



RESPONSE

Alberta Securities Commission 2011 ANNUAL REPORT

The Alberta Securities Commission (ASC) is charged with protecting investors and maintaining a fair and efficient capital market in Alberta. To do so, the ASC balances both responsibilities at the local and national levels.

LEADS TO

In overseeing Canada's second-largest capital market, the ASC aims to respond quickly and effectively to the needs of market participants. We're focused on maintaining a healthy investment environment where all can invest and raise capital with confidence.

The ASC also accepts a lead role in both supporting and enhancing a national regulatory regime that continues to harmonize national securities rules and regulations while respecting the jurisdictional differences that make Canada's capital markets unique.

- 3 Message from the Chair
- 14 Three-Year Statistical Summary
- 15 Financial Highlights
- 16 Executive Management Team
- 18 Commission Members
- 20 Committees
- 21 Management's Discussion and Analysis
- 35 Management's Report
- 36 Independent Auditor's Report
- 37 Financial Statements and Notes

THE ALBERTA SECURITIES COMMISSION FOCUSES ON FOUR KEY AREAS:

REGULATE

The ASC is the regulatory authority in Alberta

responsible for protecting investors and the capital market by ensuring those who operate in this market comply with Alberta securities laws. The ASC works to provide protection to Alberta investors while allowing the Alberta capital market to thrive.

INVESTIGATE

The ASC has the necessary resources and expertise

required to effectively investigate and curtail breaches of the *Securities Act* (Alberta). We will deal with any threat to Alberta investors or the Alberta capital market with prompt, fair and visible enforcement.

EDUCATE

Education assists the public to invest with confidence

and provides industry with a better understanding of the ASC's expectations for those operating in the capital market. Through a variety of media, the ASC provides investors with the information they need to make informed investing decisions.

CONNECT

The ASC is connected to the Alberta capital market

and understands the needs and concerns of market participants. This understanding is critical to ensuring that the ASC can act quickly in responding to events that may affect investors or the fair and efficient operation of the Alberta capital market.

RESULTS

The ASC administers a regulatory framework that recognizes Alberta's diverse mix of small, medium and large companies.

27,746

REGISTERED INDIVIDUALS
IN ALBERTA

737

REGISTERED FIRMS
IN ALBERTA

809

ACTIVE REPORTING ISSUERS
Principal regulator—Alberta

6,282

ACTIVE REPORTING ISSUERS
Principal regulator—Other

250

PROSPECTUSES
Principal regulator—Alberta

921

PROSPECTUSES
Principal regulator—Other

Using our experience and knowledge of the Alberta capital market, we have maintained an active program of enforcement.

795

COMPLAINTS
RECEIVED

353

CONCLUDED
INVESTIGATIONS

9

INTERIM CEASE
TRADE ORDERS

10

RECIPROCAL
ORDERS

19

HEARINGS

The ASC continues to develop industry and investor education materials to assist these groups in participating in the Alberta capital market.

40+

EXTERNAL WEBINARS
& SESSIONS

190,000+

VISITS TO
INVESTOR WEBSITE

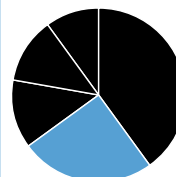
16

INVESTOR EDUCATION VIDEOS
ON YOUTUBE

203

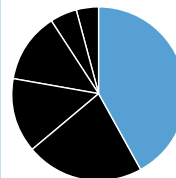
BASICS OF INVESTING
COURSE ATTENDEES

In terms of market capitalization, Alberta's capital market continues to be the second largest in Canada.



40% Ontario
25% Alberta
12% B.C.
10% Québec
13% Other

The oil and gas industry continues to be the most significant industry in Alberta.



42% Oil and Gas
22% Diversified Industries
14% Other
13% Mining
5% Technology
4% Capital Pool Companies



MESSAGE FROM THE CHAIR

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

The attention of the Alberta Securities Commission (ASC) during the past year has been focused on effectively responding to Alberta's market participants in the administration of Alberta securities laws and highlighting our ability to achieve that response under the existing Canadian securities regulatory regime.

