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ALBERTA SECURITIES COMMISSION
1998 Annual Report

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ABBREVIATIONS

ASE	The Alberta Stock Exchange	MP	Multilateral Policy
BCSC	British Columbia Securities Commission	MRRS	Mutual Reliance Review System
CICA	Canadian Institute of Chartered Accountants	NASAA	North American Securities Administrators Association, Inc.
CSA	Canadian Securities Administrators	NI	National Instrument
IDA	Investment Dealers Association of Canada	NP	National Policy
MI	Multilateral Instrument	SEDAR	System for Electronic Document Analysis and Retrieval
		SRO	Self-Regulatory Organization

PROFILE

The Alberta Securities Commission is a provincial corporation consisting of members appointed by the Lieutenant Governor in Council. The Commission is responsible for the administration of the Alberta Securities Act, the Securities Regulation and the Alberta Securities Commission Rules.

The Commission has 88 employees, including lawyers, accountants, systems analysts and support staff in its Calgary and Edmonton offices.

MISSION

The Commission's mission is to foster a fair and efficient capital market in Alberta and confidence in that market.

GOALS

- to improve the regulatory environment
- to improve enforcement
- to maintain working relationships with industry, other securities regulatory authorities, regulators of financial institutions and government

CHAIR'S REPORT

The past year was a busy and productive one for the Commission.

NATIONAL COORDINATION

Members of the CSA have cooperated to an unprecedented degree over the past year. Substantial progress has been made in developing the framework for a system of securities regulation administered by the twelve Canadian jurisdictions so as to offer the public a level of efficiency and consistency that might be expected of administration by a single jurisdiction. The principles that support this system are mutual reliance, harmonization, increased use of common or compatible technology and enhanced resources, including adequate funding and the authority to deploy resources in an appropriate manner.

At the heart of the system is reliance by participating regulators on the review and analysis of a multi-province document or issue conducted by staff of a single lead jurisdiction, as a basis for their own decisions. The CSA is well on its way to shaping a national system of mutual reliance for review of prospectuses and initial Annual Information Forms, for applications for exemptions from securities legislation and for applications for registration of advisers and SRO member dealers. Proposals for these mutual reliance regimes have been published for comment.

The mutual reliance review system can accommodate differences in local requirements, although harmonization of requirements remains an essential goal of the regulators in order to meet the demands of an increasingly multijurisdictional securities environment.

MUTUAL FUND SRO

CSA members have made considerable progress in the initiative to require all registered mutual fund dealers to be members of an SRO. Formation of the SRO is the most efficient way to upgrade this important area of capital market activity. It is anticipated that the new SRO will accept new members during 1999.

CONTINUOUS DISCLOSURE

Along with most other CSA members, the Commission has published for comment proposed legislative changes that would create a limited statutory civil remedy for secondary market investors who suffer losses as a result of public misrepresentations by issuers or related influential individuals. The draft legislation generally follows the recommendations of The Toronto Stock Exchange Committee on Continuous Disclosure (Allen Report).

NATIONAL ESCROW REQUIREMENTS

Commission staff have been active in developing new uniform escrow requirements for initial public offerings across Canada that maintain the interest of key management and related parties in the issuer during its development stage and reward their accomplishments. The objective of this project is to simplify the existing escrow requirements and eliminate inconsistencies that currently exist across jurisdictions. The national escrow proposal has been published for comment.

ALBERTA/ BRITISH COLUMBIA REGULATORY ACCORD

Last year we reported that we had signed an Accord with the BCSC to improve the effectiveness and operational efficiency of securities regulation in our provinces. Many of the goals of the Accord have since been subsumed into national initiatives. However, other goals continue to be met under the Accord. As an example, we have jointly developed a system of selective review for prospectuses that enables us to allocate staff resources more efficiently. As well, the attendance of some members of each Commission at the other's monthly meetings has greatly increased the exchange of ideas between the Commissions.

COOPERATION WITH REGULATORS IN OTHER FINANCIAL SECTORS

Securities regulators are seeing pressure in favour of increased information sharing across financial sectors as a result of the increasingly global markets and conglomerates that are regulated by different authorities. At present, there are a number of legislative constraints on such sharing of information, however we anticipate that the next few years will see changes designed to facilitate such information flow.

INVESTOR EDUCATION

This spring, the Commission joined regulators throughout the Americas in marking the first Investor Education Week. Staff participated with other Canadian regulators in the development of a series of brochures for novice investors to increase awareness of the risks and rewards of investing in the securities market. Staff also participated in a series of seminars on mutual funds presented by the Investor Learning Centre.

The Commission has also made progress towards establishing a foundation to promote awareness in investors and entrepreneurs of the functions, operations, benefits and risks associated with the capital markets in Alberta and elsewhere.

COMMISSION MEMBERS APPOINTED

Marty Larson completed his term as a Commission member at the end of March, 1998. We will miss his expertise and wisdom.

Effective April 1, 1998, we were pleased to welcome John Cranston of Calgary as a member. As well, Eric Spink, who was previously a full-time member of the Commission, was appointed the Vice-Chair.

OUTLOOK

We look forward to the implementation of the mutual reliance proposals developed this year, which will bring cooperation among CSA members to an exciting new level. The increasing complexity of the capital markets will no doubt also bring with it new challenges that we will strive to meet in ways that will foster a fair and efficient capital market in Alberta and confidence in that market.

The achievements of the past year are the results of the hard work, creative thinking and commitment of our members, advisory committees and staff. I thank them for their dedication and support.



W. L. Hess, Q. C.
Chair
July 31, 1998

OVERVIEW

The Alberta Securities Commission is an industry-funded provincial corporation responsible for the administration of the Alberta Securities Act, the Securities Regulation and the Alberta Securities Commission Rules. The members of the Commission are appointed by the Lieutenant Governor in Council. There are currently eight members including the Chair and Vice-Chair. The Chair also serves as the Commission's chief executive officer.

ADJUDICATIVE, POLICY AND ADMINISTRATIVE ACTIVITIES

The Commission is an administrative tribunal with quasi-judicial powers. Panels of members hear enforcement proceedings and consider applications for discretionary exemptions from the requirements of the securities legislation. Hearings are held each week in either Calgary or Edmonton. The Commission also sits as an appeal body to hear appeals from decisions of the Executive Director, the ASE and the Alberta District Council of the IDA.

The members also meet regularly to determine policy, develop rules and recommend changes to the Securities Act and the Securities Regulation.

The members act as the board of directors of the Commission. They are responsible for the management of the business and affairs of the Commission, including the approval of the Commission's annual budget.

OPERATING ACTIVITIES

Daily operating activities are the shared responsibility of the Executive Director and the Chief Financial Officer (CFO).

The Executive Director has the following responsibilities:

- registering persons or companies that advise or trade in securities or exchange contracts
- conducting compliance reviews of registrants
- reviewing prospectuses and other offering documents
- monitoring continuous disclosure filings
- investigating suspected violations of regulatory requirements
- commencing enforcement proceedings before the Commission and conducting prosecutions under the Securities Act in provincial court
- developing recommendations for policy development, rules and legislative change
- overseeing the ASE and the Alberta District Council of the IDA

The position of CFO was created through a reorganization of the internal functions of the Commission. The CFO is responsible for the following functions:

- finance and accounting
- financial reporting
- budgets
- business plans
- information technology
- human resources
- administration

THE YEAR IN REVIEW

CAPITAL MARKETS

The former Securities Analysis and Capital Markets divisions were combined as the Capital Markets division in December, 1997. The Securities Analysis section of the Capital Markets division is responsible for reviewing prospectus filings and certain other offering documents, and for monitoring public disclosure by reporting issuers. The Securities Analysis section includes the Office of the Chief Accountant, which monitors continuous disclosure filings and provides additional accounting expertise to securities analysts and other staff of the Commission.

The Registration section of the Capital Markets division is responsible for registering dealers, salespersons and advisers, and for monitoring compliance by registrants with the requirements of the Securities Act and Alberta Securities Commission Rules and Policies.

SECURITIES ANALYSIS

Unless an exemption is available, the issuer of securities must file a prospectus containing full, true and plain disclosure of all relevant information before the securities may be offered for sale in Alberta. Prospectus review by staff of the Securities Analysis section is designed to ensure that the prospectus meets all relevant legislative requirements. This review often involves discussions with the issuer or its legal counsel to resolve questions about the proposed offering before the prospectus is cleared and a final receipt is issued.

