19,423	$ 17,510	$ 18,974	$ 15,067

DEPARTMENT EXPENSES

Office of the Chair and Members expenses are primarily salaries of the Chair and the two Vice-Chairs, each of whom is a full-time member of the Commission (as reported in Schedule A of the financial statements) and accrued bonus expense for all staff. Members' expenses result from their attendance at monthly Commission and related committee meetings, and on securities legislation exemptive relief applications and hearings. Cost increases are a result of compensation adjustments for merit increases of 3.4%, benefit increases, recruitment costs for a senior officer, an additional part-time legal researcher and costs for Members' attendance at hearings, which are unpredictable because the duration and number of hearings is not easily forecast.

Office of the Executive Director expenses include CSA payments. The decrease in fiscal 2004 is a result of the non-recurring CSA related NRD expense of $518,000 in fiscal 2003.

Legal Services & Policy Development cost decreases in fiscal 2004 resulted from decreases in staff compensation costs as a result of staff transfers to the Office of the General Counsel. Costs were also less than budgeted because of recoveries from CSA for contract legal expenses incurred for the USL project.

Capital Markets contract services, travel and staff costs were less than budgeted because of internal resources that replaced contract staff, reduced travel plans and staff vacancies during the year.

The **Office of the General Counsel** commenced operations in May 2003 with a combination of new staff and staff transferred from Legal Services & Policy Development.

Office of the Chief Accountant costs decreased from the prior year and were less than budget because contract costs for administrative and seconded professional staff were reduced.

The **Administrative Services** department provides the services to support ASC operations and manages investor education programs and internal and external communications. The primary focus of increased communication expenditures during fiscal 2004 included implementation of an updated ASC website budgeted at $100,000 and a new investor education program with contract costs of $450,000. Information technology costs increased with the hiring of one additional staff member.

Capital Expenditures

Capital expenditures during fiscal 2004 included:

Leasehold improvements	$	615,000
Information technology		367,000
Office furniture and equipment		30,000
Total	$	1,012,000

Leasehold Improvements – Calgary office leasehold improvements were budgeted at $1,000,000. A total of $460,000 was spent in fiscal 2003 with the remainder spent in fiscal 2004. These leasehold costs have been funded primarily with the proceeds of a leasehold inducement negotiated as part of an eight-year office lease commencing April 1, 2003. The total lease inducement of $988,000 is receivable over three years: $400,000 effective March 31, 2003, $199,000 in April 2004, $198,000 in April 2005, and the remaining $191,000 in February 2006.

Information Technology – Expenditures include replacement desktop computers, network servers and related software upgrades and additional storage devices.

2005 Capital Budget – Capital expenditures approved for fiscal 2005 are primarily information technology based and include software upgrades, new desktop equipment, scanning disk capacity additions and communication equipment totalling $421,000. In addition, $50,000 is allocated for furniture upgrades and replacements.

ASSETS AND LIABILITIES

Accounts and Advances Receivable – Accounts receivable in fiscal 2004 are $59,000 and primarily include CSA recoverable expenses of $25,000 and employee loans for computer acquisitions.

Investments – The Commission's investments are managed by the Ministry of Revenue which has responsibility for Provincial fund management of more than $34 billion of assets. The Commission's investment policy provides guidance on the purpose, size, access, management and annual income of its investments. The policy is subject to annual review by the ASC Audit Committee and any changes require Commission approval. The policy was revised during fiscal 2004 to focus on future expenditures as the basis for the calculation of the size of investment, to modify asset allocation by reducing cash to a minimal value and to provide a more effective asset rebalancing and cash withdrawal process.

Principal features include:

- Size – The Investment Fund should be an amount which is between 50% and 100% of the Commission's average of forecast expenses for the current and subsequent year.
- Asset Allocation – Investments include only a nominal amount of cash. Bonds and equity allocations are based on the investment policy asset allocation formula that in fiscal 2004 allocated 30% of total investments to equities and 70% to bonds.

Rates of Return:

- Bond fund – The rate of return (based on market value) was 11.7% in fiscal 2004 compared to 9.5% in the prior year.

- Equity funds – The average rate of return (based on market value) for the equity funds was 36.6% compared to a loss of 17.5% in the prior year.
- Money market funds – These returned an average 4.2% in fiscal 2004 and 2.9% in the prior year.

While investments are classified as non-current because of their long-term retention objective, they can be accessed on one month's notice. For fiscal 2005, Commission investments will be drawn down to fund a budgeted loss of $2,200,000, resulting in an average annual investment balance in fiscal 2005 of approximately $16,600,000. The forecast investment balance achieves the ASC's policy target of 50–100% of forecast expenses. In addition, the Commission has access to approximately $932,000 of restricted cash for specific investor education initiatives which, for fiscal 2005, are estimated at $580,000. Further cash reserves of $1,599,000 are also accessible.

Investment income for fiscal 2005 is projected at $850,000 using rates of return averaging 4.5% for bonds and 7% for equities and an average total invested balance of $16,600,000.

Current Liabilities – Accounts payable and accrued liabilities at March 31, 2004 decreased $581,000 as compared to the prior year, because payables in the prior year included registration refunds, Edmonton office closure severance costs and leasehold improvements that did not occur in fiscal 2004.

Funds held for other participants of $295,000 represents cash received and held for a national systems project, Market Integrity Computer Analysis (MICA).

