

This
is what
we do.



Alberta Securities Commission

2014 ANNUAL REPORT

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The Alberta Securities Commission (ASC) is the industry-funded regulatory agency responsible for administering the province's securities laws. It regulates all individuals and companies that advise on, trade in, or raise money through issuing securities in the Province of Alberta.

ESTABLISH CONFIDENCE

The ASC is entrusted with fostering a fair and efficient capital market in Alberta and with protecting investors. To fulfill this mandate, the ASC seeks to balance an appropriate level of investor protection with an acceptable regulatory burden imposed on capital market participants.

TAKE ACTION

Those who operate outside the rules and regulations of Alberta securities laws negatively impact both the integrity of our capital market and the trust participants have in the fairness of the market. Through enforcement actions taken to administrative hearings or court proceedings, the ASC works to remove threats to the Alberta capital market.

DELIVER EDUCATION

The ASC has developed educational programs that are designed to assist participants in becoming aware of their responsibilities when taking part in the Alberta capital market. For investors, the ASC provides numerous tools that help them do their homework, ask the right questions and make informed investment decisions. For those operating in the Alberta capital market, the ASC provides guidance on how to meet their regulatory obligations to both the ASC and to their investors.

Establish Confidence

As the securities regulatory authority in the province, the ASC aims to establish and sustain confidence in the Alberta capital market, as well as to facilitate its smooth operation. To achieve a safe and successful market, the ASC works to ensure a high level of investor protection while ensuring that those who operate in the market comply with the rules and regulations established to govern that market.

REGULATING THE EXEMPT MARKET

Qualifying issuers may raise capital in Alberta without a prospectus by relying on specific exemptions. This is referred to as the “exempt market.” The exempt market brings billions of dollars into the province’s capital market from qualified investors each year. When considering changes to the workings of the exempt market, the ASC must balance investor protection concerns that exist when exemptions are utilized with the capital-raising challenges facing issuers.

As part of the Canadian Securities Administrators (CSA), the ASC has taken part in several initiatives over the past fiscal year that seek feedback on proposed changes and amendments to existing exemptions. One enacted change, as a result of overwhelming support from the market, allows issuers listed on the Toronto Stock Exchange (TSX), TSX Venture (TSXV) and the Canadian Securities Exchange to raise money by distributing securities to their

existing security holders. This reduces costs for investors and provides issuers with access to an additional financing source.

Proposed changes that reflect the CSA’s commitment to strong investor protection include a new risk acknowledgement form for individual accredited investors and restricting the Minimum Amount exemption to distributions to non-individual investors.

ADVANCING DERIVATIVES REGULATION

Through its participation on the CSA Derivatives Committee, the ASC contributed to significant progress on proposals for the comprehensive regulation of over-the-counter (OTC) derivatives in 2013 in accordance with Canada’s G20 commitments.

The CSA Committee published a consultation paper setting out a framework for the regulation of key derivatives market participants through a registration regime. The ASC, together with the CSA, published for comment updated model rules with respect

EXEMPT MARKET STATS

\$8.7 B

RAISED BY ALBERTA-BASED ISSUERS IN THE EXEMPT MARKET

\$5.0 B

RAISED BY OIL AND GAS ISSUERS IN THE EXEMPT MARKET

\$6.9 B

RAISED FROM ALBERTA-BASED INVESTORS IN THE EXEMPT MARKET

\$1.9 B

RAISED FROM ALBERTA-BASED INVESTORS IN THE ALBERTA EXEMPT MARKET

~600

ALBERTA-BASED ISSUERS ACTIVE IN THE EXEMPT MARKET

to product determination and derivatives data reporting to trade repositories. The ASC also contributed to international developments in the reform of OTC derivatives markets through its participation on the OTC Derivatives Regulatory Forum and, in respect of the commodity derivatives markets, through its participation on the International Organization of Securities Commissions (IOSCO) Committee on the Regulation of Commodity Derivatives Markets.

ZAFAR JAFFER

As Compliance Counsel in the ASC’s Corporate Finance Division, Zafar reviews various exempt market filings to ensure compliance. He also works on multiple projects designed to improve how the markets operate in Canada.



“Oversight of Alberta’s capital market gives investors and industry participants confidence in the integrity of the market. We interact frequently with registrants and issuers to ensure a high level of compliance with rules and requirements.”

ZAFAR JAFFER

Compliance Counsel, ASC Corporate Finance

COLLABORATING INTERNATIONALLY

In fiscal 2014, the ASC continued its cooperation with international securities regulators by entering into a number of memoranda of understanding. These agreements facilitate cross-jurisdictional cooperation and exchange of information and were signed with:

- The United States Commodity Futures Trading Commission, to facilitate the exchange of information between the regulators in the supervision and oversight of regulated firms that operate in both countries.

- The European Securities Market Authority, to enhance cooperation and exchange information related to the supervision of alternative investment fund managers that operate in both jurisdictions.
- The United Kingdom Financial Conduct Authority, to provide a comprehensive framework related to the day-to-day supervision and oversight of regulated entities that operate in both jurisdictions.

Take Action

The priority of the ASC's enforcement division is the assessment, investigation and prosecution of those who breach Alberta securities laws. With extensive experience and understanding of the Alberta capital market, we focus our resources on providing prompt, fair and visible enforcement.

CASE HIGHLIGHTS

CASE 1: TRANSCAP CORPORATION

"Significant and direct financial harm was done to the investors in this Ponzi scheme" that "has taken a predictable financial and emotional toll." – ASC sanction decision in *TransCap Corporation, Strata-Trade Corporation, Dale Joseph Edgar St. Jean and Gregory Dennis Tindall administrative hearing*.

An ASC panel permanently banned the respondents from the market and ordered them to disgorge \$9.6 million obtained as a result of breaching Alberta securities laws. The panel also ordered St. Jean to pay an administrative penalty of \$1.2 million and Tindal a \$750,000 administrative penalty.

CASE 2: EVEREADY INC

"We need to communicate not only to the Respondents, but also to other market participants that tangible and significant consequences will be meted out to those who have engaged in illegal insider trading, informing and recommending or encouraging" and that such illegal activities "will not be tolerated in Alberta." – ASC sanction decision in *John Herbert Holtby, Kenneth Michael Burdeyney, Gayle Marie Walton, Randall George Kowalchuk, Dale Francis Holtby and John Jacob Shepert administrative hearing*.

An ASC panel ordered the respondents to pay more than \$2.3 million in administrative penalties and costs, and disgorge almost \$430,000, and issued market prohibitions that ranged from four years to a permanent ban.

For details on these and other ASC cases, visit the "Proceedings, Decisions & Orders" section of the ASC website (albertasecurities.com).

PENALTIES COLLECTED

\$2,034,000

ADMINISTRATIVE PENALTIES
COLLECTED IN F2014

\$247,000

ADMINISTRATIVE PENALTIES
COLLECTED IN F2013

COURT APPEARANCES

87

PROVINCIAL
COURT
APPEARANCES
IN F2014

58

PROVINCIAL
COURT
APPEARANCES
IN F2013

COLLECTING MONETARY SANCTIONS

The ASC takes every measure available to collect the monetary penalties handed down in enforcement proceedings. In F2014, the ASC recovered its highest-ever outstanding administrative penalties of \$2,034,000. Funds not surrendered voluntarily were collected via enforcement methods such as compelling financial statements of debtor, issuing garnishee orders, conducting questionings and liquidating seizures of assets.

TOM MCCARTNEY

As one of our Senior Litigation Counsel in the ASC's Enforcement division, Tom conducts proceedings against those accused of breaching Alberta securities laws before administrative panels and in Provincial Court. He also manages our team of external legal counsel who collect unpaid monetary sanctions ordered by the ASC.



“The majority of individuals and companies raising funds in Alberta follow the rules. Unfortunately, it’s not everyone and that’s where we come in. Our job is to remove those who pose a threat to investors and the Alberta capital market.”

TOM MCCARTNEY
Senior Litigation Counsel, ASC Enforcement

ENFORCEMENT AND DISCIPLINARY ACTION

**6 INDIVIDUALS
FACED 37 COUNTS IN
4 NEW CASES BEFORE
THE PROVINCIAL
COURT OF ALBERTA**

**78 HEARING DAYS
RELATED TO 13
HEARINGS BEFORE
AN ASC PANEL**

**195+ ACTIVE
INVESTIGATION AND
LITIGATION FILES, FROM
COMPLAINT THROUGH
ASSESSMENT,
INVESTIGATION AND
PROSECUTION IN THE
LAST FISCAL YEAR**

Deliver Education

Education of market participants is a vitally important activity at the ASC. Our objectives are two-fold: to help the public make informed investment decisions; and to ensure that those who offer investment opportunities such as public companies, portfolio managers and exempt market dealers are fully compliant with the rules and regulations that govern the Alberta capital market.

CHECK PROTECT INVEST

In conjunction with Fraud Prevention Month in March 2014, the ASC ran a campaign to educate the public about three key steps anyone can take to decrease their chances of becoming a victim of investment fraud:

- **CHECK** registration of the firm or individual offering the investment;
- **PROTECT** hard-earned money by asking the right questions and understanding the potential risks involved; and
- **INVEST** only after these steps are complete.

During the campaign, investors were encouraged to visit the Checkfirst.ca website containing links to the ASC's free resources and a risk assessment quiz.

INFORMING THE PUBLIC

The ASC publishes Investor Alerts and informational blogs to warn the public of potential misconduct or fraud targeting Albertans. We also provide answers to some of the more common and current questions we receive from the public. In fiscal 2014, our Investor Alerts highlighted a recovery room scheme targeting Morgan Dragon Development Corp. investors and a Forex scam involving Accredited International and Accredited FX. There were also numerous blogs published throughout the year including "Binary options – caution for investors in Alberta," how to "Avoid financial disasters in times of natural disaster" and how "Facebook 'friends' don't count" when it comes to taking investment advice.

To find these and other alerts and blogs, plus additional investor education material, visit the For Investors section of the ASC website.

CONNECTING WITH INDUSTRY

The ASC invests substantial time and resources in reviewing disclosures made by public companies in our jurisdiction and in overseeing compliance for those who are registered to sell investments in Alberta. As a means to connect directly with these market participants to encourage transparency, accuracy and accountability, as well as listen to their feedback on rules, we hold various informational sessions throughout the year, including:

- Oil and Gas Review session and webinar
- Corporate Finance Review session and webinar
- Compliance seminar for registrants
- Education and Outreach for Exempt Market Dealers and Portfolio Managers
- OTC Derivatives Roundtable

MARKET AWARENESS

60+

INDUSTRY AND INVESTOR PRESENTATIONS

169,000

VISITS TO THE ASC "INVESTOR" WEBSITE

2,900+

INQUIRIES TO PUBLIC INFORMATION OFFICE

LORINDA BRINTON

As Senior Advisor in the ASC's Communications and Investor Education division, Lorinda educates Albertans, from students to seniors, on how to spot and avoid unsuitable or fraudulent investments. In addition to giving in-person presentations and working with community organizations, Lorinda ensures that online resources used by the public to educate and protect themselves are updated regularly to address new threats.



“Helping investors learn more about their role in the investing process is one of the best ways to stop the flow of money into unsuitable or fraudulent investments. The ASC is here to deliver that education and help investors protect themselves and their money.”

LORINDA BRINTON
Senior Advisor, ASC Communications and Investor Education

BROADENING OUR REACH

The ASC continued to cultivate strategic partnerships with various organizations to extend the reach of our educational messages throughout the province. For example, ASC staff co-presented at a ScotiaMcLeod scam and fraud prevention workshop with Calgary Police Service and ScotiaBank Security and Investigation staff. The ASC also partnered with the Better Business Bureau for Southern Alberta and East Kootenays to

increase its awareness of ASC resources and when to redirect callers to the ASC. The ASC reached out to seniors with a presentation to the Edmonton chapter of the Canadian Association for Retired Persons. The ASC also continued to work with Calgary’s Mount Royal University and Metro Continuing Education in Edmonton to raise Albertans’ investing knowledge through The Basics of Investing course.

Message From The Chair

The ASC is the independent self-funded provincial agency responsible for administering Alberta's securities laws. These laws are comprised of Alberta securities legislation and regulations, national rules developed through the cooperative efforts of the CSA for all provinces and territories, multilateral rules agreed to among multiple provincial regulators, including the ASC, and local rules applicable only to the Alberta capital market. The ASC is committed to protecting investors and the integrity of the Alberta capital market. This letter and report highlight the progress, successes and challenges of the ASC in the undertaking of its responsibilities and fulfillment of its commitment throughout the past year.

A CHALLENGING NATIONAL ENVIRONMENT

The ASC has argued consistently for the retention in Alberta of a provincially based securities regulatory agency, clear of political interference, financed by market participants and ultimately accountable to both the Alberta capital market and the Alberta provincial government. At the same time, the ASC has advocated and strongly supported the necessity for a national system whereby independent provincial regulators communicate, cooperate and coordinate to maintain a highly harmonized securities regime that minimizes duplication of rules and processes for the benefit of market participants operating, investing or raising capital in multiple Canadian jurisdictions. A highly harmonized regime has evolved over decades through the CSA, for which an administrative secretariat has been established in Montréal and of which I am the current chair.

The federal and Ontario governments have for decades advocated a different structure for a national securities regulatory regime, the most recent iteration being one in which the federal government would play a participating role and which would be centrally controlled from offices in Toronto. In September 2013, the governments of Ontario and British Columbia, along with the federal government, entered into an agreement-in-principle that outlined an intended national body, governed by common provincial securities legislation and complementary federal legislation, headquartered in Toronto, that other provincial agencies would be invited to join. Further details of the proposed structure and draft legislation were represented to be coming originally in January and

then at the end of April 2014. As yet, they have not arrived.

During the past year, the Alberta government has tabled a third option for a securities regulatory structure in Canada that would see (i) the CSA overseen by a national Council of Ministers and associated administrative bodies, (ii) commission-based adjudicators replaced by a national and independent adjudicative panel, (iii) a national enforcement agency created and headquartered in Toronto to assist in the enforcement of criminal laws, and (iv) a national systemic risk committee chaired by the federal government.

In summary, the ASC is working to make the CSA as efficient a national system as possible while incorporating what is in the best interest of Alberta's unique capital market. At the same time, our neighbouring province to the west, along with the federal and Ontario governments, is endeavouring to create a single national body in which the federal government would play a role and which would be managed from Toronto; and our Alberta Government is proposing the continuation of the CSA system with some significant changes to its existing governance and operational structures.