Prospectus Filings

During the past fiscal year, receipts were issued for 935 preliminary prospectuses compared to 921 in 1996/7 and only 481 in 1995/6. The number of preliminary prospectuses filed with Alberta as the principal jurisdiction, other than Junior Capital Pool prospectuses, dropped slightly from 305 in 1996/7 to 297 in 1997/8.

Activity levels for Junior Capital Pool offerings also remained relatively constant, with a slight drop to 151 preliminary JCP prospectuses in fiscal 1998 from 156 preliminary JCP prospectuses in fiscal 1997.

The Securities Analysis section handled a total of 803 applications for exemptions from the provisions of the Securities Act relating to prospectus filings and escrows. The decline from 1,108 such applications in 1996/7 was primarily due to the elimination of a duplicative requirement related to prospectus filings in certain circumstances.

OFFERING DOCUMENTS	1998	1997	1996
Preliminary Prospectuses	935	921	481
Annual Information Forms	547	465	450
Renewal Prospectuses	93	74	92
Exchange Offering Prospectuses	20	22	20
Junior Capital Pool Prospectuses	151	156	89
Rights Offerings	37	26	37
Escrow Applications	340	294	272
Exemption Applications	463	814	650

Joint Regulatory Initiatives

In 1997/8, staff of the Securities Analysis section participated in initiatives to harmonize regulatory requirements among jurisdictions in Canada. The primary initiatives were the development of the Harmonized Escrow Regime for Initial Public Offerings and of the MRRS for prospectus filings. Under the former, all provinces and stock exchanges will use the same escrow model, which will give greater certainty to market participants

with respect to escrow requirements and administration. Under the MRRS, an issuer's prospectus will be subject to review and comment only by its principal jurisdiction, which in most cases will be the jurisdiction in which its head office is located.

Under the Alberta/British Columbia Joint Regulatory Accord, staff of both Commissions worked to develop a joint selective review model for prospectuses. Under the model, certain prospectuses will receive only a basic review, while others will receive a detailed review. The criteria for determining whether a particular prospectus receives a basic or a detailed review include the quality of the issuer's recent prospectus and continuous disclosure filings. In addition to allocating staff resources more efficiently, this is intended to be an incentive for issuers to maintain a high quality public disclosure record.

In January, 1998, CSA staff issued a Notice to provide guidance to reporting issuers on their obligations to address, in continuous disclosure and prospectus documents, any potential problems arising from Year 2000 computer issues. A CSA committee has been established to try to ensure that the issue is addressed consistently by regulatory authorities.

OFFICE OF THE CHIEF ACCOUNTANT

Financial statements are a cornerstone of the capital market. Much of the analysis and projected information developed from financial statements is used by market participants and investors to make important investment decisions.

Staff of the Office of the Chief Accountant provide support and assistance to the Securities Analysis section in the review of prospectuses; as requested, to issuers with respect to offering circulars; to the ASE in the review of new listings and Junior Capital Pools; and to the Legal Services section in the review of reformulation initiatives and some applications. In certain cases, assistance is also provided to the Enforcement and Prosecution division.

Staff also attempt to ensure that financial statements filed with the Commission are prepared in accordance with generally accepted accounting principles and audited or reviewed in accordance with appropriate standards. In carrying out these responsibilities, staff make every effort to ensure that the cost of financial reporting requirements is balanced with the public interest for financial disclosure.

Monitoring, Secondment Program and Pre-Filing Conferences

Staff monitor required financial statement filings under continuous disclosure requirements. When financial statements have not been filed within the required time or when staff find that the statements or audits contain significant deficiencies, staff can apply to the Commission for cease trade orders.

Staff, including staff seconded from accounting firms, continued their review of financial statements on a random sampling and judgment basis. The number of statements with material deficiencies declined to five. The main problem areas are business combinations, related party and non-monetary transactions and income taxes. Results are published in "Regulation Update" by the Institute of Chartered Accountants of Alberta (ICAA).

Many pre-filing conferences were held during the past year. Staff welcome this consultation which often resolves accounting and reporting issues and expedites the filing process.

Joint Regulatory Initiatives

Harmonization efforts undertaken by the Office of the Chief Accountant in 1997/8 included the following:

- Proposed policies were drafted including financial disclosures required for the acquisition of a business (focusing on oil and gas properties) and reverse take-overs. Following review and comment by the Financial Advisory Committee, the agreement of other commissions will be sought and, if obtained, the policies will be published nationally.
- Review and updating was begun on the Corporate Finance Accountants Manual, which was first published in 1995 by the Ontario Securities Commission as a joint initiative of the staff of various Canadian securities commissions.
- Financial statement accounting and auditing requirements are continually discussed and coordinated with the Chief Accountants of other provincial

securities commissions. The goal is to achieve greater consistency, mutual reliance and a “virtual” national chief accountants group.

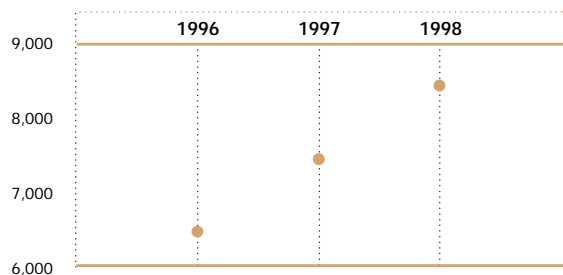
Other Activities

- In partnership with the ICAA, the course entitled *Securities Practice for the Alberta Accountant* was again presented to over 50 professionals.
- Presentations were also made to other groups on securities practice and on the CICA Handbook.
- An informal program called “Rap Wednesday” was started. Problems and possible solutions related to securities practices and policies are discussed. These meetings are attended by staff of the Commission and the ASE, along with senior lawyers, accountants, engineers, valuers and investment dealers. Favourable evaluations of this initiative have been received from participants.

REGISTRATION

Unless an exemption is available, any person or company that trades or advises in securities or exchange

TOTAL REGISTERED SALESPEOPLE



The number of registered salespeople has increased 30% since 1996.

contracts in Alberta must be registered under the Securities Act. At March 31, 1998, the Commission had 8,407 registered salespersons, compared to 7,427 registered salespersons at March 31, 1997, an increase of 13%. The number of registered dealers, advisers and underwriters at March 31, 1998 totalled 196, up from 180 at March 31, 1997.

REGISTRATION – COMPANIES	1998	1997	1996
Mutual Fund Dealers	69	66	51
Securities Dealers	3	4	4
Exchange Contract Dealers	9	5	5
Scholarship Plan Dealers	4	4	4
Security Issuers	2	4	4
Total Registration – Companies	87	83	68
Advisers – Securities	102	91	84
– Exchange Contracts	3	2	0
Total - Advisers	105	93	84
Underwriters	4	4	4
Total Corporate Registrants	196	180	156

REGISTRATION – SALESPEOPLE	1998	1997	1996
Mutual Fund Dealers	8,113	7,122	6,225
Securities Dealers	123	151	86
Scholarship Plan Dealers	138	137	140
Exchange Contract Dealers	33	17	7
Total Registered Salespeople	8,407	7,427	6,458

In addition, both the ASE and the Alberta District Council of the IDA register their respective members and employees of their members under authority delegated by the Commission. As at March 31, 1998, approximately 60 firms and 2,500 individuals were registered with these two organizations.

Audits and Examinations

Staff of the Registration section may conduct an audit of a registrant to determine whether it is continuing to comply with regulatory requirements in transactions with its clients, including the maintenance of proper books and records. Staff may conduct the entire audit or participate with other regulators in a multijurisdictional audit.

Staff participated with regulators from other provinces in a coordinated examination of a national mutual fund dealer. This was the second such national examination, and focused on sales practices, trust accounting and operational procedures. The result of the examination was a detailed report of deficiencies and recommendations for improvement. With the Commission's adoption of NI 81-105 – Mutual Fund Sales Practices, effective May 1, 1998, further reviews of mutual fund dealers will be undertaken in fiscal 1999 to assess compliance with the new sales practices requirements.

Electronic Trading Systems

On June 12, 1997, the Commission granted an order permitting The Electronic Investment Corporation of Alberta (TEICA) to create and maintain a Web site through which certain small Alberta issuers can, subject to a number of conditions and restrictions, raise up to \$500,000 from up to 200 investors without having to file and clear a prospectus or use the services of a registrant. The first offering was posted on TEICA's Web site in February, 1998.

