

Management's Discussion and Analysis

The financial statements that appear on pages 40–56 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 generally accepted accounting principles (GAAP) for the fiscal year ended March 31, 2009. The comments in this Management's Discussion and Analysis (MD&A), prepared as of May 29, 2009, analyze the ASC's financial performance during the fiscal year ended March 31, 2009, and present a view for the future.

NOTE: In this MD&A, references to years, for example F2009, 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 F2010 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.

Overview

The ASC, a provincial corporation, 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 protecting investors. As a provincial corporation, the ASC is exempt from income taxes. The ASC is funded from fees paid by securities market participants. As a member of the Canadian Securities Administrators (CSA), the ASC works to improve, coordinate and harmonize the regulation of Canada's capital markets.

The ASC is also an administrative tribunal with quasi-judicial powers. Panels consisting of two or more Members of the Commission hear enforcement proceedings and contested applications and consider applications for discretionary exemptions from the requirements of Alberta securities laws. In addition, the ASC sits as an appeal body to hear appeals from decisions of the Executive Director, the TSX Venture Exchange (TSXV) and recognized self-regulatory organizations.

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Selected Annual Information

<i>(\$ Thousands)</i>	F2009		F2008	F2007
	Budget	Actual	Actual	Actual
Revenue	\$ 26,862	\$ 23,107	\$ 28,308	\$ 33,398
Expense	34,472	26,517	25,650	23,288
Net (loss) income	\$ (7,610)	\$ (3,410)	\$ 2,658	\$ 10,110

Assets

Cash	\$ 8,188	\$ 4,395	\$ 4,034
Investments	\$ 28,826	\$ 34,671	\$ 32,146
Capital assets	\$ 2,305	\$ 2,938	\$ 3,275
Total assets	\$ 39,757	\$ 42,668	\$ 40,454

Non-current financial liabilities

Lease inducement	\$ 124	\$ 247	\$ 370
Accrued benefit liability	\$ 3,316	\$ 2,888	\$ 2,464
Retained earnings	\$ 33,431	\$ 36,841	\$ 34,183
Capital additions	\$ 1,176	\$ 733	\$ 2,060

Highlights

The ASC incurred a loss of \$3.4 million in F2009 compared to a budgeted loss of \$7.6 million and net income of \$2.7 million in F2008. The F2009 loss was largely the result of investment losses of \$3.2 million and increased compensation costs of \$1.2 million for additional staff and salary increases, offset by reduced investor education and other expenses of \$1 million.

At March 31, 2009, the ASC had cash and investments of \$37 million. The decrease of \$2.1 million from the prior year is primarily attributable to the investment losses in F2009.

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 Enterprise and is consolidated with the Government of Alberta budget.

The ASC's loss for F2009 was less than the budgeted loss by \$4.2 million. Fee revenues were consistent with budget, while administrative penalties, settlement receipts and cost recoveries exceeded budget by \$1.1 million. Investment losses reflected the general market downturn and were less than budgeted incomes by \$4.8 million. Expenses were \$7.9 million less than budget because of staff vacancies and operating cost control and because the \$3.2 million provision for unanticipated expenses was not required.

Analysis of Fiscal 2009 Operating Results and Financial Position

Revenue

<i>(\$ Thousands)</i>	F2009	F2009	F2008
	Budget	Actual	Actual
Revenue			
Distribution of securities fees	\$ 11,351	\$ 11,126	\$ 11,598
Registration fees	8,359	9,025	8,512
Annual financial statement fees	4,561	4,470	4,284
Order (application) fees	711	300	558
Total fees	24,982	24,921	24,952
Investment (loss) income	1,580	(3,234)	2,147
Settlements and cost recoveries		1,246	705
Administrative penalties	300	153	468
Other		21	36
Total revenue	\$ 26,862	\$ 23,107	\$ 28,308

The ASC obtains revenues primarily from issuers and registrants.

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.

