Alberta Securities Commission

a critical balance

2005 Annual Report

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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, 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 and accurate information on which to base investment decisions. Further they require 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 jointly oversees the activities of the TSX Venture Exchange (TSXV), and oversees in Alberta the activities of each of 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 objectives are to improve, coordinate and harmonize regulation of the Canadian capital markets.

ASC message

The Commission enjoyed a highly productive and successful fiscal year 2005 in spite of very public distractions in the latter months.

The year saw the implementation or development of a number of important regulatory instruments, led by the Commission's Legal Services & Policy Development and General Counsel groups, with the support of the Capital Markets group and the Chief Accountant, in cooperation with our counterpart regulators across Canada (the members of the Canadian Securities Administrators). This was the first year for new continuous disclosure requirements, including specific oil and gas reserves disclosure requirements, and a number of corporate governance initiatives were implemented. In each case the Commission played a strong and successful role in identifying issues, and crafting responsive approaches, of particular relevance to our vibrant Alberta capital market with its strength in capital raising, particularly for junior and emerging companies.

Our Capital Markets and Chief Accountant groups provided high-quality regulatory review of securities offering documents and other disclosure furnished by reporting issuers. Our new oil and gas team gained stride, as it focused on the information provided to the public by oil and gas companies, and served as a valuable resource for securities regulators across Canada.

Capital market integrity and investor confidence have been well served by our investigation and Enforcement groups. We continued building strength in those areas, and this Report comments on some of the enforcement matters that we concluded during the year.

Our Administration group continued to provide solid support for our organization. Among the initiatives of that group were a web enhancement project, the assessment of investor needs for information and education, and the development of an enhanced investor education program.

The Members are proud of the work done by the Commission in these and other areas during the past year, and look forward to that work continuing in the current year.

We would be remiss if we did not address the subject of various allegations levelled against the Commission and some of our senior personnel. We attach the highest importance to the integrity of our work and of our people. We take very seriously any and all concerns pertaining to that integrity.

The Part-Time Members retained an independent professional to examine the anonymous complaints. After examining the results of his investigation, the Part-Time Members reported to the Minister of Finance their conclusion that the complaints were groundless.

Commission Members have no doubt that all tasks undertaken by our people are performed at the highest level of professionalism. Alberta residents, investors and other market participants can rest assured that the regulator of Canada's second largest capital market is a well-run organization of which we can all be proud. We are well positioned to build on our strengths in the coming year.

In closing, we express our gratitude for the leadership provided to the Commission by Stephen Sibold, Q.C. , whose five-year term as Chair concluded on May 7, 2005. Mr. Sibold was replaced by interim Chair, Peter Valentine, FCA, who admirably filled that void until Bill Rice commenced as permanent Chair on July 18, 2005.

Under Mr. Sibold's guidance, the ASC gained enormous stature as a responsive and respected regulator, guided by an informed understanding of our capital markets. We made considerable strides in harmonizing regulatory rules and practices across Canada and in ensuring that regulatory policy is both effective and proportionate to the needs and resources of market participants in various sectors of the capital market.

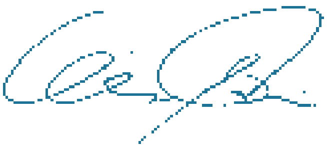
Notable achievements under Mr. Sibold's leadership included:

- implementation of harmonized prospectus and registration exemptions to facilitate capital-raising;
- finalization and implementation of the new oil and gas reserves disclosure rule, an important contributor to informing investors and sustaining market confidence;
- development of proposed Uniform Securities Legislation, which provides for the mutual delegation and recognition of regulatory decision-making between provinces, a concept to be further explored under the Provincial/Territorial Ministerial "Passport" project;
- insistence that policy responses to corporate governance initiatives launched in the United States be tailored to reflect our very different capital market; and
- mandatory assessment of proportionality (including consideration of different approaches for different market sectors) as part of any new policy initiative.

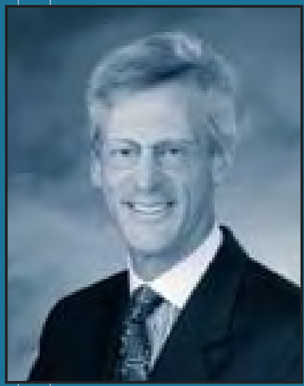
Mr. Sibold's, and the ASC's, prominent contributions were recognized in his appointment as chair of the CSA from April 2003 to March 2005. During his two years in that post, he solidified the role of the CSA and enhanced its effectiveness, through the establishment of a permanent CSA secretariat and the institution of a CSA policy coordination committee.

We shall miss Stephen's enthusiasm, intellect and vision, and will do our part to build on his achievements.

On behalf of the Members of the Alberta Securities Commission,



William S. Rice, Chairman



William S. Rice, Chairman

2004/05 Commission Members

(L-R): Roderick J. McLeod, James E. Allard, Dennis A. Anderson, Mazhar (Mike) Shaikh (seated), Thomas G. Cooke, Jerry A. Bennis, Karl M. Ewoniak, Glenda A. Campbell, David W. Betts, Stephen P. Sibold (seated), James A. Millard, Stephen R. Murison.

The ASC has two operational levels: members and staff. The Lieutenant-Governor-in-Council appoints the members. With the exception of the chair and two vice-chairs, each of whom serve full-time, the other members serve on a part-time basis. The chair in also 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 *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 operational affairs of the ASC.

2004/05 Commission Members

Stephen P. Sibold, Q.C., Chair
Mr. Sibold, appointed chair of the ASC in May 2000, has 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. His five-year term as chair concluded on May 7, 2005.

Glenda A. Campbell, Q.C., Vice-Chair
Ms. Campbell was appointed Vice-Chair in September 1999. Prior to that she served the ASC as director, legal services and policy development and was instrumental in creating a national voice for Alberta through the development of policies 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, Vice-Chair
Mr. Murison was appointed vice-chair in April 2003. He first joined the ASC 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
Mr. Allard became a Member in January 1999 and served as a member of the audit committee in 2004/05. He comes to the ASC with 35 years experience in operations, finance, international business and the oil and gas industry. Mr. Allard was a senior vice-president of a major international oil and gas corporation. He launched a publicly traded oil company and used his corporate governance skills to lead several companies.

Dennis A. Anderson, FCA*
Mr. Anderson, who became a Member in April 2003, retired from a successful accounting career in 1991, where he served 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. He is a member of the Commission's audit and human resources committees. Mr. Anderson's career 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
Mr. Bennis became a Member in January 1999 and chaired the audit committee in 2004/05. 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
Prior to retiring, Mr. Betts was a corporate financial consultant with over 30 years of experience as an investment analyst and investment banker. He serves on the Commission's human resources committee and has been a Member since April 2001. Mr. Betts was 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.*
Mr. Cooke 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 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. Mr. Cooke has a B. Comm (with distinction) in Finance from the University of Alberta. In addition, Mr. Cooke completed the Canadian Institute of Chartered Accountants in-depth tax course. Mr. Cooke also has extensive experience working with accountants and financial advisors on many corporate finance and accounting issues.

Karl M. Ewoniak, CA*
Mr. Ewoniak is a corporate financial consultant and business broker with over 30 years experience as a senior executive in the insurance, retail, trust, and mortgage lending sectors. He is the founder and past president of Trans Global Life Insurance Company and Trans Global Insurance Company. Mr. Ewoniak has extensive corporate governance experience having served on several public and private company boards of directors and is currently a director of Canadian Direct Insurance Incorporated. Mr. Ewoniak became a Member of the Commission in June 2004 and is currently a member of the audit committee.

Roderick J. McLeod, Q.C.
Mr. McLeod is the founder, former senior partner and retired counsel of McLeod & Company, a Calgary-based law firm. Mr. McLeod holds a Bachelor of Arts degree in economics from Simon Fraser University and a Bachelor of Laws degree from Osgoode Hall Law School. He was admitted to the Law Society of Alberta in 1972 and practised law from that time until his recent retirement. Mr. McLeod has been, and continues to be, actively involved as a volunteer on numerous not-for-profit boards and advisory committees. He was a bencher of The Law Society of Alberta, a member of the board of directors of both private and publicly traded corporations and has generously donated his time to a variety of charitable, professional and community endeavours. Mr. McLeod has been a Member since June 2004.

James A. Millard, Q.C.
Mr. Millard is chair of the Commission's human resources committee. He practised corporate/commercial and securities law in Calgary for over 40 years as a partner in the 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. Mr. Millard has been a Member since April 2001.

Mazhar (Mike) H. Shaikh, CA*
Mr. Shaikh became a Member in April 2003 and he is a member of the audit committee. Mr. Shaikh 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 is an honourary investment counsellor for the Government of Pakistan.

*Audit committee members

Note: On July 18, 2005, William S. Rice was appointed to a five-year term as Chair of the ASC.

a solid approach

In 2001, the ASC adopted a number of strategic principles it 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. These principals 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.

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

Coordinated Regulation

On September 30, 2004, after 18 months of discussion and consultation with stakeholders, a number of the provincial and territorial Ministers responsible for securities regulation signed the "Provincial-Territorial Memorandum of Understanding Regarding Securities Regulation" (MOU).

The MOU sets out an action plan for making improvements to the Canadian securities regulatory system which includes making best efforts to implement:

- a "passport system" of securities regulation intended to provide a single window of access to capital markets in participating provinces and territories, to be established by August 2005;
- highly harmonized, streamlined and simplified securities laws to be implemented by the end of 2006;
- a Council of Ministers to facilitate statutory change and ongoing cooperation;
- a review of regulatory fees charged in the context of the passport system; and
- a commitment to explore options for further reform.

The Ministers agreed the system would provide a single window of access to issuers and registrants in areas where there are already highly harmonized securities laws across Canada or where highly harmonized securities laws could be achieved quickly. The areas to be covered by the system are prospectus requirements and clearance, registration requirements and process, continuous disclosure requirements, prospectus and registration exemptions and routine discretionary exemptions.

In order to facilitate the Ministers' passport system initiative, the CSA has developed proposed Multilateral Instrument 11-101 *Principal Regulator System* and Companion Policy 11-101CP *Principal Regulator System*. The proposal was published for comment on May 27, 2005 and is expected to be implemented in September 2005. Once adopted, this instrument will enable an issuer or registrant to have access to the capital markets by complying with the laws of the jurisdiction of its principal regulator and generally deal only with its principal regulator. An issuer's or registrant's principal regulator will usually be the regulator in the jurisdiction where its head office is located. Signatories to the MOU are the governments of all Canadian provinces and territories except Ontario.

Harmonizing Across Canada

While these initiatives unfold, the CSA will work within the existing securities regulatory framework to make it as cost-effective, efficient and competitive as possible. The CSA members continue to focus on developing a system of simplified and harmonized securities regulation. Within this environment, the ASC is working with its counterparts at the CSA to represent the interests of Alberta market participants at a national level.

Some of the CSA highlights of particular significance to the Alberta capital market last year include:

National Registration System (NRS)

National Instrument 31-101 *National Registration System* and related documents were published in January and took effect in April 2005 to create a National Registration System (NRS). The purpose of NRS is to improve the current registration system by permitting registrants to comply only with the "fit and proper" requirements of its principal regulator and through a mutual reliance process for registration. Regulators will rely on each other's analysis of registration applications for investment dealers, advisers and mutual fund dealers in order to reduce unnecessary duplication for those seeking registration in multiple jurisdictions. Individuals and firms, as a result, must deal only with their principal regulator.