Joint Regulatory Initiatives

Registrants must register in each province or territory in which they conduct securities activities because securities regulation is a provincial responsibility. Through its participation on the CSA Capital Markets committee, staff of the Registration section, along with staff of the Policy Development section, continued working on the development of a comprehensive MRRS for registration. Registrants will be able to register more easily to trade or advise in other Canadian jurisdictions when the MRRS is implemented.

Registration and Policy Development staff also represented the Commission on the CSA Distribution Structures committee. This committee focuses primarily on how securities firms organize their retail-investor businesses. The nature of the securities firm's relationship with its sales staff and the means by which firms promote their businesses are two of the many issues dealt with by the committee.

LEGAL SERVICES AND POLICY DEVELOPMENT

The Director, Legal Services and Policy Development is responsible for the operation of the Legal Services and Policy Development sections.

LEGAL SERVICES

The Legal Services section processes certain applications for exemptions under the Securities Act and advises the Commission on take-over bids. As well, staff negotiate Memoranda of Understanding for the sharing of information with foreign regulators. The section also provides legal advice to the Commission on a variety of matters concerning the operations of the Commission as a provincial corporation, including human resource issues and contracts relating to the day-to-day operations of the Commission.

Exemption Applications

The Legal Services section reviews, and makes recommendations to the Commission on, applications for exemption from certain requirements of the Securities Act and the Alberta Securities Commission Rules. A total of 462 applications for such exemptions were processed during 1997/8, compared with 421 in 1996/7.

LEGAL SERVICES	1998	1997	1996
Exemption Applications	462	421	393

Take-Over Bids

A “take-over bid” is an offer that could result in an offeror holding 20% or more of a company’s voting or equity securities. Designed to ensure fair treatment of the target company’s shareholders and to enable them to make informed decisions about a bid, the Securities Act governs certain terms of the bid, restricts purchases by an offeror and requires the offeror to provide a take-over bid circular that describes the bid in detail.

Most take-over bids proceed without regulatory intervention. Occasionally, however, the Commission is asked to review or intercede in a contested or “hostile” bid, where improprieties are alleged against the offeror or the target company. In the past fiscal year, a number of hostile bids were considered by the Commission. Staff participated in several contested applications made to the Commission during hostile bids. In several of the transactions, staff participated in negotiated resolutions.

Secondment Program

The Legal Services section also administers the legal secondment program which provides securities practitioners with an opportunity to work at the Commission. The program enhances the Commission’s relationship with the legal community and supplements legal services in a cost effective manner. During the fiscal year, two lawyers worked on secondment at the Commission.

POLICY DEVELOPMENT

Staff in the Policy Development section advise the Commission on the development of rules, policies and recommendations to government for legislative amendments. The section coordinates policy development with other securities regulators and prepares concept proposals, draft rules, companion policies and blanket orders.

Reformulation Initiatives

Commission rules are mandatory and enforceable. Many of the National Policy Statements of the CSA and certain other initiatives are being revised and adopted as rules in jurisdictions with rule-making authority. In the remaining jurisdictions, the same provisions can be adopted as a commission regulation, blanket order or policy statement. If the concept is adopted in all provinces and territories, it is known as a “national instrument.” If it is not unanimously adopted but is adopted in most jurisdictions, it is known as a “multilateral instrument.” National policies and multilateral policies are similarly adopted by all or most Canadian jurisdictions, respectively, but these are intended to address procedural matters.

The subject matter about which, and the procedures by which, the Commission may make rules are prescribed in the securities legislation. The Commission must publish all proposed rules for comment at least 30 days prior to publishing the final, effective form of the rule.

Over the past year, considerable progress was made in working with other members of the CSA to review and reformulate national policy statements. In the process, many differing local requirements were harmonized nationally. The local Commission policy governing Junior Capital Pool issuers was also reformulated as a rule. As well, National Policy 33 – Financing of Film Productions, was rescinded.

The following were adopted in fiscal 1998:

- NI 32-101 Small Securityholder Selling and Purchase Arrangements
- Rule 46-501 Junior Capital Pool Offerings
- NP 62-201 Bids Made Only in Certain Jurisdictions
- NP 62-202 Take-over Bids - Defensive Tactics

The following were published for comment in fiscal 1998:

- NI 33-101 Administration of Self-Directed RRSPs, RESPs and RRIFs by Dealers
- NI 33-102, NI 33-103, NI 33-104, NP 33-201 Principles of Regulation
- MI 33-105 Underwriting Conflicts
- NP 34-201 Breach of Requirements of Other Jurisdictions
- MP 34-202 Registrants Acting As Corporate Directors
- NI 35-101 Conditional Exemption from Registration for U.S. Broker-Dealers
- NI 41-101 Prospectus Disclosure Requirements
- NI 44-101 Prompt Qualification Offering System
- NI 45-101 Rights Offerings
- NI 52-101 Future-Oriented Financial Information
- NI 54-101 Communication with Beneficial Owners of Securities of a Reporting Issuer
- NI 54-102 Supplemental Mailing List and Interim Financial Statement Exemption
- NI 71-101 Multijurisdictional Disclosure System
- NI 81-102 Mutual Funds
- NI 81-104 Commodity Pools
- NI 81-105 Mutual Fund Sales Practices
- Proposed Rescission of Uniform Act Policy 2-10
- Proposed Rescission of Uniform Act Policy 2-11

The following are among the instruments that have been published for comment since the end of the fiscal year:

- Harmonized Escrow Regime for Initial Public Offerings
- NI 31-101 National Registration System
- Rule 33-501 Limitations on Networking
- NI 43-101 Standards for Disclosure of Mining Operations and Mining Properties
- NI 81-101 Mutual Fund Prospectus Disclosure

Numerous other instruments are expected to be published for comment before the end of 1998.

The following CSA Staff Notices were also published during fiscal 1998:

- 31-301 The Year 2000 Challenge
- 51-301 Conversion of Corporate Issuers to Trusts
- 41-301 and 51-302 The Year 2000 Challenge Disclosure Issue
- 81-302 Sales of Mutual Funds in Current RRRSP Season

Other Joint Regulatory Initiatives

Staff worked closely with staff of the BCSC under the Alberta/British Columbia Joint Regulatory Accord on the following regulatory initiatives:

- Selective Review Criteria and Screening Procedures for Prospectus Filings
- Draft Rule 45-501 Distributions Outside of Alberta

In fiscal 1998, staff also participated in other CSA policy initiatives. Among these were:

- Mutual Reliance Approach to Prospectus Clearance, Applications for Exemptions and Registration of Dealers, Advisers and Their Employees
- ASC Notice 22-701 Notice of Public Forum to Discuss “NETS” and Market Fragmentation
- CSA Response to the Report of The Toronto Stock Exchange Committee on Corporate Disclosure, known as the Allen Report
- CSA Response to the Interim Report of the Joint Securities Industry Committee on Conflicts of Interest, known as the Hagg Interim Report
- Fax Filing of Insider Reports
- Proposed Revisions to the Statutory Definitions of “Material Fact” and “Material Change” associated with the Allen Report
- CSA Distribution Structures Committee
- CSA Mutual Funds Committee

ENFORCEMENT

Effective enforcement is essential in maintaining the integrity of Alberta's capital market. The enforcement function is carried out by the Market Standards division working in tandem with the Enforcement and Prosecution division.

MARKET STANDARDS

The Market Standards division investigates alleged violations of the Securities Act. This includes assisting other divisions and securities regulators in the enforcement of legal requirements, responding to enforcement inquiries from market participants, and assisting legal counsel in proceedings before the Commission or the Provincial Court.

The Information Officer provides the initial contact for complaints and inquiries by members of the public. In total, over 3,500 inquiries and complaints were made to the Information Officer this year.

One investigative counsel was hired in fiscal 1998 and another has been hired in fiscal 1999 to add to the skills and resources of the investigations section.

ENFORCEMENT AND PROSECUTION

Formed in August, 1996, the Enforcement and Prosecution division handles the legal aspects of the enforcement process. The division is headed by the Senior Enforcement Counsel, who directs other enforcement counsel in providing advice to investigators, negotiating and finalizing settlement agreements, providing opinions to the Commission and conducting enforcement proceedings before the Commission. Staff also appear in Court of Queen's Bench on various applications relating to the investigation or hearing process such as receivership orders, orders to compel attendance of witnesses and orders to compel production of documents.