OUR REGULATORY PHILOSOPHY

We at the ASC believe that successful securities regulation is achieved through balance: effective investor protection that does not unduly impede capital raising; oversight of intermediaries that does not unduly damage economic incentives; policy selection that maintains a level playing field, but does not unduly interfere with market forces; and rule-making tailored to local business realities that does not

WILLIAM S. RICE

*Chair and Chief
Executive Officer*



Securities regulation is most beneficial in circumstances where the discipline of market forces is insufficient to adequately protect investors and the integrity of the capital market.

unduly disrupt a national harmonized regime.

We further maintain that securities regulation is most beneficial in circumstances where the discipline of market forces is insufficient to adequately protect investors and the integrity of the capital market. The ASC maintains that a fundamental feature of effective and balanced securities regulation is disclosure, pursuant to which investors are able to access all relevant material information by which to make informed investment decisions. The ASC has been reluctant to insert itself, through the use of its powers to require stipulated disclosure, into the

setting of standards for corporate conduct, provided that conduct is fair to all participants. In our view, corporate law provides the means by which shareholders may influence corporate conduct and goals; securities laws provide the requirements that allow shareholders to have access to all relevant information, in a timely manner, to make informed investment decisions. These views are not held or demonstrated consistently by securities regulators or provincial governments in other jurisdictions of Canada.

Already stressed by the ongoing structural debate and contest for national control, harmonization has become an even greater challenge in an environment where securities laws are seen to be appropriate for differing purposes.

SIGNIFICANT PROGRESS MADE ACROSS ALL DIVISIONS

Despite ongoing structural challenges and heightened philosophical differences, a great deal was accomplished by the ASC during fiscal 2014 within the existing CSA structure. Some of those achievements are discussed below.

Among significant policy reviews that reached their final stages during fiscal 2014 were those concerned with the exemptions from prospectus and registration requirements available in Alberta. In respect of the “accredited investor” exemption, it was determined that the qualifying financial thresholds should remain unchanged, but a risk acknowledgement form be required. Concerning the “minimum amount” exemption, it is proposed that the exemption should no longer be available to individuals as it has been seen to be encouraging investors with more limited financial resources to take greater financial risk.

Proposals have been made relating to the sale of short-term debt and asset-backed commercial paper, including the imposition of initial and ongoing disclosure requirements and modifications to the requirements applicable to credit ratings. In addition, a new “existing shareholder” exemption has been introduced for listed issuers relying on their continuous disclosure.

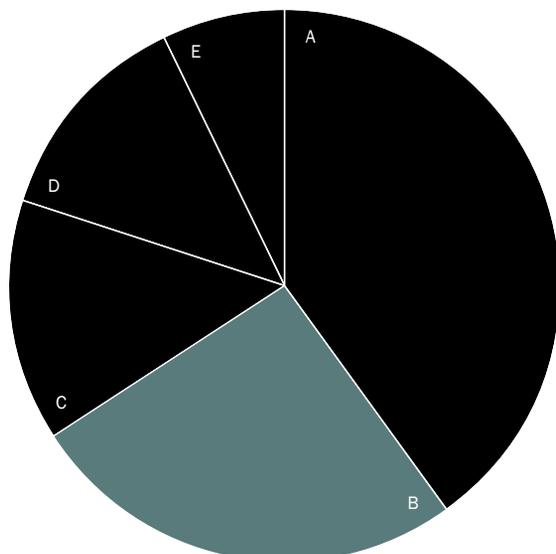
Proposals have also been made to enhance the quality of offering memorandum disclosure and limit the risk that might be taken by the least financially strong investors. In this regard, it has been argued strenuously before us by many that by limiting the risk that may be taken by even the least financially strong investors investing under the offering memorandum exemption we would be unduly restricting entrepreneurial enterprise in Alberta and that we should instead increase the level of our compliance oversight and enforcement activity in the exempt market. Participants in the exempt market can expect heightened engagement by the ASC in the exempt market in the coming months.

On the tenth anniversary of the creation of NI 51-101 *Standards for Disclosure for Oil and Gas Activities*, amendments were published in the fall of 2013 intended to promote better disclosure of resources other than reserves and to provide flexibility for issuers reporting in different jurisdictions internationally. The ASC has worked hard to respond to the circumstance in Alberta where what were historically classified as “unconventional” resources, such as oil sands and shale gas, have become common.

A number of changes were proposed in fiscal 2014 to NI 52-108 *Auditor Oversight* to, among other things, change the triggers for when a public accounting firm must deliver notice to a securities regulator of remedial actions imposed by the Canadian Public Accountability Board.

The ASC was deeply engaged in the CSA’s review of the impact, unintended consequences and possible amendment of the order protection rule that requires trade orders to meet the best price available across all protected marketplaces, with attention directed to the cost burden imposed on the smaller dealer community. The ASC also participated in the CSA’s review and approval of amendments to NI 23-103 *Electronic Trading* to address risks arising in association with direct electronic access to marketplaces. Further, the ASC participated in the publication of a consultation paper addressing issues with

ALBERTA IS THE SECOND LARGEST CAPITAL MARKET IN CANADA

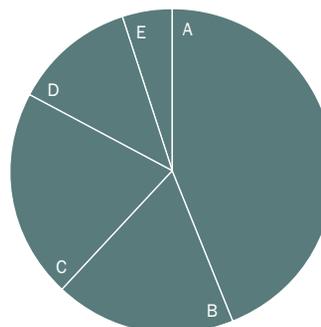


SIZE OF THE PUBLIC CAPITAL MARKET IN CANADA

40% ONTARIO (A)
26% ALBERTA (B)
14% QUÉBEC (C)
13% OTHER (D)
7% B.C. (E)

Based on the aggregate market capitalization of TSX and TSXV companies with head offices in the respective provinces.

THE OIL AND GAS INDUSTRY IS THE MOST SIGNIFICANT INDUSTRY IN ALBERTA



MAKE-UP OF THE ALBERTA MARKET

44% OIL AND GAS (A)
18% DIVERSIFIED INDUSTRIES (B)
21% OTHER (C)
12% MINING (D)
5% TECHNOLOGY (E)

the proxy voting infrastructure and engaged in consultation sessions with Alberta market participants to better understand relevant issues and the means by which to tackle them.

In connection with the CSA's efforts to support the effectiveness of the services to investors provided by the Ombudsman for Banking Services and Investments (OBSI), the ASC participated in the implementation of amendments to NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* to require all registered dealers and advisers, whether or not members of Investment Industry Regulatory Organization of Canada (IIROC) or the Mutual Fund Dealers of Canada (MFDA), to make the services of OBSI available to their clients.

In the realm of compliance oversight, the ASC continued throughout fiscal 2014 to maintain our rigorous surveillance of issuers' continuous disclosure and to either advise or compel its improvement. In addition to issuer, dealer and adviser-specific reviews, a triennial review of the TSXV was completed in cooperation with the British Columbia Securities Commission (BCSC), reviews of the operations in Alberta of the MFDA and the Natural Gas Exchange (NGX) were completed, and a review of IIROC's operations in Alberta was commenced.

As international standard-setters and financial regulators have increased their influence in the

years following the most recent financial crisis, the ASC has expanded the sphere of its international relationships. In fiscal 2014, the ASC became a full member of IOSCO. We entered into Memoranda of Understanding with the United States Commodity Future Trading Commission, the European Securities Market Authority and the United Kingdom's Financial Conduct Authority. The ASC also participated over the course of a full twelve months in a review by the International Monetary Fund (IMF) of Canada's financial sector under its Financial Sector Assessment Program. In broad conclusion, the IMF Report indicated that "The Canadian framework for the regulation and supervision of securities markets demonstrated a high level of implementation of the IOSCO Principles."

The ASC continues to have regard to international standards in selecting a derivatives regulatory regime that acknowledges the unique features of Alberta's energy markets and industries, and the rules that should be applicable to financial market intermediaries playing a role in derivatives trading, such as clearing agencies. Significant work to advance our policy selection, including dialogue with Alberta industry, was undertaken in fiscal 2014. Amendments to the Bank Act that grant authority to the federal government to regulate derivatives trading by Canadian banks will have an influence on our decisions in this area.

The ASC believes it has an obligation to assist in the education of investors so that they might better protect themselves from the risks of investments, and the education of issuers and intermediaries so that they might better, and at a lesser cost, undertake their compliance responsibilities. To meet this obligation in fiscal 2014, the ASC: published clarification notices and reports of our findings and recommendations; engaged in a broad variety of oral presentations; maintained communications with relevant professional bodies; completed an overhaul of our external website; conducted educational seminars; issued guidance and undertook direct consultations; answered inquiries and provided warnings; launched a fraud awareness campaign; met with police departments; and reached out to vulnerable groups such as retired persons and seniors through a variety of organizations.

In order to fulfill our mandate of protecting investors, effective rule-making, oversight, compliance reviews and education must be backed by rigorous and visible enforcement. Those who participate in our capital market must be reassured that the playing field is level and that those who disregard the rules will be held accountable. We enforce our rules through administrative proceedings that result in prohibitions from acting as directors and officers, trading bans, cease trade orders and monetary sanctions. Through quasi-criminal proceedings, we obtain fines and jail terms.

With the intent of obtaining jail sentences for behaviour that has caused serious harm or has demonstrated disregard for the law, the ASC initiated four new quasi-criminal prosecutions in the Provincial Court of Alberta in the past year. The ASC now has 13 such matters on the Provincial Court docket. These prosecutions have generated a number of constitutional challenges to our legislation and processes, and procedural delays. Nevertheless, we are determined that our considerable efforts are warranted to address the most egregious of behaviour.

To improve operational efficiency and effectiveness in our enforcement efforts, the ASC initiated new requirements for

COMMON TYPES OF INVESTMENT FRAUD

AFFINITY FRAUD exploits the trust and friendship that exists within groups who have something in common, such as religious, ethnic or even professional communities. The fraudsters frequently are, or pretend to be, members of the group. Scam artists will first befriend a respected or influential member (who may be an unsuspecting victim themselves) who then recruits new investors. In an affinity fraud, investors lose their money to individuals they thought they could trust.

A **PONZI SCHEME** promises high rates of return with little or no risk to investors. However, returns to existing investors are generated by transferring funds from new investors; there is no legitimate investment. These schemes always collapse as new investments inevitably subside or end and investors lose some or all of their money.

In a **PYRAMID SCHEME**, participants recruit new people into the program who are required to "invest" a certain amount, which is paid to the recruiter. In order to make his or her money back, the new recruit must recruit more people under him or her, each of whom will also have to invest. Participants move up the "pyramid" as new investors buy in. However, when there are no new participants, the scheme collapses and the majority of participants lose their money.

**EXECUTIVE
MANAGEMENT
TEAM** (left to right)

WILLIAM S. RICE
Chair and CEO

LARA GAEDE
Chief Accountant

CYNTHIA CAMPBELL
Director,
Enforcement

DAVID LINDER
Executive Director

ALISON TROLLOPE
Director,
Communications &
Investor Relations

LYNN TSUTSUMI
Director, Market
Regulation

TOM GRAHAM
Director,
Corporate Finance

KARI HORN
General Counsel

DANNA MCLEOD
Director, Corporate
Resources

STEVE SLIPP
Controller

See page 14 for
executive management
team – divisions



In order to fulfill our mandate of protecting investors, effective rule-making, oversight, compliance reviews and education must be backed by rigorous and visible enforcement.

the production of documents, particularly those in electronic form. We also introduced a world-leading electronic evidence management system that will assist greatly in the collection, analysis and production of evidence gathered in our investigations and used in our proceedings.

Significant hearings concluded during the year addressed circumstances of money raised without a prospectus, registration or an available exemption, the sale of securities through misleading or untrue representations, Ponzi schemes, fraud, illegal insider trading and tipping, and market manipulation.

During the past year, we experienced improved success in the collection of administrative penalties, disgorgement orders and costs through compelling of the financial statements of debtor,

issuance of garnishee orders, conduct of debtor examinations and liquidation of seized assets. Collections for the year were the highest in ASC history and exceeded \$2.5 million including administrative penalties and disgorgement orders. While an appeal has been launched related to \$2.1 million of this amount, we believe that our order will be upheld in Court.

The ASC strove over the past year to build on the efficiencies of our internal operations. Our Corporate Crisis Management Program was tested during the summer floods that significantly affected downtown Calgary, and I am pleased to



report that the ASC was successful in delivering critical services throughout this period with minimal interruption. An information governance and records and information management program, commenced in fiscal 2012, continued to develop on schedule through fiscal 2014. Resources continued to be devoted to employee recruitment, retention and education. In addition to our internal improvements, the ASC contributed in a significant way to the migration of CSA information technology systems to a new service provider and towards the major renewal of the CSA's national systems.

Fiscal 2014 saw some significant changes for the ASC in its executive management team. Alison Trollope came on board as Director of Communications and Investor Education, Cynthia Campbell joined as Director of Enforcement, and Tom Cotter was appointed Vice-Chair. At the same time, our Commission membership retained

continuity with the re-appointments of Richard Shaw and Fred Snell for additional three-year terms.

The ASC benefits greatly from the significant combined knowledge and experience of our Commission Members and staff. Over the past year, our Commission Members continued to provide guidance and support for which I am personally grateful. ASC staff contributed strong effort and identifiable results that benefit the Alberta capital market and its participants. They are the ASC.

William S. Rice, Q.C.
Chair and Chief Executive Officer

WILLIAM S. RICE**CHAIR AND CHIEF EXECUTIVE OFFICER**

The Chair and Chief Executive Officer is responsible for representing the ASC, addressing emerging issues in securities regulation and leading the ASC to achieve its organizational objectives. The Chair has direct oversight responsibilities for the Communications and Investor Education Division and the Offices of the Executive Director and General Counsel. The Chair is appointed by the Lieutenant Governor in Council and reports to the Members and to the Minister of Finance. The Chair and CEO is also the designated Chief Officer under the *Public Interest (Whistleblower Protection) Act* (Alberta) that came into force on June 1, 2013*.

DAVID LINDER**EXECUTIVE DIRECTOR**

The Executive Director reports to the Chair and Chief Executive Officer and is the ASC's Chief Administrative Officer, directly overseeing the divisions of Corporate Finance, Corporate Resources, Enforcement, Finance, Market Regulation, and the Office of the Chief Accountant. The Executive Director also participates in meetings of the ASC's Human Resources and Audit Committees and chairs the Senior Management and Strategic Planning committees. Pursuant to the *Securities Act* (Alberta), the Executive Director acts in an appellate function from decisions made by Market Regulation and Enforcement staff.

CYNTHIA CAMPBELL**DIRECTOR, ENFORCEMENT**

The Enforcement Division enforces Alberta securities laws by discovering, investigating, and prosecuting breaches of those laws with an eye to both stopping current misconduct and preventing future contraventions. Through prompt, fair, and visible enforcement action locally, and through collaboration with the ASC's compliance departments, other securities regulators and Canadian and foreign police forces, the Enforcement Division seeks to foster investor confidence and promote the integrity of Alberta's capital market, thereby protecting the investing public.