Lease Inducements – Lease inducements in fiscal 2004 include $988,000 from a new office lease with an eight year term commencing April 1, 2003 and a prior lease with a residual $80,000 inducement. The Commission received $400,000 in fiscal 2004 from the new lease and the remainder has or will be received in instalments in April 2004, April 2005 and February 2006.

Accrued Benefit Liability – The accrued benefit liability represents future obligations relating to retirement plans established for senior management of the Commission. Expenses are based on actuarial valuations and management estimation for membership changes between valuation updates. Payments of $22,000 are forecast in fiscal 2005. An actuarial plan valuation was completed for the three-year period commencing April 1, 2004.

Commitments – The Commission, along with other securities regulatory authorities, has guaranteed certain liabilities of the MFDA. The Commission's continuing guarantee is limited to a maximum of $2,160,000. The Commission's share of the actual MFDA bank indebtedness at March 31, 2004 was nil as the loan was fully repaid. The Commission, along with the other guarantors, is currently negotiating a release from the guarantee given that the bank indebtedness is now extinguished.

QUARTERLY RESULTS SUMMARY

($ Thousands)	F 2004				F 2003			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(Jan-Mar)	(Oct-Dec)	(July-Sept)	(Apr-June)	(Jan-Mar)	(Oct-Dec)	(July-Sept)	(Apr-June)
Revenues								
Fees & other	$ 7,228	$ 2,441	$ 2,956	$ 4,244	$ 5,959	$ 3,647	$ 2,677	$ 2,441
Investment income (loss)	436	514	418	330	(289)	171	155	514
	7,664	2,955	3,374	4,574	5,670	3,818	2,832	2,955
Expenses								
Salaries & benefits	3,094	2,761	2,783	2,724	2,389	3,008	2,455	2,761
Other	1,717	1,498	1,487	1,446	3,369	1,757	1,737	1,498
	4,811	4,259	4,270	4,170	5,758	4,765	4,192	4,259
Net (loss) income	$ 2,853	$ (1,304)	$ (896)	$ 404	$ (88)	$ (947)	$ (1,360)	$ (1,304)
Investments	$ 17,258	$ 15,346	$ 16,041	$ 15,641	$15,320	$ 18,724	$ 18,571	$ 18,638
Cash	$ 1,599	$ 467	$ 1,331	$ 2,381	$ 2,472	$ 2,444	$ 3,240	$ 3,059
Restricted cash	$ 932	$ 804	$ 799	$ 792	$ 786	$ 751	$ 745	$ 750

QUARTERLY VARIANCE ANALYSIS

Fee revenue – A change in fiscal 2004 in the timing of registration renewals from throughout the year to a fixed fourth quarter renewal date accounts for the fiscal 2004 fourth quarter increase in fee revenue. In anticipation of the registration fee timing change, most registration renewal fees for the nine months ending December 31, 2003 were collected in the first quarter of fiscal 2004 (April–June 2004). This accounts for the first quarter fee revenue increase and third quarter decrease compared to fiscal 2003.

Investment income – The increases in fiscal 2004 investment income compared to fiscal 2003 reflect improved equity investment returns in fiscal 2004.

Other expenses – Other expenses during the final two quarters of fiscal 2003 included a non-recurring amount of $2,100,000 in respect of the Edmonton office closure costs and $500,000 of CSA project costs in the second quarter of fiscal 2003.

CONTRACTUAL OBLIGATIONS

Commitments to outside organizations in respect of contracts in place as at March 31, 2004 amounted to $11,692,000 (fiscal 2003 – $12,656,000). These commitments become expenses of the Commission when the terms of the contracts are met.

Commitment amounts primarily comprise obligations under operating leases that expire on various dates to March 31, 2011. The aggregate amounts payable for these obligations are as follows:

Fiscal 2005	$ 1,538,000
Fiscal 2006	1,623,000
Fiscal 2007	1,648,000
Fiscal 2008	1,729,000
Fiscal 2009	1,729,000
Thereafter	3,425,000
Total	$ 11,692,000

The Commission also has contractual commitments for a supplemental pension plan maintained for certain senior executives. Payment amounts are dependent on the future decisions of plan participants and are not included in the summary of contractual obligations until payment decisions are made.

FINANCIAL INSTRUMENTS

The Commission's financial instruments include cash, accounts receivable, advances and lease inducement receivables, investments and payables. Investments are managed by the Province's Chief Investment Officer and include derivative contracts for effective investment risk and return management.

Valuation – The fair values of cash, accounts receivable, advances and lease inducement receivables, investments and payables are estimated to approximate their book values.

The methods used to determine the fair values of portfolio investments and derivative contracts are explained in the following paragraphs.

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

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.

The value of derivative contracts is included in the fair value of portfolio investments. Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps are valued based on discounted cash flows using current market yields.

Equity index futures are valued based on quoted market prices. The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields.

Risk management – The value of investments is exposed to credit 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 composed of interest rate risk and market risk. Interest rate risk relates to the possibility that the investments will change in value due to 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 Commission has established an investment policy, which is reviewed annually. Risk is reduced through asset class diversification, diversification within each asset class and quality and duration constraints on fixed-income instruments. Controls are in place respecting the use of derivatives. While the Commission reports the results of these risk management initiatives in its accounts, the Commission is a passive third party recipient of these transactions and does not engage directly in derivative or swap contracting.