In December, 1997, the Minister of Justice appointed enforcement counsel of the Commission to act as agents of the Attorney General in conducting prosecutions under the Securities Act. This will permit enforcement counsel to bring proceedings under the Act before the provincial courts, to supplement the power to deal with matters on an administrative basis before the Commission.

ENFORCEMENT ACTIVITIES

The following is a summary of the important enforcement initiatives undertaken during fiscal 1998.

Illegal Distributions

Midwest Marketing Group Ltd.

Through an industry contact, Commission staff became aware of a scheme to market investment contracts to the public. Investors relied on the principals of Midwest Marketing Group Ltd. to purchase and sell pay per call telephone lines. The scheme grossed over \$10 million from investors. Much like a Ponzi scheme, repayments to early investors came from a pool of investors' funds and succeeded in making the scheme appear credible. Freeze orders under the Securities Act secured over \$3 million in cash and items worth thousands of dollars. A receiver was appointed by the Court to protect the interests of investors. Seven people were the subject of enforcement proceedings as a result of this scheme. The main principal was banned from trading in Alberta for 25 years.

Conduct of Registrants

Yorkton Securities Inc.

Enforcement staff reached a settlement with Yorkton Securities Inc. and one of its employees for failure to comply with industry standards and the Securities Act. Yorkton, through its registered representative, accepted orders without proper authorization to trade in shares of Westgroup Corporation Inc. The actions and omissions of Yorkton and its employee were factors which contributed to a client of Yorkton being able to create a false or misleading appearance in the trading activity of the securities of Westgroup. Yorkton failed to prevent the improper trading in securities in Westgroup by its client and was found to be in breach of its requirement to supervise its employee. Under the settlement agreement, Yorkton and its employee together paid the Commission \$85,000. The employee was also required to take continuing education and resign from his supervisory position with Yorkton.

Prime Bank Instruments

Staff took steps to stem a large influx of fraudulent offerings of “prime bank instruments.” These instruments are described to investors as low risk securities with a good rate of return. They are represented as being traded between large institutions at a discount and backed by the trading of bank notes and letters of credit. Their large denominations lend an air of credibility to these fictional instruments. The Director, Market Standards appeared on several television and radio programs to warn the public of the fraudulent nature of these offerings. A lengthy newspaper article also revealed the issue. Several investigations are currently being conducted.

TAC International Limited

One of the investigations of prime bank instruments for which a Notice of Hearing was issued involved TAC International Limited. This investment scheme was promoted by a number of Alberta residents acting under the direction of an individual in the Bahamas. The scheme raised in excess of \$1.6 million from over 440 Alberta residents. Investors were told they would receive a return of 600% on their investment. In fact, the money was transferred offshore and investors have not received any income nor the return of their initial investment. The Alberta residents who acted as agents for TAC believed that the scheme was legitimate and also invested in it personally. The case was settled before a hearing was held. Under the terms of the settlement, the Alberta recruiters were denied the use of exemptions under the Securities Act for periods ranging from three to seven years. The principal recruiter has been prohibited from acting as a director in Alberta for five years and was required to pay costs of \$5,000. TAC has been cease traded indefinitely.

Misrepresentations in Disclosure Documents

Midway Resources Ltd.

The Junior Capital Pool program is an important element of the ASE and is overseen by the ASE and the Commission. Funds raised by JCPs are required to be spent in accordance with specific safeguards. Midway Resources Ltd., a JCP, spent \$158,000 to participate in drilling an oil well, in breach of the JCP requirements and contrary to its prospectus disclosure. By a settlement agreement reached with the Commission staff, the principal of Midway reimbursed \$158,000 to

Midway. He resigned as a director and officer and agreed not to act as such for one year. He agreed not to trade in the securities of Midway without the prior approval of the Executive Director during the same period. He was subject to a one year ban from using the exemptions under the Securities Act and paid \$3,500 in costs to the Commission.

Internet Issues

The use of the Internet is becoming of increasing concern to securities regulators in Canada. Market Standards staff participate in the CSA Internet sub-committee. Staff commenced six investigations into circumstances alleged to involve the use of the Internet to promote or sell securities.

Other Activities

Kimberlite Resources Ltd.

Under the Securities Act, the Commission has broad powers to freeze funds and preserve property. As a result, Commission staff are able to protect investors by ensuring that when funds are improperly raised, they can be preserved and returned to investors. For example, Kimberlite Resources Ltd. raised more than \$1 million, of which Commission staff were able to freeze in excess of \$200,000 pending conclusion of their investigation and the subsequent hearing. At the hearing against Kimberlite and its sole director and officer, the Commission concluded that a large amount of money had been raised through an illegal distribution of the mining company's shares. Although most of the funds had been previously converted to the director's

personal use, some funds were recovered for investors by staff's early actions in freezing the remaining funds. After the administrative hearing, Commission staff initiated and are continuing to monitor Queen's Bench receivership proceedings aimed at returning a portion of each investor's original investment.

Staff also investigated an attempt to deposit a ten-figure forged bank note from a well known Swiss bank into a brokerage firm in Calgary. On receiving confirmation from the Swiss bank that the note was fraudulent, staff ensured that market participants were aware of the forged note and referred the matter to the police authorities.

Joint Regulatory Initiatives

This year proved to be one of considerable interaction with other regulators. Staff continued to have regular meetings with the ASE, BCSC and Vancouver Stock Exchange to pursue the goals of the Alberta/ British Columbia Joint Regulatory Accord. Several investigations were commenced in a joint effort with the BCSC.

Similarly, the Commission commenced joint investigations with the Ontario Securities Commission. One case concluded in a joint hearing with both Commissions sitting in Calgary. That case related to the purchase and sale of common shares of Morrison Petroleum Ltd. by West Central Capital Corporation.

The transactions under scrutiny took place just prior to the announcement by Canadian 88 Energy Corp. of its intentions to make a take-over bid for all of the common shares of Morrison. Staff of the Alberta and Ontario Securities Commissions worked together to negotiate a settlement with Canadian 88, its Chief Executive Officer, West Central and its principal. Trading bans of one year and six months were agreed to by the CEO of Canadian 88 and the President of West Central, respectively. The respondents also agreed to pay \$200,000 to the Commissions in costs.

Staff continue to work closely with their counterparts in the United States. Using the provisions in the Securities Act, staff appeared before the Court of Queen's Bench to obtain orders that allowed investigators from the SEC to conduct examinations in Alberta. Several ongoing investigations with the SEC relate to distributions of prime bank instruments. Nine files were opened this year to assist other enforcement agencies.

Staff continue to hold enforcement meetings with the IDA, ASE and the RCMP Commercial Crime Section. The group was expanded in 1998 to include a representative of the Calgary City Police Commercial Crime Unit.

ENFORCEMENT	1998	1997	1996
Complaints	392	406	473
Concluded Investigations	303	246	302
Ongoing Investigations	200	168	149
Interim Cease Trade Orders	97	116	121
Cease Trade Orders	67	69	105
Settlements	61	50	77
Hearings	9	5	n/a
Commission Costs Recovered	\$354,450	\$180,000	\$451,000
Recoveries for Investors	\$2,367,784	\$6,100,000	\$2,075,000
Prosecutions	0	0	1
Other Court Proceedings (including appeals)	14	n/a	n/a

*n/a signifies that statistics are not available.

INTERNATIONAL ACTIVITIES

Advances in technology and the increasing globalization of securities markets require enhanced cooperation among securities regulators. The Commission enjoys a good working relationship with foreign regulators and has exchanged assistance in numerous cases.

International Regulatory Organizations

The Commission participates in several organizations whose objectives include international cooperation among securities regulators. The Commission is a member of NASAA, whose membership consists of securities regulators from the United States, Mexico, Puerto Rico and Canada. The Director, Market Standards is a member of the International

Committee of NASAA, which works on projects to advance cooperation among member jurisdictions.

The Commission is a member of the Council of Securities Regulators of the Americas (COSRA). The membership of COSRA includes securities regulators from 26 nations in North, Central and South America and the Caribbean.

The Commission is an associate member of the International Organization of Securities Commissions (IOSCO), which has over 100 members worldwide.

Memoranda of Understanding

The Commission has information sharing arrangements in place with the Australian Securities Commission, and both the Securities and Exchange Commission and the Commodity Futures Trading Commission of the United States. Negotiations are in progress with regulators in several other countries to develop similar arrangements.