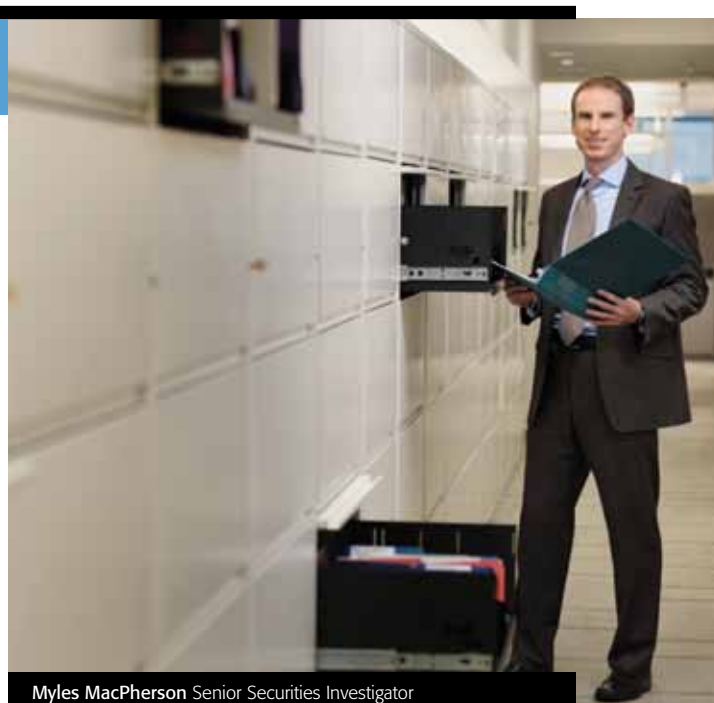
While the ASC has contributed in significant ways to the debate concerning and the litigation contesting the federal government's push for a single federal regulator, it has at the same time worked hard to maintain the effectiveness of the Canadian Securities Administrators (CSA) and fulfill the mandate of the ASC to protect investors and the integrity of the Alberta capital market. These endeavours have been undertaken by the ASC within an international environment of pressure to make significant changes in the regulation of financial services, market participants and investment products.

The evolution of success

The ASC created the Market Surveillance & Investigation (MSI) department to respond to the increased complexity and fragmentation of securities trading.

The newly created MSI team specializes in identifying illegal insider trading and market manipulation. When faced with the signs of potential misconduct, the team taps into the considerable commercial crime, trading floor and industry experience of MSI members. It also draws upon the knowledge senior investigator Myles MacPherson gained while seconded for two-and-a-half years to the insider trading unit at the United Kingdom's securities regulator, the Financial Services Authority.

In fiscal 2011, the ASC executed sanction through the settlement of six illegal insider trading cases, evaluated 135 cases and referred four cases to other securities regulators.



Myles MacPherson Senior Securities Investigator

MESSAGE FROM THE CHAIR

Our Response

Over the course of the year, the ASC has been an active participant and, in many instances, a leader in national projects undertaken to address market issues stemming from the recent financial crisis, including: over-the-counter trading of derivatives; the regulation of credit rating organizations; disclosure and access rules tailored to securitized products; and the mitigation of systemic risk. The ASC has also contributed to the re-evaluation of prospectus, pre-marketing and take-over bid rules—areas of significance to capital formation in Alberta—and developed a novel regime for the regulation of the Canadian venture market. At the same time, we continued to meet the growing regulatory demands arising from a buoyant Alberta capital market. Fiscal 2011 saw robust financing activity for both existing and newly created public companies, with some of the largest initial public offerings in Canada launched by Alberta-based issuers.

We processed a record number of applications under new registration requirements. We expanded our analysis of continuous disclosure by Alberta reporting issuers, and prepared both the issuer community and our own staff for the first filings to be made under International Financial Reporting Standards (IFRS). We also accelerated our enforcement processes and expanded the depth and experience of the ASC's investigative team in our efforts to visibly halt and deter wrongdoing in Alberta's capital market.

Issuer Focus

We concentrated during the year on a number of initiatives related to the disclosure regime that governs the issuance of securities in Canada. Following an analysis of the exempt market in light of the economic downturn in 2008, the ASC co-led a CSA project that published significant and novel proposals governing the sale of securitized and other complex products for both public and non-public offerings. The ASC also worked with the Alberta government to pass legislation to recognize approved credit rating organizations in Alberta and collaborated with the CSA to develop rules that would allow Canadian credit rating organizations to be recognized in international jurisdictions.

The ASC continued to take major responsibility for securities regulation pertinent to the oil and gas industry, leading the CSA initiative to complete revisions to National Instrument (NI) 51-101 *Standards of Disclosure for Oil and Gas Activities*. The amendments are aimed at keeping Canadian disclosure requirements relevant for today's industry, addressing in particular the much increased emphasis on "resources" that do not fall into historical categories of reserves.