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 manager uses derivative contracts within the 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. There are underlying securities supporting all swaps, and leveraging is not allowed.

FEE RESTRUCTURING

During fiscal 2004, the Commission undertook a fee review to determine options for a fee increase. A fee increase was considered necessary to ensure that projected ASC losses would not exceed Provincial Government loss tolerance for the ASC of $2,200,000. The current fee model is based largely on activity levels. However, the review examined the applicability to Alberta of the new participation and activity fee model introduced by the Ontario Securities Commission (OSC). The review concluded that two viable fee increase options exist for the Commission:

- a modified fee model that incorporates the participation and activity fee components of the OSC model for reporting issuers, while retaining the existing registrant fee model, and
- retaining the existing activity fee model and increasing fees that currently are less than in other jurisdictions.

Although initially a 20% fee increase commencing in April 2004 was planned, the ASC's financial strength during the second half of fiscal 2004 resulted in a reassessment of the timing of the proposed fee increase. Implementation of the fee increase proposal requires stakeholder consultation and amendment to the Fee Regulation by an Order-in-Council. The fee change process can take three to six months. Because the fiscal 2004 investments and cash positions of the Commission exceeded original forecasts, the Commission deferred the fee consultation until later in fiscal 2005. This deferral will also enable reassessment of Commission resource requirements in light of a growing requirement for a strong ASC national presence at CSA and elsewhere.

RELIANCE ON CDS INC.

CDS Inc. operates a number of major systems on behalf of the CSA and the ASC. Approximately 89% (fiscal 2003 — 55%) of ASC fee revenue is collected through the System for Electronic Document Analysis and Retrieval (SEDAR) and the National Registration Database (NRD) system. CDS recovers the costs to operate the systems by charging filers user fees in addition to the fees collected for the ASC and other members of the CSA. The NRD system was launched on March 31, 2003. The current operating agreement for the NRD will run until March 2009.

The CSA is in the process of renewing the operating agreement for SEDAR which expired in December 2002.

CDS developed a national System for Electronic Disclosure by Insiders (SEDI) for the CSA which was launched in May 2003. The SEDI system is not used to collect any ASC fees.

Should CDS become unwilling or unable to operate one or all of these systems, the ASC and the CSA would need to explore options to continue system operation.

RISK MANAGEMENT INITIATIVES

The ASC has substantially completed a Business Resumption Plan (BRP) which is designed to allow the continuation of critical regulatory services should the ASC face a significant disruption to its operations. Individual business continuity plans have been developed for each priority business function. Each plan includes documented recovery procedures, including manual workarounds and mitigation strategies. Additional work on establishment of offsite recovery services and facilities is expected to be completed early in fiscal 2005.

MEMORANDUM OF UNDERSTANDING

In accordance with the recommendations of the Government Reorganization Secretariat, the Minister of Revenue has completed a Memorandum of Understanding (MOU) with the ASC that outlines the ongoing roles, responsibilities and accountability relationships between the two parties. MOU commitments include Ministerial approval of annual ASC budgets and any subsequent changes that materially modify the budget, possible inclusion of a contingency provision in the budget not to exceed 10% of expenses, and quarterly ASC reporting to the Minister of actual financial results and budget updates.

FISCAL 2005 OUTLOOK

Revenues – The Commission has budgeted revenues for fiscal 2005 of $19,090,000. These revenues include proposed fee increases commencing April 1, 2004 of $2,669,000. However, the Commission has decided to defer a fee increase decision until later in fiscal 2005. This decision is based on larger than originally forecast cash and investment balances at April 1, 2004 and additional revenues of approximately $500,000 in fiscal 2005 that will result because of the implementation of NI 51-102 *Continuous Disclosure Obligations* which accelerates the financial statement filing timeline for most reporting issuers listed on the Toronto Stock Exchange. This one-time revenue increase was not budgeted because of uncertainty in the planned NI 51-102 implementation date at the time the budget was prepared. Registration revenues, exclusive of a fee increase, are budgeted as $5,800,000. This is approximately $900,000 less than the current year because the one-time registration fee acceleration in fiscal 2004 will not recur.

Expenses – Commission expenses are budgeted at $21,078,000, an increase of $3,568,000 from fiscal 2004 actual expenses of $17,510,000. The projected increase is primarily a result of:

- compensation adjustments averaging 3.5% or $320,000, a further $320,000 for 2.6 net additional staff for legal policy and continuous disclosure processes and benefit increases of $400,000,
- contingency provision and vacancy reserve reduction of $2,042,000; and
- $480,000 for professional services for litigation support and investor education programs, and CSA operations.

Loss – An operating loss of $2,200,000, excluding a contingency of $2,000,000, and including incremental financial statement filing fees of $500,000, is forecast.

Staff costs – Costs for existing staff will continue to increase. In addition, the ASC may be required to increase staff to meet emerging demands for more resources. These demands arise from the need for a strong Alberta policy presence at CSA and increasing stakeholder expectations of enforcement and compliance functions. Staff levels and costs continue to be reviewed.

Liquidity and cash flow – The Commission operates primarily on a cash basis. Cash requirements for fiscal 2005 are estimated as $2,000,000 which approximates the budgeted loss and will be provided by investment reductions.