INVESTOR EDUCATION WEEK

The Commission participated along with securities regulators throughout the Americas in the first Investor Education Week held from March 30 to April 3, 1998. Investor Education Week is an initiative of COSRA. The Canadian Securities Institute, the Investor Learning Centre (ILC), the IDA, the Investment Funds Institute of Canada, the Canadian Investor Protection Fund, the Canadian Depository for Securities and community libraries also contributed to the success of the campaign.

Staff participated in seminars hosted by the ILC in Calgary, Edmonton and Fort McMurray. The Chair of the Commission also participated in a national radio phone-in show with the Chairs of the Ontario and Nova Scotia commissions and the President of the ILC. Staff, along with other CSA members, contributed to the preparation of information kits for novice investors. Approximately 500 kits were distributed to 30 public library systems in Alberta and an additional 650 kits were distributed by the ILC at the seminars in the province.

FINANCE

The Finance division handles the Commission's accounting and financial reporting obligations, including the preparation of financial statements, budgets and business plans.

Subsequent to the year end, the Commission retained the Investment Management Division of Alberta Treasury to professionally manage and invest the Commission's reserve funds. The funds are to be invested in pooled debt funds to achieve an adequate rate of return, while preserving capital and reducing risk through asset diversification.

ADMINISTRATION

Staff deal with thousands of documents filed annually with the Commission. These documents include prospectuses, news releases and the approximately 16,000 quarterly and annual financial statements filed by public companies during fiscal 1998. All of the public documents are available for viewing at the Calgary and Edmonton offices.

Some of this public information is also published in the Commission's Weekly Summary. For example, more than 131,500 transactions of insiders were published in 1997/8. Numerous notices, requests for comment and reasons for decisions of the Commission were also published in the Weekly Summary.

HUMAN RESOURCES

During the past year, the Commission's unionized staff made application to the Labour Relations Board to conduct a decertification vote. The vote resulted in decertification of the union effective July 23, 1997.

Market surveys were conducted to review and establish salary ranges for the Commission's professional and support staff. Revised salary ranges were implemented effective April 1, 1998. A new performance management system was also implemented for management and professional staff.

INFORMATION TECHNOLOGY

Changes arising from CSA influences were the driving factors behind activities in the Commission's computing environment in fiscal 1998. Although enhancements to the applications supporting SEDAR were made, the emphasis was on preparing for the next CSA projects. The preparation in early 1998 of the CSA Information Technology strategy provided a clear road map for increased cooperation and efficiencies among securities industry participants.

Core components of the Commission's computing environment were upgraded to lay the foundation for the initial projects outlined in the strategy report. Network servers, storage subsystems, communication capacity and the support infrastructure were increased. Additional work was done on moving to a new version of Windows. These projects are the crucial ground-work for future progress.

In the same spirit of cooperation and increasing efficiencies, work started with the Manitoba Securities Commission on upgrading their information systems. The Commission's corporate data model and supporting computer systems will be adapted to meet the Manitoba requirements. This is an exciting project because of the dual benefit of providing immediate help to Manitoba and also helping to move the CSA Information Technology strategy forward.

MANAGEMENT'S DISCUSSION AND ANALYSIS

To be read in conjunction with the audited financial statements for the year ended March 31, 1998.

ANALYSIS OF OPERATING RESULTS

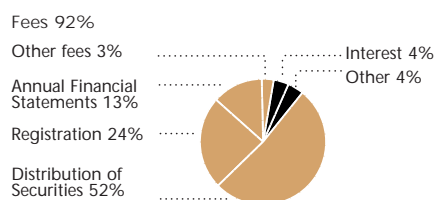
NET INCOME

Net income for the year was \$4.2 million compared to \$7 million for 1997, representing a reduction of 40%.

REVENUE

Revenue in 1998 was \$11.6 million compared to \$12.3 million in 1997, representing a reduction of 5.7%. Market activity remained at very high levels for the first nine months of the year, but slowed in the last quarter because of market uncertainty.

1998 Revenue



On April 1, 1997, on the Commission's recommendation, the government reduced fees by 20%. The Commission reduced registration fees, prospectus filing fees, percentage distribution fees and eliminated certain other fees.

(000's)	1998	(%)	1997	(%)
Fees				
Distribution of Securities	\$6,038	52	\$6,608	54
Registration	2,802	24	3,244	26
Annual Financial Statements	1,488	13	1,358	11
Other Fees	376	3	554	5
	\$10,704	92	\$11,764	96
Interest	482	4	326	2
Other	442	4	226	2
	\$11,628	100	\$12,316	100

The Commission has three main sources of revenue:

Distribution fees, comprised of prospectus filing fees, renewal prospectus filing fees and private placement financing fees, made up 52% of total revenue in 1998 compared to 54% in 1997.

Registration fees, comprised of fees charged for registration of advisers, dealers, and salespersons, made up 24% of 1998 total revenue compared to 26% in 1997.

Annual financial statement filing fees contributed 13% to the Commission's total revenue in 1998 and

11% in 1997. Reporting issuers are required to file their annual financial statements accompanied by the filing fee within 140 days of their year end. A substantial number of reporting issuers have a December fiscal year end. As a result, annual financial statement revenue may fluctuate depending on when the annual financial statements are filed and the fees paid.

EXPENSES

The Commission budgeted \$7.1 million for expenses in fiscal 1998. Actual expenses for 1998 were \$7.4 million, compared to \$5.9 million for 1997. Other than \$105,000 of furniture and fixtures charged directly to materials and supplies and \$118,000 in termination benefits, the 1998 expenses are representative of the Commission's normal operating expenses taking into consideration the increase in volume of filings and the increase in workload generated from policy development and the reformulation project.

(000's)	1998	(%)	1997	(%)
Salaries and Benefits	\$5,075	68.7	\$4,247	72.3
Premises	409	5.5	391	6.7
Materials and Supplies	411	5.6	304	5.2
Contract Services	401	5.4	228	3.9
Travel	321	4.4	164	2.8
Amortization	240	3.2	141	2.4
Telephone and Communications	141	2.0	96	1.6
Member Fees	77	1.0	68	1.1
Other	310	4.2	237	4.0
	\$7,385	100.0	\$5,876	100.0

Salaries and Benefits

Salaries and benefits comprised 68.7% of total operating expenses compared to 72.3% for the previous year. The average number of employees for 1998 was 81 compared to 77 in 1997. The Commission added six full-time positions, which included a full-time Commission member, two investigators, one information technology professional, one senior examiner and one senior enforcement counsel.

The unionized staff of the Commission made application to the Labour Relations Board to conduct a decertification vote of the bargaining unit. The result of the vote was in favour of decertification. The Commission now has no unionized employees.

Premises

During 1998, in light of a tightening supply of office space, the Commission reviewed its space requirements in its Calgary office. As a result, the Commission leased an additional 5,850 square feet in its existing premises.

Materials and Supplies

The materials and supplies costs were 35% higher in 1998 than in 1997. Included were expenditures for office furniture of \$105,000 and computer components and upgrades of \$124,000. It is anticipated that expenditures in 1999 will decline as the furniture replacements have now been completed and the resources for the library will be reduced. Computer components and upgrades will continue to be a major part of this expenditure. It is anticipated that materials and supplies will decline by approximately \$50,000 in 1999.

Contract Services

Contract services were 5.4% of total expenses in 1998 and 3.9 % in 1997. This category is made up of a number of expenses, such as the cost of microfiche files, the CSA Information Technology study costs, costs for development of staff benefit plans, pension reviews and classification and performance review systems.

The Commission converts its paper files into a microfiche format every year. With the introduction of SEDAR, the majority of filings at the Commission are now required to be filed in an electronic format. This should reduce microfiche costs as the need to microfiche files will be reduced over the next several years.

The Commission has a number of pending enforcement hearings. One of the matters has been contracted to an outside legal firm and will be heard in the next fiscal year. The Commission has budgeted to cover these costs. The establishment of the Enforcement and Prosecution division is expected to result in the reduced use of outside legal counsel, as most of the enforcement matters are intended to be handled internally in the future.

Travel

Travel costs for the year were 4.4% of total expenditures in 1998, compared to 2.8% in 1997. The increased travel resulted from CSA policy development committee meetings, the Alberta/British Columbia Accord, maintenance of the Information Technology systems and administration of both offices. It is anticipated that travel costs will remain at current levels over the next several years.