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Distribution fee variability These fees are paid by issuers for the distribution of securities and are calculated based on the proceeds obtained from securities sold in Alberta. Fees for public (prospectus) and private (prospectus exempt) distributions of securities accounted for 24 per cent (26 per cent in F2008) of ASC fee revenues. These fees are the most variable component of the ASC's revenue base. They totalled \$6 million in F2009 (\$6.6 million in F2008) exclusive of prospectus and exempt notice filing fees of \$5 million (\$5 million in F2008).

Fees paid in connection with prospectus distributions and exempt financings for non-mutual fund issuers are received shortly after the distribution date; however, mutual fund fee revenue, including that for exempt distributions (approximately 65 per cent of distribution fees), is received an average of six months after the mutual fund sale date. There is, therefore, always a lag between mutual fund sales and the receipt of mutual fund fees.

Distribution fees vary with the level of capital market activity, equity appreciation 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 activity swings have an impact on ASC revenues, the majority of Commission fee revenues are relatively stable.

Registration fees of \$9.0 million in F2009 (\$8.5 million in F2008) from dealers, advisers and salespersons accounted for approximately 36 per cent of fee revenues, consistent with the historical average of 33 per cent.

Registration fee variability Registration fees are relatively stable with a base in Alberta of over 580 firms and more than 27,000 salespersons. In addition, average salesperson turnover rates of 15 per cent - 20 per cent annually provide additional fee revenue during any given year. This turnover rate fluctuates minimally, even in years of poor market performance. Registration fee increases of \$500,000 in F2009 reflect modest growth in Alberta registrants and fee rate increases of 5 per cent.

Financial statement filing fee variability Financial statement filing fees are paid by reporting issuers and account for approximately 17 per cent of fees. The total number of reporting issuers in Alberta is approximately 7,000 (6,950 in F2008) and remains reasonably stable from year to year. Filing fees totalled \$4.5 million in F2009 (\$4.3 million in F2008). A 5 per cent fee rate increase accounts for the F2009 fee change.

Other revenue sources

Investment losses In F2009, investment losses were \$3.2 million compared to income in F2008 of \$2.1 million. Investment losses of \$4.9 million realized in F2009 (\$838,00 gain in F2008) were offset by interest income of \$1.4 million (\$1.2 million in F2008) and dividends of \$276,000 (\$110,000 in F2008).

Application fees Effective April 1, 2008, application fees were increased from \$650 to \$750 per application. Fees were paid in connection with approximately 400 (850 in F2008) applications processed in F2009. This reduction in applications and fees is the result of Passport fee changes. Commencing March 2008, application fees were collectible, for the most part, only from reporting issuers having Alberta as their principal regulator. These changes reduced fees by approximately 46 per cent, or \$258,000.

The mutual fund industry There are approximately 2,650 active mutual fund issuers (included in the reporting issuer population of 7,000) and more than 10,000 salespersons in Alberta. Revenues from mutual funds in F2009 included fees of: \$3.5 million from prospectus filings; approximately \$2.9 million from prospectus distributions; \$800,000 from exempt distributions; \$800,000 from annual financial statement filing fees; and \$3.1 million from mutual fund registration fees. These mutual fund revenues totalled \$11.1 million (\$11.4 million in F2008) or 44.5 per cent of total fee revenues.

Enforcement Receipts

(\$ Thousands)	F2009	F2008
Administrative penalties		
Assessed	\$ 1,903	\$ 3,218
Uncollectible	(1,758)	(2,776)
Interest income and other	8	26
Total	\$ 153	\$ 468
Settlement receipts		
Assessed	1,212	379
Uncollectible	(111)	–
Cost recoveries		
Assessed	729	1,679
Uncollectible	(584)	(1,353)
Total	\$ 1,246	\$ 705

Administrative penalties, settlement payments and cost recoveries 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. A settlement receipt arises from a negotiated settlement that contains a sanction including a financial payment. Cost recovery receipts arise on collection of assessed costs. Cost recoveries may be assessed in both settlements and hearing decisions. Current year receipts of \$1.4 million (\$1.2 million in F2008) compare to a five-year average of approximately \$786,000, exclusive of a record receipt of \$7.6 million in F2007. The ASC actively pursues unpaid amounts, including the use of external legal counsel, writ filing and examinations in aid of execution. However, recoveries are limited because respondents often have minimal resources and are unable to pay and it may not be cost effective to recover judgments.