LARA GAEDE**CHIEF ACCOUNTANT**

The Office of the Chief Accountant provides expert knowledge in the areas of accounting, auditing and financial reporting matters to ASC staff as well as guidance to reporting issuers and their advisors. This

division is involved in policy initiatives that relate to these areas of expertise. The Office also coordinates the Professional Education Program, manages the ASC Secondment Program and oversees the training of the professional accountants within the organization.

TOM GRAHAM**DIRECTOR, CORPORATE FINANCE**

The Corporate Finance Division provides ongoing regulatory services by reviewing offering documents, monitoring continuous disclosure filings and making recommendations on applications for exemptive relief from securities legislation. Given the significance of the oil and gas industry, Corporate Finance places a considerable emphasis on reviewing the disclosure of oil and gas reserves information prepared for annual disclosures, prospectuses and other related documents. In addition to these day-to-day services, Corporate Finance is active in the formulation and development of appropriate rules, regulatory instruments and policies used in the regulation of the capital markets in Alberta and Canada.

KARI HORN**GENERAL COUNSEL**

The Office of the General Counsel (OGC) reports to the Chair and provides legal advisory services to the Commission Members, the Chair, the Executive Director and staff on a broad range of operational, transactional and policy projects. The OGC also provides guidance to market participants on the interpretation of Alberta securities laws. Staff in the OGC deal with policy initiatives related to corporate governance and projects requiring a broad assessment of existing regulation. Responsibility for the corporate secretarial and legislative functions also resides in the OGC.

DANNA MCLEOD**DIRECTOR, CORPORATE RESOURCES**

The Corporate Resources Division provides business, technical and human resource services to enable staff to fulfill the ASC's mandate. It provides services in the areas of: information technology; human resources and corporate services, including purchasing, security and business continuity; health and safety; facility management; and information and records management. Corporate Resources supports the needs of employees and management through the initiation, development, delivery

and implementation of high-quality strategies, programs and policies that are aligned to organizational objectives.

STEVE SLIPP**CONTROLLER,**

The Controller is the ASC's senior financial officer and is responsible for effective internal control over financial reporting, annual budget preparation, administration of investment manager reporting and relations, coordination of risk management processes, and accurate and timely financial reporting to senior management, Commission Members and the Minister of Finance.

ALISON TROLLOPE**DIRECTOR, COMMUNICATIONS AND INVESTOR EDUCATION**

The Communications and Investor Education Division provides strategic communications counsel and support to all areas of the ASC to engage and educate internal and external stakeholders in a manner that meets the ASC's organizational objectives. Through the efforts of media relations, investor education, corporate communications, public information and internal communications, the team promotes consistent, relevant and timely communication to support efficient and effective securities regulation in Alberta and throughout Canada.

LYNN TSUTSUMI**DIRECTOR, MARKET REGULATION**

Market Regulation provides securities regulation to the Alberta capital market by developing and administering rules and policies relating to registrants (dealers, advisors, and investment fund managers), equities and derivatives exchanges, and self-regulatory organizations (SROs), including IIROC and the MFDA. Staff register market participants that are in the business of trading and advising in securities and managing investment funds, perform compliance examinations of registrants and review exemption applications. Staff conduct oversight of SROs, the TSXV and energy exchanges conducting business in Alberta such as the NGX.

** The Public Interest (Whistleblower Protection) Act (Alberta) applies to most public entities in the Province of Alberta, including the Alberta Securities Commission. The Act facilitates the disclosure and investigation of wrongdoings alleged to have occurred at a public entity in Alberta. It also protects individuals who report alleged wrongdoings from reprisal. Section 32 of the Act requires annual reporting on all disclosures that have been made in accordance with the Act. Since the Act came into force on June 1, 2013, there have been no disclosures received by the designated officer; accordingly there were no disclosures acted upon or investigated.*

THREE-YEAR STATISTICAL SUMMARY 2014

| as at March 31 | F2014 | F2013 | F2012 |
|--|---------------|---------------|---------------|
| Enforcement Activity | | | |
| Complaints received | 583 | 708 | 734 |
| Concluded investigations | 358 | 772 | 403 |
| Current cases | 203 | 204 | 204 |
| Interim cease trade orders | 1 | 8 | 1 |
| Settlement agreements | 10 | 12 | 7 |
| Hearings | 13 | 16 | 11 |
| Settlements agreed to | \$ 402,000 | \$ 546,000 | \$ 742,000 |
| Settlements collected | \$ 402,000 | \$ 546,000 | \$ 742,000 |
| Administrative penalties levied* | \$ 6,910,000 | \$ 6,169,000 | \$ 9,512,000 |
| Administrative penalties recovered | \$ 2,034,000 | \$ 247,000 | \$ 457,000 |
| Prosecutions initiated in Provincial Court | 4 | 5 | 6 |
| Other court proceedings (including appeals) | 13 | 9 | 18 |
| Reciprocal orders | 8 | 5 | 7 |
| Cease Trade Orders** | 155 | 111 | 80 |
| Active Reporting Issuers*** | | | |
| Principal Regulator – Alberta | 758 | 801 | 834 |
| Principal Regulator – Other | 6,682 | 6,750 | 6,647 |
| Total | 7,440 | 7,551 | 7,481 |
| Prospectuses and mutual funds | | | |
| Principal Regulator – Alberta | 148 | 147 | 194 |
| Principal Regulator – Other | 727 | 749 | 834 |
| Total | 875 | 896 | 1,028 |
| Rights offerings | | | |
| Principal Regulator – Alberta | 3 | 5 | 5 |
| Principal Regulator – Other | 10 | 14 | 13 |
| Total | 13 | 19 | 18 |
| Exemption Applications (Corporate Finance) | | | |
| Principal Regulator – Alberta | 152 | 183 | 187 |
| Principal Regulator – Other | 117 | 90 | 101 |
| Total | 269 | 273 | 288 |
| Continuous Disclosure Reviews (Principal Regulator – Alberta) | | | |
| Full | 45 | 95 | 113 |
| Issue-Oriented | 107 | 185 | 249 |
| Total | 152 | 280 | 362 |
| Total Registered Firms | 832 | 831 | 799 |
| Total Registered Individuals**** | 27,606 | 27,112 | 26,587 |

*Does not include disgorgement (\$10.7 million in F2014, \$50.3 million in F2013, \$3.5 million in F2012).

**These orders are the result of failure to comply with ASC filing requirements.

***Excludes issuers that have been cease-traded by the Alberta Securities Commission.

**** Numbers do not include permitted individuals who are not registrants.

ASC COMMISSION MEMBERS



WILLIAM S. RICE
Q.C., CHAIR
TOM COTTER
VICE-CHAIR
STEPHEN R. MURISON
VICE-CHAIR



TERRY ALLEN
CFA, ICD.D
DR. IAN BEDDIS
WEBSTER (WEB) MACDONALD
Q.C.



MAUREEN MCCAW
DANIEL MCKINLEY
FCA, ICD.D
BRADLEY NEMETZ
Q.C.



ANN ROONEY
FCA, ICD.D
RICHARD A. SHAW
Q.C., ICD.D
FRED R. N. SNELL
FCA

ASC'S 2014 COMMISSION MEMBERS

The ASC has two operational levels: ASC Members; and staff, including the executive management team. Currently, there are 12 Members, including the Chair and two full-time Vice-Chairs. The Chair also acts as the ASC's Chief Executive Officer and is responsible for the overall operation of the ASC. The Members act as the ASC's board of directors, overseeing the management of the ASC.

Alberta's Lieutenant Governor in Council appoints ASC Commission Members. Members determine policy and consider and approve new rules and changes to existing rules. The ASC Members are extensively familiar with Alberta's capital market. Too many to list, their combined credentials and experience in accounting, law, securities and corporate finance present the right collection of talents to support the achievement of the ASC's objectives. The public can rest assured that the Members of the ASC are both qualified and empowered to deal with matters that affect the public interest in Alberta's capital market.

[For a complete list of credentials and experience, visit our website and you will find them listed under About the ASC – Organization & Governance – ASC Members.](#)

ABOUT THE MEMBERS

A majority of the 12 Commission Members are "Independent" as that term is applied in NI 52-110 *Audit Committees*. Three Members (the Chair and two Vice-Chairs) are involved in the day-to-day activities of the ASC and are not classified as Independent. One of the ASC's Independent Members is designated by Alberta's Lieutenant Governor in Council as the "Lead Independent Member." Meetings of the Commission Members are held on a monthly basis and the Members meet *in camera* following each meeting in the absence of the Chair and Vice-Chairs. The ASC has three board committees: Governance, Human Resources, and Audit. All three Committees are made up exclusively of Independent Members.

All members of the Audit Committee are financially literate as that term is used in National Instrument 52-110. As part of the ASC's orientation program, new Commission Members are provided with a briefing book detailing the operations of the ASC and the duties and responsibilities of the Members. Each member of the ASC's senior management team meets with new Members to provide an overview of the operations of their respective divisions. In addition, Members are encouraged to attend appropriate courses or programs to obtain further instruction relevant to their duties and responsibilities as Members. The ASC's Governance Policy, which contains a description of the ASC's orientation program for new Members and ongoing continuing education for all Members, is available on the ASC website at www.albertasecurities.com.

Management's Discussion & Analysis

FINANCIAL HIGHLIGHTS

thousands of dollars

F2014
F2013

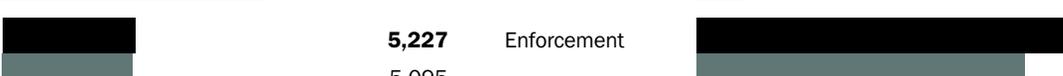
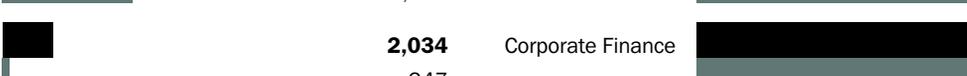
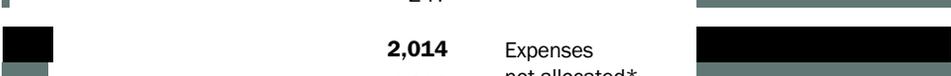
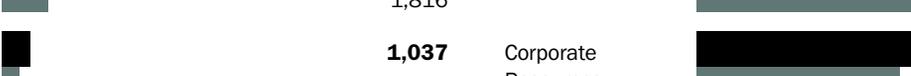
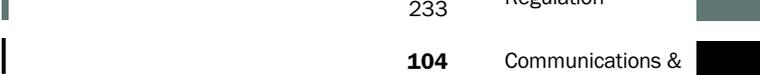
REVENUE

| | | |
|-----------------------------|---|-------------------------|
| Distribution of securities |  | 14,139 12,123 |
| Registrations |  | 10,498 10,386 |
| Annual Financial Statements |  | 5,227 5,095 |
| Administration penalties |  | 2,034 247 |
| Investment Income |  | 2,014 1,816 |
| Other Enforcement Receipts |  | 1,037 649 |
| Orders (applications) |  | 228 233 |
| SEDI late fees |  | 104 15 |
| Conference fees |  | 15 15 |

REGULATORY EXPENSES

| | | |
|-----------------------|---|-------------------------|
| Salaries & Benefits | | 25,632 24,561 |
| Premises | | 3,044 2,869 |
| Administration | | 2,893 2,941 |
| Professional Services | | 2,642 2,381 |
| Amortization | | 1,359 1,558 |
| Investor Education | | 196 194 |

DIVISION EXPENSES

| | | |
|-------------------------------------|--|-----------------------|
| Office of the Chair and Members |  | 3,136 3,244 |
| Office of the Executive Director |  | 1,077 1,088 |
| Enforcement |  | 7,982 7,043 |
| Corporate Finance |  | 5,902 6,028 |
| Expenses not allocated* |  | 5,509 5,594 |
| Corporate Resources |  | 4,763 4,383 |
| Market Regulation |  | 3,439 3,295 |
| Communications & Investor Education |  | 1,463 1,506 |
| Office of the General Counsel |  | 1,195 1,084 |
| Office of the Chief Accountant |  | 695 650 |
| Financial Services |  | 604 589 |

* Expenses not allocated includes: amortization, audit fees, premises, IIROC contract services, investor education and contingency.

The financial statements that appear on pages 34–51 in this annual report present the financial position, operating results and cash flows of the Alberta Securities Commission (ASC) in accordance with Canadian public sector accounting standards for the fiscal year ended March 31, 2014. All amounts are in Canadian dollars. The comments in this Management’s Discussion and Analysis (MD&A), prepared as of June 11, 2014, analyze the ASC’s financial performance during the fiscal year ended March 31, 2014, and present a view for the future.

NOTE: In this MD&A, references to years, such as F2014, refer to the fiscal years of the ASC ending March 31.

This MD&A should be read in conjunction with the financial statements. Certain statements outlining F2015 expectations are forward-looking and are subject to risks and uncertainties. Furthermore, assumptions, although reasonable at the date of publication, are not guarantees of future performance. The results or events predicted in these statements and assumptions may differ materially from actual results or events. Factors that could cause results or events to differ from current expectations are described in the “Risks and Uncertainties” section of this MD&A.

The ASC maintains accounting and internal control systems to provide reasonable assurance that its financial information is complete, reliable and accurate and that its assets are adequately protected. The Commission Members, in conjunction with the Audit Committee, have an oversight role to ensure the integrity of the reported information. Specific processes that enhance ASC financial accountability and oversight include:

- preparation of an annual budget that is reviewed by the Audit Committee and approved by Commission Members;
- quarterly reports of actual versus budget performance and updated full-year forecasts;
- the requirement for Commission Member approval of significant unbudgeted expenses or re-allocations; and
- quarterly testing of the design and effectiveness of critical financial controls.

OVERVIEW

The ASC, an industry-funded provincial corporation without share capital, is the regulatory agency responsible for administering the province’s securities laws. It is entrusted with fostering a fair and efficient capital market in Alberta and with protecting investors. As a member of the Canadian Securities Administrators (CSA), the ASC works to improve, coordinate and harmonize the regulation of Canada’s capital markets. As a provincial corporation, the ASC is exempt from income taxes and federal GST and HST sales taxes.

The ASC is also an administrative tribunal with quasi-judicial powers. Panels hear enforcement proceedings and consider applications for discretionary exemptions from the requirements of Alberta securities laws. ASC panels also sit as an appeal body to hear appeals from decisions of the Executive Director, the TSX Venture Exchange (TSXV), the Natural Gas Exchange Inc. (NGX) and recognized self-regulatory organizations, including the Investment Industry Regulatory Organization of Canada (IIROC) and the Mutual Fund Dealers Association of Canada (MFDA).