Albertan gets two years for breaching Alberta securities laws

Where appropriate, the ASC will take serious breaches of securities laws before the courts to seek the more severe sanctions that the public demands. In the case of 73-year-old Robert John Sellars, a Provincial Court judge found him guilty on seven counts, including breaching a 2006 ASC order that banned him from selling securities. Despite his age, the Court sentenced Sellars to two years in a federal penitentiary for his actions against investors. The Court also ordered Sellars to pay almost \$2 million to four Alberta investors and permanently banned him from trading in securities, acting as an officer or director of any issuer and using Alberta securities laws exemptions.

Richard Finn Litigation Counsel

ASC staff have also spent considerable time preparing for IFRS, which came into effect on January 1, 2011. With issuers now required to present their filed financial statements in compliance with IFRS, ASC staff devoted much time to rewriting national rules to ensure consistency with new accounting principles, addressing issues with Canadian and international accounting standard setters that arose in Canada (for example, in respect of rules applicable to oil and gas issuers and rate-regulated issuers), educating issuers on IFRS, and preparing ASC staff for the IFRS-related reviews and inquiries that are now under way.

ASC staff reviewed the filings of a substantial portion of the issuer base in Alberta during the past year, focusing on both individual issuers and particular subjects such as environmental disclosure, IFRS preparedness and the certification of financial reporting. In addition to monitoring the public market, the ASC also expanded its resources to better oversee compliance in the realm of prospectus-exempt financing. We intend to continue in our review of offering memoranda and the proper use of exemptions by issuers. With sums raised outside the prospectus regime equalling those raised under the prospectus system, investor protection issues in the exempt market are becoming of greater concern.

Special mention must be made of the initiative led by the ASC, along with the British Columbia Securities Commission (BCSC), to tailor an offering and continuous disclosure regime specifically for venture issuers. Under proposed new rules, we have given particular consideration to the size and resources of venture issuers, as well as the differing needs and expectations of investors in this market. A draft national rule is due for publication in the summer of 2011 that aims to enhance investor protection for venture issuer investments through more useful disclosure, better tailored to investors and delivered in a more accessible fashion. Participation in the final stages of the project by Québec's Autorité des marchés financiers (AMF) and the Ontario Securities Commission (OSC) has been welcome. We conducted consultations in Halifax, Montreal, Toronto, Winnipeg, Edmonton, Calgary and Vancouver, and public feedback has indicated strong support for the concept.

With sums raised outside the prospectus regime equalling those raised under the prospectus system, investor protection issues in the exempt market are becoming of greater concern.

In addition to these projects, ASC staff have participated with CSA jurisdictions on other subjects relating to issuer disclosure over the past year, such as communications with shareholders, take-over bids and issuer bids, standards of disclosure for mineral projects, executive compensation and prospectus exemptions.

Fiscal 2011 saw robust financing activity for both existing and newly created public companies, with some of the largest initial public offerings in Canada launched by Alberta-based issuers.

MESSAGE FROM THE CHAIR

To further understand the Alberta capital market, we communicated directly with various market participants through a number of avenues during the course of the year. The ASC gathered excellent feedback from our external advisory committees (comprised of issuer, auditor, legal and accounting representatives) on a variety of topics. We also interacted with market participants at several speaking engagements and numerous in-person and online instructional ASC sessions covering topics such as IFRS, the new registration rule and oil and gas reporting. Approximately 850 people registered for nine events held in Calgary, Edmonton and by webinar. Interestingly, registrants for the oil and gas webinar included individuals from Israel and Kazakhstan.

Marketplace Focus

The recent financial crisis revealed the need for global markets to better understand the sources of systemic risk in their financial systems. The ASC has coordinated efforts with other CSA jurisdictions to study this complex topic and identify areas that carry systemic importance for the Canadian capital markets and potential systemic risks within our area of regulatory responsibility. We outlined specific risks that require monitoring and constructed a surveillance mechanism that should help securities and other regulators track potential concerns that may develop within the Canadian capital markets.

In fiscal 2011, ASC staff were also intensely focused on the rules and policies that govern marketplaces and trading. Staff examined “dark pools” and related issues, working with other CSA staff to publish both a consultation paper