The National Registration Database (NRD)

The National Registration Database (NRD) was changed January 4, 2005 to allow filers from Quebec to use that system. Further changes are being made to NRD that will accommodate both the NRS and the national registration requirements rule.

National Registration and Prospectus Exemptions Rule

In December 2004, the CSA published National Instrument 45-106 *Prospectus and Registration Exemptions* for public comment. NI 45-106 will consolidate and harmonize the prospectus and registration exemptions contained in various provincial statutes and national, multilateral and local instruments into a single national instrument. NI 45-106 is anticipated to become effective in fiscal 2005/06.

Currently, market participants wanting to effect a multi-jurisdictional exempt distribution must familiarize themselves with the various exempt distribution regimes of the relevant jurisdictions. By harmonizing both the majority of prospectus and registration exemptions currently available across Canada and the related disclosure and filing requirements, NI 45-106 is expected to yield substantial benefits and reduce costs to market participants.

Income Funds and Other Indirect Offerings

Throughout 2003 and 2004, the CSA saw a significant increase in the number of income trust offerings in its market. To help provide guidance and clarification to market participants about income trusts and other indirect offering structures, the CSA implemented National Policy 41-201 *Income Trusts and Other Indirect Offerings* in December 2004.

NP 41-201 is designed to ensure that income trust investors have access to sufficient information to make informed investment decisions. NP 41-201 also clarifies how the existing regulatory framework applies to non-corporate issuers (such as income trusts) and to indirect offerings, in order to minimize inconsistent interpretations and better ensure that the intent of the regulatory requirements is preserved.

Corporate Governance and Investor Confidence

Disclosure of Corporate Governance Practices

In January 2004, some members of the CSA, including the ASC, published for comment a proposed new corporate governance rule (Multilateral Instrument 58-101 *Disclosure of Corporate Governance Practices*) and policy (Multilateral Policy 58-201 *Effective Corporate Governance*) designed to require disclosure of corporate governance practices of reporting issuers against certain "best practices". The required disclosure would relate to such matters as board composition (independence) and mandate, nominating and compensation committees and codes of ethics. In April 2004, the ASC, together with the securities regulatory authorities in BC and Québec, published for comment an alternative proposal (Multilateral Instrument 51-104 *Disclosure of Corporate Governance Practices*) that required disclosure of corporate governance practices but did not include a statement of "best practices". The CSA then worked towards developing a new proposal that incorporated the best elements from the two alternatives and in October 2004, published for comment proposed National Instrument 58-101 *Disclosure of Corporate Governance Practices* and National Policy 58-201 *Corporate Governance Guidelines*. The new disclosure requirements will apply to information circulars or annual information forms filed following an issuer's financial years ending on or after June 30, 2005.

Reporting on Internal Control over Financial Reporting

After considerable research, consultation and discussion, on February 4, 2005, all of the members of the CSA, other than British Columbia, published for comment proposed Multilateral Instrument 52-111 *Reporting Requirements for Internal Control over Financial Reporting* (MI 52-111) which, if adopted, would require issuers, other than venture issuers (e.g., those listed solely on the TSX Venture Exchange) to conduct an annual evaluation of their internal control over financial reporting against a specified control framework and to require their auditors to provide an opinion on the effectiveness of those controls. The instrument would introduce into Canada requirements substantially similar to the rules made by the U.S. Securities and Exchange Commission in response to section 404 of the *Sarbanes-Oxley Act*, 2002. However, MI 52-111 contemplates a staged four-year implementation schedule such that the largest issuers would be required to comply with the instrument before smaller issuers. Although the ASC published the instrument for comment, based on the feedback it has received from investors, issuers and other market participants, it continues to evaluate whether it is appropriate to adopt the instrument and will be considering whether there is an alternative regulatory approach that would sufficiently address the objectives of that instrument in a more cost-effective manner. The comment period expired on June 30, 2005. The proposed timeline for this project has been extended by one year to allow sufficient time to assess developments, consider the many submissions received by commenters and to address concerns raised by issuers and their advisors regarding the originally proposed timeline. In light of the extension of the proposed timeline for MI 11-101, it is anticapated thet the proposed amendments will be re-examined in the fall of 2005.

Amendments to Existing Corporate Governance and Investor Confidence Initiatives

Amendments to Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (MI 52-109) designed to provide an extended transition period during which the CEO and CFO of reporting issuers would not be required to file certifications in respect of their issuers' internal control over financial reporting, were approved by the Commission in January 2005. The amended instrument became effective on June 6, 2005. Further, more substantive amendments to MI 52-109 were published for comment in February 2005, in conjunction with the publication of MI 52-111. These amendments include the introduction of a certification by CEOs and CFOs in respect of material weaknesses and significant deficiencies in internal controls. The comment period expired on June 30, 2005.

Amendments to Multilateral Instrument 52-110 *Audit Committees*, designed to update and clarify the meaning of independence in the rule, were approved by the Commission in April 2005. These amendments will bring the audit committee rule into line with recent changes to New York Stock Exchange audit committee requirements. These amendments became effective June 30, 2005.

Prospectus Requirements

In January 2005, the CSA published amendments designed to streamline the short form prospectus system to more fully integrate the disclosure systems for the primary and secondary markets and to update the current rules. The proposed changes would allow issuers access to the capital market using their existing continuous disclosure record and broaden access to the short form prospectus system to allow more issuers to benefit from the streamlined system.

These system enhancements would enable issuers to respond more quickly and efficiently to market opportunities without diminishing the information and protections available to investors. These proposed improvements are the result of the CSA's increased focus and allocation of resources to reviews of continuous disclosure documents and processes.

The CSA anticipates implementing the changes in December 2005.

Uniform Securities Transfer Act

In April 2004, the CSA's Uniform Securities Transfer Act Task Force released for public comment a revised consultative draft of a proposed provincial Uniform Securities Transfer Act (USTA). The proposed USTA is not securities regulatory law, but is commercial property-transfer law, governing the transfer and holding of securities and interests in securities. It also replaces securities settlement rules currently contained in provincial Business Corporations Acts. Implementation of the USTA will provide a sound legal foundation for existing practices and support the continuing evolution of market practices in the future, by harmonizing existing legislation within Canada and with the laws in the United States.

Uniform Securities Legislation (USL)

The USL Project is the CSA's proposal to harmonize securities laws and proposes mutual recognition and delegation of authority between securities regulators. Proposed Uniform Securities Legislation was published for comment in December 2003, and in September 2004, a summary of comments was published along with the CSA's responses to those comments. These materials have been passed on to the members of the Provincial-Territorial Securities Initiative in aid of their efforts to develop a highly harmonized and simplified securities legislation for December 2006 as part of the passport system. The ASC took a lead role on this initiative.

guiding Alberta's capital market

The ASC continues to progress in its efforts to maintain a fair and efficient capital market and help shape securities regulation across Canada. The ASC strives to develop a regulatory approach that makes sense, effectively educates investors and companies, monitors compliance and, where necessary, takes enforcement action against those who do not comply.

The Alberta Capital Market Project: Exempt Market Study

In order to determine the proper approach to regulating Alberta's market, the ASC must understand the market it regulates, including the types of companies in its market by size and industry and the financing activities in which they engage.

By understanding the exempt financing activity taking place in our capital market, the ASC can better evaluate the impact regulation has on market participants.

In April 2004, the ASC released the results of the second phase of the Alberta Capital Market Project. This second phase examined exempt equity financings during the period from April 2003 through July 2003, and compared those results to an earlier ASC exempt market study of the corresponding period in 2002. The ASC partnered with the Haskayne School of Business at the University of Calgary to conduct the study.

The study considered the impact of the introduction, in March 2002, of several new and broader exemptions for the issuance of securities, designed especially for small and medium sized issuers. The goal of introducing the new exemptions was to improve access to exempt financing for both issuers and investors. Using the gathered exemption information, this study tested whether that goal had been met. The study found the following:

- There was a significant (103%) increase in the amount of capital raised in the exempt market by Alberta-based issuers in the 2003 test period compared to the same period in 2002.
- Following the change in exemptions, there was an increase in the percentage of capital raised by small and medium sized issuers pursuant to exemptions.
- The "accredited investor" exemption was used significantly more than the $97,000 exemption.
- The "accredited investor" exemption was used for considerably smaller amounts per investment than the $97,000 exemption; however, there was significantly more usage of the "accredited investor" exemption than the $97,000 exemption and significantly more money raised in aggregate under the "accredited investor" exemption than under the $97,000 exemption.

A Proportionate Approach

In developing securities regulation, the CSA often looks to the developments in the U.S. and other foreign markets. However, a significant number of the publicly traded companies operating in the Canadian capital market are, by U.S. and international standards, small or microcap issuers. Because these small businesses play an important role in our regional economy, the ASC strives to be cognizant of the implications of its regulatory efforts on them. Accordingly, the ASC led the national proportionate regulation project designed to consider the effect of the Canadian securities regulatory system on these smaller companies and to determine whether they were being appropriately regulated.

One of the outcomes of that project was a formal determination by the CSA to consciously and consistently consider these companies in the development of securities regulation. In the interests of consistent and effective regulation, the CSA will attempt to design regulatory requirements that can apply to all sizes of market participants without creating disproportionate burdens for any of them. However, where that is not possible, the CSA must ask whether different requirements would be more appropriate for the junior portion of the Canadian capital markets.

Different requirements may include providing exemptions or different time periods for the junior market or imposing additional or alternative requirements. It will generally not mean developing an entirely separate rule.

The ASC will strive to achieve the desired regulatory objectives and provide appropriate investor protection without unduly burdening issuers participating in the Alberta capital market.

The CSA will be considering the other recommendations flowing out of the proportionate regulation project during the next fiscal year.

SRO Oversight

The ASC has delegated certain parts of its regulatory functions to self-regulatory organizations (SROs). Each SRO is controlled by its members. An SRO creates rules, subject to approval by the ASC, and enforces its members' compliance with the SRO rules. While SROs operate independently of the ASC, the ASC monitors their operations and policies. Currently, the ASC recognizes three SROs in Alberta: the Mutual Fund Dealers Association (MFDA), the Investment Dealers Association (IDA) and Market Regulation Services Inc. (RS Inc.)

In September 2004, the ASC released reports on the performance of the Prairie Regional Offices of the IDA and the MFDA. While ASC staff was satisfied overall with the performance of both the IDA and MFDA, some areas for enhancement were identified, mainly in the area of continued improvement of audit and review processes. The results of the reviews were distributed to each of the IDA and the MFDA, and the reports and the SRO's responses to the final reports have been published on the ASC website.

Modernization & Harmonization of Registration

The ASC is playing a leading role in a joint CSA and industry Registration Steering Committee that is developing proposals for the modernization and harmonization of registration requirements across Canada over the next two years. This process includes consideration of potential improvements to rules of the IDA and MFDA with respect to three core principals, namely: a clear allocation of responsibility between registrants and clients; transparency of registrants' dealings with clients; and management of conflicts of interest by registrants to avoid self-serving outcomes.