RISKS AND UNCERTAINTIES

Budgets for fiscal 2005 are based on the Commission's experience and assessment of historical and future trends and the application of key assumptions relating to future events. Factors that could cause actual results to differ materially include:

- capital market volatility and the impact on distribution of securities fee revenues;
- the timing and quantum of a one-time accelerated financial statement filing fee revenue collection in fiscal 2005 resulting from the introduction of NI 51-102;
- the timing and magnitude of the Commission's fee restructuring plans that are subject to both industry consultation and government authorization;
- the potential for higher actual costs to be incurred in connection with CSA-sponsored national projects;
- implications of the ongoing discussions on securities regulatory reform in Canada; and
- unexpected financial requirements arising from contingencies and government budget revisions.

Management's Report

The financial statements included in this Annual Report are the responsibility of management and have been approved by the Members of the Commission. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial information contained elsewhere in this Annual Report is consistent with the financial statements.

The Commission maintains accounting and internal control systems to provide reasonable assurance that its financial information is reliable and accurate and that its assets are adequately protected. Where necessary, management has made informed judgements and estimates in the preparation of the financial statements.

The Auditor General of Alberta has examined the financial statements. The Commission's Audit Committee meets with management and with the Auditor General to review issues relating to audit, internal control, accounting policy and financial reporting. The Audit Committee reports its findings to the Commission Members for their consideration in approving the financial statements.

Stephen P. Sibold, Q.C.
Chair

David C. Linder
Executive Director

Auditor's Report

To the Members of the Alberta Securities Commission:

I have audited the balance sheet of the Alberta Securities Commission as at March 31, 2004 and the statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Commission'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 Commission 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.

Edmonton, Alberta

May 14, 2004

Fred J. Dunn, FCA
Auditor General

Financial Statements

BALANCE SHEET

As at March 31, 2004 *($ Thousands)*		2004	2003
Assets			
Current			
Cash			
Cash	*(Note 4)*	$ 1,599	$ 2,472
Funds held for others	*(Note 9)*	295	655
Accounts and advances receivable		59	749
Lease inducement receivable	*(Note 7)*	67	400
Prepaid expense		42	55
		2,062	4,331
Non-current			
Restricted cash	*(Note 3)*	932	786
Investments	*(Note 4)*	17,258	15,320
Capital assets	*(Note 6)*	2,218	1,727
Lease inducement and deposit	*(Note 7)*	521	588
		20,929	18,421
Total assets		$ 22,991	$ 22,752
Liabilities and retained earnings			
Current			
Funds held for others	*(Note 9)*	$ 295	$ 655
Accounts payable and accrued liabilities		970	1,551
Accrued vacation and benefit liabilities		666	607
Lease inducement	*(Note 7)*	170	170
		2,101	2,983
Lease inducement	*(Note 7)*	785	955
Accrued benefit liability	*(Note 8)*	1,267	1,033
Total liabilities		4,153	4,971
Retained earnings	*(Note 3)*	18,838	17,781
Total liabilities and retained earnings		$ 22,991	$ 22,752

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

Approved by the Members

Stephen P. Sibold, Q.C., Chair

Jerry A. Bennis, FCA, Member

STATEMENT OF INCOME AND RETAINED EARNINGS

For year ended March 31, 2004 *($ Thousands)*		2004		2003
		Budget	Actual	Actual
Revenue		*(Note 12)*		
Fees	*(Note 13)*	$ 16,910	$ 16,406	$ 14,655
Investment income	*(Note 5)*	700	1,698	551
Settlement cost recoveries		–	248	12
		17,610	18,352	15,218
Expense				
Salaries and benefits	*(Schedule A)*	11,345	11,363	10,613
Professional services		2,217	2,398	1,820
Premises		1,443	1,315	1,264
Amortization		542	519	556
Other		513	441	657
Materials and supplies		422	429	301
Travel		402	269	394
Member fees	*(Schedule A)*	353	288	275
CSA project costs	*(Note 11)*	247	226	780
Telephone and communications		173	193	218
Investor education	*(eligible restricted cash expense) (Note 3)*	–	69	–
Edmonton office closure	*(Note 10)*	–	–	2,096
Total expense		$ 17,657	$ 17,510	$ 18,974
Budget contingency	*(Note 12)*	1,766	–	–
Income (loss) from operations		(1,813)	842	(3,756)
Administrative penalties revenue	*(Note 3)*	–	215	57
Net income (loss)		$ (1,813)	$ 1,057	$ (3,699)
Opening retained earnings			17,781	21,480
Closing retained earnings	*(Note 3)*		$ 18,838	$ 17,781

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

STATEMENT OF CASH FLOWS

For year ended March 31, 2004 *($ Thousands)*		2004	2003
Cash flows from operating activities			
Cash receipts from fees		$ 16,628	$ 14,580
Cash receipts from settlement cost recoveries		248	12
Cash paid to and on behalf of employees		(10,979)	(10,254)
Cash paid to suppliers for goods and services		(5,899)	(5,741)
Edmonton office closure		(130)	(1,966)
Investment income		1,698	561
Cash advanced to MICA project	*(Note 9)*	(110)	–
Cash flows from (used in) operating activities		1,456	(2,808)
Administrative penalties		215	57
Cash flows from (used in) operating activities and administrative penalties		1,671	(2,751)
Cash flows from investing activities			
Lease inducement received		400	19
Increase in restricted cash		(146)	(57)
Cash used for capital assets(1)		(1,096)	(727)
Cash (used for) provided from investments(2)		(1,938)	3,327
Cash returned from (advanced to) CSA for NRD funding		236	(236)
Cash (used in) from investing activities		(2,544)	2,326
Decrease in cash		(873)	(425)
Opening cash		2,472	2,897
Closing cash		$ 1,599	$ 2,472