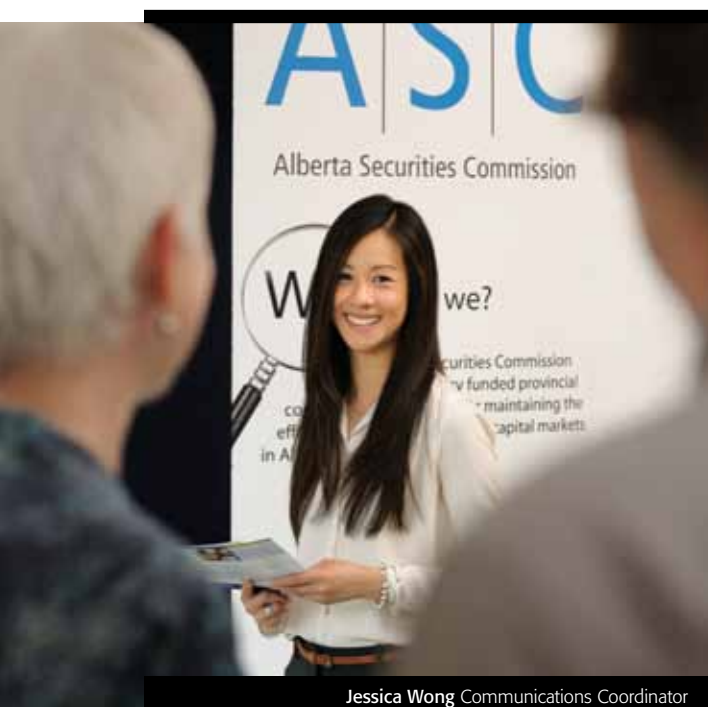
The recent financial crisis revealed the need for global markets to better understand the sources of systemic risk in their financial systems.

and a position paper. The CSA has proposed numerous amendments to NI 21-101 *Marketplace Operation* with the intention of balancing certain obligations of alternative trading systems and exchanges, and reducing the timing burden for marketplaces with respect to their filing

obligations. The order protection rule also came into effect, intended to ensure fair treatment of buy and sell orders across multiple marketplaces. Staff also helped develop draft rules relating to electronic and low-latency trading, and direct market access.

Reaching out to seniors

Last year, the ASC partnered with the Edmonton and Calgary RCMP, the Calgary Police Service and the Wise Owls program of the Alberta Rural Crime Watch to distribute investor fraud protection resources to almost 1,700 seniors and seniors support workers. In response to demand, we also sent out close to 760 copies of our DVD *Investment Fraud: Protecting your Retirement* to seniors services organizations throughout Alberta. As a result of ASC’s outreach efforts, Alberta seniors have the tools to assist them in spotting and avoiding fraud and protecting their financial futures.



Jessica Wong Communications Coordinator

Our oversight of Alberta marketplaces included finalizing and publishing review reports for both the TSX Venture Exchange and the Natural Gas Exchange. The application by Alpha Exchange Inc. for exemption from recognition in Alberta continues to be analyzed in conjunction with its parallel applications in other jurisdictions. Most recently, an application was received from the TMX Group Inc. concerning its proposed merger with the London Stock Exchange Group Inc.

With derivatives regulation attracting the attention of regulators around the globe, the ASC has been working locally and with national and international committees to increase expertise and reshape Canada's regulatory framework, with a particular emphasis on commodity-based derivatives. Staff contributed significantly to the development of a CSA paper exploring options for improving over-the-counter (OTC) derivatives regulation, which was published in November 2010. The paper canvassed opinion on key options and obstacles to be addressed in implementing commitments made by Canada to the G20 countries—namely to create a structure that will see OTC derivatives contracts cleared through centralized clearing agencies and reported to trade repositories.

Within Alberta, ASC staff have initiated steps to ensure that OTC derivatives in Alberta are subject to the ASC's regulation. Particular emphasis has been placed on registration requirements for market participants who trade in such contracts. Staff have received and are considering industry and public comments on proposals published in February 2011. In addition, Market Regulation staff have been participating in an OTC Derivatives Working Group, which is led by the Bank of Canada and reports to heads of agencies including the Bank of Canada, the Superintendent of Financial Institutions, representatives of the Department of Finance Canada and the chairs of the four largest securities commissions. This group is focusing on devising clearing agency solutions that meet both Canadian participants' needs and international standards and that enable Canadian regulators to manage systemic risk. Finally, ASC staff are continuing their involvement with the International Organization of Securities Commissions' Commodities Task Force, including participation in a working group considering the role and impact of price reporting agencies.

Understanding systemic risk

The ASC leads the CSA Systemic Risk Committee, which is responsible for identifying, analyzing and monitoring areas of potential systemic risk in the Canadian capital markets. Systemic risk is the risk of collapse of an entire financial system or entire market, as opposed to risk associated with any one individual entity or component. Securities regulators worldwide have accepted a greater responsibility to consider the potential for systemic risk when preparing rules and policy. The ASC and other Canadian regulators endeavour to create policy that does not allow for any increase in systemic risk and, whenever possible, serves to reduce it.