Administrative penalties revenue, less eligible expenditures, is annually transferred 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) allows administrative penalties revenue to be used only to fund certain expenses incurred to enhance the knowledge and information of persons about the operation of the securities markets. In F2009 there were eligible investor education program costs of \$216,000 (\$837,000 in F2008), while related fees from education programs of \$15,000 (\$31,000 in F2008) were received. Restricted cash, composed of interest-bearing deposits, was \$190,000 at March 31, 2009 (\$238,000 in F2008), following adjustment for annual receipts and eligible expenditures.

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Expenses

(\$ Thousands)	F2009		F2008
	Budget	Actual	Actual
Salaries and benefits	\$ 19,259	\$ 18,017	\$ 16,769
Administration	3,456	2,125	2,517
Professional services	3,212	2,877	2,356
Premises	2,350	2,197	2,105
Amortization	1,900	1,085	1,066
Investor education	1,125	216	837
	31,302		
Contingency	3,170	–	–
Total expenses	\$ 34,472	\$ 26,517	\$ 25,650

Comparative and Budget Expense Analysis

Expenses increased 3.5 per cent to \$26.5 million from \$25.6 million in F2008, but were 23 per cent less than the F2009 budget of \$34.5 million. Details by expense category follow.

Salaries and benefits Expenses accounted for 68 per cent of operating costs (65 per cent in F2008) and increased \$1.2 million in F2009. Increases were the result of staff additions and annual salary adjustments of 5 per cent. There were an average 147 full-time staff during the year (141 in F2008). Compensation costs were less than budgeted because of an average vacancy of 14 positions. Compensation includes a performance-based incentive program that represented 7.1 per cent (7.5 per cent in F2008) of total salary and benefit costs.

Administration Costs decreased \$392,000 in F2009 and were \$1.3 million less than budget. 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 advertising, business consultation and audit fees. Travel expenses decreased \$64,000 and were \$391,000 less than budget. Travel expenses vary significantly from year to year and primarily are required for investor education, enforcement activities and coordination with other CSA jurisdictions on national projects, policy development and rule formulation. Member fees decreased \$115,000 in F2009 and were \$276,000 less than budget because there were fewer hearing days than budgeted and in the prior year. Office operation costs decreased \$154,000 in F2009 and were \$712,000 less than budget. Decreases were the result of cost containment and deferral of lease space additions and desktop computing upgrades because of plans for the future relocation of the ASC.

Professional services Expenses were \$520,000 greater than the prior year and \$335,000 less than budget. Costs for recruiting, training, staff secondees and office administration projects were less than budget. Legal costs for litigation support, penalty collections and policy consultation exceeded budget and those costs in the prior year.

The ASC is a member of the CSA and funds a portion of CSA operations. All CSA projects, including the development of harmonized securities policies and rules and shared CSA information systems, are coordinated through a permanent Secretariat located in Montréal. The operating costs of the Secretariat are borne on a formula basis by CSA members and the ASC pays approximately 10 per cent. In F2009 the ASC contributed \$247,000 (\$240,000 in F2008) toward all CSA costs.

Premises Costs increased because of higher lease operating costs, but were less than budget because planned space was not leased.

Investor education Costs were less than the prior year and budget because a contemplated program was cancelled as a result of market conditions.