		2004	2003
Supplemental cash flow information			
(1) Additions to capital assets		$ (1,012)	$ (847)
Proceeds on disposal		2	–
(Decreases) increases in capital asset liabilities		(86)	120
		$ (1,096)	$ (727)
(2) (Additions) reductions in investments		$ (1,938)	$ 3,337
Loss on disposal of investments		–	(10)
		$ (1,938)	$ 3,327

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

Notes to the Financial Statements

March 31, 2004 *($ Thousands)*

NOTE 1 – NATURE OF OPERATIONS

The Alberta Securities Commission is a Provincial Corporation operating under the *Securities Act* (Alberta). The business of the Commission is the regulation of the Alberta capital market, including the administration of the Act, the Securities Regulation and the Alberta Securities Commission Rules.

The mission of the Commission is to foster a fair and efficient capital market in Alberta and confidence in that market. In carrying out its mission, the Commission strives to balance the needs of investors for adequate protection with the needs of industry to access capital necessary for continued economic growth.

The Commission, as an Alberta Provincial Corporation, is exempt from income tax.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The accounting policies of significance to the Commission are as follows:

(a) Portfolio Investments

Portfolio investments are recorded at cost. Realized gains and losses on disposal of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment 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 disposal of investments are included in the determination of 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. Unrealized gains and losses on these derivative contracts are recognized in income.

(c) Valuation of Financial Assets and Liabilities

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.

The fair values of cash, receivables, payables and accrued liabilities are estimated to approximate their book values.

The methods used to determine the fair values of portfolio investments and derivative contracts are explained in the following paragraphs:

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

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.

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps and equity index futures contracts. The value of derivative contracts is included in the fair value of the Commission's investment in the Canadian Dollar Public Bond Pool and Domestic Passive Equity Pooled Fund (see Note 4). The fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bonds 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 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) Equity index futures contracts are based on quoted market prices.

(d) Capital Assets

Capital assets are recorded at cost.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leasehold improvements	remaining lease term to March 2011

(e) Fee Revenue Recognition

Fees are recognized when earned, which is upon cash receipt.

(f) Employee Future Benefits

The Commission participates in the Public Service Pension Plan, a multi-employer defined benefit pension plan, with other government entities. This plan is accounted for as a defined contribution plan as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan. Pension costs included in these financial statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for the service relating to prior years.

The Commission maintains a Supplemental Pension Plan (the Plan) for certain designated executives of the Commission. The cost of the pension is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of economic assumptions. Past service costs are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the plan. The average remaining service period of active employees of the Plan is 10 years.

The Commission also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the Commission. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution limit as specified in the *Income Tax Act*. The expense included in these financial statements represents the current contributions made on behalf of the employees.

(g) Lease Inducement

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease term.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(i) Restricted Cash

Revenues received by the Commission from Administrative Penalties can be used for certain operating expenditures that educate investors and enhance the knowledge of the securities market operation. This change in use is a result of a June 2003 amendment of the *Alberta Securities Act*.

NOTE 3 – RESTRICTED CASH AND RETAINED EARNINGS

Retained earnings include $932 (fiscal 2003 – $786) of restricted cash, as described in Note 2(i). The restricted cash increase represents administrative penalty receipts during the year of $215 less eligible investor education expenses of $69.

NOTE 4 – CASH AND INVESTMENTS

(a) Summary

		2004			2003		
		Cost	Fair Value	%	Cost	Fair Value	%
Cash							
Deposit in the CCITF		$ 1,599	$ 1,599		$ 627	$ 627	
Less funds held for others	*(Note 9)*	–	–		(655)	(655)	
CCITF cash		–	–		2,500	2,500	
		$ 1,599	$ 1,599		$ 2,472	$ 2,472	
Investments							
Deposit in the CCITF		$ 54	$ 54	0.3	$ 6,206	$ 6,206	35.2
Fixed-income securities	*(Schedule B)*	12,386	12,442	69.7	8,755	8,544	48.5
Canadian equities	*(Schedule C)*	4,818	5,364	30.0	2,859	2,877	16.3
		17,258	17,860	100.0	17,820	17,627	100.0
Less CCITF cash held for current purposes		–	–		$ (2,500)	$ (2,500)	
		$ 17,258	$ 17,860		$ 15,320	$15,127	

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund that is managed by the Ministry of Revenue to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. The average effective yield for fiscal 2004 was 2.11% (fiscal 2003 – 3.23%).

The Commission's investments are held in pooled investment funds established and managed by the Ministry of Revenue. Investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of units. As at March 31, 2004, the Commission's percentage ownership, at market, in pooled investment funds is 0.15% or less.