Steven Weimer Capital Markets Analyst

MESSAGE FROM THE CHAIR

Registrant Focus

Although NI 31-103 *Registration Requirements and Exemptions* came into force in the autumn of 2009, the full implementation of this registration reform project required significant staff time and attention through fiscal 2011. As soon as the rule came into force, staff began the process of preparing, publishing and reviewing comments on proposed amendments aimed at clarifying the new instrument and addressing areas that were not incorporated into the original rule. In the interim, we issued numerous blanket orders to fill small gaps or provide appropriate relief to affected participants.

The creation of a new registration requirement in Alberta for exempt market dealers (EMDs) became effective in two stages in 2010, with new dealers having to register by March 2010 and previously-operating dealers having to submit

We added and realigned resources to improve the effectiveness of our enforcement efforts.

registration applications by September 2010. A necessary addition to our investor protection tools, EMD registration subjects those businesses that sell securities to the public under exemptions from prospectus obligations to certain

capital requirements, proficiency and educational standards, conflict-of-interest and other restrictions, and clear rules governing dealings with clients. ASC registration staff have reviewed applications from firms and individuals now within the regulatory fold to ensure that the necessary registration standards are met. Staff have also conducted oversight reviews of these EMDs to ensure that new registrants understand the rules and can meet their requirements. As a result of this requirement, the number of dealer firms has doubled from a year ago.

In addition to NI 31-103, ASC Market Regulation staff also contributed to several other CSA registration-related projects, including working to clarify the application of new investment fund manager rules to internationally based entities and the formulation of a client relationship model for registrants. We also published comprehensive oversight reviews of both the Mutual Fund Dealers Association (MFDA) and the Investment Industry Regulatory Organization of Canada (IIROC), in conjunction with fellow CSA members.


Enforcement

The ASC focused during the past year on effectiveness, efficiency and early intervention in its efforts to halt or deter wrongdoing in Alberta's capital market. We added and realigned resources to improve the effectiveness of our

Changes offer more protection for exempt market investors

Last year, Alberta-based issuers raised approximately \$11.6 billion in the exempt market by relying on exemptions from the *Securities Act* (Alberta). Of this total, \$3.2 billion was raised from Alberta-based investors. To ensure the integrity of those participating in the exempt market, the ASC was instrumental in the creation and implementation of NI 31-103 *Registration Requirements and Exemptions*.

Among other things, NI 31-103 requires all those in the business of trading in or underwriting of exempt market securities in Canada to register as an exempt market dealer in the appropriate jurisdiction and meet proficiency, insurance and minimum working capital requirements.



Navdeep Gill Legal Counsel, Market Regulation

enforcement efforts. We increased the number of professional investigators from 13 to 15, all of whom have access to the most advanced digital audio and video investigation technology available. As well, we introduced a newly created electronic evidence unit to analyze effectively the enormous quantity of data and information obtained in complex investigations.

During fiscal 2011, the ASC established the Market Surveillance & Investigation department (MSI), a team comprised of staff with deep industry knowledge, experience and investigative skills developed in commercial crime investigations. MSI is a specialized unit responsible for the identification and investigation of market cases involving insider trading or market manipulation, strengthened by a senior investigator who recently completed a two-and-a-half year secondment with the United Kingdom's securities regulator, the Financial Services Authority. MSI is using and developing methods of analysis that permit effective examination of large amounts of data to uncover cases of market abuse.

Enforcement has implemented new protocols to improve the efficiency of investigations. We are bringing increasing numbers of interlocutory proceedings to the Alberta Court of Queen's Bench to confirm and enforce the statutory authority of ASC investigators to demand and receive information from those subject to investigation. These efforts are effectively reducing the delay by respondents in providing relevant information. On several occasions the ASC has obtained orders of the Court of Queen's Bench that permit the ASC to search and seize relevant information. These orders eliminate the risk that evidence will be destroyed before the ASC can gain access to it and enable the ASC to proceed in a constitutional manner to prosecute quasi-criminal activity in the Provincial Court of Alberta.

In fiscal 2011, the ASC continued to seek early intervention in potential wrongdoing in the Alberta market wherever possible. Nine times during the course of the year, we were able to make a case to the appointed ASC adjudicative panel and obtain an interim cease trade order to stop the selling, trading and distribution of securities while we further investigated the relevant allegations.