Expenses by Division

<i>(\$ Thousands)</i>	F2009		F2008
	Budget	Actual	Actual
Office of the Chair and Members	\$ 2,922	\$ 2,654	\$ 2,605
Office of the Executive Director	988	926	919
Enforcement	5,813	5,447	4,749
Corporate Finance	5,358	4,401	4,440
Market Regulation	2,051	1,896	1,379
Office of the General Counsel	1,063	838	993
Office of the Chief Accountant	643	464	472
Administration			
Corporate Resources	4,589	3,850	3,628
Communications	1,147	1,093	1,064
Financial Services	623	549	551
	6,359	5,492	5,243
Expenses not allocated	9,275	4,399	4,850
Total	\$ 34,472	\$ 26,517	\$ 25,650

Division expenses are primarily for staff and professional services. These costs were greater than the prior year for most Divisions because of compensation increases, marketplace adjustments for senior professionals' compensation and increases in staff numbers. Two exceptions were Corporate Finance and the Office of the General Counsel, which had professional vacancies that were not filled.

In addition to Enforcement staff cost increases, increased litigation support costs were incurred for the successful defence of three ASC panel decisions and sanction assessments before the Alberta courts.

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Market Regulation cost increases reflect the expanded role of this Division in national policy initiatives, the recognition of Alberta-based energy marketplaces and expanded registration compliance processes.

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 the Committee chair 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. Members' fees are variable because the duration and number of hearings are not easily forecast.

Independent Member fees and related hearing costs decreased \$115,000 in F2009 because of fewer hearing days.

Capital Expenditures

(\$ Thousands)	F2009 Budget	F2009	F2008
Leasehold improvements	\$ 1,106	\$ 159	\$ 430
Information technology	300	287	193
Office furniture and equipment	345	6	110
Total	\$ 1,751	\$ 452	\$ 733

Plans to acquire and renovate office space and install furnishings in F2009 were cancelled because of a mid-year decision to relocate in F2011. As a result, leasehold improvements were principally for relocation design and preliminary office planning. Information technology expenditures were principally for hardware, licensed software and software development costs to replace the Commission's primary information system and related data management and reporting processes.

2010 Capital Budget Capital expenditures approved by the ASC include:

- \$275,000 for completion of the Commission's information technology software development project and software upgrades; and
- \$400,000 for meeting room office conversion and related furniture to accommodate staff growth prior to relocation and \$220,000 of design fees required for relocation planning.

The existing office lease term ends in March 2011. In July 2008 the Commission committed to relocation and a 15-year lease commencing in December 2010. Capital expenditures of up to \$8.6 million are estimated for relocation. A lease inducement of \$3.5 million will offset a portion of these relocation cash requirements.

Liquidity and Financial Position

Liquidity The ASC has sufficient resources to fund its operations and capital purchases with cash of \$8.2 million (\$4.4 million in F2008) and investments of \$28.8 million (\$34.7 million in F2008). The increase in cash and reduction in investments resulted from retention of fourth quarter registration renewal fees in the cash account, rather than transferring these amounts to investments.

Accounts receivable Accounts receivable at the end of March 2009 were \$22,000 (\$78,000 in F2008) and include \$10,000 (\$55,900 in F2008) of current administrative penalty receivables and \$12,000 of employee loans for computer acquisitions.

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 and Enterprise. The ASC does not participate in 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 (designated investments totalling \$28.8 million in F2009 and \$34.7 million in F2008).

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 is \$17.4 million to \$34.8 million during F2010. The 2010 year-end investment balance estimate, including cash, is \$30.3 million and includes estimated cash withdrawals of \$5 million for operations and capital.

Rates of return on investments:

- Bond fund – The rate of return (based on market value) was a 4.3 per cent loss in F2009, compared with income of 2.8 per cent in the prior year.
- Equity funds – The average rate of return (based on market value) for the equity funds was a 33 per cent loss in F2009, compared with a 3.2 per cent gain in the prior year.
- Money market funds – These returned an average 3 per cent in F2009 and 4.8 per cent in the prior year.

Investments include fixed income government and corporate bonds and Canadian equities that trade in active markets. While investments are classified as non-current because of their long-term retention objective, they can be accessed on two weeks' notice and are available to fund ASC cash needs as required.