(b) Investment Risk Management

The value of investments is exposed to credit 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 interest rate risk and market risk. Interest rate risk relates to the possibility that the investments will change in value due to 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 Commission has established an investment policy, which is reviewed annually. Risk is reduced through asset class diversification, diversification within each asset class and quality and duration constraints on fixed-income instruments. Controls are in place respecting the use of derivatives. While the Commission reports the results of these risk management initiatives in its accounts, the Commission is a passive third party recipient of these transactions and does not engage directly in derivative or swap contracting.

(c) 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 Ministry of Revenue uses derivative contracts within the 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.

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.

Stock index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified stock index.

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

The following is a summary of the Commission's proportionate share of the notional amount and fair value of swap contracts issued by pooled funds as 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%	–	$ 1,679	$ (5)	$ 659	$ (16)
Cross-currency interest rate swaps	1%	21%	78%	1,196	(178)	606	(137)
Interest rate swap contracts	43%	44%	13%	1,054	(48)	499	(18)
Bond index swap contracts	100%	–	–	176	4	149	–
Credit default swap contracts	–	45%	55%	81	(1)	–	–
Equity index futures contracts	100%	–	–	1	–	8	–
				$ 4,187	$ (228)	$ 1,921	$ (171)

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

NOTE 5 – NET INVESTMENT INCOME

	2004	2003
Interest	$ 768	$ 873
Net realized gain (loss) on investments	542	(257)
Derivative income (loss)	333	(106)
Dividends	55	41
	$ 1,698	$ 551

NOTE 6 – CAPITAL ASSETS

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment and software	$ 1,722	$ 1,238	$ 484	$ 398
Furniture and equipment	497	206	291	314
Leasehold improvements	2,300	857	1,443	1,015
	$ 4,519	$ 2,301	$ 2,218	$ 1,727

NOTE 7 – LEASE INDUCEMENTS AND DEPOSIT

Lease inducement balances and current amortization includes:

Lease	Term	Current Inducement	Future Inducement
Calgary, old	10 years, ending 2006	$ 40	$ 40
Calgary, new	8 years, ending March 2011	123	742
Calgary sublease	3 years, ending October 2005	7	3
		$ 170	$ 785

The remaining new Calgary lease inducement of $588 is receivable over three years with $199 due in April 2004. A lease deposit of $132 is payable to the landlord and offsets a portion of the current lease inducement receivable.

NOTE 8 – ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability includes:

	2004	2003
Retirement Plan	$ 182	$ 201
Supplemental Pension Plan	1,085	832
	$ 1,267	$ 1,033

The following pension expense for the plans is recorded in the Statement of Income under salaries and benefits.

	2004	2003
Public Service Pension Plan	$ 231	$ 194
Registered Retirement Savings Plan	270	240
Retirement Plan	2	6
Supplemental Pension Plan	286	292
	$ 789	$ 732

(a) Public Service Pension Plan

The Commission participates in the Public Service Pension Plan (the PSPP). At December 31, 2003 the PSPP reported an actuarial deficiency of $596,213 and in 2002 an actuarial deficiency of $175,528.

(b) Registered Retirement Savings Plan

The Commission makes contributions on behalf of employees who do not participate in the PSPP to employee Registered Retirement Savings Plans.

(c) Retirement Plan

The Commission has a retirement plan for an executive who is now retired. The provisions of the retirement plan were established pursuant to a written agreement. The retirement plan provides pension benefits based on a fixed schedule of payments over a 15-year period ending in August 2017. Accrued benefits are payable on death. The retirement plan is not pre-funded and the benefits are paid ($21 in 2004, $13 in 2003) from the assets of the Commission as they come due.

(d) Supplemental Pension Plan

The Commission has a Supplemental Pension Plan (the Plan) for certain designated executives of the Commission. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

The Plan provides pension benefits to the designated executives that are defined by reference to earnings in excess of the limit (increased from $86 to $92 effective January 1, 2004 and $100 January 1, 2005) imposed by the Income Tax Act on registered pension arrangements.

Pension benefits from the Plan are payable on or after attainment of age 55 and are equal to 1.75% of highest average pensionable earnings (average over five years) for each year of service with the

Commission. Members of the Plan become vested in the benefits of the plan after two years of service. Accrued benefits are also payable on early retirement (with reductions), death or termination of employment of the designated executive.

The Plan is not pre-funded and the benefits will be paid from the assets of the Commission as they come due.

An actuarial valuation of the Plan, as at April 1, 2004, was performed by an independent actuary.

The results of the actuarial valuation and management's cost estimates as they apply to the Plan are summarized below:

Balance Sheet at March 31

	2004	2003
Market value of assets	$ –	$ –
Accrued benefit obligation	1,391	1,033
Unfunded obligation	1,391	1,033
Unamortized transitional obligation	(202)	(229)
Unamortized actuarial gain	(104)	(33)
Employee change liability estimate	–	61
Accrued benefit liability	$ 1,085	$ 832

Accrued Benefit Obligation

	2004	2003
Accrued benefit obligation at beginning of period	$ 1,033	$ 829
Service cost	197	190
Interest cost	64	60
Net actuarial loss (gain)	97	(46)
Accrued benefit obligation at end of period	$ 1,391	$ 1,033

Pension Expense

The pension expense for the Plan is as follows:

Service cost	$ 197	$ 206
Interest cost	64	60
Amortization of transitional obligation	25	26
Pension expense	$ 286	$ 292

Actuarial Assumptions for Actuarial Valuation of the Plan

The assumptions used in the April 2004 actuarial valuation of the Plan are summarized below. The 2003 assumptions are based on the March 2001 actuarial valuation of the Plan. The discount rate was established in accordance with the yield on long corporate bonds. Other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on best estimate of the future experience of the plans.