Proven breaches of Alberta securities laws are resulting in markedly higher administrative penalties and longer market bans imposed by Commission adjudicative panels. In fiscal 2011: two of the directing minds of a pyramid and Ponzi scheme were each ordered to pay \$2 million in administrative penalties; the individual behind an illegal distribution of securities to investors, many of whom were senior citizens, was ordered to pay an administrative

ASC continues work to tailor venture market regulation

The ASC, along with the BCSC, led country-wide consultation sessions this past year on a proposal to develop a more tailored approach to regulating venture issuers. With strong support from market participants and participation from other Canadian securities regulators, the project team plans to publish a national rule for comment in the summer of 2011.



Ashlyn D'Aoust Legal Counsel, Corporate Finance

MESSAGE FROM THE CHAIR

penalty of \$600,000; an individual found to have committed fraud on Alberta investors was required to pay an administrative penalty of \$650,000; and another individual, who was found to have committed fraud on Alberta

The ASC intends to increasingly seek incarceration in instances where individuals have demonstrated a disregard for Alberta Securities laws or previous Commission orders.

investors and to have run a Ponzi scheme, was ordered to pay an administrative penalty of \$500,000. Most importantly, each of the individuals noted above was permanently banned from the market, offering ongoing protection for future investors.

The ASC intends to increasingly seek incarceration in instances where individuals have demonstrated a disregard for Alberta securities laws or previous Commission orders. In October 2010, proceedings in the Provincial Court of Alberta resulted in a sentence of two years in a federal penitentiary imposed on an individual who had defrauded Albertans. He was also banned permanently from the market and ordered to repay almost \$2 million to four Alberta investors.

Investor Education

We undertook extensive efforts during the past year to educate investors on good investment practices and the dangers of careless investing. As part of the ASC's Check First campaign during Investor Education Month, we ran television, online and social media advertisements to point to the ASC's unbiased information about investing. We also partnered with community organizations such as the Calgary Police Service and Rural Crime Watch's Wise Owls program to distribute 2,260 ASC investment fraud resource packages and brochures across the province. During the campaign month, we registered a record 31,679 visits to the For Investors section of the ASC website, indicating that our efforts to improve investor awareness of the ASC's tools and resources are bearing fruit. As investors embrace social media, so does the ASC. We undertook some novel initiatives in this regard during the past year. Our ASC YouTube Channel now has 16 videos posted that instruct on how to reduce risk in investment practices. We are present on Facebook and Twitter to provide posts regarding ASC news releases, media coverage, investor education resources and links to the ASC website. Our blog, YouASC'd, discussed 11 new topics this past year, ranging from recovery rooms to exempt market dealers to New Year's resolutions for investors.

With derivatives regulation attracting the attention of regulators around the globe, the ASC has been working both locally and with national and international committees to increase expertise and reshape Canada's regulatory framework.

We focused our outreach efforts on seniors and youth in fiscal 2011. ASC staff presented at an annual conference to seniors service providers including health care workers, community support counsellors and social workers, and distributed close to 760 DVDs about seniors and investment fraud to various municipalities, social services offices and immigrant-serving organizations. The ASC also provided education packages to 300 youth organizations in Alberta and attended Alberta's two major teachers' conventions as an exhibitor to promote our financial literacy resources. As well, we worked with Junior Achievement by providing volunteers for its in-school financial and economic education programs.

In the past year, our Public Inquiries Office dealt with some 3,000 inquiries through telephone, post and email.

In addition to making available the many ASC investment tools and resources we have prepared to help protect investors, we continued to encourage the public to inquire directly about securities matters that may be of concern. In the past year, our Public Inquiries Office dealt with some 3,000 inquiries through telephone, post and email.

Governmental and Other External Relationships

Two sets of amendments to the *Securities Act* (Alberta) were either introduced or passed in the last fiscal year: Bill 13, the *Securities Amendment Act, 2010* (Alberta) and Bill 4, the *Securities Amendment Act, 2011* (Alberta). The amendments create a new framework for the regulation of credit rating organizations, require that clearing agencies operating in Alberta be recognized by the ASC, enhance the ASC's abilities with respect to enforcement and compliance, and support the highly harmonized securities laws project that forms a part of the Passport initiative. We continue to regard with a high level of gratitude the cooperative relationship that exists between the ASC and the Alberta government.

The ASC entered into a Memorandum of Understanding (MOU) with the U.S. Commodity Futures Trading Commission effective June 10, 2010. That MOU sets forth a statement of intent and a voluntary framework for the parties to share information and cooperate with each other to fulfill their respective regulatory mandates concerning cross-border derivatives clearing organizations. The ASC is also in the process of becoming a signatory to an MOU among the Securities and Exchange Commission (SEC), the OSC and the AMF. The SEC MOU concerns consultation, cooperation and the exchange of information related to the supervision of cross-border regulated entities.