SELECTED ANNUAL INFORMATION

| <i>thousands of dollars</i> | F2014 | F2014 | F2013 | F2012 |
|--|---------------|---------------|------------|-----------|
| | Budget | Actual | Actual | Actual |
| Revenue | \$ 32,300 | \$ 35,296 | \$ 30,564 | \$ 31,344 |
| Regulatory expenses | 39,500 | 35,766 | 34,504 | 31,688 |
| Net loss | \$ (7,200) | \$ (470) | \$ (3,940) | \$ (344) |
| Assets | | | | |
| Cash and cash equivalents | | \$ 7,540 | \$ 7,761 | \$ 8,970 |
| Investments (market value F2014 & F2013) | | \$ 28,006 | \$ 29,232 | \$ 29,914 |
| Capital assets | | \$ 7,241 | \$ 7,999 | \$ 8,652 |
| Total assets | | \$ 45,314 | \$ 45,580 | \$ 47,964 |
| Liabilities | | | | |
| Lease inducement | | \$ 2,666 | \$ 2,941 | \$ 2,994 |
| Accrued pension liability | | \$ 6,458 | \$ 5,691 | \$ 4,881 |
| Net assets | | \$ 31,375 | \$ 32,029 | \$ 35,102 |
| Capital additions | \$ 730 | \$ 604 | \$ 907 | \$ 171 |

HIGHLIGHTS

The ASC lost \$ 470,000 in F2014 compared to a budgeted loss of \$7.2 million and an actual loss of \$3.9 million in F2013.

Revenues increased \$4.7 million in F2014 and exceeded budget by \$3.0 million. Investment income increased \$200,000 from the prior year, primarily the result of equity market recovery. Fees increased by \$2.4 million, primarily the result of mutual fund distribution fees and related sales growth of 30 per cent for the year. Enforcement receipts of \$3.1 million increased \$2.2 million from the prior year, the result of collecting administrative penalties and disgorgements of \$2.2 million from current year hearing sanctions. Enforcement receipts fluctuate annually because of the variability in cases, the timing of their resolution and success in recovering assessments.

Costs in F2014 were \$3.7 million less than budget and \$1.3 million greater than the prior year. Cost increases included higher compensation costs for retirement allowances, termination payments and annual salary increases, and increased premises costs for leased space expansion and operations.

At March 31, 2014, the ASC had cash and cash equivalents, and investments of \$35.5 million (\$37.0 million F2013). The decrease of \$1.5 million from the prior year is primarily the result of increased cash requirements for compensation, premises, other expenses and capital additions.

ACTUAL RESULTS COMPARED WITH BUDGET

The ASC prepares an annual budget that is approved by the Commission Members and Alberta's Minister of Finance, and is consolidated with the Government of Alberta budget.

The ASC's F2014 loss of \$470,000 was \$6.7 million less than the budgeted loss of \$7.2 million. Enforcement receipts exceeded budget by \$2.0 million because of significant administrative penalty collections. Fees were \$421,000 greater than budget, primarily because exempt distributions and mutual fund sales growth exceeded budget. Investment income exceeded budget by \$490,000 because of market value returns that outperformed benchmarks in both the fixed-income and equity markets. Expenses were \$3.7 million less than budget because of staff vacancies and operational cost control that reduced costs by \$2.2 million, and a budget contingency of \$1.5 million that was not required.

While the ASC has forecast budget losses for the next three years, accumulated funds are sufficient to make any increases to the existing fee rates for these years unlikely. Exceptions include insider late filing fees that commenced in F2014 and additional late filing fees for exempt distributions and registrant filings commencing in F2015. Fee changes must be authorized by a Government of Alberta "Order in Council" prior to implementation.

ANALYSIS OF FISCAL 2014 OPERATING RESULTS AND FINANCIAL POSITION

| REVENUE | | | |
|-----------------------------|------------------|------------------|-----------|
| <i>thousands of dollars</i> | F2014 | F2014 | F2013 |
| | Budget | Actual | Actual |
| Distribution of securities | \$ 12,861 | \$ 14,139 | \$ 12,123 |
| Registrations | 10,812 | 10,498 | 10,386 |
| Annual financial statements | 5,453 | 5,227 | 5,095 |
| SEDI late fees | 400 | 104 | |
| Order (application) | 229 | 228 | 233 |
| Total fees | 29,755 | 30,196 | 27,837 |
| Investment income | 1,525 | 2,014 | 1,816 |
| Other enforcement receipts | 720 | 1,037 | 649 |
| Administrative penalties | 280 | 2,034 | 247 |
| Conference fees and other | 20 | 15 | 15 |
| Total revenue | \$ 32,300 | \$ 35,296 | \$ 30,564 |

The ASC administers the Alberta capital market regulatory system and collects approximately 86 per cent (91 per cent in F2013) of its total revenue from fees paid by those who participate in the system. The ASC does not receive transfers from government tax revenues. ASC funding requirements are modelled on a total cost and revenue basis. Many ASC processes, such as enforcement actions and policy development, have no related fees but are required to maintain the regulatory system. As a result, specific transaction fees paid by issuers and registrants are not based on the cost of those transactions. These participant transaction fees, in addition to certain enforcement receipts and investment income, fund ASC operations.

Issuers are primarily companies or mutual funds that pay fees for specific filings, such as prospectuses, distributions of securities in Alberta and other specified disclosure documents.

DISTRIBUTION OF SECURITIES FEES

These fees are paid by issuers for the distribution of securities. Distribution fees have both a fixed and variable component. The fixed component is charged for each prospectus or exempt distribution by an Alberta issuer. The fixed transaction fee component of distribution fees totalled \$6.1 million (\$5.8 million in F2013) and 20.2 per cent (20.8 per cent in F2013) of fees. The variable fee component is calculated based on the proceeds obtained from public (prospectus) and private (prospectus exempt) distributions of securities sold in Alberta that exceed \$4.8 million and \$480,000 respectively. The variable fee component accounted for \$8.1 million in F2014 (\$6.1 million in F2013) and 27 per cent (22 per cent in F2013) of ASC fees. The significant increase in F2014 is the result of mutual fund sales growth.

Distribution fees vary with the level of capital market activity, equity value changes and mutual fund sales. When equity market values are rising or falling, ASC distribution revenues also increase or decrease because of changes in public and private securities distributions and mutual fund sales. However, while equity market volatility has an impact on ASC revenues, the majority of fees are relatively stable.

REGISTRATION FEES

Fee receipts of \$10.5 million in F2014 (\$10.4 million in F2013) from registered firms and individuals accounted for approximately 35 per cent of fees (37 per cent in the prior year). Registration fees are paid by approximately 830 firms and 27,600 individuals registered in Alberta. While over 80 per cent of fees are received annually from registration renewals received in January, salesperson turnover rates of 15 per cent to 20 per cent annually provide monthly fees during any given year.

ANNUAL FINANCIAL STATEMENT FEES

Reporting issuers pay financial statement filing fees and these fees account for approximately 17 per cent of fees. The total number of active reporting issuers in Alberta is approximately 7,440 (7,550 in F2013) and remains reasonably stable from year to year. Filing fees totalled \$5.2 million in F2014 (\$5.1 million in F2013).

OTHER REVENUE SOURCES

In F2014, investment income was \$2.0 million (\$1.8 million in F2013). Investment income included equity gains (including dividends) of \$888,000 (\$288,000 in F2013), and interest income of \$1.1 million (\$1.5 million in F2013).

APPLICATION FEES

For the most part, only reporting issuers having the ASC as their principal regulator pay application fees. Approximately 304 applications were received in F2014 (310 in F2013).

THE MUTUAL FUND INDUSTRY

There are approximately 3,600 mutual fund prospectus filings and more than 10,000 salespeople in Alberta. Revenues from mutual funds in F2014 included fees of: \$4.1 million from prospectus filings; approximately \$3.8 million from prospectus distributions; \$1.1 million from exempt distributions; \$1.1 million from annual financial statement filing fees; and \$1.0 million from mutual fund registrant fees. Mutual fund revenues totalled \$11.1 million or 37 per cent of total fees (\$10.4 million/37 per cent in F2013).

ADMINISTRATIVE PENALTIES AND OTHER ENFORCEMENT RECEIPTS

| <i>thousands of dollars</i> | F2014 | F2013 |
|---|------------------|-----------|
| Administrative penalties | | |
| Assessed – penalties | \$ 6,910 | \$ 6,189 |
| Uncollectible | (5,022) | (6,069) |
| Recoveries from prior and current years | 126 | 124 |
| Interest income & other | 20 | 3 |
| Total | \$ 2,034 | \$ 247 |
| Other enforcement receipts | | |
| Disgorgements | | |
| Assessed | \$ 10,729 | \$ 50,317 |
| Uncollectible | (10,551) | (50,317) |
| Settlement receipts | | |
| Assessed | 402 | 546 |
| Uncollectible | – | – |
| Recoveries from prior years | 12 | 35 |
| Cost recoveries | | |
| Assessed | 761 | 648 |
| Uncollectible | (471) | (580) |
| Recoveries from prior years | 156 | – |
| Total | \$ 1,037 | \$ 649 |

ADMINISTRATIVE PENALTIES AND OTHER ENFORCEMENT RECEIPTS

Penalties and enforcement receipts depend on the circumstances of specific cases and vary from year to year. An administrative penalty receipt occurs following collection of a financial penalty imposed by an ASC hearing decision. Disgorgements represent orders to respondents to disgorge profits made from actions that violated the *Securities Act* (Alberta). A settlement receipt arises from a negotiated settlement that contains a financial payment. Cost recovery receipts arise on collection of assessed costs. Cost recoveries arise in both settlements and hearing decisions.

Current year receipts totalled \$3.1 million (\$896,000 in F2013) and compare to a five-year average of approximately \$1.6 million. The ASC actively pursues unpaid amounts through the use of external legal counsel, writ filing and questionings in aid of execution. Recoveries are often limited because respondents have minimal resources at time of assessment. Regardless, the ASC collected \$294,000 (\$159,000 in F2013) of prior and current year assessments and costs in F2014.

The ASC annually transfers administrative penalties revenue, less eligible expenditures, to a restricted cash account. Restricted cash is segregated from other assets because of statutory limitations on the use of these funds. The *Securities Act* (Alberta) restricts the use of revenues the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance the knowledge of securities market operation. Restricted cash of \$2.2 million at March 31, 2014 (\$365,000 in F2013) was the result of receiving \$2.034 million of administrative penalty receipts (\$247,000 in F2013) and \$13,000 of program fees (\$13,000 in F2013) and deducting \$196,000 of eligible expenditures (\$194,000 in F2013). Current year administrative penalty and disgorgement receipts of approximately \$2.1 million are subject to an appeal to the Alberta Court of Appeal, however management believes that the ASC panel decision will be upheld with no change in assessed values.

REGULATORY EXPENSES

| <i>thousands of dollars</i> | F2014 | F2014 | F2013 |
|-----------------------------|---------------|---------------|-----------|
| | Budget | Actual | Actual |
| Salaries and benefits | \$ 27,006 | \$ 25,632 | \$ 24,561 |
| Administration | 3,542 | 2,893 | 2,941 |
| Premises | 3,080 | 3,044 | 2,869 |
| Professional services | 2,614 | 2,642 | 2,381 |
| Amortization | 1,560 | 1,359 | 1,558 |
| Investor education | 240 | 196 | 194 |
| | 38,042 | 35,766 | 34,504 |
| Contingency | 1,458 | - | - |
| Total expenses | \$ 39,500 | \$ 35,766 | \$ 34,504 |

COMPARATIVE AND BUDGET REGULATORY EXPENSE ANALYSIS

In F2014, expenses increased to \$35.8 million from \$34.5 million in F2013 and were 9.5 per cent less than the F2014 budget of \$39.5 million. Details by expense category follow.

SALARIES AND BENEFITS

Compensation expenses accounted for 72 per cent of operating costs (71 per cent in F2013) and increased \$1.1 million in F2014. Increases were the result of annual salary adjustments averaging 3.5 per cent, marketplace adjustments and incremental retirement allowances and termination payments. There were an average 172 full-time staff during the year (172 in F2013). Compensation costs were less than budgeted because of an average vacancy of 15 positions. Compensation includes a performance-based variable pay program that represented 7.8 per cent (7.0 per cent in F2013) of total salary and benefits costs, including variable pay.

ADMINISTRATION

Administration costs decreased \$48,000 in F2014, were \$649,000 less than budget and accounted for 8 per cent of total costs (8.5 per cent in F2013). The administration cost category includes: travel; Member fees; office operations, including insurance, freight and postage, rental equipment, telephones and communications, repairs and maintenance, and materials and supplies; and other administration costs of recruitment advertising, business consultation and audit related fees. Travel expenses were \$33,000 greater than the prior year and \$108,000 less than budget. Travel expenses are required primarily for enforcement activities and coordination with other CSA jurisdictions on CSA governance and administration, national projects, policy development and rule formulation. Member fees decreased \$13,000 in F2014 and were \$133,000 less than budget because there were fewer hearing days than budgeted. Office operation costs, including maintenance, communications, technology licences, supplies, equipment and rent were less than budget by \$239,000 and greater than the prior year by \$146,000, primarily because of renegotiated communications contracts and supply use reductions offset by a full year of additional space rental costs in F2014. Annual audit fees were terminated in F2014, the result of a change in provincial government audit fee policy.

PREMISES

Premises costs were 8.5 per cent of total costs (8.3 per cent in F2013), increasing in F2014 because of the full year impact of additional space leased in F2013. However, premises operating costs were less than budget.

PROFESSIONAL SERVICES

Professional services costs were 7.4 per cent of total costs in F2014 (6.9 per cent in F2013), exceeding the prior year and budget primarily because of incremental legal costs arising from ASC legal proceedings and related litigation and settlement costs. All CSA projects, including the development of harmonized securities policies and rules and shared CSA information systems, are coordinated through a permanent Secretariat located in Montréal. The operating costs are borne on a formula basis by CSA members and the ASC pays approximately 10 per cent. In F2014 the ASC's share of CSA costs were \$216,000 (\$225,000 in F2013), \$49,000 less than budget because costs in the current year for information technology were paid using accumulated national systems surplus funds as explained in the national filing systems comments and Note 10 of the annual financial statements.

AMORTIZATION

Amortization decreased and was less than budget because significant technology additions from prior years were fully depreciated, while technology additions in F2014 occurred later in F2014 than originally budgeted.