	2004	2003
Discount rate	6.1%	7.15%
Rate of inflation	2.35%	2.2%
Salary increases	3.35%	3.7%

NOTE 9 – FUNDS HELD FOR OTHERS

The Commission holds, in a separate bank account, $295 ($655 in 2003) in cash for participants in the Market Integrity Computer Analysis (MICA) system upgrade project. The Commission has recorded a total project expense of $110 ($75 in 2004, $35 in 2003) and has a remaining commitment of $60. Funds are disbursed as payments are made for approved expenditures. Expenditures, if any, in excess of the amounts held for others and the Commission's contribution, require further participant approval and contribution. The MICA project will assist participants in the analysis of trading activities.

NOTE 10 – EDMONTON OFFICE CLOSURE

The Commission closed its Edmonton office on February 1, 2003. Closure costs of $2,096 include: employee severances of $1,400, lease termination of $145, litigation settlement with Edmonton employees of $250, furniture fixtures and leasehold write-offs of $200 and operational costs of $100.

NOTE 11 – COMMITMENTS, CONTINGENCIES AND GUARANTEES

Set out below are details of commitments to organizations outside the Commission and contingencies from guarantees and legal actions. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

(a) Commitments

Commitments arising from contractual obligations associated primarily with the eight-year lease of premises, the remaining MICA commitment and three-year average rental of office equipment at March 31, 2004 amounted to $11,692 (fiscal 2003 – $12,656). These commitments become expenses of the Commission when the terms of the contracts are met.

2004-05	$ 1,538
2005-06	1,623
2006-07	1,648
2007-08	1,729
2008-09	1,729
Thereafter	3,425
Total	$ 11,692

The Commission also agreed to share, based on an agreed-upon cost sharing formula, the costs incurred for the maintenance of the Canadian Securities Administrators (CSA) Secretariat (formerly Project Office), and any third party costs incurred in the development of harmonized rules, regulations and policies. The CSA Secretariat was established to assist in the development and harmonization of rules, regulations and policies across Canada.

(b) Guarantees

The Commission, along with the Ontario Securities Commission and the British Columbia Securities Commission, guaranteed a line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The Commission's share of the guarantee is limited to $2,160. As at March 31, 2004 the MFDA had no line of credit balance outstanding. The guarantors are in the process of negotiating a release from their guarantee.

(c) Legal Actions

The Commission is involved in various legal proceedings arising from its regulatory activities. Management considers the chance of liability under these legal proceedings not to be determinable and accordingly an estimate of any contingent loss cannot be made.

NOTE 12 – BUDGET

The Minister of Revenue-approved budget includes fee increases of $1,880 and a contingency expense provision of $1,766. A budget contingency provision of up to 10% of planned expenditures for unplanned expenses and revenue shortfalls is provided for in the Memorandum of Understanding between the Minister and the Commission. Commission members must approve any expenditure that is applied to the budget contingency expense provision. Subsequent to budget approval, the Commission members approved a revised budget including a deferral of the fee increase beyond 2004, revenue increases of $940 and a contingency expense provision reduction of $940. Members also approved a further expenditure (which was applied against the contingency amount) of $145 for the national recruitment of a senior management team member and for additional legal staff. Actual revenues and expenses resulting from these budget changes are recorded in their respective accounts.

NOTE 13 – FEES

	2004	2003
Distribution of Securities	$ 6,879	$ 6,172
Registrations	6,715	5,686
Annual Financial Statements	2,504	2,448
Other	3	8
Orders (Applications)	305	341
Total	$ 16,406	$ 14,655

NOTE 14 – COMPARATIVES

Comparative 2003 other revenue amounts of $8 have been reclassified as fees revenue to conform to their 2004 presentation.

Schedule A – Schedule of Salaries & Benefits

For year ended March 31, 2004

	2004				2003	
	Number of Individuals[1]	Salary[2]	Benefits & Allowances[3]	Total	Number of Individuals[1]	Total
Chair, Securities Commission[4]	1.0	$ 433,150	$ 30,980	$ 464,130	1.0	$ 468,305
Vice-Chair, Securities Commission[4]	1.0	$ 224,150	$ 18,601	$ 242,751	1.0	$ 230,881
Vice-Chair, Securities Commission[4,5]	1.0	$ 200,150	$ 16,854	$ 217,004	0.8	$ 541,246
Members (part-time)	9.0	$ 288,487	$ –	$ 288,487	9.0	$ 275,405
Executive Director	1.0	$ 245,150	$ 27,560	$ 272,710	1.0	$ 262,881
Director, Legal Services & Policy Development	1.0	$ 194,150	$ 18,032	$ 212,182	1.0	$ 210,636
Director, Capital Markets	1.0	$ 183,650	$ 16,788	$ 200,438	1.0	$ 198,650
Director, Enforcement[6]	1.0	$ 182,934	$ 37,084	$ 220,018	1.0	$ 186,186
Director, Administrative Services[7]	1.0	$ 165,150	$ 16,186	$ 181,336	0.6	$ 106,102
Chief Accountant	1.0	$ 173,150	$ 22,690	$ 195,840	1.0	$ 191,632
General Counsel[8]	0.9	$ 170,983	$ 22,905	$ 193,888	0.0	$ –

(1) Number of individuals is the weighted average during the year.