This work is in large measure a response to analysis and consultation undertaken by the ASC in response to the January 2004 publication by the Ontario Securities Commission of its "Fair Dealing Model Concept Paper", which proposed many fundamental and potentially disruptive changes to the current dealer and advisor registration regime.

The ASC's analysis led to concerns that, if implemented, the proposals would increase costs for clients and industry with the result registrants would not be able to serve clients with smaller accounts, and further that capital formation could be harmed. The ASC undertook a detailed survey of 130 firms registered in Alberta and also held a series of group meetings with approximately 70 individuals from different types of registered firms.

The ASC's analysis, and the responses received from industry, strongly supported the Fair Dealing Model's three core principles. The ASC prepared a response to the OSC expressing support for the three core principles, and also describing the specific concerns arising from the proposals and the negative impact the detailed proposals could have.

CSA Market Structures and Exchange Oversight Committee

In addition to its region-specific review of SRO's, ASC staff chair the CSA Market Structures and Exchange Oversight Committee. This committee's mandate includes:

- coordinating recognitions and exemptions from recognition for exchanges, Quotation and Trade Reporting Systems (QTRSs) and other types of market places;

- coordinating oversight activities of recognized exchanges; and
- acting as a centralized forum for CSA-wide discussions of issues relating to oversight of recognized exchanges and other marketplaces, and reviewing and approving rules submitted by recognized exchanges.

The committee also administers the Memorandum of Understanding about the Oversight of Exchanges and QTRSs and is the forum for discussion of issues arising from existing and emerging market structures and related policy initiatives.

Improving Compliance

To help market participants understand and better comply with securities laws, the ASC undertakes several educational initiatives for industry participants. These include industry seminars and courses as well as reviews of industry compliance with our requirements. Public reports on specific subject areas are published each year.

2004 ASC Securities Laws and Financial Reporting Standards Conference

In June 2004, the ASC hosted the seventh annual Securities Laws and Financial Reporting Standards Conference. Of the 305 participants at the Conference, the majority were securities regulators, public accountants, and financial management personnel from various industries. All presentations from the Conference can be found on the ASC website.

2004 ASC/LESA Annual Dialogue with Alberta Securities Regulators

In March 2004, the Legal Education Society of Alberta and ASC presented the third annual Dialogue with Alberta Securities Regulators. This one-day program covered a range of topics, including new and proposed instruments, new corporate governance Rules, disclosure and audit requirements and a review of the Securities Amendment Act, 2004.

2004 Continuous Disclosure Review Program

Investors rely on current material information about reporting issuers to assist them in making financial decisions. To encourage high-quality continuous disclosure, the ASC conducts annual reviews of financial statements and other filings made by its reporting issuers.

This fiscal year the ASC reviewed a sample of 97 issuers. Generally, the filings were compliant and transparent. However, there were deficiencies in six areas:

- stock-based compensation;
- income taxes;
- cash flow statements;
- related party transactions;
- interim financial statements; and
- financial instruments.

The 2004 Continuous Disclosure Review Program Report was posted to the ASC website and sent to all Alberta reporting issuers as well as many professional advisors.

Oil and Gas Disclosure Reviews

In February 2005, the ASC released its first Oil and Gas Disclosure Review Report summarizing findings from reviews of 236 companies of various sizes headquartered in Alberta. The oil and gas report summarizes the reviews of ASC staff concerning both filed disclosure and the more technical aspects of the underlying reserves evaluation reports.

The 236 reviews the ASC conducted led to 25 issuers re-filing due to material filing deficiencies. The report clarified several areas of concern and offered guidance for improved compliance in future. Overall, the Commission was satisfied with the compliance demonstrated by Alberta oil and gas issuers in this initial year of new disclosure requirements.

Enforcement

The ASC monitors and responds to complaints about violations of Alberta securities laws. The ASC's Enforcement department assesses and investigates alleged contraventions and, where appropriate, proceeds either to take administrative enforcement proceedings before an ASC tribunal or to prosecute charges laid in the Provincial Court of Alberta.

The ASC has statutory authority to impose various sanctions if, following a hearing, contraventions are found to have occurred. These sanctions include: a monetary administrative penalty; payment of the costs of investigation and hearing; cease trade orders respecting securities; and prohibiting an individual from trading in securities and acting as a director and officer of an issuer. When a case is prosecuted in Provincial Court, conviction for contravention of the *Securities Act* may result in imprisonment, imposition of a fine, or both.

To enhance the effectiveness of the ASC's enforcement department, in the coming year, a project will be implemented to conduct hearings on illegal insider trading cases more expeditiously.

Major Hearings

The lengthy proceedings initiated against J. Gordon Ironside and Robert W. Ruff in 2001 continue.

The proceedings initiated against Peter J. Workum and Theodor Hennig also involve a lengthy hearing, with that case now being in midstream.

Prosecutions

During this fiscal year, charges of contravening the *Securities Act* were laid in Calgary and Edmonton Provincial Court against three individuals, in each case relating to alleged failures to comply with prior ASC orders. Each of these cases is expected to proceed to trial during next year.

On May 24, 2004, Kevin Boyle was deported by U.S. authorities and returned to Edmonton to begin serving the 30 month sentence imposed upon him in 2002 by Judge Lefever for contraventions of the *Securities Act*.

In 2003, former VisuaLABS CEO and Chief Scientist, Sheldon Zelitt was convicted on 11 counts of securities offences in Alberta Provincial Court for making misrepresentations in documents filed with the ASC. Zelitt took himself to the Czech Republic before his trial commenced; however, in his absence, he was convicted and sentenced to imprisonment for four years and fined $1.85 million (or four additional years imprisonment in default). Zelitt was arrested on May 26, 2004 in the Czech Republic. Following extradition proceedings instituted with the assistance of the federal Department of Justice and the Attorney General of Alberta, the Minister of Justice of the Czech Republic ordered him returned to Canada to answer to a charge of defrauding the public under s. 380 of the Criminal Code and to serve the sentence imposed upon him respecting 11 violations of the *Securities Act*. Zelitt was extradited in May 2005.

Cases Before the ASC

Some noteworthy enforcement proceedings were concluded by hearing before the ASC during this past year. They are summarized below.

Donald Stuart Wallace

Wallace was a mutual fund salesperson who was found in an earlier hearing to have breached s.75 of the *Securities Act* by acting as an advisor outside his registration. He was also found to have carried out his duties and functions as a registered salesperson in a manner that contravened Commission Policy 3.1 - Registrants Code of Conduct and Ethical Practices.

On May 18, 2004, Wallace was ordered to pay an administrative penalty of $30,000, plus $15,000 towards investigation costs. With certain exceptions, he was prohibited from trading in securities for a period of 15 years.

Luciano John Podorieszach and Secondo Pietro "Peter" Podorieszach

In March 2004 an ASC panel found, following a hearing, that John Podorieszach, a mutual fund salesperson, and Peter Podorieszach, a mutual fund compliance officer, had manipulated the share price of a publicly-traded company, contrary to s. 93 of the *Securities Act*.

On June 7, 2004, the panel ordered each to pay an administrative penalty of $20,000, plus $20,000 towards investigation costs. It also prohibited them from trading as registrants for two years, and barred trading in securities in their personal capacities (with specific exceptions) for six years.

Kenneth Richardson

On July 14, 2004, following an earlier hearing, a panel sanctioned Richardson, the director, officer and key employee of a TSXV issuer, for contravening the control person advance notice of distribution and insider report filing provisions of the *Securities Act*. It ordered him to pay $12,000 towards investigation costs, cease trading in securities for 60 days, and rectify the public record regarding his trades and shareholding in the public issuer involved. Richardson also received a one year director and officer ban.

Bruno Stephen Dobler and Thomas Vernon Hochhausen

On September 3, 2004 Bruno Stephen Dobler, president of a reporting issuer, and Thomas Vernon Hochhausen, an adviser to Dobler and to the issuer, were found to have breached a cease trade order, made misrepresentations to an investor, and in other ways acted contrary to the public interest. The misconduct arose in connection with a private placement of the issuer's shares.
On December 9, 2004 Dobler was ordered to pay an administrative penalty of $10,000, plus $9,000 towards investigation costs, and for four years to cease trading in securities and acting as an officer or director. Hochhausen was issued similar bans for five years and was ordered to pay an administrative penalty of $15,000 and $10,000 towards investigation costs.

Douglas Wayne Schneider

On February 16, 2005, following an earlier hearing, an ASC panel found that Douglas Wayne Schneider, a life insurance salesman not registered at the time as a securities salesperson, engaged in an illegal distribution of securities of two reporting issuers and traded their securities while not registered to do so.

The panel ordered Schneider to pay an administrative penalty of $10,000, plus $7,500 towards investigation costs. In addition, the panel ordered him, with some exceptions, to cease trading in securities and acting as an officer or director for four years.

In addition, a number of other cases were concluded by settlement with the Executive Director during this same period. For details, please see the ASC website at www.albertasecurities.com.

Court of Appeal Decision

David Del Bianco/Equal Rights Legal Defence Alliance Inc.

In 2003, the ASC sanctioned Del Bianco, the President and Corporate Secretary, CEO and director of Equal Rights Legal Defence Alliance Inc., for his part in an illegal distribution of Equal Rights shares and for distributing these securities without being registered to do so. The ASC ordered Del Bianco to pay an administrative penalty of $10,000, plus $5,000 towards hearing costs, and for a period of four years to cease trading in securities and acting as a director or officer of any issuer.

On October 15, 2004 the Alberta Court of Appeal upheld the ASC's findings of liability and sanctions and dismissed Del Bianco's and Equal Rights' appeals of the ASC decision.

Interim Cease Trade Order Applications

When the Enforcement department identifies capital market activity that appears to present an immediate risk of continuing serious harm to the investing public of Alberta, it applies to an ASC hearing panel for an interim order prohibiting such activity. Subsequently, in such cases, the department will continue its investigation to determine what further ASC enforcement action is warranted and whether a referral to other enforcement authorities, such as the police, is appropriate. During this fiscal year, interim orders prohibiting trading in securities (cease trade orders) were issued and later extended until hearing in seven cases:

- In March 2004 an interim cease trade order was issued against Douglas Brian Wenzel, and respecting trading in securities of Wenzel Downhole Tools Ltd. and 376348 Alberta Ltd.

- In May 2004 an interim cease trade order was issued against HMS Financial Inc., Robert E. Fyn, Murray Stark, Garth S. Bailey, Garth S. Bailey Professional Corporation, Tamika Enterprises Inc., The Dakota Corporation, Gertrude Muriel Prete and Ruby Anne Leachman.

- In June 2004 an interim cease trade order was issued against Skyward Management Inc., Peter Leonard Sheridan, Blaine Arthur Cisna, Milton Teibe, Paget Capital and others.

- In September 2004, an interim cease trade order was issued respecting the securities of Quatro Communications Corp., Consumer Debt Recovery Trust/Heritage Financial S.A. and Syndicated Gold Depository S.A. and respecting trading in securities by Joanne Assen.

- In October 2004 an interim cease trade order was issued against Oxford Investment Holdings Inc. (formerly Oxford Software Developers Inc.), Michael Bernard Donaghy, Joseph Edward Allen, Mitchell O. Nwabuogu and Syed Kebis.