INVESTOR EDUCATION

Costs were similar to the prior year and budget.

| EXPENSES BY DIVISION | | | |
|---------------------------------------|------------------|------------------|------------------|
| <i>thousands of dollars</i> | F2014 | F2014 | F2013 |
| | Budget | Actual | Actual |
| Office of the Chair and Members | \$ 3,379 | \$ 3,136 | \$ 3,244 |
| Office of the Executive Director | 1,103 | 1,077 | 1,088 |
| Enforcement | 7,921 | 7,982 | 7,043 |
| Corporate Finance | 6,496 | 5,902 | 6,028 |
| Market Regulation | 4,063 | 3,439 | 3,295 |
| Office of the General Counsel | 1,175 | 1,195 | 1,084 |
| Office of the Chief Accountant | 720 | 695 | 650 |
| Administration | | | |
| Corporate Resources | 5,095 | 4,763 | 4,383 |
| Communications and Investor Education | 1,514 | 1,463 | 1,506 |
| Financial Services | 684 | 604 | 589 |
| | 7,293 | 6,831 | 6,478 |
| Expenses not allocated* | 7,350 | 5,509 | 5,594 |
| Total | \$ 39,500 | \$ 35,766 | \$ 34,504 |

* Expenses not allocated includes: amortization, audit fees, premises, IIROC contract services, investor education and contingency.

Division expenses are primarily for staff, professional services and travel. These costs were greater than in the prior year for most divisions primarily because of increases in compensation and travel. Other divisions with expenses that were less than budget were not able to recruit full staff complements because of strong marketplace competition for professionals. Under expenditure in Corporate Resources occurred because premises operating costs were less than budget. Expenses not allocated included higher premises costs, the result of leased space expansion costs for the entire year and reductions from amortization as certain information technology assets became fully amortized during the year. Expenses not allocated were less than budget because the budgeted contingency was not required.

Independent Member fees are recorded in the Office of the Chair and Members and include a \$10,000 annual retainer, \$2,500 for Committee membership, \$5,000 for a Committee chair position and \$5,000 for the Lead Independent Member position. Meeting attendance fees include \$1,000 per day for an ASC meeting and \$750 for a Committee meeting. Hearing fees are payable as to \$1,000 per hearing day and \$125 per hour of related preparation, review and decision writing. Fees are variable because the duration and number of hearings are not easily forecast. Fee rates are subject to Ministerial approval and existing fees have not increased since 2008. Total Member fees and related hearing costs decreased \$13,000 in F2014 because of a decrease in hearing days.

CAPITAL EXPENDITURES

| <i>thousands of dollars</i> | F2014 | F2014 | F2013 |
|--------------------------------|---------------|---------------|---------------|
| | Budget | Actual | Actual |
| Leasehold improvements | \$ 30 | \$ 6 | \$ 341 |
| Information technology | 630 | 546 | 345 |
| Office furniture and equipment | 70 | 52 | 221 |
| Total | \$ 730 | \$ 604 | \$ 907 |

Current year additions are primarily technology projects and include a new enforcement electronic evidence management system costing \$300,000, network hardware replacements and upgrades and data management software enhancements.

Lease inducements are amortized over their respective lease terms as a reduction of rent expense. Amortization of \$285,000 in the current year (\$209,000 in F2013) was recorded.

LIQUIDITY AND FINANCIAL POSITION

LIQUIDITY

The ASC has sufficient resources to fund future operations and capital purchases with cash of \$7.5 million (\$7.8 million in F2013) and investments at market value of \$28 million (\$29.2 million in F2013).

ACCOUNTS RECEIVABLE

Accounts receivable at the end of March 2014 were \$98,000 (\$146,000 in F2013) and include \$79,000 of CSA-related expenses (\$0 in F2013), \$18,000 of employee loans for computer acquisitions (\$25,000 in F2013) and \$1,000 of enforcement assessment receivables (\$123,000 in F2013).

INVESTMENTS

The ASC's investments are independently managed by the Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance. The ASC does not participate in specific capital market investment decisions or transactions.

The ASC's investment policy provides guidance relevant to the governance, purpose, size, access, management and annual income of the investments (investments at market value totalled \$28.0 million at year-end F2014 and \$29.2 million at year-end F2013).

The target balance for the investments is between 50 per cent and 100 per cent of the ASC's average of expected expenses for the current and subsequent year. This range was \$18.8 million to \$37.6 million at March 31, 2014. The 2015 year-end balance of investments and cash is expected to be \$29.5 million compared to the March 31, 2014 balance of \$35.5 million. The \$6.0 million reduction in investments and cash in F2015 is due to estimated cash expenditures for capital additions of \$600,000 and operations of \$5.4 million.

RATES OF RETURN ON INVESTMENTS

- Fixed-income securities – The rate of return (based on market value) was 2.6 per cent in F2014, compared with 8.0 per cent in the prior year.
- Equity funds – The rate of return (based on market value) was 18.8 per cent in F2014, compared with 8.6 per cent in the prior year.
- Money market funds – These returned 1.17 per cent in F2014 and 1.25 per cent in the prior year.

Investments include fixed-income government and corporate securities, Canadian equities that trade in active markets and a variety of equity-related and other derivatives for equity index simulation and credit, interest rate and currency risk management. Investments can be accessed on two weeks' notice and are available to fund ASC cash requirements.

Fixed-income securities are sensitive to interest rate fluctuations. At March 31, 2014, ASC fixed-income security investments of \$20.5 million market value had maturities that range from under one year (6.8 per cent) to greater than 10 years (36.4 per cent) and a duration of 6.27 years (6.47 in F2013). A 1.0 per cent increase in the interest rate, assuming no other changes, would reduce the market value of fixed-income securities by 6.27 per cent.

INVESTMENT RISK MANAGEMENT AND THE USE OF DERIVATIVES

AIMCo uses several types of derivatives across most product areas to cost-effectively manage asset exposure, hedge interest rate and foreign currency risk, and enhance return. Current credit exposure is represented by the current replacement cost of all outstanding derivative contracts in a favourable position (positive fair value). The ASC's investments include derivative contracts with a net positive fair value of \$98,000 (\$139,000 in F2013).

QUARTERLY RESULTS SUMMARY

| | F2014 | | | | F2013 | | | |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Q4 (Jan-Mar) | Q3 (Oct-Dec) | Q2 (Jul-Sep) | Q1 (Apr-Jun) | Q4 (Jan-Mar) | Q3 (Oct-Dec) | Q2 (Jul-Sep) | Q1 (Apr-Jun) |
| <i>thousands of dollars</i> | | | | | | | | |
| Revenues | | | | | | | | |
| Fees & other | \$ 16,370 | \$ 3,836 | \$ 6,581 | \$ 6,495 | \$ 15,366 | \$ 3,907 | \$ 3,698 | \$ 5,777 |
| Investment income (loss) | 490 | 683 | 641 | 200 | 339 | 527 | 717 | 233 |
| | 16,860 | 4,519 | 7,222 | 6,695 | 15,705 | 4,434 | 4,415 | 6,010 |
| Regulatory expenses | | | | | | | | |
| Salaries & benefits | 6,441 | 6,375 | 6,126 | 6,690 | 6,380 | 6,003 | 6,080 | 6,098 |
| Other | 3,270 | 2,300 | 2,161 | 2,403 | 3,229 | 2,365 | 1,935 | 2,414 |
| | 9,711 | 8,675 | 8,287 | 9,093 | 9,609 | 8,368 | 8,015 | 8,512 |
| Net income (loss) | \$ 7,149 | (\$4,156) | (\$1,065) | (\$2,398) | \$ 6,096 | (\$3,934) | (\$3,600) | (\$2,502) |
| Investments (market value) | \$ 28,006 | \$ 26,884 | \$ 29,170 | \$ 28,497 | \$ 29,232 | \$ 28,681 | \$ 31,555 | \$ 30,491 |
| Cash and cash equivalents | \$ 7,540 | \$ 331 | \$ 1,651 | \$ 4,302 | \$ 7,761 | \$ 2,347 | \$ 1,772 | \$ 5,484 |
| Restricted cash | \$ 2,216 | \$ 2,129 | \$ 2,122 | \$ 366 | \$ 365 | \$ 302 | \$ 301 | \$ 300 |

QUARTERLY VARIANCE ANALYSIS

FEE REVENUE

Quarterly fee revenue is variable because the timing of fee-related filings varies among the reporting issuer population, and prospectus fees fluctuates with market activity. Furthermore, annual registration renewal fees of \$9.1 million (\$8.9 million in F2013) are received in January and result in increased fourth quarter fees each year.

EXPENSES

Fourth quarter registration renewal fees for IIROC registrants are subject to external administration costs of approximately \$790,000 in each year that increase fourth quarter costs. Other expenses vary from quarter to quarter because of timing. For example, professional services for enforcement activities depend on the nature of investigations and the timing of expert reports and testimony during hearings and trials.

CONTRACTUAL OBLIGATIONS

Commitments to outside organizations with respect to contracts in place as at March 31, 2014 amounted to \$53.9 million (\$56.6 million in F2013). Commitments include the lease of premises to March 2016 and 2025 and rental of office equipment to 2018. These commitments become expenses of the ASC when the terms of the contracts are met.

thousands of dollars

| | | |
|------------|----|--------|
| 2014-15 | \$ | 3,221 |
| 2015-16 | | 3,675 |
| 2016-17 | | 4,280 |
| 2017-18 | | 4,365 |
| 2018-19 | | 4,455 |
| Thereafter | | 33,939 |
| Total | \$ | 53,935 |

The ASC 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 ASC's financial instruments include accounts receivable, investments, and accounts payable and accrued liabilities. AIMCo manages investments that include derivative contracts for effective investment risk and return management. Details of these financial instruments are described in the Investments section of the MD&A and in the Notes to the ASC's financial statements.

The ASC reports all of its investments at fair value, consistent with how they are evaluated and managed by the ASC's investment manager. ASC financial reporting includes:

- investments are reported on the Statement of Financial Position at fair value rather than amortized cost;
- realized and unrealized investment gains and losses are reported separately. Only realized gains and losses are reported in the Statement of Operations. Unrealized gains and losses are reported in the Statement of Remeasurement Gains and Losses;
- investment risks are disclosed, including credit, interest rate and market risks; and
- investment fair value hierarchy disclosure differentiates amongst valuation methods.

RELATED PARTY TRANSACTIONS

The ASC is related, through the common Government of Alberta reporting entity, to all provincial government ministries, agencies, boards, commissions and crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of \$36,000 in administration expense primarily for insurance and postage (\$58,000 in F2013).

NATIONAL FILING SYSTEMS AND OPERATING AGREEMENTS

CDS Inc. (CDS) owned and operated the CSA National Systems, SEDAR, NRD and SEDI since their inception, on behalf of the CSA, under various operating contracts that concluded in January 2014. These systems enable electronic filings by issuers, registrants and insiders. Approximately 88 per cent (90 per cent F2013) of the ASC's fees is collected through the SEDAR, NRD and SEDI systems. System fees are collected from filers to fund the operation of these systems. CDS and its successor have backup and disaster recovery processes for these systems that are tested annually and confirmed in annual audit reports of system control processes.

In preparation for termination of these agreements with CDS, the CSA signed a CSA National Systems operations management and governance agreement (the Agreement) in April of 2013. The Agreement empowers the ASC, jointly with three other CSA members British Columbia Securities Commission (BCSC), Ontario Securities Commission (OSC) and L'Autorité des marchés financiers (AMF) (the Principal Administrators or PAs) to contract for and manage a new National Systems outsourced service agreement with CGI Group Inc. (CGI), a Canadian-based international information technology and business process firm.

The Agreement also identifies how certain functions of the CSA National Systems will be performed by Designated Principal Administrators (DPAs); outlines how system user fees will be established, collected and deployed; and addresses allocation and payment of liabilities arising from supplier agreements entered into by the CSA and the CSA National Systems.

Under the Agreement and related contracts, the CSA pays CGI outsourced systems operation contract costs, all CSA Information Systems Technology Office systems management costs, all DPA costs for systems accounting and intellectual property management, all continuing systems enhancement and maintenance costs and, through its outsourced service provider, CGI collects all system user and data distribution subscription fees.

These CSA National Systems processes and Agreement formalize the CSA Systems operational, management and governance processes that were in place while CDS was the systems operator. CGI commenced independent systems operations on January 13, 2014, following transfer of National Systems to the CSA PAs and termination of the CDS contract. The cash surplus accumulated during CDS operations and subsequent cash surplus accumulation under the new arrangement is controlled by, but not owned by, the PAs, as all CSA jurisdictions share an undivided interest in system surpluses. The Agreement provides that each PA has a 25 per cent voting interest in National Systems financial and operating decisions. However, while CSA National Systems control and management is vested in the four PAs, the assets and accumulated surplus arising from this arrangement can only be used for continued CSA systems operation, enhancement and user fee adjustment purposes. As a result, the arrangement has no economic impact on the funding of ongoing ASC operations and cash flows. While the ASC shares an equal 25 per cent responsibility for any operating cost shortfalls, the likelihood of any liability arising is minimal. Financial risk is minimal because of the significant accumulated cash surplus at commencement and the Agreement to adjust system user fees to recover any projected funding shortfalls.

It was suggested in the F2013 MD&A that the new CSA Systems operational model may have an impact on the ASC's accounting and disclosure of this arrangement. However, detailed examination of the agreements, operations and their accounting implications confirmed that note disclosure in the ASC's annual financial statements was judged to be most appropriate.

Accumulated cash surplus earned under the former National Systems operating contracts with CDS and subsequent surplus resulting from the new operations model and governance agreements totalling \$112.1 million at March 31, 2014 (\$94.4 million F2013) are administered by the OSC in segregated bank accounts and earn interest at prime less 1.85 per cent.

CSA Systems assets include \$708,000 of information technology capital at March 31, 2014. These assets are being amortized over three years commencing January 13, 2014 and are net of \$42,000 of accumulated amortization in F2014.

A summary of CSA National Systems finances includes:

| <i>thousands of dollars</i> | Commencement (January 13, 2014) to March 31, 2014 |
|-----------------------------|---|
| Revenues | |
| System user fees | \$ 6,333 |
| Data distribution fees | 136 |
| Investment income | 295 |
| Total revenue | \$ 6,764 |
| Expenses | |
| Professional fees | 3,098 |
| Salaries and benefits | 426 |
| Premises and other | 60 |
| Amortization of IT capital | 42 |
| Total expense | 3,626 |
| Net income | \$ 3,138 |

ACCUMULATED CSA NATIONAL SYSTEMS SURPLUS

| | |
|---|-------------------|
| Accumulated CSA National Systems surplus arising prior to arrangement commencement, at January 13, 2014 | \$ 112,548 |
| Plus income for the period | 3,138 |
| CSA systems surplus, March 31, 2014 | 115,686 |
| Less receivables and prepaid expenses | (4,234) |
| Less information technology (IT) capital | (708) |
| Less payables and accrued expense | 1,362 |
| Accumulated CSA National Systems cash surplus, March 31, 2014 | \$ 112,106 |

RISK MANAGEMENT INITIATIVES

BUSINESS CONTINUITY

The ASC has emergency response plans and processes in place and maintains information technology systems in a secure off-site environment with backup and recovery capability that is subject to annual audit. Should this facility fail, the ASC has backup capability within its own offices that is tested regularly. Remote access capability exists for all critical ASC systems. This access enables ASC staff to continue critical information technology supported work within four hours if ASC offices are not accessible. These systems were successfully implemented and responded as planned during the floods of 2013 when ASC staff were not able to access ASC offices for four business days.