Bond investments are sensitive to interest rate fluctuations. At March 31, 2009, ASC investments included bonds with market values of approximately \$20 million with a duration of 5.9 years. A 1 per cent increase in the interest rate, assuming no other changes, would reduce market value by 5.9 per cent.

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Quarterly Results Summary

(\$ Thousands)	F2009				F2008			
	Q4 (Jan-Mar)	Q3 (Oct-Dec)	Q2 (July-Sept)	Q1 (Apr-June)	Q4 (Jan-Mar)	Q3 (Oct-Dec)	Q2 (July-Sept)	Q1 (Apr-June)
Revenues								
Fees & other	\$ 13,267	\$ 3,178	\$ 3,850	\$ 6,046	\$ 12,883	\$ 3,687	\$ 3,861	\$ 5,730
Investment income	(1,347)	(2,146)	(589)	848	265	162	837	883
	11,920	1,032	3,261	6,894	13,148	3,849	4,698	6,613
Expenses								
Salaries & benefits	4,880	4,298	4,327	4,512	4,612	4,071	4,039	4,047
Other	2,805	1,975	1,876	1,844	2,601	2,350	1,955	1,975
	7,685	6,273	6,203	6,356	7,213	6,421	5,994	6,022
Net income (loss)	\$ 4,235	\$ (5,241)	\$ (2,942)	\$ 538	\$ 5,935	\$ (2,572)	\$ (1,296)	\$ 591
Investments	\$ 28,826	\$ 30,209	\$ 34,874	\$ 35,487	\$ 34,671	\$ 30,946	\$ 30,815	\$ 33,000
Cash	\$ 8,188	\$ 1,607	\$ 1,713	\$ 3,460	\$ 4,395	\$ 1,406	\$ 3,709	\$ 2,490
Restricted cash	\$ 190	\$ 245	\$ 242	\$ 241	\$ 238	\$ 597	\$ 590	\$ 583

Quarterly Variance Analysis

Fee revenue Quarterly fee revenue is variable because the timing of fee-related filings varies among the reporting issuer population and certain fee revenue fluctuates with market activity. Further, annual registration renewal fees of \$7.7 million (\$7.1 million in F2008) are received in January and result in increased fourth quarter fee revenue each year.

Expenses Salary and benefit costs increased in the fourth quarter because of increased staffing, accelerated payment of federal pension and employment insurance deductions and determination of final variable incentive compensation amounts. Fourth quarter registration renewal fees include administration costs of approximately \$600,000 that increase fourth quarter costs. Other expenses vary from quarter to quarter because of timing variability. For example, professional services for litigation support depend on the nature and progress of investigations and technology project timing depends on resource availability.

Contractual Obligations

Commitments to outside organizations with respect to contracts in place as at March 31, 2009 amounted to \$64 million (\$7.2 million in F2008). Commitments include the lease of premises to March 31, 2025 and rental of office equipment to 2010. A 15-year lease of premises commencing December 2010 was added in 2009. These commitments become expenses of the ASC when the terms of the contracts are met.

(\$ Thousands)

2009–10	\$	2,241
2010–11		3,377
2011–12		3,081
2012–13		3,122
2013–14		3,164
Thereafter		49,381
Total	\$	64,366

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 cash, funds held for others, accounts receivable, restricted cash, investments, accounts payable and accrued liabilities, accrued vacation and benefit liabilities and a lease inducement. Investments are managed by AIMCo, a provincial corporation responsible to Alberta's Ministry of Finance and Enterprise, and include derivative contracts for effective investment risk and return management. Details of these financial instruments are included in Notes 1, 2 and 4 of the ASC's financial statements.

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 \$32,000 (\$33,000 in F2008) in administration expense primarily for postage and investment management services.

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Fee Restructuring

Following public consultation, the ASC received regulatory approval through Order in Council for fee increases in August 2006. Fee increases on certain fees were phased in over three years with a final 5 per cent increase effective April 1, 2008.