- In January 2005 an interim cease trade order was issued against Instadial Technologies Corp., Vern Smith, Joseph Edward Allen, Douglas Atwell and Christopher Shea.

- In February 2005, an interim cease trade order was issued respecting trading of securities of Integra Investment Service Ltd. and Rundle Development Cooperative and respecting trading in securities by Roy Jennix and Maxine Cooke.

Investor Education

Over the past year the ASC has taken steps to deliver quality, non-promotional, research-based information about investing to Albertans who are currently investing or who intend to invest. Through a variety of education initiatives and partnerships, the ASC has worked on both a provincial and national level to become a primary source of information about the investing process.

Bi-Annual Research

In May 2004, the ASC continued its bi-annual research project. Cameron Strategy was hired to conduct an Alberta-wide survey of adult Albertans in five regions: Calgary, Edmonton, northern Alberta, southern Alberta and central Alberta. In total, 1201 Albertans were surveyed.

Albertans identified four topics of interest on which they would like information. The topics of interest included: how to avoid investment fraud, how to save for retirement, how to evaluate risk and return and the basic investment principles.

The survey also revealed that the most common places for Albertans to look for information are mass media outlets, such as newspapers and the Internet. In addition, financial advisors and accountants were identified as a common source for information about investing.

It was also discovered that only 13 per cent of Albertans consider themselves able to make well-informed investment decisions. Further, the research indicated that investors do not know where to go to obtain more information about investing, resulting in a feeling of paralysis among some investors.

The research also showed that awareness of the ASC has increased since 2002, indicating success with previous public awareness efforts.

Partners in Education

To bring valuable information about investing to the classroom, the ASC continued its partnership with Mount Royal College in Calgary. Non-credit courses were offered on three different topics including *The Basics of Investing*, *Choosing a Financial Advisor* and *How to Avoid Investment Fraud*. The courses were offered in both the fall and winter semesters through the Faculty of Continuing Education.

For the third year, the ASC participated in the four largest teachers' conventions in Alberta. The ASC provided over 800 teachers with non-promotional, interactive tools and printed material for the classroom in support of the curricula for CALM (Career & Life Management), Math, CTS (Career & Technology Studies) and Social Studies. The materials provided to teachers were designed to assist them in teaching their students about the stock market, investing and money management.

The ASC also participated in presentations to seniors groups on the subject of avoiding investment fraud and made presentations to high school classes in both Calgary and Edmonton.

New Look for ASC Investor Education

In response to the research conducted by the ASC that Albertans often feel overwhelmed when trying to find simplified information on investing, the ASC has implemented a revised strategy for reaching Albertans. To make investor education resources more accessible and approachable, the ASC created a unique identity for investor education that is separate from the ASC's corporate identity.

A new look was applied to all Investor Education material this spring. In order to make information on investing even more accessible to investors, the ASC will launch a separate web site for investor education in 2005. The new site will feature simplified information about investing along with personal profiling tools, fact sheets, investing games and a glossary of terms. Based on the results of the most recent research, the new approach focuses on providing Albertans with information centered on life events that are most likely to coincide with financial decisions such as retirement, marriage, graduation, buying a home and having children.

CSA Investor Education

The ASC is an active participant in investor education initiatives at a national level through the Canadian Securities Administrators (CSA) to develop investor education programs for all Canadians. The CSA's Financial IQ Contest brought in over 400 essay submissions from young people across the country. A provincial prize of $750 was awarded to 18 year old, Eva Hu, of Edmonton, Alberta. Each provincial and territorial winner of the essay contest went on to compete for a national prize of $2,500. This year's national winner was from Quebec.

senior management team

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; dealing with certain exemptive relief applications for which it has delegated authority; and responding to issues arising in the course of contested take-over bids. The department is also responsible for oversight of the TSXV and the activities of the IDA, the MFDA and RS Inc. within Alberta.

The Enforcement Department's role is to provide effective and visible enforcement of Alberta securities laws. Department staff includes securities investigators who investigate suspected violations of securities laws and enforcement counsel who conduct enforcement proceedings before ASC hearing panels 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 reserves 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

	F 2005	F 2004	F 2003
ENFORCEMENT ACTIVITY			
Inquiries Received	3,665	4,108	5,041
Complaints Received	551	488	912
Concluded Investigations	185	192	269
Current Investigations	87	95	117
Interim Cease Trade Orders	7	n/a*	n/a*
Settlements	16	3	7/6
Hearings	11	15	12
ASC Costs Levied	183,500	248,000	n/a*
ASC Costs Recovered	186,500	236,750	48,925
Administrative Penalties Levied	227,000	192,500	80,000
Administrative Penalties Recovered	220,500	215,000	n/a*
Prosecutions Initiated in Provincial Court	3	0	2
Other Court Proceedings (including appeals)	4	2	8

*this data was not collected for this period

	F 2005	F 2004	F 2003
THREE-YEAR STATISTICAL SUMMARY			
Active Reporting Issuers			
Short-Form Eligible	654	586	532
Non-Short-Form Eligible	3,183	3,065	3,182
Mutual Fund	2,633	2,537	2,531
Prospectus & Rights Offerings Filed			
Prospectuses	760	710	530
Mutual Fund Prospectuses	87	88	90
Capital Pool Company Prospectuses	83	48	28
Rights Offerings	18	16	25
Exemption & Escrow Applications			
Exemption Applications	944	929	982
Escrow Applications	9	24	52
Registered Firms			
Dealers (mutual funds, securities, exchange contracts, scholarship plans, security issuers)	83	85	83
Advisors	210	186	162
Total Firms*	287	265	240
*6 firms are registered as both dealer and advisor (F 2003-5)			
Registered Individuals			
Mutual Fund Salespeople	9,730	9,521	9,582
Advising Individuals	2,433	2,127	852
Scholarship Plan Salespeople	304	371	450
Exchange Contracts Salespeople	27	30	12
Total Individuals Registered	12,494	12,049	10,896

2004/05 advisory committees

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

Philip J. Scherman, CA
KPMG LLP

John A.Thomson, CA
Independent Businessman

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

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 Tètrault LLP

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

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

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

Mark Brown
TSX Venture Exchange

Richard W. Clark
Gowling Lafleur Henderson LLP

Nicholas (Nick) P. Fader
Bennett Jones LLP

Leanne C. Krawchuk
Parlee McLaws LLP

Stan Magidson (Chair)
Osler, Hoskin & Harcourt LLP

William S. Maslechko
Burnet, Duckworth & Palmer LLP

John S. Osler
McCarthy Tetrault LLP

Melinda Park
Borden Ladner Gervais LLP

Debra J.Poon
Miller Thomson LLP

David T. Robottom
Stikeman Elliott LLP

Lloyd E. Symons
Heenan Blaikie LLP

James D. Thomson
Parlee McLaws LLP

Bryce C. Tingle
Tingle Merrett LLP

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

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

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

J. Richard Harris, P. Geol.
Harris Consultants

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

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

Stephen K. Gordon, P.Eng.
Petro-Canada

2005/06 Audit Committee
Dennis Anderson, FCA - Chair
Karl Ewoniak, CA
Thomas Cooke, Q.C.
Mike Shaikh, CA

2005/06 HR Committee
Jim Millard, Q.C. - Chair
David Betts, CFA
Dennis Anderson, FCA
Rod McLeod, Q.C.

management's discussion and analysis

The financial statements present the financial position, operating results and cash flows of the Alberta Securities Commission in accordance with Canadian generally accepted accounting principles for the fiscal year ended March 31, 2005. The following comments analyze the Commission's financial performance during the fiscal year ended March 31, 2005 and future prospects. The document should be read in conjunction with the financial statements.

Note: Fiscal 2003, 2004, 2005 and 2006 refer to the fiscal years of the Commission ending March 31, 2003, 2004, 2005 and 2006 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 in the Risks and Uncertainties section of Management's Discussion and Analysis.

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

Selected annual information

(Thousands)	F 2005		F 2004	F 2003
	Budget	Actual	Actual	Actual
Revenue	19,090	20,899	18,567	15,275
Expense	21,078	17,876	17,510	18,974
Net Income (loss)	**$(1,988)**	**3,023**	**1,057**	**$(3,699)**
Assets				
Cash		**$ 3,185**	**$ 1,599**	**$ 2,472**
Investments		**$19,790**	**$17,258**	**$15,320**
Capital Assets		**$ 2,124**	**$ 2,218**	**$ 1,727**
Total Assets		**$26,637**	**$22,991**	**$22,752**
Noncurrent Financial Liabilities				
Lease Inducement		**$ 618**	**$ 785**	**$ 955**
Accrued Benefit Liability		**$ 1,713**	**$ 1,267**	**$ 1,033**
Retained Earnings		**$21,861**	**$18,838**	**$17,781**

...management's discussion and analysis

HIGHLIGHTS

The Commission's net income of $3,023,000 in the fiscal year ended March 31, 2005 compares to the budgeted loss of $1,988,000 and a net income of $1,057,000 in fiscal 2004. The increase in net income in fiscal 2005 was largely a result of:

- unbudgeted fee revenue of $1,700,000 as a result of unexpected fees applicable to exempt distributions,
- additional distribution and financial statement filing fees of $1,200,000 and offset by,
- expense increases in fiscal 2005 of $400,000 primarily for staff compensation increases due to inflation, and
- registration revenue reductions in fiscal 2005 of $600,000.

At March 31, 2005, the Commission had cash and investments of $22,975,000. This is an important financial benchmark for the Commission as it measures investment policy target compliance and impacts the timing of proposed fee increases. The increase of $4,100,000 from the prior year arose from increases in current year cash flow.

ACTUAL RESULTS COMPARED TO BUDGET

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

Operating results for the year exceeded budget because of costs that were below budget, unbudgeted exempt distribution fee revenue, 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 remain flat** and require continued assessment of the need for future fee increases,
- **expenditures that will include only modest growth** for inflation and eight additional staff that are required to strengthen enforcement and continuous disclosure compliance resources, and
- **a projected loss in fiscal 2006 of $5,375,000** that includes a contingency amount of $2,000,000 and the continued need for strong cost control.