RISK ASSESSMENT AND MITIGATION

Risks to the effective functioning of the ASC include disruption or loss of computing systems, ineffective crisis management or a loss of public confidence in the ASC. The ASC believes that existing business processes are well designed to minimize these risks. During F2013, the ASC reviewed and updated its risk register, identified risk responses and key risk mitigation processes and tested these processes for effectiveness. The review concluded that adequate controls exist, are operational and minimize risk. Reviews are undertaken every second year; the next is scheduled for F2015.

MINISTERIAL BUDGET APPROVAL

In November 2010, the ASC and the Minister of Finance and Enterprise executed a Mandate and Roles Document (MRD) as per the requirements of the *Alberta Public Agencies Governance Act* (APAGA). The MRD became effective on proclamation of the APAGA on June 12, 2013. The MRD outlines the ongoing roles, responsibilities and accountability relationships between the two parties. Significant MRD financial requirements include Ministerial approval of annual ASC budgets and any subsequent changes that materially modify the budget, and quarterly reporting to the Minister of actual financial results and budget updates.

FISCAL 2015 OUTLOOK AND ASSUMPTIONS

REVENUES

The F2015 \$32.4 million revenue budget assumes that fee receipts and other income remain consistent with the F2014 budget of \$32.3 million. Forecasted investment income of \$1.2 million assumes investment returns consistent with investment manager projections of 4.0 per cent for bonds and 6.5 per cent for equities.

REGULATORY EXPENSES

Expenses are budgeted at \$40.4 million, an increase of \$4.6 million over F2014 actual expenses of \$35.8 million. The projected increase includes:

- annual compensation and variable incentive compensation adjustments, additional legal and accounting professionals for the Chair's office, the Chief Accountant's professional training program and Market Regulation, and reduced vacancies, totalling \$2.3 million;
- a 2.5 per cent contingency provision of \$1.0 million; and
- \$1.3 million for leased space operating cost increases, investor education and professional services.

The ASC forecasts an operating loss of \$8.0 million that assumes full use of the \$1.0 million contingency. Actual experience over the last several years has consistently resulted in under expenditure, primarily due to professional staff vacancies and no requirement for use of the contingency.

LIQUIDITY AND CASH FLOW

The ASC operates primarily on a cash basis. In addition to cash from operations, cash requirements for F2015 operations and capital budgets are estimated at \$5.9 million. Cash is available from existing cash and investment balances.

RISKS AND UNCERTAINTIES

Budgets are based on the ASC's experience and assessment of historical and future trends, and the application of key assumptions relating to future events that include fee income growth consistent with that of the capital markets, investment income of 4.0 per cent for bonds and 6.5 per cent for equities, a 6.0 per cent staff vacancy rate, inflationary salary increases and specific project costs for information technology, training and recruitment. Factors that could cause actual results to differ materially include:

- capital market volatility and the impact on fees paid in connection with the distribution of securities and investment income;
- business plan changes and their impact on cost assumptions; and
- disruption of CSA national systems fee processing that delays fee receipts at the ASC's year end.

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 public sector accounting standards. Financial information contained elsewhere in this Annual Report is consistent with the financial statements. The Auditor General of Alberta has examined the financial statements. The ASC's Audit Committee meets with management and with the Auditor General to review issues relating to audit plans and outcomes, 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, Q.C.
Chair and Chief Executive Officer



David C. Linder, Q.C.
Executive Director

June 11, 2014

Financial Statements

INDEPENDENT AUDITOR'S REPORT

To the Members of the Alberta Securities Commission



REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2014, and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 11, 2014

Edmonton, Alberta

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

thousands of dollars

March 31, 2014 March 31, 2013

| Assets | | |
|--|------------------|-----------|
| Cash and cash equivalents (Note 4) | \$ 7,540 | \$ 7,761 |
| Accounts receivable | 98 | 146 |
| Prepaid expenses | 213 | 77 |
| Restricted cash (Note 3) | 2,216 | 365 |
| Investments (Notes 2 and 4) | 28,006 | 29,232 |
| Capital assets (Note 6) | 7,241 | 7,999 |
| | \$ 45,314 | \$ 45,580 |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 4,815 | \$ 4,919 |
| Lease inducements (Note 7) | 2,666 | 2,941 |
| Accrued pension liability (Note 8) | 6,458 | 5,691 |
| | 13,939 | 13,551 |
| Net Assets | | |
| Accumulated operating surplus, beginning of year | 31,162 | 35,102 |
| Net operating results | (470) | (3,940) |
| Accumulated operating surplus, end of year | 30,692 | 31,162 |
| Accumulated remeasurement gains, end of year | 683 | 867 |
| Net assets, end of year (Notes 2 and 3) | 31,375 | 32,029 |
| | \$ 45,314 | \$ 45,580 |

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

Approved by the Members



William S. Rice, Q.C.
Chair and Chief Executive Officer



Daniel McKinley, FCA, ICD.D
Member

STATEMENT OF OPERATIONS*thousands of dollars***For year ended March 31**

| | 2014 | 2014 | 2013 |
|-------------------------------------|-------------------------|-----------------|-------------------|
| | Budget (Note 12) | Actual | Actual |
| Revenue | | | |
| Fees (Note 9) | \$ 29,755 | \$ 30,196 | \$ 27,837 |
| Investment income (Note 5) | 1,525 | 2,014 | 1,816 |
| Administrative penalties (Note 3) | 280 | 2,034 | 247 |
| Other enforcement receipts (Note 9) | 720 | 1,037 | 649 |
| Conference fees and other | 20 | 15 | 15 |
| | 32,300 | 35,296 | 30,564 |
| Regulatory expense | | | |
| Salaries and benefits | 27,006 | 25,632 | 24,561 |
| Administration | 3,542 | 2,893 | 2,941 |
| Premises | 3,080 | 3,044 | 2,869 |
| Professional services | 2,614 | 2,642 | 2,381 |
| Amortization of capital assets | 1,560 | 1,359 | 1,558 |
| Investor education (Note 3) | 240 | 196 | 194 |
| | 38,042 | 35,766 | 34,504 |
| Budget contingency | 1,458 | - | - |
| Net operating results | \$ (7,200) | \$ (470) | \$ (3,940) |

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

STATEMENT OF REMEASUREMENT GAINS AND LOSSES (NOTE 2)*thousands of dollars***For year ended March 31**

| | 2014 | 2013 |
|--|--------------|------------|
| Accumulated remeasurement gains, beginning of year | \$ 867 | \$ - |
| Accumulated remeasurement gains, April 1, 2012 adoption of PS 3450 | - | 318 |
| Unrealized (losses) gains on investments during the year | (56) | 580 |
| Less: Amounts reclassified to the Statement of Operations on realized gains from investments | (128) | (31) |
| Net remeasurement (losses) gains for the year | (184) | 867 |
| Accumulated remeasurement (losses) gains, end of year | \$ 683 | \$ 867 |

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

STATEMENT OF CASH FLOWS

thousands of dollars

For year ended March 31

| | 2014 | 2013 |
|---|-----------|-----------|
| Operating transactions | | |
| Fees and other | \$ 30,212 | \$ 27,837 |
| Payments to and on behalf of employees | (24,524) | (23,577) |
| Payments to suppliers for goods and services | (9,615) | (9,022) |
| Investment income | 2,014 | 1,816 |
| Other enforcement receipts | 1,159 | 649 |
| Administrative penalties | 2,034 | 138 |
| Cash received from (used in) operating transactions | 1,280 | (2,159) |
| Capital transactions | | |
| Cash used to acquire capital assets | (694) | (745) |
| Cash from lease inducement | - | 209 |
| Proceeds on disposal of capital assets | 2 | 2 |
| Cash used in capital transactions | (692) | (534) |
| Investing transactions | | |
| Increase in restricted cash | (1,851) | (66) |
| Purchases of investments | (1,958) | (1,750) |
| Disposal of investments | 3,000 | 3,300 |
| Cash (used in) received from investing transactions | (809) | 1,484 |
| Decrease in cash and cash equivalents | (221) | (1,209) |
| Opening cash and cash equivalents | 7,761 | 8,970 |
| Closing cash and cash equivalents | \$ 7,540 | \$ 7,761 |

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

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2014
thousands of dollars

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (ASC), a provincial corporation operating under the *Securities Act* (Alberta), is the regulatory agency responsible for administering the province's securities laws.

The ASC's investments are independently managed by the Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance. AIMCo invests the ASC assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. The ASC does not participate in capital market investment decisions or transactions.

The ASC, as an Alberta provincial corporation, is exempt from income tax under the *Income Tax Act* (Canada).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS).

a) Investments

AIMCo invests the ASC's assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the ASC does not report the financial instruments of the pools on its statement of financial position and does not participate in capital market investment decisions or transactions.

AIMCo manages and reports all ASC investments and cash balances using the accounting policies outlined in (a), (b), (c), (d) and (e).

Fixed-income securities and equities consist of units in pooled investment funds. The units are recorded at fair value based on the fair value of the financial instruments held in the pools.

b) Valuation of Investments

Fair values of investments managed and held by AIMCo in pooled investment funds are determined as follows:

- i) Public fixed-income securities and equities are valued at the year-end closing sale price, or, if not actively traded, the average of the latest bid and ask prices quoted by an independent securities valuation company;
- ii) 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; and
- iii) The pools include derivative contracts. Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. The value of derivative contracts is included in the fair value of the pools.

c) Investment Income and Expenses

Income from investment in units of the pools and total expense and transaction costs incurred by the pools are allocated to the ASC based on the ASC's pro-rata share of units in each pool.

Investment services provided by AIMCo are charged directly to the pools on a cost recovery basis.

Investment services provided by external managers are charged to the pools based on a percentage of net assets under management. Investment income, including that from derivative contracts, and expenses are recorded on the accrual basis.

Gains and losses arising as a result of disposal of investments and related pool units are included in the determination of investment income and reported in investment income on the statement of operations. The cost of disposal is determined on an average cost basis.

Interest income attributable to interest bearing financial assets held by the pools is recognized using the effective interest method.

Dividend income attributable to equities held by the pools is recognized on the ex-dividend date.

d) Remeasurement Gains and Losses

Accumulated remeasurement gains represent the excess of the fair value of the pool units at period-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the period include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations.

e) Valuation of Financial Assets and Liabilities

Cash and cash equivalents, accounts receivable, restricted cash and accounts payable, and accrued liabilities are measured at cost or amortized cost.

f) 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 |
| Leaseholds | over 15-year lease term December 2010 to November 2025, and over a 3.5-year lease term to March 2016. |

g) Fees, Administrative Penalties and Other Enforcement Receipts Recognition

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

Administrative penalties and other enforcement receipts that include disgorgements, settlement payments and cost recoveries are recognized when the decision is issued or agreement reached.

h) Employee Future Benefits

The ASC 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 ASC has insufficient information to apply defined benefit plan accounting to this pension plan. Pension costs included in these financial statements are comprised of 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 ASC established a retirement plan for one employee at the time of transition to a provincial corporation. The employee is retired and the plan costs are fully provided for.

The ASC maintains a Supplemental Pension Plan for certain designated executives of the ASC. The cost of the pension is actuarially determined using the projected unit credit cost 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 Supplemental Pension Plan. The average remaining service period of active employees of the Supplemental Pension Plan is six years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the ASC. 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* (Canada). The expense included in these financial statements represents the current contributions made on behalf of the employees.

i) Lease Inducements

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

j) Accounting 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. Estimates include uncollectible amounts of accounts receivable for administrative penalties and related cost recoveries, the useful lives of capital assets, and the value of accrued employee benefit liabilities. Actual results could differ from those estimates.

Estimates of capital asset useful lives are outlined in Note 6.

Benefit liability estimates are primarily subject to actuarial assumptions summarized in Note 8.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of the ability to pay at the time of penalty assessment. Subsequent collection actions and changes in the ability to pay may result in recovery of amounts previously considered uncollectible. However, it is not possible to estimate what, if any, subsequent recoveries may occur.

k) Restricted Cash

The *Securities Act* (Alberta) restricts the use of revenues the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance the knowledge of securities market operation.

I) Net Assets

Net assets represent the difference between the carrying value of assets held by the ASC and its liabilities.

PSAS require a “net debt” presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. While the ASC operates within the government reporting entity, it is in a net asset position and is self funded, raising revenues from those entities it regulates. Accordingly, these financial statements do not report a net debt indicator.

NOTE 3 RESTRICTED CASH AND NET ASSETS

Net assets include \$2,216 of accumulated net penalty revenues (\$365 in F2013) because accumulated penalty revenues exceeded eligible expenditures. This amount is represented by restricted cash, as described in Note 2(k). Restricted cash includes \$1,900 of current year administrative penalty receipts that are under appeal. The appeal includes \$178 of other enforcement receipts. However, management believes that the appeal, scheduled for the Alberta Court of Appeal in 2014, will not be successful.

The change in restricted cash is comprised of:

| | 2014 | 2013 |
|---|----------|----------|
| Administrative penalties | \$ 6,910 | \$ 6,189 |
| Less provision for uncollectible amounts | (5,022) | (6,069) |
| Plus recoveries of current and prior-year assessments | 126 | 124 |
| Net realizable value | 2,014 | 244 |
| Interest income and other | 20 | 3 |
| Administrative penalty revenue | 2,034 | 247 |
| Plus: Education seminar fees | 13 | 13 |
| Less: Eligible restricted cash expenses | (196) | (194) |
| Restricted cash increase (decrease) | 1,851 | 66 |
| Restricted cash opening balance | 365 | 299 |
| Restricted cash closing balance | \$ 2,216 | \$ 365 |

NOTE 4 CASH AND CASH EQUIVALENTS, AND INVESTMENTS**a) Summary**

| | 2014 | | | | | | 2013 | | |
|---------------------------|-----------|--------------------|------------|------------------------------|------------------------------|-------|-----------|------------|-------|
| | Cost | Remeasurement Gain | Fair Value | Fair Value Hierarchy Level 1 | Fair Value Hierarchy Level 2 | % | Cost | Fair Value | % |
| Cash and cash equivalents | | | | | | | | | |
| CCITF deposit | \$ 7,540 | - | \$ 7,540 | \$ - | \$ 7,540 | - | \$ 7,761 | \$ 7,761 | - |
| Investments | | | | | | | | | |
| CCITF deposit | \$ 78 | - | \$ 78 | \$ - | \$ 78 | 0.3 | \$ 78 | \$ 78 | 0.3 |
| Fixed-income securities | 20,484 | \$ 62 | 20,546 | - | 20,546 | 75.0 | 21,114 | 21,738 | 74.4 |
| Canadian equities | 6,761 | 621 | 7,382 | 4,577 | 2,805 | 24.7 | 7,173 | 7,416 | 25.3 |
| | \$ 27,323 | \$ 683 | \$ 28,006 | \$ 4,577 | \$ 23,429 | 100.0 | \$ 28,365 | \$ 29,232 | 100.0 |

Cash and cash equivalents consists of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The CCITF portfolio comprises high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2014, securities held by the CCITF have a time weighted annualized return of 1.17 per cent (1.25 per cent in F2013).