The ASC uses social media to expand its reach

The ASC has established a presence on various social media platforms to increase the outreach and promotion of investor resources and news to Albertans.

On the ASC YouTube Channel, investors can view 16 videos that outline how to invest and how to protect their money. Those who follow the ASC Facebook and the @ASCUpdates Twitter accounts can learn the latest regarding ASC news releases, media coverage, investor education resources and links to the ASC website. The YouASC'd blog on the ASC website covers a range of timely topics, from recovery rooms and exempt market dealers to New Year's investor resolutions.



Heather Hartmann Communications Advisor

MESSAGE FROM THE CHAIR

Constitutional Reference

The constitutionality of the federal government's proposal to create a federal securities regulator was challenged by the provincial governments of Québec and Alberta in their respective courts of appeal. In turn, the federal government referred the constitutional question to the Supreme Court of Canada where it was opposed by the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Québec and New Brunswick. At the request of the Alberta government, the ASC assisted Alberta's counsel throughout the year in the preparation of written submissions filed in the Court of Appeal of Québec, the Court of Appeal of Alberta and the Supreme Court of Canada, and of the related oral submissions. Affidavit evidence filed in all three courts concerning the purpose, operations and relationships of the ASC and the successful national regulation of securities markets by the CSA was prepared with the considerable assistance of the Office of the General Counsel of the ASC.

Both the Alberta and Québec courts of appeal concluded that the federal initiative contravenes the Canadian constitution

Both the Alberta and Québec courts of appeal concluded that the federal initiative contravenes the Canadian constitution. The Supreme Court of Canada has yet to provide its decision on the referred questions, having only heard oral submissions on April 13 and 14, 2011. Following the judgment of the Supreme Court of Canada, significant attention will be paid by the ASC to its ongoing relationships with Canada's other securities regulators, doing our part to ensure the ongoing integrity of capital markets and to continue to protect investors without disrupting what has become an efficient national regime of securities regulation.

Operational Improvements

In 2010, after several years of strategic planning, the ASC relocated to new premises. The new design has allowed the ASC to purpose-build facilities to best accommodate the way we work, and to group our business units for increased communication and collaboration. The move also offered the opportunity for the ASC to update much of its technology, such as new production and disaster recovery servers, additional disk storage and wireless capabilities, and enhanced security for our systems and records.

From a financial standpoint, the ASC was successful in bettering its budget projections for the year while increasing its staff complement and maintaining a competitive compensation structure. The internal Finance group also



Bill Rice takes over as CSA Chair

In January 2011, the Canadian Securities Administrators appointed Bill Rice as the new Chair of the CSA for a two-year term, ending March 31, 2013.

"I am honoured to be chosen by my colleagues to lead the CSA and build on our work to coordinate and harmonize securities regulation for market participants across Canada," said Rice. "In these challenging times, the CSA is an organization critical to ensuring confidence in Canada's capital markets. We will continue to do what we've been doing all along—focus on and respond to market conditions and public concerns regarding securities regulation and effectively enforce securities laws in Canada."

Bill Rice CSA Chair

completed, with the assistance of the ASC's Economic Analyst, a risk register that will serve as an ongoing reference for management and Commission Members to evaluate risks to the effective operation of the ASC and the mitigation practices put in place to address those risks.

Looking Forward

The ASC will continue to strive to improve the quality of its services, accelerate its processes, maximize its influence on national policy-making and educate its staff on the technical and practical aspects of their work. The ASC will provide the best possible level of investor protection through its rule-making, compliance oversight, enforcement, adjudication and investor education functions, at all times having an eye to the cost of those functions relative to their benefits.

We will support the endeavours of the CSA to uphold an internationally recognized national securities regulatory system based on the cooperation and consensus of its member commissions. At the same time, the ASC will position itself for the decision of the Supreme Court of Canada that will determine the identity, roles and jurisdiction of the other securities regulators in Canada with whom the ASC must establish and maintain an interface for the purpose of fulfilling its mandate.

Our Staff

As I meet with staff throughout the year, I am pleased to hear that they continue to be challenged by the interesting and important work we do at the ASC in overseeing Alberta's healthy and vibrant capital market. We offer many opportunities for learning and career growth to employees and secondees. We express our gratitude to Deloitte & Touche LLP and Kenway Mack Slusarchuk Stewart LLP for their participation in our secondee program during the past year. I would conclude in recognizing the contribution over the past year of our skilled and committed staff, without whom neither our mandate nor our ambitions can be achieved.