The Commission's operating results for the fiscal year ended March 31, 2005 and plans and expectations for future operations are analyzed in detail under the following headings:

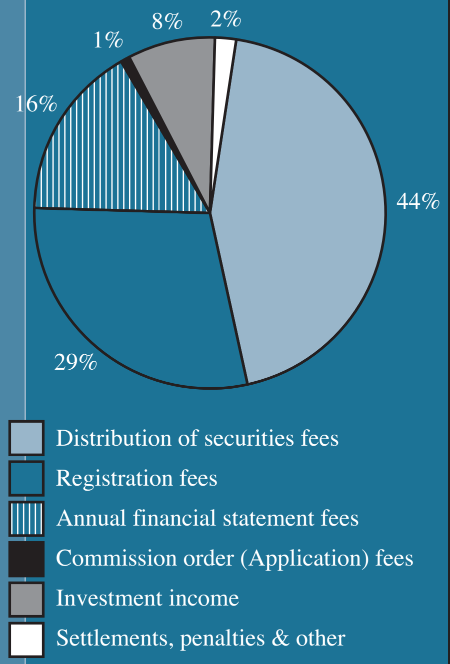
- Analysis of Fiscal 2005 Operations and Financial Position
- Fiscal 2006 Outlook

analysis of fiscal 2005 operations and financial position

REVENUE

(Thousands)	F 2005		F 2004	F 2003
	Budget	Actual	Actual	Actual
Revenue				
Distribution of Securities Fees	$ 7,630	$ 9,172	$ 6,879	$ 6,172
Registration Fees	7,049	6,109	6,715	5,686
Annual Financial Statement Fees	2,986	3,300	2,504	2,448
Order (Application) Fees	595	300	305	341
Total Fees	18,260	18,881	16,403	14,647
Investment Income	830	1,568	1,698	551
Settlement Cost Recoveries		187	248	12
Other		6	3	8
Administrative Penalties		257	215	57
	$19,090	$20,899	$18,567	$15,275

Fiscal 2005 Actual Revenue Analysis



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 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 23) contribute approximately 40% - 45% of total Commission revenues and are the most variable component of the Commission's revenue base. A major component of distribution of securities fees is exempt distribution fees and fees paid with notices of proceeds in respect of prospectus offerings. This component is based on the size of each distribution in Alberta. Distribution of securities fee revenue increased in fiscal 2005 because of incremental distribution fees of $550,000 and a non-recurring exempt distribution fee of approximately $1,700,000. The non-recurring fee was paid by a group of mutual fund trusts and resulted from a multi-year fee recalculation.

Registration fees from dealers, advisors and salespersons account for approximately 29% of revenues or $6,109,000 in fiscal 2005. 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 23) and an average 20% salesperson turnover rate that fluctuates minimally even in years of poor market performance. Registration fees decreased in fiscal 2005 primarily because of a one-time acceleration of registration renewal fees in fiscal 2004. Previously, registration renewal occurred throughout the year, but in 2004 this was changed to December 31.

Annual financial statement filing fees generally account for approximately 16% of fees, as in fiscal 2005, an increase of 2% from the prior year. Fees for these filings are $2,000 for issuers eligible to use the short form prospectus system and $250 for all others. While financial statement filing fees are relatively stable from year to year, in fiscal 2005 new continuous disclosure filing requirements (NI 51-102 *Continuous Disclosure Obligations*) for issuers with securities listed on the TSX require financial statement filings within 90 days of the issuer's year-end, while the prior rules provided for up to a 140 day filing period. This accelerated filing requirement resulted in additional financial statement filing fees in fiscal 2005 of approximately $650,000. The total number of reporting issuers in Alberta is approximately 6,450 (see Three Year Statistical Summary, page 23) and remains reasonably stable from year to year. During fiscal 2005 the number of issuers eligible to use the short form prospectus increased, accounting for a further increase in actual fees when compared to the prior year. The budgeted fees for fiscal 2005 included a general fee increase that was not implemented.

Other revenue sources are:

- **investment income,** which includes interest and capital gains or losses from cash, bonds and equities. While investment income in fiscal 2005 was lower than fiscal 2004 because of lower equity and bond fund rates of return, the increase of $1,147,000 in fiscal 2004 was a result of equity investment returns of 37%, 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 processed in fiscal 2005. The decline in fiscal 2004 resulted from rule amendments that intentionally reduced the need for exemptive relief applications in a number of circumstances; and
- revenues for **administrative penalties, settlements and cost recoveries** are discretionary, depending on the circumstances of specific cases, and vary from year to year. Settlements and administrative penalties revenues of $444,000 include settlements of $187,000 and administrative penalties of $257,000. The fiscal 2005 revenue compares to $463,000 for the prior year and a historic five-year average of approximately $400,000. Administrative penalties and settlements are discretionary, depending on the circumstances of specific cases, and vary from year to year.

Administrative penalty revenue accumulates as restricted cash and 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. Invested funds arising from administrative penalties earned interest for the year of $23,000 while expenses of $360,000 were deducted, principally for eligible investor education program costs. Restricted cash, composed of interest-bearing deposits, was $829,000 at year-end.

The mutual fund industry is a significant contributor to Commission revenues, with approximately 2,500 active mutual fund issuers (included in the 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 filing fees and approximately $3,200,000 from mutual fund registration fees, totalling $7,600,000 or 40% of total fee revenues.

Fee revenue sensitivity - During fiscal 2005, approximately **28% ($5,225,000)** of total revenue from fees was derived from fees paid on completion of a distribution. This percentage is 7% higher than average because of a one time multi year fee recalculation that was submitted by a group of private mutual funds. Distribution fees are calculated based on proceeds obtained from the distribution and 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.

When equity market values are rising, Commission 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 Commission revenues, the impact is not proportionately as large, with only 20% - 25% of revenues directly affected. Prospectus filing fees for securities distributions also will vary with market activity. However this fee source is less than 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 70% - 75% of fee revenues and are reasonably stable with minimal change to total fees.

Expense

(Thousands)	F 2005		F 2004	F 2003
	Budget	Actual	Actual	Actual
Salaries and benefits	$12,696	$12,191	$11,363	$10,613
Professional services	2,164	1,961	2,179	2,479
Administration	1,952	1,476	1,620	1,845
Premises	1,343	1,347	1,315	1,264
Amortization	560	541	519	556
Investor education	573	360	514	121
Edmonton office closure	-	-	-	2,096
Contingency	1,790	-	-	-
Total Expenses	$21,078	$17,876	$17,510	$18,974

Expense Analysis

Expenses in fiscal 2005 increased 2% to $17,876,000 from $17,510,000 in fiscal 2004 due primarily to staffing and compensation increases of $828,000. These increases were offset by cost reductions for; professional services of $218,000 resulting from reduced litigation support and CSA costs, administration of $144,000 from reductions in office supply and project print costs and investor education of $154,000 because of program deferral.

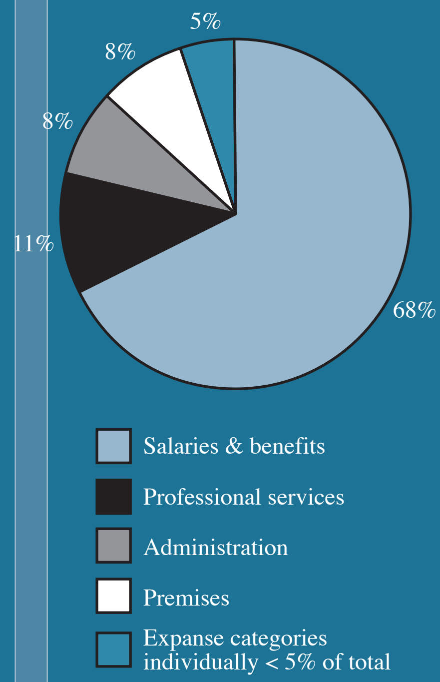
Salaries and benefits accounted for 68% of operating expenses (fiscal 2004 – 65%). There was an average 119 full-time staff during the year (2004 – 117). Because professional staff are recruited from legal firms, accounting firms, the securities industry and other regulators, their salaries must be competitive. Compensation includes a performance-based incentive program that represents approximately 5% of total salary and benefit costs.

Salary and benefit costs increased 7% to $12,191,000 (2004 – $11,363,000) because of merit -increases of 3.5%, benefit cost increases and two additional staff.

Professional services - Professional service expenses decreased by $218,000 because:

- charges for outsourced IDA registration administration, that are a percentage of fees received, decreased $44,000;
- professional service contract costs decreased $218,000 primarily because of reduced litigation support prior to and during hearings and 2004 nonrecurring costs for USL and the oil and gas national instrument; and
- CSA costs fell by $167,000 in 2005 primarily from the receipt of $121,000 from the L'autorité des Marchés Financiers (AMF) for participation in the national registration database. This cost offset reflects partial recovery of the $518,000 cost incurred by the Commission to fund the national registration database (NRD)

Fiscal 2005 Actual Expense Analysis



system in fiscal 2003. The Commission, as a member of CSA, funds a portion of CSA operations. 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 Montreal that commenced in March 2004. The operating costs of the Secretariat are borne on a formula basis by CSA members. In fiscal 2005, the Commission contributed $45,000 (fiscal 2004 — $53,000) toward the cost of the Secretariat and the former project office and $53,000 for the systems office. Total CSA spending on projects was $890,000 in fiscal 2005 (fiscal 2004 — $1,800,000) of which the Commission contributed $89,000 (fiscal 2004 — $194,000).

Administration - Effective cost control over travel and office supplies and reductions in hearing related support costs, because of reductions in the number of hearing days, resulted in reduced administration costs. This expenditure category includes advertising, insurance, freight and postage, rental equipment, telephone and communications, repairs and maintenance, member fees, business consultation, audit fees, materials and supplies and travel. Most travel expenses relate to coordinating with other CSA jurisdictions on national projects, policy research and rule formulation.

2005 BUDGET

The fiscal 2005 budget approved by the Minister of Revenue included proposed fee increases of $2,700,000. These fee increases were not implemented because Commission's financial results improved during fiscal 2004. The approved budget also included a contingency of $1,916,000 less a vacancy reserve of $126,000 (net $1,790,000) for unplanned expenses and revenue shortfalls. The contingency was not used in fiscal 2005 because revenues exceeded budget and expenses were less than budget. During fiscal 2005, the Commission approved additional expenses of $135,000 for an enforcement staff position and professional fees for a compensation survey and a financial reporting controls documentation project. These expenses were approved primarily as replacements for budgeted expenses that were no longer required because of certain project deferrals and staff vacancies. In addition, incremental capital costs of $20,000 were approved for lobby and entrance enhancement and a transfer of $45,000 of capital costs for training room renovation from other approved capital projects.

FISCAL 2005 BUDGET TO ACTUAL VARIANCES

Actual expenses for the year of $17,876,000 were $1,412,000 less than budgeted, exclusive of the net budget contingency.

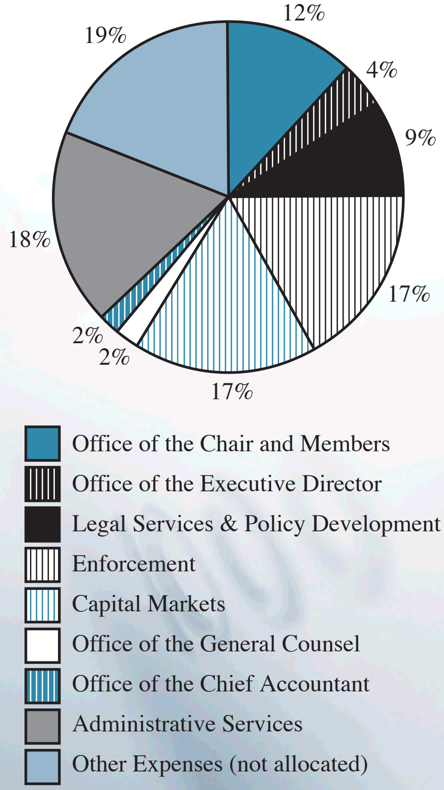
Expenses that were less than budgeted included:

- **Professional services costs** - USL project costs were not required because of project deferral. Additional costs planned for an enforcement systems project were reduced and anticipated research costs for the capital markets project were replaced with lesser-cost alternatives.
- **Salaries and benefits** - Compensation costs were less than budget because of an average five-position vacancy during the year.
- **Administration** - Costs were less than budget primarily because of continued reductions in travel expenses and focussed cost control by senior management in all areas of administrative expenditure.
- **Investor Education** - A portion of the investor education program was not proceeded with in fiscal 2005 resulting in expenditure less than budget.