At March 31, 2014, the carrying amounts of the ASC's investments are recorded on a fair value basis. The ASC's investments are held in pooled investment funds established and managed by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

Fixed-income securities held at March 31, 2014 have maturities ranging from less than one year to over 10 years (36.4 per cent of maturities are greater than 10 years), an average market yield of 3.22 per cent (2.87 per cent in F2013) and an average duration of 6.3 years (6.5 years in F2013). The fixed income pool includes a mix of high-quality government and corporate (public and private) fixed income securities and debt related derivatives. The fund is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded Canadian large cap and market index participant equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk.

Disclosure of the hierarchy of inputs used in the determination of fair value for investments are reported according to the following levels:

- i) Level one: fair value is based on quoted prices in an active market.
- ii) Level two: fair value is based on model-based valuation methods for which all significant inputs are market-observable other than quoted prices.

b) Investment Risk Management

Income and financial returns of the ASC are exposed to credit, market and interest rate risk.

In order to earn an optimal financial return at an acceptable level of risk, ASC management has established an investment policy that is reviewed annually. Investment income risk is reduced through asset class allocation targets of 75 per cent fixed-income securities and 25 per cent equities with a small value of residual cash.

AIMCo manages risk through diversification within each asset class, and quality and duration constraints on fixed-income instruments, and use of derivative contracts. Specific risk management measures include:

- fixed income credit risk reduction primarily through credit ratings of investment grade (Corp. BBB) or higher of 94.6 per cent (93.2 per cent in F2013);
- interest rate risk control using duration constraints that limit loss exposure on fixed income securities to 6.3 per cent (6.5 per cent in F2013) should interest rates increase 1 per cent;
- price risk associated with equity investments that, subject to a decline of 10 per cent in equity values, with all other variables held constant, would cause a 2.5 per cent (2.5 per cent in F2013) decline in the fair value of total investments; and
- market risk using derivative instruments.

AIMCo uses several types of derivatives across most product areas to cost-effectively manage asset exposure, hedge interest rate and foreign currency risk, and enhance return. Current credit exposure is represented by the current replacement cost of all outstanding derivative contracts in a favourable position (positive fair value). The ASC's investments include derivative contracts with a net positive fair value of \$98 (\$139 in F2013).

NOTE 5 INVESTMENT INCOME

The ASC's investment income included \$1,126 from interest-bearing securities (\$1,528 in F2013) and \$888 from equities (\$288 in F2013).

The ASC's investments realized market value returns of 6.6 per cent for the year ended March 31, 2014 (8.0 per cent in F2013). This performance compares to a benchmark (composite of DEX 91 Day T-Bill, DEX Universe Bond and S&P/TSX indexes) gain of 4.5 per cent in F2014 and a benchmark gain of 5.1 per cent in F2013.

NOTE 6 CAPITAL ASSETS

| | Computer Equipment & Software | Furniture & Equipment | Leaseholds | 2014 Total | 2013 Total |
|--------------------------|----------------------------------|--------------------------|-------------------|---------------|---------------|
| Estimated useful life | 3 years | 10 years | Lease duration | | |
| Cost | | | | | |
| Beginning of year | \$ 3,090 | \$ 2,589 | \$ 6,468 | \$ 12,147 | \$ 11,259 |
| Additions | 547 | 52 | 5 | 604 | 907 |
| Disposals | (1,151) | (22) | - | (1,173) | (19) |
| | \$ 2,486 | \$ 2,619 | \$ 6,473 | \$ 11,578 | \$ 12,147 |
| Accumulated amortization | | | | | |
| Beginning of year | \$ 2,313 | \$ 818 | \$ 1,017 | \$ 4,148 | \$ 2,607 |
| Amortization expense | 613 | 246 | 500 | 1,359 | 1,560 |
| Disposals | (1,151) | (19) | - | (1,170) | (19) |
| | \$ 1,775 | \$ 1,045 | \$ 1,517 | \$ 4,337 | \$ 4,148 |
| Net book value | \$ 711 | \$ 1,574 | \$ 4,956 | \$ 7,241 | \$ 7,999 |

Leaseholds at March 31, 2014, are for a 15-year lease (leasehold net book value of \$4,771) commencing December 1, 2010 and a 3.5 year lease (leasehold net book value of \$185) commencing October 2012. Disposals are primarily the result of technology assets review.

NOTE 7 LEASE INDUCEMENTS

| | 2014 | 2013 |
|---|----------|----------|
| Lease terms | | |
| 15 years ending November 30, 2025 and 3.5 years ending March 31, 2016 | \$ 2,666 | \$ 2,941 |

NOTE 8 ACCRUED PENSION LIABILITY AND PENSION EXPENSE

The accrued pension liability is comprised of:

| | 2014 | 2013 |
|---------------------------|-----------------|-----------------|
| Retirement Plan | \$ 84 | \$ 109 |
| Supplemental Pension Plan | 6,539 | 5,691 |
| Less: accounts payable | (165) | (109) |
| | \$ 6,458 | \$ 5,691 |

The following pension expense for the plans is included in the statement of operations under salaries and benefits.

| | 2014 | 2013 |
|------------------------------------|-----------------|-----------------|
| Public Service Pension Plan | \$ 1,193 | \$ 1,013 |
| Registered Retirement Savings Plan | 527 | 545 |
| Supplemental Pension Plan | 955 | 927 |
| | \$ 2,675 | \$ 2,485 |

a) Public Service Pension Plan

The ASC participates in the Public Service Pension Plan. At December 31, 2013, the Public Service Pension Plan reported a deficiency of \$1,254,678 and in 2012 a deficiency of \$1,645,141. The ASC is not responsible for future funding of the plan deficit other than through contribution increases.

b) Registered Retirement Savings Plan

The ASC makes contributions on behalf of employees who do not participate in the Public Service Pension Plan to employee Registered Retirement Savings Plans.

c) Retirement Plan

The Retirement Plan is unfunded and the benefits will be paid to August 2017 (\$26 in F2014, \$25 in F2013) from the assets of the ASC.

d) Supplemental Pension Plan

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

The Supplemental Pension Plan provides pension benefits to the designated executives based on pensionable earnings that are defined by reference to base salary in excess of the limit (\$135 effective January 1, 2014, and \$132 effective January 1, 2013) imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Supplemental Pension Plan are payable on or after attainment of age 55 and are equal to 1.75 per cent of the highest average pensionable earnings (average over five years) for each year of service with the ASC. Members of the Supplemental Pension 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 Supplemental Pension Plan is unfunded and the benefits will be paid as they come due from the assets of the ASC.

Actuarial valuations of the Supplemental Pension Plan are undertaken every three years. At March 31, 2012, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for March 31, 2015. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below:

| <i>Supplemental Pension Plan</i> | 2014 | 2013 |
|--|-----------------|----------|
| Accrued benefit and unfunded obligation | \$ 7,226 | \$ 6,549 |
| Unamortized transitional obligation | - | (4) |
| Unamortized actuarial loss | (687) | (854) |
| Accrued benefit liability | \$ 6,539 | \$ 5,691 |
| <i>Accrued benefit obligation</i> | | |
| Accrued benefit obligation at beginning of year | \$ 6,549 | \$ 5,877 |
| Service cost | 502 | 503 |
| Interest cost | 281 | 253 |
| Benefits paid | (106) | (84) |
| Accrued benefit obligation at end of year | \$ 7,226 | \$ 6,549 |
| <i>Pension Expense</i> | | |
| | 2014 | 2013 |
| The pension expense for the Supplemental Pension Plan is as follows: | | |
| Service cost | \$ 503 | \$ 503 |
| Interest cost | 281 | 253 |
| Amortization of actuarial losses during the year | 171 | 171 |
| | \$ 955 | \$ 927 |

The assumptions used in the actuarial valuation of the Supplemental Pension Plan and three-year projections are summarized below. The discount and other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on a best estimate of the future experience of the plans.

| <i>Pension Expense</i> | 2014 | 2013 |
|---|----------------|---------|
| Discount rate, year-end obligation | 4.0% | 4.0% |
| Discount rate, annual pension expense | 4.0% | 4.0% |
| Rate of inflation, year-end obligation | 2.25% | 2.25% |
| Salary increases, year-end obligation | 3.5% | 3.5% |
| Remaining service life, year-end obligation | 6 years | 6 years |

NOTE 9 FEES AND OTHER ENFORCEMENT RECEIPTS

| <i>Fees</i> | 2014 | 2013 |
|-----------------------------|------------------|-----------|
| Distribution of securities | \$ 14,139 | \$ 12,123 |
| Registrations | 10,498 | 10,386 |
| Annual financial statements | 5,227 | 5,095 |
| Orders (applications) | 228 | 233 |
| SEDI late fees | 104 | - |
| Total fees | \$ 30,196 | \$ 27,837 |

Other enforcement receipts (Note 3, \$178 of disgorgement receipts are subject to an appeal)

| | | |
|---|------------------|-----------|
| Settlement payments, disgorgements and cost recoveries assessed | \$ 11,892 | \$ 51,494 |
| Less provision for uncollectible amounts | (11,023) | (50,880) |
| Plus recoveries of prior-year assessments | 168 | 35 |
| Total settlement payments, cost recoveries and disgorgements | \$ 1,037 | \$ 649 |

NOTE 10 NATIONAL SYSTEMS**Canadian Securities Administrators (CSA), National Systems and Operating Agreements**

CDS Inc. (CDS) owned and operated the CSA National Systems, SEDAR, NRD and SEDI since their inception, on behalf of the CSA, under various operating contracts that concluded in January 2014.

In preparation for termination of these agreements with CDS, the CSA signed a CSA National Systems operations management and governance agreement (the Agreement) in April of 2013. The Agreement empowers the ASC, jointly with three other CSA members, British Columbia Securities Commission (BCSC), Ontario Securities Commission (OSC) and L'Autorité des marchés financiers (AMF) (the Principal Administrators, PAs), to contract for and manage a new National Systems outsourced service agreement with CGI, a Canadian based international information technology and business process firm.

The Agreement also identifies how certain functions of the CSA National Systems will be performed by Designated Principal Administrators (DPAs); outlines how system user fees will be established, collected and deployed; and addresses allocation and payment of liabilities arising from supplier agreements entered into by the CSA and the CSA National Systems.

Under the Agreement and related contracts, the CSA pays CGI outsourced systems operation contract costs, all CSA Information Systems Technology Office systems management costs, all DPA costs for systems accounting and intellectual property management, all continuing systems enhancement and maintenance costs and through its outsourcing partner CGI, collects all system user and data distribution subscription fees.

These CSA National Systems processes and Agreement formalize the CSA Systems operational, management and governance processes that were in place while CDS was the systems operator. CGI commenced independent systems operations on January 13, 2014, following transfer of National Systems ownership to the CSA PAs and termination of the CDS contract. The cash surplus accumulated during CDS operations and subsequent cash surplus accumulation under the new

arrangement is controlled by, but not owned by the PAs, as all CSA jurisdictions share an undivided interest in system surpluses. The Agreement provides that each PA has a 25 per cent voting interest in National Systems financial and operating decisions. However, while CSA National Systems control and management is vested in the four PAs, the assets and accumulated surplus arising from this arrangement can only be used for continued CSA systems operation, enhancement and user fee adjustment purposes. As a result, the arrangement has no economic impact on the funding of ongoing ASC operations and cash flows. While the ASC shares an equal 25 per cent responsibility for any operating cost shortfalls, the likelihood of any liability arising is minimal. Financial risk is minimal because of the significant \$112,106 accumulated cash surplus at commencement and Agreement intent to adjust system user fees to recover any projected funding shortfalls.

Accumulated cash surplus earned under the former National Systems operating contracts with CDS and subsequent surplus resulting from the new operations model and governance agreements totalling \$112,106 at March 31, 2014 (\$94,400 F2013) are administered by OSC in segregated bank accounts and earn interest at prime less 1.85 per cent.

CSA System assets include \$708 of information technology capital at March 31, 2014. These assets are being amortized over three years commencing January 13, 2014 and are net of \$42 of amortization in F2014.

A summary of CSA National Systems finances includes:

| <i>CSA National Systems Operations</i> | Commencement (January 13, 2014) to March 31, 2014 |
|--|---|
| Revenues | |
| System user fees | \$ 6,333 |
| Data distribution fees | 136 |
| Investment income | 295 |
| Total revenue | 6,764 |
| Expenses | |
| Professional fees | 3,098 |
| Salaries and benefits | 426 |
| Premises and other | 60 |
| Amortization of IT capital | 42 |
| Total expenses | 3,626 |
| Net income | \$ 3,138 |
| Accumulated CSA National Systems surplus | |
| Accumulated CSA National Systems surplus arising prior to | |
| Arrangement commencement, at January 13, 2014 | \$ 112,548 |
| Plus income for the period | 3,138 |
| CSA National Systems surplus, March 31, 2014 | 115,686 |
| Less receivables and prepaid expenses | (4,234) |
| Less information technology (IT) capital | (708) |
| Plus payables and accrued expense | 1,362 |
| Accumulated CSA National Systems cash surplus, March 31, 2014 | \$ 112,106 |

NOTE 11 COMMITMENTS

Details of commitments to organizations outside the ASC are set out below.

a) Commitments*Premises Leases and Equipment Rental*

Commitments arising from contractual obligations are associated primarily with the lease of premises to March 31, 2025 and March 2016, and rental of office equipment to 2018 totalling \$53,935 (\$56,587 in F2013). These commitments become expenses of the ASC when the terms of the contracts are met.

| | | |
|------------|----|--------|
| 2014-15 | \$ | 3,221 |
| 2015-16 | | 3,675 |
| 2016-17 | | 4,280 |
| 2017-18 | | 4,365 |
| 2018-19 | | 4,455 |
| Thereafter | | 33,939 |
| Total | \$ | 53,935 |

Canadian Securities Administrators

The ASC shares, based on an agreed-upon cost-sharing formula, the costs incurred for the maintenance of the CSA Secretariat 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.