Amortization

In reviewing its current policies on the amortization of its fixed assets, it was determined that computer equipment should be written off over a period of three years. The previous policy amortized the computer equipment over a five year period. The effect was to increase the Commission's amortization expense by \$55,000.

Telephone and Communication

Telephone and communication costs were 2% of total costs in 1998 compared to 1.6% in 1997. The increased communication costs resulted from the Commission implementing several enhancements to its Information Technology system. A major enhancement enables staff to access files in either city. As well, files can now be shared and transferred electronically between offices.

CAPITAL EXPENDITURES AND LIABILITIES

Capital expenditures for the year totalled \$545,000. Leasehold improvements in the amount of \$197,000 were capitalized, principally for the additional space leased in Calgary. Furniture, net of \$105,000 expensed in materials and supplies, in the amount of \$179,000 was purchased to furnish the additional space.

Computer equipment and components in the amount of \$168,000 were purchased to replace old equipment, enhance current systems and accommodate additional staff in the Calgary office.

At March 31, 1998, accounts payable and accrued liabilities totalled \$527,000 compared to \$520,000 for the prior year. It is anticipated that liabilities will remain constant as the business expenses do not vary materially over the course of the year.

LIQUIDITY

Liquidity can be defined as an organization's ability to meet its financial obligations as they come due. Liquidity management provides the certainty that funds will be available to honour all commitments and involves the continuous forecasting and monitoring of expected cash flows. The Commission requires liquidity for financing its operations and capital purchases.

At March 31, 1998, the Commission had current assets of \$14 million and current liabilities of \$1.1 million for a current ratio of 13:1 (1997 8.3:1). The Commission had cash in the amount of \$13.8 million at March 31, 1998.

1998/99 OUTLOOK

The corporate objective of the Commission is to achieve a break-even position in its business cycle. Accordingly, the Commission budgeted revenue of \$10.1 million and expenditures of \$10.1 million for 1999 to achieve a break-even operating budget. Capital expenditures, principally for the acquisition of computer equipment and components, have been budgeted at \$200,000.

The CSA has developed a number of new rules that will provide greater harmonization and efficiency in the Canadian capital market. In particular, the mutual reliance initiative, which extends to prospectus reviews, applications and registration, will provide issuers with more timely service and will also create efficiencies among the Commissions by having single Commission reviews.

With the maturity of the SEDAR filing system, the incoming paper filings at the Commission will be dramatically reduced. This will have a considerable impact on the size of the file room and the requirement to microfiche paper files. This will also require the Commission to implement and use scanning technology to ensure that all documents are contained in an electronic filing system.

Over the last several years, the Commission has enhanced its computer systems by purchasing or developing systems that are Year 2000 compliant. The Commission has also established a Year 2000 compliancy action plan, which requires an inventory of existing hardware and software and the remediation of systems that are assessed as noncompliant. The action plan also calls for discussions with third party suppliers to determine their status and action plans. It is anticipated that the Commission will achieve internal Year 2000 compliance by January, 1999.

MANAGEMENT'S REPORT

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

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

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



W. L. Hess, Q. C.
Chair and Chief Executive Officer



R. D. Sczinski, CA
Chief Financial Officer

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, 1998 and the statements of revenue, expense 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 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, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



FCA
Auditor General
Edmonton, Alberta
May 8, 1998

BALANCE SHEET

As at March 31, 1998	1998	1997
ASSETS		
Current		
Cash	\$13,757,215	\$10,145,411
Accounts receivable	219,369	161,790
Work-in-progress and other	58,471	43,310
	14,035,055	10,350,511
Capital assets (Note 3)	1,095,001	792,274
Total assets	\$15,130,056	\$11,142,785
LIABILITIES AND RETAINED EARNINGS		
Current		
Accounts payable and accrued liabilities	526,648	519,053
Unearned revenue	511,941	677,522
Current portion of lease inducement	40,158	40,158
	1,078,747	1,236,733
Lease inducement (Note 5)	80,316	120,474
Unfunded pension (Note 4)	77,562	135,746
Total liabilities	1,236,625	1,492,953
Retained earnings	13,893,431	9,649,832
Total liabilities and retained earnings	\$15,130,056	\$11,142,785

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

Approved on behalf of the Members



W.L. Hess, Q.C.
Chair



Ian E.W. McConnan, FCA
Member

STATEMENT OF REVENUE, EXPENSE AND RETAINED EARNINGS
(with comparative figures for the year ended March 31, 1997)

Year ended March 31, 1998	1998		1997
	Budget	Actual	Actual
	(Note 7)		
REVENUE			
Fees	\$6,544,750	\$10,704,329	\$11,763,948
Interest	500,000	482,191	325,932
Other	150,000	442,394	226,552
	7,194,750	11,628,914	12,316,432
EXPENSE			
Salaries and benefits (Schedule 1)	5,108,162	5,075,744	4,247,146
Premises	460,121	409,300	391,267
Materials and supplies	288,760	410,736	304,178
Contract services	466,000	400,735	228,123
Travel	174,200	321,069	164,098
Amortization	180,000	240,233	140,503
Telephone and communications	118,400	140,644	96,330
Member fees (Schedule 1)	85,000	76,512	67,700
Other	236,130	310,342	236,622
Total expense	7,116,773	7,385,315	5,875,967
Net income before extraordinary item	77,977	4,243,599	6,440,465
Extraordinary item (Note 10)	-	-	549,735
Net income	77,977	4,243,599	6,990,200
Retained earnings at beginning of year	9,649,832	9,649,832	2,659,632
Retained earnings at end of year	\$9,727,809	\$13,893,431	\$9,649,832

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

STATEMENT OF CASH FLOWS
(with comparative figures for the year ended March 31, 1997)

Year ended March 31, 1998	1998	1997
CASH PROVIDED BY OPERATIONS		
Net income	\$4,243,599	\$6,990,200
Lease inducement received	-	199,646
Amortization, net	200,075	101,490
Extraordinary item (Note 10)	-	(549,735)
Loss on disposal of capital assets	2,006	-
Reduction of unfunded pension	(58,184)	(31,807)
	4,387,496	6,709,794
Changes in non-cash working capital items relating to operations		
Accounts receivable	(57,579)	(30,220)
Work-in-progress and other	(15,161)	15,390
Accounts payable and accrued liabilities	7,595	(341,493)
Unearned revenue	(165,581)	42,101
Cash from operations	4,156,770	6,395,572
CASH USED IN INVESTING ACTIVITIES		
Purchase of capital assets	(544,966)	(371,155)
Change in cash during the year	3,611,804	6,024,417
Cash at beginning of the year	10,145,411	4,120,994
Cash at end of the year	\$13,757,215	\$10,145,411

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

**NOTE 1
NATURE OF OPERATIONS**

The Alberta Securities Commission (the “Commission”) is a Provincial Corporation under the Securities Act (Alberta) (the “Act”). 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.

**NOTE 2
SIGNIFICANT ACCOUNTING POLICIES**

A. CAPITAL ASSETS

Capital assets are recorded at cost. The Commission capitalizes labour and out of pocket costs for significant individual systems development projects. Assets are amortized on a straight line basis over their estimated useful lives as follows:

Computer equipment	3 years
Furniture and equipment	10 years
Systems development costs	5 years
Leasehold improvements	over the 10 year lease term

B. CHANGE IN ACCOUNTING ESTIMATE

The amortization of computer equipment, previously amortized over a five year term has been changed to a three year amortization period. The change in the accounting estimate increased the amortization expense for the current year by \$55,000.

C. REVENUE RECOGNITION

Cost recoveries from Commission Orders and Settlement Agreements are recognized as revenues when cash is received. Fees are recognized as revenue when the relevant order, receipt, certificate or other acknowledgement is issued. Fees received concerning matters in progress at year end are recorded as unearned revenue and an estimate of labour costs on these matters is recorded as work-in-progress.

D. PENSION COSTS

Pension costs and recoveries are included in salaries and benefits. Pension costs and recoveries comprise: the cost of pension benefits earned by employees during the year; interest on the Commission’s share of the unfunded pension amount; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan’s total unfunded amount to participating entities.