The ASC is participating as a Passport jurisdiction in the review and harmonization of regulatory fees charged in the Passport system. The objectives of the review include fee harmonization, simplification and revenue neutrality. To date, the only change is a reduction in fees paid for most exemption applications and this resulted in reduced exemption application fees by approximately \$258,000 in F2009.

National Filing Systems

CDS Inc. (CDS) operates the System for Electronic Document Analysis and Retrieval (SEDAR), National Registration Database (NRD) and System for Electronic Disclosure by Insiders (SEDI) systems on behalf of the CSA under various operating agreements. These systems enable electronic filings by issuers, registrants and insiders. Approximately 88 per cent (84 per cent in F2008) of the ASC's fee revenue is collected through the SEDAR and NRD systems. CDS also collects fees from filers to fund the operation of the systems. CDS has backup and disaster recovery processes for these systems that are tested annually and confirmed in annual audit reports of system control processes.

The ASC, as one of the operating agreement signatories, commits to pay CDS up to 11.7 per cent of any shortfall from approved system operating costs that exceed revenues. Alternatively, CDS must pay to CSA revenues in excess of system operating costs (surplus). The surplus is not divisible; the CSA owns it as a group.

Funds in trust CDS has accumulated system operating surpluses since inception and interest earned totalled \$35,188 for the year ended March 31, 2009 (\$23,927 in F2008). This amount is held in trust by the Ontario Securities Commission. The principal CSA administrators, including the ASC, have agreed that surplus amounts can only be used to offset any shortfall in revenues, develop or enhance the systems and reduce fees charged to users.

International Financial Reporting Standards (IFRS)

The ASC reports financial results under Canadian generally accepted accounting principles for the public sector. The adoption of IFRS reporting for the public sector is currently under review following initial recommendations made by the Public Sector Accounting Board for the adoption of IFRS. The ASC is an "other government organization" (OGO) and both current and alternative recommendations for OGOs allow for self selection of either IFRS accounting or public sector accounting.

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 to 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.

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. Future plans include periodic risk control assessments to monitor the risks and related mitigation processes.

Ministerial Budget Approval

Alberta's Minister of Finance and Enterprise entered into a Memorandum of Understanding (MOU) with the ASC that outlines the ongoing roles, responsibilities and accountability relationships between the two parties. The MOU requires 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 2010 Outlook and Assumptions

Revenues The F2010 budget revenues of \$26.2 million assumes fee reductions of \$900,000 because of expected capital market distribution reductions. These fee reductions are partially offset by projected enforcement receipt increases of \$300,000 that reflect increases in the moving five-year average of such receipts. Investment income forecasts of \$1.5 million assume investment returns of 5 per cent for bonds and 7 per cent for equities. A contingency is available and could be used to offset revenue shortfalls, if required.

Expenses Expenses are budgeted at \$36.7 million, an increase of \$10.2 million over F2009 actual expenses of \$26.5 million. The projected increase assumes:

- annual compensation and variable incentive compensation adjustments, additional staff, primarily for Market Regulation and Enforcement, and a reduction in vacancies of 10 positions, totalling \$3.7 million;
- a contingency provision of \$3.3 million; and
- \$3.2 million, for continuing information technology projects, increased investor education programs, administration, amortization and occupancy.

Loss An operating loss is forecast of \$10.5 million that assumes full contingency use of \$3.3 million and limited revenue growth. Actual experience over the last six years has not required the use of any contingency.

Liquidity and cash flow The ASC operates primarily on a cash basis. In addition to cash from operations, cash requirements for F2010 are estimated at \$5 million. Cash is available from existing cash and investment balances.

Risks and Uncertainties

Budgets for F2010 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: reduced fee receipts because of reductions in capital market activity, modest investment income of 5 per cent for bonds and 7 per cent for equities, a 3 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 CDS fee processing that delays fee receipts at 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 generally accepted accounting principles (GAAP) for the public sector. 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
Executive Director