Department Expenses

(Thousands)	F 2005		F 2004	F 2003
	Budget	Actual	Actual	Actual
Office of the Chair and Members	$ 1,954	$ 2,184	$ 1,832	$ 1,561
Office of the Executive Director	962	638	989	1,502
Legal Services & Policy Development	2,093	1,674	1,737	1,797
Enforcement	3,120	2,965	3,004	2,933
Capital Markets	3,054	3,033	2,664	2,668
Office of the General Counsel	496	393	352	-
Office of the Chief Accountant	452	351	336	393
Administrative Services	3,484	3,215	3,581	3,221
Edmonton Office Closure	-	-	-	2,096
Other Expenses (not allocated)	5,463	3,423	3,015	2,803
Total	**$21,078**	**$17,876**	**$17,510**	**$18,974**

2005 Department Expenses



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). Members' expenses result from their attendance at monthly Commission and related committee meetings, and on securities legislation exemptive relief applications and hearings. Cost changes are a result of compensation adjustments for merit increases of 3.5%, benefit increases and prior year recruitment costs for a senior officer. Members' costs include meeting attendance, attendance at hearings, which is unpredictable because the duration and number of hearings is not easily forecast and professional services costs for part-time Members' special investigations.

Office of the Executive Director expenses include CSA payments. The decrease in fiscal 2005 is a result of the AMF payment to CSA for NRD system use. The Commission's share was $121,000 and is recorded as a cost reduction. In addition CSA costs were both less than the prior year and less than the current year budget because a number of planned projects were not undertaken.

Legal Services & Policy Development cost decreases in fiscal 2005 resulted from staff vacancies arising from postponement of the USL project.

Capital Markets expenditures increased from the prior year as additional oil and gas related compliance staff were added.

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. Full year compensation costs in fiscal 2005 for a new staff member in fiscal 2004 accounts for the cost increase.

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 the Commission's operations and manages investor education programs and internal and external communications. Unfilled budget positions during portions of the year and nonrecurring fiscal 2004 website enhancement costs account for the reduction in fiscal 2005 expenses.

CAPITAL EXPENDITURES

Capital expenditures during fiscal 2005 included:

Leasehold improvements	$ 79,000
Information technology	355,000
Office furniture and equipment	16,000
Total	**$ 450,000**

Leasehold Improvements - Calgary office leasehold improvements included renovation and expansion of the training room and entry lobby flooring replacement.

Information Technology - Expenditures include replacement desktop computers, network servers, communication equipment, scanning disk capacity additions, related software upgrades and additional storage devices.

2006 Capital Budget - Capital expenditures approved for fiscal 2006 are primarily information technology based and include software upgrades, new desktop equipment, scanning disk capacity additions and communication equipment totalling $430,000. In addition, $126,000 is planned for additional furniture and leasehold modifications to accommodate eight additional staff that are included in the fiscal 2006 budget.

Assets and Liabilities

Accounts and Advances Receivable - Accounts receivable in fiscal 2005 are $77,000 and primarily include CSA recoverable expenses of $11,000, a lease operating cost adjustment of $25,000 and employee loans for computer acquisitions.

Investments - The Commission's investments are managed by the Ministry of Finance, which has responsibility for Provincial fund management of more than $42,000,000,000 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 Commission's Audit Committee and any changes require Commission approval. During fiscal 2005, the Audit Committee, in consultation with Commission management and the Investment Manager, amended the investment policy to more accurately reflect the Commission's investment asset allocation, rebalancing range intent and cash management processes. These changes clarified policy wording, while retaining the overall investment policy objectives and intent as redefined in fiscal 2004. The Commission approved the amended investment policy. Principal features continue to include:

- Size - The Investment Fund should be 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 2005 allocated 27% of total investments to equities and 73% to bonds.

Rates of return on investments were:

- Bond fund - The rate of return (based on market value) was 5.4 % in fiscal 2005 compared to 11.7% in the prior year.
- Equity funds - The average rate of return (based on market value) for the equity funds was 15 % compared to 36.6% in the prior year.
- Money market funds - These returned an average 2.8% in fiscal 2005 and 2.1% 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 2006, Commission investments will be drawn down to fund operations during the first nine months of fiscal 2006 and then increased in the final quarter. The forecast investment balance achieves the Commission's policy target of 50 -100% of forecast expenses. In addition, the Commission has access to approximately $829,000 of restricted cash for specific investor education initiatives, which, for fiscal 2006, are estimated at $600,000.

Investment income for the fiscal 2006 budget is projected as $893,000 using rates of return averaging 5% for bonds and 7% for equities and an average total invested balance of approximately $16,000,000. Budget forecasts are prepared six months in advance of year end and do not reflect incremental fees of over $1,700,000 received in the final quarter of fiscal 2005. Investment allocations for fiscal 2006 are approved as 75% bonds and 25% equities within a rebalancing range of +/- 5%. Using the 10 year Government of Canada bond return rate of 4.32% at March 31,2005 as a benchmark, a 1% increase in this rate reduces the market value of the Commission's bond investments by approximately $2,800,000 and results in an investment loss, net of interest income, of approximately $2,000,000 during a full fiscal year. If the interest rate change occurs during the year, the book value loss is less, as it is prorated over a future period and not marked to market in the period of valuation change. The average investment balance reflects Commission approved investment drawdowns during the first three quarters of fiscal 2006 to fund operations and excess cash transfers to investments in the final quarter of fiscal 2006.

Current Liabilities - Accounts payable and accrued liabilities at March 31, 2005 are greater than the prior year primarily because of incremental payables for investor education and professional services.

Funds held for other participants of $9,000 represents cash received and held for a national systems project, Market Integrity Computer Analysis (MICA).

Lease Inducements - Remaining lease inducements of $785,000 arise from an office lease with an eight-year term commencing April 1, 2003 and a prior lease with a residual inducement. The Commission received $199,000 in fiscal 2005 ($400,000 fiscal 2004) from the new lease and the remaining inducement of $389,000 is scheduled for approximately equal instalments in May 2005 and February 2006.

Accrued Benefit Liability - The accrued benefit liability represents future obligations relating to retirement plans established for certain senior management of the Commission. Expenses are based on actuarial valuations and management estimation for membership changes between valuation updates. Payments of $47,000 are anticipated in fiscal 2006. An actuarial plan valuation was completed for the three-year period commencing April 1, 2004. The actuary prepared a plan extrapolation as at April 1, 2005 that confirmed the reasonability of the March 31, 2005 accrued liability.

Commitments - SEDAR operations agreement - CDS INC. (CDS) operates the SEDAR electronic filing and payment system on behalf of the CSA under an August 1, 2004 agreement. The Alberta Securities Commission, as one of the agreement signatories, commits to pay CDS 11.7% of any shortfall from SEDAR system operating costs that exceed revenues. Alternatively, CDS must pay to CSA SEDAR revenues in excess of system operating costs ("surplus"). The surplus is not divisible; the CSA owns it as a group. CDS has paid $5,800,000 to the OSC, in trust, to December 31, 2004. This amount represents the SEDAR surpluses generated during the November 1, 2002 to July 31, 2004 period. An additional receipt of $160,000 occurred subsequent to March 31, 2005 for the SEDAR operating period ending October 31, 2004. The principal CSA administrators, including the Commission, have agreed that SEDAR surplus amounts can only be used to; offset any shortfall in SEDAR revenues, develop or enhance the SEDAR and SEDI systems and reduce SEDAR fees.

Quarterly Financial Results

	F 2005				F 2004			
(Thousands)	Q4 (Jan-Mar)	Q3 (Oct-Dec)	Q2 (July-Sept)	Q1 (Apr-June)	Q4 (Jan-Mar)	Q3 (Oct-Dec)	Q2 (July-Sept)	Q1 (Apr-June)
Revenues								
Fees & other	$ 9,950	$ 2,589	$ 2,686	$ 4,106	$ 7,228	$ 2,441	$ 2,956	$ 4,244
Investment income	387	490	391	300	436	514	418	330
	10,337	**3,079**	**3,077**	**4,406**	**7,664**	**2,955**	**3,374**	**4,574**
Expences								
Salaries & benefits	3,383	2,897	2,954	2,957	3,094	2,761	2,783	2,724
Other	2,109	1,133	1,058	1,385	1,717	1,498	1,487	1,446
	5,492	**4,030**	**4,012**	**4,342**	**4,811**	**4,259**	**4,270**	**4,170**
Net income (loss)	**$ 4,845**	**$ (951)**	**$ (935)**	**$ 64**	**$ 2,853**	**$(1,304)**	**$ (896)**	**$ 404**
Investments	**$19,790**	**$16,216**	**$17,232**	**$17,547**	**$17,258**	**$15,346**	**$16,041**	**$15,641**
Cash	**$ 3,185**	**$ 791**	**$ 708**	**$ 1,285**	**$ 1,599**	**$ 467**	**$ 1,331**	**$ 2,381**
Restricted Cash	**$ 829**	**$ 949**	**$ 943**	**$ 937**	**$ 932**	**$ 804**	**$ 799**	**$ 792**

QUARTERLY VARIANCE ANALYSIS

Fee revenue - Registration renewal fees of $4,700,000 and non-recurring exempt distribution fees of $1,700,000 account for the fourth quarter increase in fee revenue.

Other expenses - Fourth quarter other expenses increased because investor education expenses of approximately $250,000 were deferred to the final quarter in fiscal 2005 and in 2004 there was a $200,000 USL cost recovery received from CSA in the fourth quarter.

CONTRACTUAL OBLIGATIONS

Commitments to outside organizations in respect of contracts in place as at March 31, 2005 amounted to $10,450,000 (fiscal 2004 - $11,692,000). 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:

2005-06	$ 1,732
2006-07	1,756
2007-08	1,804
2008-09	1,729
2009-10	1,717
Thereafter	1,712
Total	**$10,450**

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 because they are recorded as liabilities.

FINANCIAL INSTRUMENTS

The Commission's financial instruments include cash, accounts receivable, advances and lease inducement receivables, investments and payables. Investments are managed by the Ministry of Finance and include derivative contracts for effective investment risk and return management. Details of these financial instruments are included in note 4 and schedules B, C and D of the Commission's financial statements.

FEE RESTRUCTURING

Commission fees continue to be amongst the lowest in Canada and were last subject to revision in 1997 when fees were reduced an average 20%. Fees have not been increased since 1993.

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 Commission losses would not exceed Provincial Government loss tolerance for the Commission. The Commission proposed (in its fiscal 2007 and 2008 forecast submissions to the provincial government) to increase fees by approximately 10% in each year, commencing April 1, 2006. However, the Commission's strong financial results in fiscal 2005 arose following the fee increase forecast submissions. These results enabled deferral of the fee increase consultation planned for the summer of 2005 and the initial fee increase in April 1, 2006. Fee increases require stakeholder consultation and amendment of the Fee Regulation by an Order-in-Council. The fee change process can take three to six months. The Commission continues to monitor its financial condition and will provide a minimum six month advance notice for any planned fee increase.