E. LEASE INDUCEMENT

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

**NOTE 3
CAPITAL ASSETS**

	1998			1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$558,998	\$323,008	\$235,990	\$211,306
Furniture and equipment	354,662	79,561	275,101	120,961
Systems development costs	110,021	60,511	49,510	71,514
Leasehold improvements	618,743	84,343	534,400	388,493
	\$1,642,424	\$547,423	\$1,095,001	\$792,274

**NOTE 4
UNFUNDED PENSION**

The Commission has an unfunded pension amount of \$77,562 (1997 \$135,746) for the Public Service Pension Plan as at March 31, 1998. The amount was determined by actuarial valuation as at December 31, 1995 extrapolated to March 31, 1998.

The actuarial valuation was determined using the projected benefit method prorated on service. Assumptions used in the valuation are based on the Pension Board's best estimate of future events. The Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long-term are amortized over the expected average remaining life of the employee group. Gains and losses for which there

is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis used to determine the amount of the total unfunded amount for each pension plan that will be funded by employers. The Commission's portion of those employers' liabilities was based on the Commission's percentage of the total pensionable payroll of all employers in the pension plan.

**NOTE 5
LEASE INDUCEMENT**

Pursuant to a ten year lease agreement effective April 1, 1996 the Commission received from its landlord a lease inducement of \$199,645 and is entitled to a further \$199,645 at the beginning of year six. Amortization for each year is \$40,158.

**NOTE 6
LEASE OBLIGATIONS**

Future minimum operating lease payments for premises and equipment for each of the next five years and in aggregate are as follows:

1999	\$599,452
2000	594,849
2001	604,824
2002	659,510
2003	666,175
Thereafter	1,841,867
Total	\$4,966,677

**NOTE 7
BUDGET**

The members approved the Commission's 1997-98 budget on February 12, 1997 with subsequent revisions and approvals on July 9, 1997 and August 13, 1997, respectively. The original budget was increased by \$267,000. This amount is reflected in the budget included with these financial statements.

**NOTE 8
CONTINGENCIES**

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

**NOTE 9
COMPARATIVE FIGURES**

The comparative figures are for the year ended March 31, 1997. Certain 1997 figures have been reclassified where necessary to conform to 1998 presentation.

**NOTE 10
EXTRAORDINARY ITEM**

Effective January 1, 1997 the Commission's participation in the Management Employees Pension Plan was terminated by the Management Employees Pension Plan Board. As a result the Commission has recognized the corresponding reduction of the unfunded pension amount in this plan as an extraordinary item. The total amount of the reduction was \$549,735.

SCHEDULE OF SALARIES AND BENEFITS
(with comparative figures for the year ended March 31, 1997)

Year ended March 31, 1998	1998			1997		
	Number of Individuals (1)	Salary (2)(3)	Benefits and Allowances (4)(5)	Total	Number of Individuals	Total (1)
Securities Commission Members (part-time)	6.5	\$76,512	\$-	\$76,512	7	\$67,700
Securities Commission Member (full-time) (7)	0.5	59,540	7,637	67,177	-	-
		\$136,052	\$7,637	\$143,689		\$67,700
Chair, Securities Commission	1	\$254,800	\$14,759	\$269,559	1	\$260,335
Executive Director (5)	1	106,667	8,563	\$115,230	1	126,786
Chief Financial Officer (5)	1	126,417	8,366	\$134,783	-	-
Directors						
Capital Markets (6)	1	92,000	7,192	99,192	1	97,706
Market Standards	1	97,000	8,989	105,989	1	96,467
Legal Services and Policy Development	1	112,000	10,075	122,075	0.7	81,003
Information Technology	1	85,000	6,591	91,591	1	81,697
Senior Enforcement Counsel	0.5	42,069	5,986	48,055	0.7	70,361
Other Management Employees (average 1998 \$79,013, 1997 \$71,205)	10.2	699,988	105,948	805,936	10.6	754,771
Professional, technical (average 1998 \$59,915, 1997 \$53,284)	16	819,606	139,031	958,637	15.5	825,912
Legal (average 1998 \$80,042, 1997 \$75,919)	9.3	676,717	67,678	744,395	6.8	516,252
Support Staff (average 1998 \$34,355 1997 \$31,102)	34.8	984,144	211,412	1,195,556	31.9	992,166
Part-time and Casual Wage Staff	2.6	80,912	4,093	85,005	5.6	146,548
		\$4,177,320	\$598,683	\$4,776,003		\$4,050,004
Termination Benefits				117,593		137,047
Net change in accrued vacation pay and work-in-progress				78,301		68,573
Conference fees, moving expenses, seconded personnel, and other				94,853		23,329
Adjustment to unfunded pension amount				(58,183)		(31,807)
Salaries, Benefits and Allowances, and Member Fees				\$5,152,256		\$4,314,846

- (1) Number of individuals is the weighted average during the year.
- (2) Salaries include regular base pay, overtime, lump sum payments, honoraria, and other direct cash benefits.
- (3) Effective January 1997 the Commission's participation in the Management Employee Pension Plan was terminated.
- (4) Benefits and allowances include the Commission's share of benefits provided, including pensions, health care, dental, group life insurance, long-term disability, professional memberships and tuition.
- (5) The Chief Financial Officer occupied the Executive Director position for 8 months. The Executive Director occupied the Senior Enforcement Counsel position for 8 months. Their annual salaries and benefits are disclosed in their current positions.
- (6) Effective December 1, 1997, the Capital Markets Branch was assimilated into the Securities Analysis Branch to form a new Capital Markets Branch.
- (7) The Member's salary and benefits are reported in the Statement of Revenue, Expense and Retained Earnings as salaries and benefits rather than Member fees.

MEASURING ACHIEVEMENT

Throughout fiscal 1998, the ASC made significant progress towards achieving its three primary goals. The goals are set out below along with the applicable performance measures established to gauge achievement.

GOAL: TO IMPROVE THE REGULATORY ENVIRONMENT

PERFORMANCE MEASURES

- national instruments
 - under development
 - published for comment
 - implemented
- average time to review applications and issue decisions reduced
- level of technology use increased

PROGRESS TO DATE

The Commission staff, together with other securities regulators, worked on various national instruments.

As a result:

- over 200 are under development
- 18 were published for comment
- 4 were adopted

No tracking was done as to the average time to review applications and issue decisions internally at the Commission, since it became apparent early in the fiscal year that staff efforts should be focused on development of the CSA mutual reliance projects. The projects should reduce the average time required to review applications and issue decisions. A new activity tracking system for certain applications for discretionary relief has been developed and was implemented July 1, 1998.

Increased use of technology by both Commission staff and market participants was achieved through the successful implementation of SEDAR. The mutual reliance projects will also require the use of increased levels of technology.

GOAL: TO IMPROVE ENFORCEMENT

PERFORMANCE MEASURES

- level of investor confidence as reflected by the following indicators relative to the level of market activity:
 - number of complaints
 - number of investigations
 - number of settlement agreements
 - number of enforcement hearings
- number of joint investigations conducted during the year
- level of information sharing increased

PROGRESS TO DATE

In the past fiscal year there were:

- 392 complaints
- 303 concluded investigations
- 61 settlement agreements
- 9 enforcement hearings
- \$2.4 million recovered for investors

A total of nine investigations were conducted in cooperation with other enforcement agencies during the fiscal year.

The Commission increased the sharing of information with other securities regulators, particularly on several important joint investigations. The Commission is also negotiating information sharing arrangements with several foreign securities regulatory authorities.

GOAL: TO MAINTAIN WORKING RELATIONSHIPS WITH INDUSTRY, OTHER SECURITIES REGULATORY AUTHORITIES, REGULATORS OF FINANCIAL INSTITUTIONS AND GOVERNMENT

PERFORMANCE MEASURES

- level of participation in joint regulatory initiatives
- government and industry satisfaction with Commission performance

PROGRESS TO DATE

Cooperation among CSA members was at an all-time high during the past year. Commission staff participated on 23 CSA committees and were very active in the reformulation project. As well, staff participated in the preparation of joint responses of securities regulators to several questionnaires from federal government departments on topics including financial crime and information sharing across financial sectors.

Through the Financial Review Committee and other groups, the Commission obtained informal feedback from representatives of many sectors of the Alberta capital market. This feedback indicates that the current performance and the changes being made by the Commission on many fronts have the support of market participants.

COMMISSION MEMBERS

Wendy E. Best, Q.C. is a partner with the Calgary law firm of Dunphy Calvert. Ms. Best has been a member of the Canadian Bar Association since 1979 and has been active at both the Branch and National levels. Ms. Best brings extensive experience to the Commission from the perspective of a litigation practice. Ms. Best is a member of the Compensation Committee.