NOTE 12 BUDGET

The ASC's F2014 budget was approved on January 16, 2013.

NOTE 13 RELATED PARTY TRANSACTIONS

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of \$36 in administration expenses (\$58 in F2013).

NOTE 14 COMPARATIVE FIGURES

Certain F2013 figures have been reclassified to conform to the F2014 presentation.

SCHEDULE OF SALARIES & BENEFITS – SCHEDULE A

| thousands of dollars | 2014 | | | | 2013 |
|--|--------------------------|----------------------------|--------------------------------|--------|--------|
| | Base salary ¹ | Cash benefits ² | Non-cash benefits ³ | Total | Total |
| Chair, Securities Commission ⁴ | \$ 518 | \$ 87 | \$ 159 | \$ 764 | \$ 755 |
| Executive Director | \$ 362 | \$ 61 | \$ 173 | \$ 596 | \$ 576 |
| Vice-Chair, Securities Commission ⁴ | \$ 350 | \$ 56 | \$ 136 | \$ 542 | \$ 533 |
| Vice-Chair, Securities Commission ⁴ | \$ 226 | \$ 2 | \$ 153 | \$ 381 | \$ 589 |
| Independent Members ⁵ | \$ 522 | – | – | \$ 522 | \$ 537 |

1) Base salary includes regular base pay and Independent Member compensation.

2) Cash benefits include variable pay and Chair and Executive Director's automobile allowances, transit allowances and memberships.

3) Employer's share of all employee benefits including: health, insurance, pension, professional memberships, current and prior service cost for the unfunded Supplemental Pension Plan for designated executives as described in Note 8(d) of the financial statements and summarized in the accounting narrative.

4) The Chair and Vice-Chairs are full-time Commission Members. One Vice-Chair's position was vacant for five months and ineligible for the variable pay cash benefit.

5) The Independent Members compensation includes fees paid in dollars for governance responsibilities of \$290,000 (\$294,000 in F2013) and hearing and application panel participation of \$232,000 (\$243,000 in F2013). Independent Member fees include a \$10,000 annual retainer, \$2,500 for Committee memberships, \$5,000 for Committee chairing and \$5,000 for the Lead Independent Member position. Meeting attendance fees include \$1,000 per day for an ASC meeting and \$750 for a Committee meeting. Hearing fees are payable as to \$1,000 per hearing day and \$125 per hour of related preparation, review and decision writing.

SUPPLEMENTAL RETIREMENT BENEFITS

Under the terms of the Supplemental Pension Plan as described in Note 8(d) of the ASC financial statements, executive officers may receive supplemental retirement payments. Supplemental Pension Plan costs, as detailed below for the four most highly paid executives of the ASC, are not cash payments in the period, but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The Supplemental Pension Plan provides future pension benefits to participants based on years of service and earnings as described in Note 8(d). The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a cost of borrowing interest rate, management's best estimate of expected inflation and salary costs and the remaining service period for benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

ANNUAL EXPENSE*thousands of dollars***2014**

2013

| | Current service costs | Prior service and other costs | Total | Total |
|------------------------------------|----------------------------------|--|--------------|--------|
| Chair, Securities Commission | \$ 134 | \$ (5) | \$ 129 | \$ 120 |
| Executive Director | \$ 111 | \$ 31 | \$ 142 | \$ 135 |
| Vice-Chair, Securities Commission* | \$ 84 | \$ 53 | \$ 137 | \$ 152 |
| Vice-Chair, Securities Commission | \$ 81 | \$ 25 | \$ 106 | \$ 101 |

* The former Vice-Chair resigned and commenced pension receipt during the year.

The accrued obligation for each of the four highest paid executives under the Supplemental Pension Plan is outlined in the following table:

ACCRUED OBLIGATIONS*thousands of dollars*

| | Accrued obligation April 1, 2013 | Changes in accrued obligation | Accrued obligation March 31, 2014 |
|------------------------------------|--|-------------------------------------|--|
| March 31, 2014 | | | |
| Chair, Securities Commission | \$ 765 | \$ 135 | \$ 900 |
| Executive Director | \$ 1,079 | \$ 110 | \$ 1,189 |
| Vice-Chair, Securities Commission* | \$ 1,053 | \$ 64 | \$ 1,117 |
| Vice-Chair, Securities Commission | \$ 567 | \$ 76 | \$ 643 |

ALBERTA INVESTMENT MANAGEMENT CORPORATION (AIMCo)

AIMCo is an Alberta government agency that is responsible for the investments of 27 pension, endowment and government funds in the province.

CANADIAN SECURITIES ADMINISTRATORS (CSA)

The 10 provinces and three territories in Canada are responsible for securities regulations. Securities regulators from each province and territory have teamed up to form the Canadian Securities Administrators, or CSA for short. The CSA is primarily responsible for developing a harmonized approach to securities regulation across the country.

CANADIAN SECURITIES EXCHANGE (CSE)

The CSE is a stock exchange for trading the equity securities of emerging companies. Formerly known as CNSX, Canadian National Stock Exchange.

COMMODITY FUTURES TRADING COMMISSION (CFTC)

The U.S. Commodity Futures Trading Commission's mandate is to protect market participants and the public from fraud, manipulation, abusive practices and systemic risk related to derivatives – both futures and swaps – and to foster transparent, open, competitive and financially sound markets.

EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

ESMA contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as enhancing investor protection.

FINANCIAL CONDUCT AUTHORITY (FCA)

The United Kingdom Financial Conduct Authority regulates firms and financial advisers so that markets and financial systems remain sound, stable and resilient.

G20

The Group of Twenty (G20) is the premier forum for its members' international economic cooperation and decision-making. In response to the economic and financial crisis, G20 leaders initiated a reform of the OCT derivatives market to improve transparency, mitigate systemic risk, and protect against market abuse. G20 countries, including Canada, have committed to implement these reforms.

INTERNATIONAL MONETARY FUND (IMF)

The IMF is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

IOSCO develops, implements, and promotes adherence to internationally recognized standards for securities regulation.

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA (IIROC)

IIROC is the national self-regulatory organization that oversees all investment dealers and trading activity on debt and equity marketplaces in Canada. Created in 2008 through the consolidation of the Investment Dealers Association of Canada and Market Regulation Services Inc., IIROC sets high-quality regulatory and investment industry standards, protects investors and strengthens market integrity while maintaining efficient and competitive capital markets.

MUTUAL FUND DEALERS ASSOCIATION OF CANADA (MFDA)

The MFDA is a national self-regulatory organization for the distribution side of the Canadian mutual fund industry. The MFDA regulates the operations, standards of practice and business conduct of its Members and their representatives.

NATIONAL REGISTRATION DATABASE (NRD)

The CSA's national web-based system that permits dealers, advisers and investment fund managers to file registration forms electronically.

NATURAL GAS EXCHANGE (NGX)

The NGX is a Canadian-based energy exchange that provides trading, clearing and data services for natural gas and electricity contracts.

OMBUDSMAN FOR BANKING SERVICES AND INVESTMENTS (OBSI)

OBSI is an independent Canadian body that investigates complaints from individuals and small businesses about products and services provided by banks and investment and mutual fund dealers. Its objective is to provide impartial and prompt resolution of complaints. This service is free of charge to investors; however, one must first try to resolve complaints directly with the bank or dealer before contacting OBSI.

OVER-THE-COUNTER (OTC) BULLETIN BOARD

The OTC is a quotation service that displays quotes, last-sale prices and volume information for equity securities trading over-the-counter in the United States. It is where market makers in an issuer's shares publish the prices at which they are prepared to buy or sell those securities.

SYSTEM FOR ELECTRONIC DOCUMENT ANALYSIS AND RETRIEVAL (SEDAR)

The CSA's national electronic web-based filing system for disclosure by public companies and mutual funds.

SYSTEM FOR ELECTRONIC DISCLOSURE BY INSIDERS (SEDI)

The CSA's national electronic web-based system that facilitates the filing and public dissemination of insider reports.

TORONTO STOCK EXCHANGE (TSX)

The TSX is Canada's senior equities market, providing domestic and international investors with access to the Canadian marketplace.

TSX VENTURE EXCHANGE (TSXV)

The TSXV is the largest Canadian junior market, providing companies in the early stages of growth the opportunity to raise capital.

ASC COMMITTEES

2014 ADVISORY COMMITTEES

The ASC has established five advisory committees of industry representatives to act as sounding boards with respect to the development of new or amended securities regulation. These committees provide an extremely valuable service in helping to keep staff up to date on industry views and current business practices. As the market evolves, so do the terms of reference for these committees as we work to ensure their efforts best serve the Alberta capital market. The ASC would like to thank committee members for their contributions and valuable input over the past year.

FINANCIAL ADVISORY COMMITTEE

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

Scott Bandura, CA
PricewaterhouseCoopers LLP

Rhonda Bashnick, CA
Shaw Communications Inc.

Matt Bootle, FCA
Ernst & Young LLP

Dell Chapman, CA
Corporate Director

Sean Du Plessis, CA
Meyers Norris Penny LLP

Patricia Newson, CA
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John Peltier, CA
CIBC World Markets

Imam Hasan, CA
KPMG LLP

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Jonathan Winn, CA
BDO Dunwoody LLP

Ward Zimmer, CA
Deloitte LLP

Randy Ollenberger
BMO Nesbitt Burns Inc.

Chris Webster, CGA, CFA
Pengrowth Energy Corporation

PETROLEUM ADVISORY COMMITTEE

This committee provides independent advice on developments relating to oil and gas activities, as well as input on current and proposed securities laws and regulatory policies in this area.

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Nexen Energy ULC

David P. Carey, P.Eng.
ARC Resources Ltd.

Chris Fong, P.Eng.
Retired

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

Keith McCandlish, P.Geol., P.Geo.
DMT Geosciences Ltd.

Jim Sreaton, CA
Corval Energy Ltd.

James Surbey, B.Eng, LLB
Birchcliff Energy Ltd.

John Zahary, P.Eng.
Sunshine Oilsands Ltd.

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Sproule Associates Limited

Jonathan Fleming, B.Comm., MBA
Cormark Securities Inc.

Robin Mann, M.Sc, CPG, P.Geol.
AJM Deloitte

Rob Morgan, P.Eng.
Crew Energy Inc.

SECURITIES ADVISORY COMMITTEE

This committee is comprised of practising securities lawyers who review and comment on proposed legislation, rules and policies, and provide general advisory services to the ASC.

Nicholas (Nick) Fader
Bennett Jones LLP

Leanne Krawchuk
Dentons Canada Ltd.

William Maslechko
Burnet, Duckworth & Palmer LLP

John Osler, Q.C.
McCarthy Tétraut LLP

Bryce Tingle
N. Murray Edwards Chair in Jurisdiction and Business Law, University of Calgary

Andrea Whyte
Osler, Hoskin & Harcourt LLP

Keith Chatwin
Stikeman Elliott LLP

Scott Clarke
Blake, Cassels & Graydon LLP

David R. J. Lefebvre
Gowling Lafleur Henderson

Tyler Robinson
Enbridge Pipelines Inc.

FINANCIAL REVIEW COMMITTEE

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

Kerry D. Dyte, Q.C.
Cenovus Energy Inc.

Robert Engbloom, Q.C.
Norton Rose Fulbright Canada LLP

John Chambers
FirstEnergy Capital Corp.

Raymond Crossley
Pricewaterhouse Coopers

DERIVATIVES ADVISORY COMMITTEE

This committee advises the ASC on various policy issues and other matters of concern to Alberta derivatives marketplace participants.

Cameron Bowman
ATB Financial

Carissa Browning
TransAlta Corporation

Priscilla Bunke
Dentons Canada Ltd.

Keith Chatwin
Stikeman Elliott LLP

Antony Deakin
BP Canada Energy Group ULC

Cheryl Graden
Natural Gas Exchange

Paul Kerr
Shell Energy North America (Canada) Inc.

Darren McAdoo
Suncor Energy Inc.

Brent M. Morgan
KPMG LLP

Bill Rutherford
Direct Energy

Dan Zastawny
Net Energy Inc.

COMMISSION MEMBER COMMITTEES

Board Committees are made up of the Members listed below. All are independent except William S. Rice and Kari F. Horn, who sit as *ex officio* members where indicated. As Lead Independent Member, Richard A. Shaw sits as an *ex officio* member of all committees.

AUDIT COMMITTEE

Daniel McKinley (Chair)
Terry Allen
Fred R. N. Snell
William S. Rice (*ex officio*)
Richard A. Shaw (*ex officio*)

HUMAN RESOURCES COMMITTEE

Maureen McCaw (Chair)
Ian Beddis
Webster (Web) Macdonald
William S. Rice (*ex officio*)
Richard A. Shaw (*ex officio*)

GOVERNANCE COMMITTEE

Richard A. Shaw (Chair)
Bradley Nemetz
Ann Rooney
William S. Rice (*ex officio*)
Kari F. Horn (*ex officio*)

ATTENDANCE

William S. Rice, Q.C., Chair
Commission
– 11/11 (100%)
Audit Committee
– 5/5 (100%)
Governance Committee – 2/2 (100%)
Human Resources Committee
– 2/2 (100%)

Tom Cotter, Vice-Chair
Began appointment after F2014

Stephen R. Murison, Vice-Chair
Commission
– 11/11 (100%)

Richard A. Shaw, Q.C., ICD.D
Commission
– 11/11 (100%)
Audit Committee
– 5/5 (100%)
Governance Committee – 2/2 (100%)
Human Resources Committee
– 2/2 (100%)

Daniel McKinley, FCA, ICD.D
Commission
– 11/11 (100%)
Audit Committee
– 5/5 (100%)

Fred R. N. Snell, FCA
Commission
– 10/11 (92%)
Audit Committee
– 5/5 (100%)

Terry Allen, CFA, ICD.D
Commission
– 10/11 (92%)
Audit Committee
– 5/5 (100%)

Webster (Web) Macdonald, Q.C.
Commission
– 9/11 (82%)
Human Resources Committee
– 2/2 (100%)

Maureen McCaw
Commission
– 11/11 (100%)
Human Resources Committee
– 2/2 (100%)

Ann Rooney, FCA, ICD.D
Commission
– 11/11 (100%)
Governance Committee
– 2/2 (100%)

Bradley Nemetz, Q.C.
Commission
– 9/11 (82%)
Governance Committee
– 2/2 (100%)

Dr. Ian Beddis
Commission
– 11/11 (100%)
Human Resources Committee
– 2/2 (100%)

RETIRED COMMISSION MEMBERS

Glenda A. Campbell, Q.C.
Commission
– 7/7 (100%)



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