RELIANCE ON CDS INC.

CDS Inc. operates a number of major systems on behalf of the CSA and the Commission. Approximately 92% (fiscal 2004 — 89%) of Commission 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 Commission 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.

CDS developed a national System for Electronic Disclosure by Insiders (SEDI) for the CSA, which was launched in May 2003.

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

RISK MANAGEMENT INITIATIVES

The Commission has substantially completed a Business Resumption Plan (BRP) which is designed to allow the continuation of critical regulatory services should the Commission 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. An offsite recovery service and facility has been selected and detail planning is in progress that will result in a test of the offsite facility and plan in fiscal 2006.

During fiscal 2005 the Commission completed a project that documented controls over financial reporting. Management reported to the Audit Committee and the Commission that financial reporting controls are strong and identified certain non-financial areas that require further analysis. The Audit Committee is sponsoring projects in 2006 that will assess Commission wide risks, develop specific disclosure control processes and documentation and test financial reporting controls.

MEMORANDUM OF UNDERSTANDING

The Minister of Finance has a Memorandum of Understanding (MOU) with the Commission that outlines the ongoing roles, responsibilities and accountability relationships between the two parties. MOU commitments include Ministerial approval of annual Commission 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 Commission reporting to the Minister of actual financial results and budget updates.

FISCAL 2006 OUTLOOK

Revenues - The Commission has budgeted revenues for fiscal 2006 of $17,388,000 retaining the same fee structure and rates as in fiscal 2005 and projects conservative growth in fees from security distributions in Alberta and no fee growth for other fee filings.

Expenses - Commission expenses are budgeted at $22,764,000, an increase of $4,888,000 from fiscal 2005 actual expenses of $17,876,000. The projected increase is primarily a result of:

- compensation adjustments averaging 3.5% or $440,000, a further $935,000 (including benefits) for 8 additional staff primarily for enforcement and continuous disclosure processes and a reduced average vacancy rate accounting for an additional $500,000,
- contingency provision of $2,060,000; and
- $850,000 for professional services and administration costs that were not incurred in fiscal 2005 because certain projects were cancelled.

Loss - An operating loss is forecast of $5,376,000, which includes the contingency of $2,060,000 is forecast.

Staff costs - Costs for existing staff will continue to increase with annual compensation inflation. In addition, the Commission 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 2006 are estimated as $2,700,000, which approximates the budgeted loss excluding the contingency, and will be provided by cash and investment reductions.

RISKS AND UNCERTAINTIES

Budgets for fiscal 2006 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 magnitude of the Commission's fee restructuring plans that are subject to both industry consultation and government authorization;
- disruption of CDS fee processing that delays fee receipts;
- 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.

Management designs and maintains internal control systems over financial reporting to provide reasonable assurance that the Commission's financial reporting is reliable and accurate and that the preparation of financial statements is in accordance with generally accepted accounting principles (GAAP). Management has documented financial reporting control systems, evaluated the design of financial reporting controls, reported to the Audit Committee and concluded that financial reporting controls are well designed. Financial control testing and a report on control effectiveness and operation is planned for fiscal 2006.

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

William S. Rice, 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, 2005 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, 2005 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
July 4, 2005

Original Signed by Fred J. Dunn, FCA

Fred J. Dunn, FCA
Auditor General

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Balance Sheet

As at March 31, 2005 *(Thousands)*		2005	2004
Assets			
Current			
Cash	(Note 4)	$ 3,185	$ 1,599
Funds held for others	(Note 9)	9	295
Accounts and advances receivable		77	57
Lease inducement receivable		389	69
Prepaid expense		102	42
		3,762	**2,062**
Non-current			
Restricted cash	(Note 3)	829	932
Investments	(Note 4)	19,790	17,258
Capital assets	(Note 6)	2,124	2,218
Lease inducement receivable and lease deposit		132	521
		22,875	**20,929**
Total assets		**$26,637**	**$22,991**
Liabilities and retained earnings			
Current			
Funds held for others	(Note 9)	$ 9	$ 295
Accounts payable and accrued liabilities		1,602	970
Accrued vacation and benefit liabilities		667	666
Lease inducement	(Note 7)	167	170
		2,445	**2,101**
Non-current			
Lease inducement	(Note 7)	618	785
Accrued benefit liability	(Note 8)	1,713	1,267
Total liabilities		**4,776**	**4,153**
Retained earnings	(Note 3)	21,861	18,838
Total liabilities and retained earnings		**$26,637**	**$22,991**

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

Approved by the Members

William S, Rice, Chairman

Dennis A. Anderson, FCA, Member

Statement of Income and Retained Earnings

For the Year Ended March 31, 2005 *(Thousands)*		2005		2004
		Budget (Note 12)	Actual	Actual
Revenue				
Fees	(Note 10)	$18,260	$18,887	$16,406
Investment income	(Note 5)	830	1,568	1,698
Settlement cost recoveries		--	187	248
		$19,090	**$20,642**	**$18,352**
Expense				
Salaries and benefits		$12,696	$12,191	$11,363
Professional services		2,164	1,961	2,179
Administration		1,952	1,476	1,620
Premises		1,343	1,347	1,315
Amortization		560	541	519
Investor education	(Note 3)	573	360	514
Total Expense		**$19,288**	**$17,876**	**$17,510**
Budget contingency		1,790	--	--
Income (loss) from operations		(1,988)	2,766	842
Administrative penalties revenue	(Note 3)	--	257	215
Net income (loss)		(1,988)	3,023	1,057
Opening retained earnings			18,838	17,781
Closing retained earnings	**(Note 3)**		**$21,861**	**$18,838**

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

Statement of cash flows

For the Year Ended March 31, 2005 *(Thousands)*	2005	2004
Cash flows from operating activities		
Cash receipts from fees	$18,887	$ 16,628
Cash receipts from settlement cost recoveries	187	248
Cash paid to and on behalf of employees	(11,753)	(10,979)
Cash paid to suppliers for goods and services	(5,050)	(5,899)
Edmonton office closure	-	(130)
Investment income	1,568	1,698
Cash advanced to MICA project (Note 9)	(53)	(110)
Administrative penalties	257	215
Cash flows from operating activities	**4,043**	**1,671**
Cash flows from investing activities		
Lease inducement received	199	400
Decrease (increase) in restricted cash	103	(146)
Cash used for capital assets (1)	(348)	(1,096)
Cash used for investments	(2,532)	(1,938)
Cash returned from CSA for NRD funding	121	236
Cash used in investing activities	**(2,457)**	**(2,544)**
Increase (decrease) in cash	1,586	(873)
Opening cash	1,599	2,472
Closing Cash	**$ 3,185**	**$ 1,599**
Supplemental cash flow information		
(1) Additions to capital assets	$ (450)	$(1,012)
Proceeds on disposal	3	2
Increases (decreases) in capital asset liabilities	99	(86)
	$ (348)	**$(1,096)**

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

Notes to the financial statements

March 31, 2005 *(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, credit default swaps, forward foreign exchange contracts 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, equity index futures contracts and forward foreign exchange 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 interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates.
(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.
(iv) Forward foreign exchange contracts and equity index futures contracts are valued 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 and actuarial losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the plan. Gains and losses arising from employee changes are recognized in the year of change. The average remaining service period of active employees of the Plan is five 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

The *Alberta Securities Act* permits the use of revenues received by the Commission from Administrative Penalties for certain operating expenditures that educate investors and enhance the knowledge of the securities market operation.

Note 3: Restricted Cash and Retained Earnings

Retained earnings include $829 ($932 in 2004) of restricted cash, as described in Note 2(i). The restricted cash decrease represents administrative penalty receipts, interest income and net accounting conference income during the year of $257 less eligible investor education expenses of $360. Accounting conference net income of $8 ($6 in 2004) is net of $64 ($57 in 2004) of expences.

Note 4: Cash and Investments

(a) Summary

	2005			2004		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	**$ 3,185**	**$ 3,185**		**$ 1,599**	**$ 1,599**	
Investments						
Deposit in the CCITF	$ 56	$ 56	0.3	$ 54	$ 54	0.3
Fixed-income securities (Schedule B)	14,757	14,709	72.8	12,386	12,442	69.7
Canadian equities (Schedule C)	4,977	5,433	26.9	4,818	5,364	30.0
	$19,790	**$20,198**	**100.0**	**$17,258**	**$17,860**	**100.0**

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund that is managed by the Ministry of Finance 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 securities held by the fund at March 31, 2005 was 2.8% (2.1% in 2004) per annum.

The Commission's investments are held in pooled investment funds established and managed by the Ministry of Finance. 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, 2005, the Commission's percentage ownership, at market, in pooled investment funds is 0.17% 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, 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 Finance 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.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified equity 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, 2005.

	Maturity			2005		2004	
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount (a)	Net Fair Value (b)	Notional Amount (a)	Net Fair Value (b)
Equity index swap contracts	83%	17%	-	$ 2,067	$ 52	$ 1,679	$ (5)
Cross-currency interest rate swaps	9%	21%	70%	1,651	(46)	1,196	(178)
Interest rate swap contracts	39%	53%	8%	868	(24)	1,054	(48)
Bond index swap contracts	100%	-	-	286	2	176	4
Credit default swap contracts	29%	10%	61%	260	3	81	(1)
Forward foreign exchange contracts	100%	-	-	91	7	-	-
Equity index futures contracts	-	-	-	-	-	1	-
				$ 5,223	**$ (6)**	**$ 4,187**	**$(228)**

(a) Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

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

Note 5: Net Investment Income

	2005	2004
Interest	$ 766	$ 768
Net realized gain on investments	535	542
Derivative income	214	333
Dividends	53	55
	$1,568	**$1,698**

Note 6: Capital Assets

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment and software	$1,946	$1,391	$ 555	$ 484
Furniture and equipment	511	252	259	291
Leasehold improvements	2,378	1,068	1,310	1,443
	$4,835	**$2,711**	**$2,124**	**$2,218**

Note 7: Lease Inducements

Lease inducement balances include:

Lease	Term	Current Inducement	Future Inducement
Calgary, old	10 years, ending 2006	$ 40	$ --
Calgary, new	8 years, ending March 2011	124	618
Calgary sublease	3 years, ending October 2005	3	--
		$ 167	**$ 618**

Note 8: Accrued Benefit Liability and Pension Expense

The accrued benefit liability includes:

	2005	2004
Retirement Plan	$ 190	$ 182
Supplemental Pension Plan	1,523	1,085
	$1,713	**$1,267**

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

	2005	2004
Public Service Pension Plan	$ 277	$231
Registered Retirement Savings Plan	287	270
Retirement Plan	29	2
Supplemental Pension Plan	438	286
	$1,031	**$789**

(a) Public Service Pension Plan
The Commission participates in the Public Service Pension Plan (the PSPP). At December 31, 2004 the PSPP reported a deficiency of $450,068 and in 2003 a deficiency of $584,213.

(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 fifteen 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 2005, $21 in 2004) 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 as they come due from the assets of the Commission.

Actuarial valuations of the Plan are undertaken every three years and the most recent, at April 1, 2004, was performed by an independent actuary. An extrapolation of the 2004 valuation was made by the actuary for March 31, 2005 through March 31, 2008, as at April 1, 2005. The next valuation is scheduled for April 1, 2007.