John W. Cranston is President, Simcoe Press Limited, and former Associate Director of ScotiaMcLeod Inc. As well, Mr. Cranston has wide-ranging directorship experience. Mr. Cranston has served as Chairman of the ASE, a director of the IDA and a governor of the Canadian Investor Protection Fund, the Canadian Securities Institute and the Investor Learning Centre.

William L. Hess, Q.C. has been Chair of the Commission since 1992 and has guided it through its transition to an industry-funded provincial corporation. Before this appointment, Mr. Hess was a partner with the Calgary law firm of Howard, Mackie, where he was head of the Corporate Finance and Securities Law Department. In 1994, Mr. Hess was appointed Queen's Counsel. Mr. Hess is an ex-officio member of the Audit and Compensation Committees.

Ian E.W. McConnan, FCA is a partner with Harris McConnan, Chartered Accountants in Edmonton. Since 1982, Mr. McConnan has participated on many committees of the Institute of Chartered Accountants of Alberta. Mr. McConnan was appointed to the Commission in 1991 and brings his audit and tax experience to the position of Chair of the Audit Committee.

Walter B. O'Donoghue, Q.C. is a partner with the law firm of Bennett Jones Verchere and has practised corporate law primarily in securities, banking and the oil and gas sector. Mr. O'Donoghue is a director of several public companies, including TELUS Corporation, Gulf Canada Resources Limited and Athabasca Oil Sands Investments Inc. Mr. O'Donoghue is Chair of the Compensation Committee.

Thomas D. Pinder is Chairman and CEO of Intra Travel Calgary, a travel services company, and has interests in other business ventures in western Canada. Mr. Pinder was Vice-President and Director of RBC Dominion Securities Ltd. in both Toronto and Calgary and has been a member of the Commission since 1995. Mr. Pinder is a member of the Audit Committee.

Thomas D. Shields is President, Tom Shields Realty Inc. and brings to the Commission many years of experience in the commercial real estate sector. Mr. Shields was a director of the Alberta Real Estate Association and a member of the Board of Governors of the University of Alberta. Mr. Shields has been a member of the Commission since 1996 and is a member of the Audit Committee.

Eric T. Spink was appointed Vice-Chair in April, 1998. Prior to that time, Mr. Spink was Counsel, Alberta Law Reform Institute. Mr. Spink also served the Commission as Director, Market Standards from 1988 to 1990. Mr. Spink is Chair of the CSA Task Force on Settlement Rules and has been an active member of the Law Society of Alberta.

ADVISORY COMMITTEES

Two committees advise the Commission on policy development, legislative amendments and issues arising in the capital market. A third committee reviews the annual budget.

FINANCIAL ADVISORY COMMITTEE

This Committee consists of senior members of public accounting firms, legal firms and issuers appointed by the Commission. The Committee advises staff on matters relating to financial reporting, including financial disclosure, appropriate accounting practices and audit standards. During the past year the Committee provided advice on a variety of issues and initiatives including reverse take-overs, acquisitions of oil and gas properties and reformulation of accounting requirements, including future oriented financial information.

If an issuer and its auditor disagree with Commission staff on a financial reporting matter, the Committee may be asked to appoint a subcommittee to examine the matter and provide a formal opinion. During the past year, any initial differences were resolved and it was not necessary to obtain such a formal opinion.

The following individuals were members of the Financial Advisory Committee at March 31, 1998:

Raymond D. Crossley, CA Coopers & Lybrand	William D. Robertson, CA Price Waterhouse
Ronald E. Ellis, CA Ernst & Young	Philip J. Scherman, CA KPMG
Donald R. Hyndman, CA Deloitte & Touche	John A. Thomson, CA Renaissance Energy Ltd.
N. Casey MacDonald, FCGA Howard, Mackie	Michael A. Williams, FCA Intexpro Resources Corporation
Bryan D. Pinney, CA Arthur Andersen & Co.	

FINANCIAL REVIEW COMMITTEE

This Committee was established in early 1996 and consists of members appointed from among issuers, the legal and accounting professions, investment dealers and the ASE. The Committee reviews staff's annual budget and provides valuable

feedback to the Commission about the financial results and regulatory performance of the Commission from the perspective of market participants.

The following individuals were members of the Financial Review Committee at March 31, 1998:

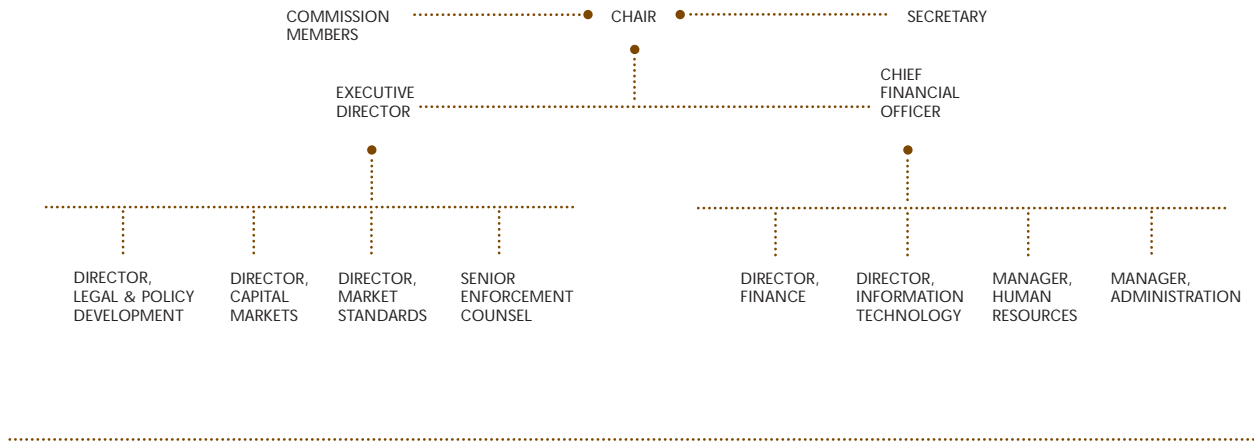
Thomas A. Cumming The Alberta Stock Exchange	Richard A. Shaw, Q.C. McCarthy Tétrault
Alison T. Love TransCanada PipeLines Limited	Michael A. Williams, FCA Intexpro Resources Corporation
Terry W. Melling Investment Dealers Association of Canada	

SECURITIES ADVISORY COMMITTEE

This Committee reviews and comments on legislative and policy initiatives and provides advice on matters arising in the capital markets. The Committee also raises issues on its own initiative for consideration by the Commission. The Committee consists of the chairs of the securities subsections of the Canadian Bar Association in Calgary and Edmonton and nine members appointed by the Commission. During the past year, Committee members provided advice on more than twenty issues that ranged in topic from the National Application System to expedited review of short form prospectuses.

The following individuals were members of the Securities Advisory Committee at March 31, 1998:

Derrick R. Armstrong Ogilvie and Company	Stuart G. O'Connor Bennett Jones Verchere
C. Steven Cohen Burnet, Duckworth & Palmer	William H. Smith McCarthy Tétrault
Brock W. Gibson Blake, Cassels & Graydon	C. Perry Spitznagel Bennett Jones Verchere
Douglas O. Goss Bryan & Company	Gregory G. Turnbull Code Hunter Wittman
Patricia M. Johnston The Alberta Stock Exchange	Vida M. Zolpis Prowse & Chown
Andrew G. Love Macleod Dixon	



SENIOR MANAGEMENT

William L. Hess, Q.C.
Chair and Chief Executive Officer

David C. Linder
Executive Director

Ron D. Sczinski, CA
Chief Financial Officer

H. Charles Blakey
Director, Market Standards

Anne J. Brown
Senior Enforcement Counsel

Marge Cadger
Manager, Administration

Glenda A. Campbell
Director, Legal Services and Policy Development

Dave Herbert
Director, Information Technology

Henry R. Lawrie, FCA
Chief Accountant

Kenneth A. Parker, CA
Director, Capital Markets

Sandra A. Shapitka
Manager, Human Resources

R. James Turner
Director, Finance

AUDITORS

Auditor General
Legislative Assembly of Alberta

BANK

Canadian Imperial Bank of Commerce

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Jim Turner, Bob Verhelst, Pierre Vermette,
Linda Werthmann, Blaine Young

● OUR EMPLOYEES

A·S·C
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