(2) Salary includes regular base pay, bonuses, overtime and lump sum payments and honoraria.

(3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, registered retirement savings plan contributions, health care, dental coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disability plan, vacation payouts, professional memberships, tuition, club memberships, worker's compensation and Chair and Executive Director's automobile allowance.

(4) The Chair and Vice-Chairs are full-time Commission Members.

(5) The previous Vice-Chair resigned in 2003. Salary and Benefits & Allowances amounts in 2003 include retiring allowance, bonus, and vacation payout.

(6) Previous Director, Enforcement resigned October 10, 2003. Vacation payout included in Benefits & Allowances. Current Director commenced employment on October 1, 2003.

(7) The Director, Administrative Services was hired September 9, 2002 as a new member of the senior management group.

(8) General Counsel position created May 1, 2003, as a member of the senior management group.

Schedule B – Schedule of Investments in Fixed Income Securities

($ Thousands)	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Deposit in the Consolidated Cash Investment Trust Fund	$ 19	$ 19	$ 15	$ 15
Public Fixed-income securities				
Government of Canada				
Direct and guaranteed	3,000	2,964	1,788	1,754
Provincial:				
Alberta, Direct and guaranteed	9	9	20	21
Other, Direct and guaranteed	2,800	2,968	1,617	1,592
Municipal	164	169	181	180
Corporate	5,082	5,018	4,067	3,949
Private fixed-income securities				
Corporate	1,343	1,326	975	941
	12,417	12,473	8,663	8,452
Accounts receivable and accrued investment income	145	145	111	111
Accounts payable and accrued liabilities	(176)	(176)	(19)	(19)
	(31)	(31)	92	92
	$12,386	$ 12,442	$ 8,755	$ 8,544

(a) Fixed income securities held as at March 31, 2004 have an average effective market yield of 4.20% per annum (2003 – 5.41% per annum) and the following term structure based on principal amounts:

	2004	2003
	%	%
under 1 year	2	2
1 to 5 years	40	37
5 to 10 years	30	31
10 to 20 years	10	11
over 20 years	18	19
	100	100

(b) The Commission's fixed income securities are held in the Canadian Dollar Public Bond Pool (the Pool). The Pool is managed by the Ministry of Revenue 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 portfolio is comprised of high quality Canadian fixed income instruments and related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

Schedule C – Schedule of Investments in Canadian Equities

($ Thousands)	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 34	$ 34	$ 25	$ 25
Public equities (a) (b)				
Financial	1,497	1,723	887	952
Materials	823	907	457	437
Energy	639	783	361	446
Information technology	365	428	191	145
Industrials	376	398	209	193
Consumer discretionary	387	371	243	199
Telecommunication services	268	256	168	155
Consumer staples	187	209	109	119
Utilities	167	181	113	117
Health care	117	116	98	92
	4,826	5,372	2,836	2,855
Passive index	–	–	11	10
	4,826	5,372	2,847	2,865
Receivable from sale of investments and accrued investment income	21	21	8	8
Accounts payable and accrued liabilities	(63)	(63)	(21)	(21)
	(42)	(42)	(13)	(13)
	$ 4,818	$ 5,364	$ 2,859	$2,877

(a) The Commission's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $1,680 (2003 – $667) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and futures contracts.

(b) The industrial classifications are those used by the Toronto Stock Exchange indices.

(c) The Commission's investments in Canadian equities are held in the following pooled funds administered by the Ministry of Revenue.

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
Domestic Passive Equity Pooled Fund (i)	$ 2,338	$ 2,391	$ 1,250	$ 1,272
Canadian Pooled Equity Fund (ii)	1,172	1,517	1,156	1,173
External Managers Canadian Large Cap Equity Pool (iii)	1,308	1,456	453	432
	$ 4,818	$ 5,364	$ 2,859	$ 2,877

(i) 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 Total Return Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the S&P/TSX Composite Index. To enhance investment returns with no substantial increase in risks, the pool uses structured investments such as domestic equity index swaps. 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 bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high quality floating-rate instruments with remaining term-to-maturity of 10 years or less.

(ii) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange (S&P/TSX) Composite Index. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(iii) 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 capital focus.

Schedule D – Schedule of Investments Returns

The Commission 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 Commission over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and 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 return of pools with other pools or indices.

Investment returns for the Commission are as follows:

	One-Year Return				4-Year Compound Annualized Return
	2004	2003	2002	2001	
Time-weighted rates of return					
Short-term fixed income	4.2	2.9	4.0	5.8	4.2
Scotia Capital 91-day T-Bill Index	3.0	2.7	3.7	5.7	3.8
Long-term fixed income	11.7	9.5	5.7	9.4	9.1
Scotia Capital Universe Bond Index	10.8	9.2	5.1	8.7	8.4
Canadian equities	36.6	(17.5)	n/a	n/a	n/a
Toronto Stock Exchange (S&P/TSX)	37.7	(17.6)	n/a	n/a	n/a
Overall	17.8	2.3	4.3	8.6	8.1

Executive and Senior Management Organizational Chart

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