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

Balance Sheet at March 31	2005	2004
Market value of assets	$ --	$ --
Accrued benefit obligation	1,895	1,391
Unfunded obligation	**$1,895**	**$1,391**
Unamortized transitional obligation	(176)	(202)
Unamortized actuarial loss	(320)	(104)
Employee change liability, management estimate	124	--
Accrued benefit liability	**$1,523**	**$1,085**

Accrued Benefit Obligation	2005	2004
Accrued benefit obligation at beginning of the year	$1,391	$1,033
Service cost	205	197
Interest cost	97	64
Net Actuarial loss, less benefits paid of $33 ($ - in 2004)	202	97
Accrued benefit obligation at end of the year	**$1,895**	**$1,391**

Pension Expense	2005	2004
The pension expense for the Plan is as follows:		
Service cost	$ 205	$ 197
Interest cost	97	64
Amortization of transitional obligation	26	25
Recognized actuarial losses during year	110	-
Pension Expense	**$ 438**	**$ 286**

Actuarial Assumptions for Actuarial Valuation of the Plan

The assumptions used in the 2005 actuarial extrapolation of the Plan are summarized below. The 2004 assumptions are based on the 2004 actuarial valuation of the Plan. The discount rate was established in accordance with the yield on long term corporate bonds and applies to both the accrued benefit obligation and benefit costs. 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.

	2005	2004
Discount rate	5.8%	6.1%
Rate of inflation	2.65%	2.35%
Salary increases	3.65%	3.35%
Remaining service life (EARSL)	5 years	10 years

Note 9: Funds Held for Others

The Commission holds, in a separate bank account, $9 ($295 in 2004) in cash for participants in the Market Integrity Computer Analysis (MICA) system upgrade project. The Commission has recorded a total project expense of $164 ($53 in 2005) and has a remaining commitment of $6. 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: Fees

	2005	2004
Distribution of Securities	$ 9,172	$ 6,879
Registrations	6,109	6,715
Annual Financial Statements	3,300	2,504
Other	6	3
Orders (Applications)	300	305
Total	**$18,887**	**$16,406**

Note 11: Commitments and Contingencies

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, 2005 amounted to $10,450 ($11,692 in 2004). These commitments become expenses of the Commission when the terms of the contracts are met.

2005-06	$ 1,732
2006-07	1,756
2007-08	1,804
2008-09	1,729
2009-10	1,717
Thereafter	1,712
Total	**$10,450**

Canadian Securities Administrators (CSA) - The Commission also agreed to share, based on an agreed upon cost sharing formula, the costs incurred for the maintenance of the 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.

SEDAR operations agreement - CDS INC. (CDS) operates the SEDAR electronic filing and payment system on behalf of the CSA under an August 1, 2004 agreement. The Alberta Securities Commission, as one of the agreement signatories, commits to pay CDS 11.7% of any shortfall from SEDAR system operating costs that exceed revenues. Alternatively, CDS must pay to CSA SEDAR revenues in excess of system operating costs (“surplus”). The surplus is not divisible; the CSA owns it as a group. CDS has paid $5,783 to the OSC, in trust, to December 31, 2004. This amount represents the SEDAR surpluses to July 31, 2004. Subsequent to March 31, 2005 a further $160 was paid to OSC for the period ending October 31, 2004. The principal CSA administrators, including the Commission, have agreed that SEDAR surplus amounts can only be used to; offset any shortfall in SEDAR revenues, develop or enhance the SEDAR and SEDI systems and reduce SEDAR fees.

(b) Legal Actions

The Commission is involved in various legal proceedings arising from its operations and 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 Finance approved budget includes fee increases of $2,719 and a contingency expense provision of $1,916 less a vacancy reserve of $126. A budget contingency provision of up to ten percent 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 and the Finance Minister agreed to a revised budget including, a deferral of the fee increase beyond 2005, revenue increases of $500 arising from accelerated financial statement filings and related fees, following a change in the filing rule and elimination of the contingency expense provision of $1,916. Members also approved a further expenditure (which was applied against the contingency amount) of $135 for an enforcement staff position and professional fees for a compensation survey and a financial reporting controls documentation project. Actual revenues and expenses resulting from these budget changes are recorded in their respective accounts.

Note 13: Related Party Transactions

The Commission is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown corporations. The Commission conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $60 ($66 in 2004).

Note 14: Comparatives

Comparative 2004 professional services expense are increased by CSA project costs of $226 and are reduced by $445 of investor education costs that have been reclassified to conform to their 2005 presentation.

Comparative 2004 administration costs include other, materials and supplies, travel, member fees and telephone and communication costs that have been reclassified to conform to their 2005 presentation.

Schedule A
Schedule of salaries & benefits

For the Year Ended March 31, 2005	Base Salary (1)	Other Cash Benefits (2)	Other Non-Cash Benefits (3)	2005 Total	2004 Total (4)
Chair, Securities Commission (5)	$412,000	$58,400	$227,986	$698,386	$559,632
Vice Chair, Securities Commission (5)	$211,000	$25,000	$ 64,888	$300,888	$284,495
Vice Chair, Securities Commission (5)	$191,500	$25,000	$ 37,019	$253,519	$241,016
Members (part-time)	$367,848	$ -	$ -	$367,848	$288,487
Executives					
Executive Director	$235,000	$33,500	$ 71,211	$339,711	$316,530
Director, Legal/Policy	$182,000	$19,000	$ 41,797	$242,797	$231,908
Director, Capital Markets	$176,500	$10,000	$ 43,478	$229,978	$220,310
Director, Enforcement (6)	$180,000	$25,000	$ 41,004	$246,004	$235,750
Director, Administrative Services	$160,400	$ -	$ 37,393	$197,793	$201,561
Chief Accountant	$166,500	$19,000	$ 21,608	$207,108	$197,190
General Counsel	$176,000	$30,000	$ 21,082	$227,082	$201,238

(1) Base salary includes regular base pay and honoraria.
(2) Other cash benefits include bonuses, lump sum payments, Chair & Executive Director’s automobile allowances and vacation payouts.
(3) Employer’s share of all employee benefits & contributions or payments made on behalf of employees including pensions, registered retirment savings plan contributions, health care, dental covarge, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disability, professional memberships, tuition, club memberships, worker’s compensation and Supplemental Pension Plan.
(4) 2004 Comparitive figures are restated to include Supplemental Pension Plan accruals.
(5) The Chair and Vice Chairs are full time Commission Members. The Chair’s 2005 compensation includes $100,000 of incremental Supplemental Pension Plan accrual.
(6) The previous Director of Enforcement resigned October 10, 2003 and his vacation payout is included in 2004.

Schedule B
Schedule of investments in fixed income securities

	Commission's share			
	2005		2004	
(Thousands)	Cost	Fair Value	Cost	Fair Value
Deposit in the Consolidated Cash Investment Trust Fund	$ 90	$ 90	$ 19	$ 19
Public fixed-income securities				
Government of Canada				
direct and guaranteed	4,417	4,350	3,000	2,964
Provincial:				
Alberta, direct and guaranteed	8	9	9	9
Other, direct and guaranteed	3,259	3,419	2,800	2,968
Municipal	181	186	164	169
Corporate	5,323	5,196	5,082	5,018
Private fixed-income securities				
Corporate	1,373	1,353	1,343	1,326
	14,651	14,603	12,417	12,473
Accounts receivable and accrued investment income	175	175	145	145
Accounts payable and accrued liabilities	(69)	(69)	(176)	(176)
	106	106	(31)	(31)
	$14,757	**$14,709**	**$12,386**	**$12,442**

(a) Fixed income securities held as at March 31, 2005 have an average effective market yield of 4.34% per annum (4.20% per annum in 2004) and the following term structure based on principal amounts:

	2005	2004
Under 1 year	3%	2%
1 to 5 years	38%	40%
5 to 10 years	31%	30%
10 to 20 years	12%	10%
over 20 years	16%	18%
Total	**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 Finance 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

	Commission's share			
	2005		2004	
(Thousands)	Cost	Fair Value	Cost	Fair Value
Deposits and short-term securities	$ 38	$ 38	$ 34	$ 34
Public equities (a) (b)				
Financial	1,588	1,741	1,497	1,723
Energy	907	1,117	639	783
Materials	725	780	823	907
Consumer discretionary	387	374	387	371
Telecommunication services	343	356	268	256
Information technology	321	314	365	428
Industrials	260	287	376	398
Consumer staples	203	230	187	209
Health Care	98	82	117	116
Utilities	72	79	167	181
	4,904	5,360	4,826	5,372
Receivable from sale of investments and accrued investment income	71	71	21	21
Accounts payable and accrued liabilities	(36)	(36)	(63)	(63)
	35	35	(42)	(42)
	$4,977	**$5,433**	**$4,818**	**$5,364**

(a) The Commission's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totaling $2,067 ($1,680 in 2004) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

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

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

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Domestic Passive Equity Pooled Fund (i)	$2,927	$2,978	$2,338	$2,391
Canadian Pooled Equity Fund (ii)	1,427	1,788	1,172	1,517
External Managers Canadian Large Cap Equity Pool (iii)	623	667	1,308	1,456
	$4,977	**$5,433**	**$4,818**	**$5,364**

(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 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 five 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 investment 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 percentages for the Commission are as follows:

	One year Return					5 Year Compound Annualized Return
	2005	2004	2003	2002	2001	
Time-weighted rates of return						
Short-term fixed income	3.7	4.2	2.9	4.0	5.8	4.1
Scotia Capital 91-day T-Bill Index	2.2	3.0	2.7	3.7	5.7	3.5
Long-term fixed income	5.4	11.7	9.5	5.7	9.4	8.3
Scotia Capital Universe Bond Index	5.0	10.8	9.2	5.1	8.7	7.7
Canadian equities	15.0	36.6	(17.5)	n/a	n/a	n/a
S&P/TSX Composite Index	13.9	37.7	(17.6)	n/a	n/a	n/a
Overall	**7.8**	**17.8**	**2.3**	**4.3**	**8.6**	**8.0**

Executive and Senior Management

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Chair & Chief Executive Officer
William S. Rice

Vice-Chairs
Glenda Campbell, Q.C.
Stephen Murison

Executive Director
David Linder

Capital Markets
- Acting Director - Fred Snell, FCA
- Deputy Director - Agnes Lau, CA
- Manager, Securities Analysis - Mavis Legg, CA
- Manager, Registration - James Wahl

Accounting
- Chief Accountant - Fred Snell, FCA
- Deputy Chief Accountant - Christopher Courtland, CA

Communications
- Manager - Belinda de Wolde, ABC

Finance
- Controller - Stephen Slipp, CA
- Manager, Administration - Michelle Kutschera
- Manager, Information Technology - Robyn Birdsell

Enforcement
- Director - John Petch, Q.C.
- Manager, Case Assessment - Mark Arseneault
- Manager, Investigations - David Smiley
- Manager, Litigation - Don Young

Office of the General Counsel
- Acting General Counsel - Kari Horn

Human Resources
- Acting Director - Al Lennox

Legal Services and Policy Development
- Acting Director - Blaine Young
- Deputy Director, Legislation - Marsha Manolescu

*current at July 31, 2005

Alberta Securities Commission