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

The ASC will provide the best possible level of investor protection through its rule-making, compliance oversight, enforcement, adjudication and investor education functions, at all times having an eye to the cost of those functions relative to their benefits.

Three-Year Statistical Summary

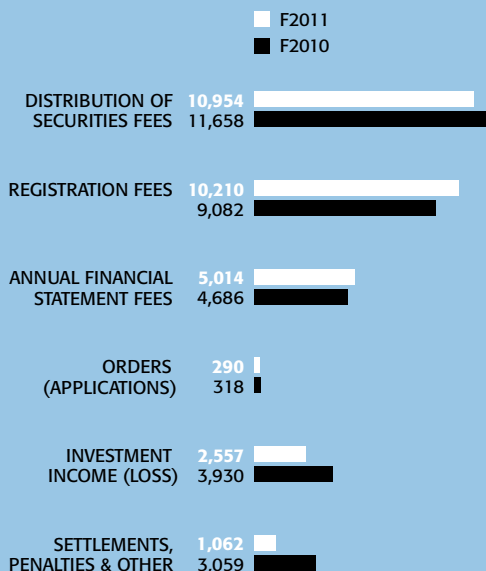
<i>(as of March 31, 2011)</i>	F2011	F2010	F2009
ENFORCEMENT ACTIVITY			
Complaints received	795	984	799
Concluded investigations	353	456	396
Current cases	163	161	159
Interim cease trade orders	9	8	6
Settlement agreements	13	17	14
Hearings	19	19	20
Settlements agreed to	\$ 883,000	\$ 1,817,667	\$ 1,212,398
Settlements collected	\$ 801,000	\$ 1,817,667	\$ 1,101,580
Administrative penalties levied	\$ 6,671,000	\$ 1,190,000	\$ 1,903,000
Administrative penalties recovered	\$ 226,000	\$ 542,000	\$ 145,000
Prosecutions initiated in Provincial Court	1	1	0
Other court proceedings (including appeals)	12	4	7
Reciprocal orders	10	11	16
ACTIVE REPORTING ISSUERS*			
Principal Regulator—Alberta	809	814	909
Principal Regulator—Other	6,282	6,011	6,104
Total	7,091	6,825	7,013
PROSPECTUSES			
Principal Regulator—Alberta	250	226	119
Principal Regulator—Other	921	793	639
Total	1,171	1,019	758
RIGHTS OFFERINGS			
Principal Regulator—Alberta	3	13	9
Principal Regulator—Other	14	18	10
Total	17	31	19
EXEMPTION APPLICATIONS (Corporate Finance)			
Principal Regulator—Alberta	249	184	197
Principal Regulator—Other	97	142	210
Total	346	326	407
CONTINUOUS DISCLOSURE REVIEWS (Principal Regulator—Alberta)			
Full	154	150	143
Issue-oriented	220	161	174
Total	374	311	317
TOTAL REGISTERED FIRMS	737	584	588
TOTAL REGISTERED INDIVIDUALS	27,746	26,071	29,225

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

Financial Highlights

REVENUE

(\$ Thousands)



SUMMARY OF ANNUAL INFORMATION

(\$ Thousands)

	F2011	F2010
	Actual	Actual
Revenue	\$ 30,087	\$ 32,733
Expense	\$ 32,413	\$ 28,392
Net (loss) income	\$ (2,326)	\$ 4,341

ASSETS

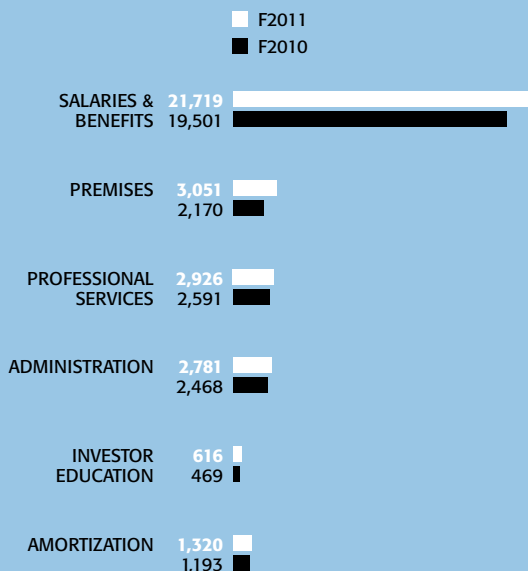
Cash	\$ 9,114	\$ 11,343
Investments	\$ 28,238	\$ 30,749
Capital assets	\$ 9,991	\$ 2,028
Total assets	\$ 47,595	\$ 44,895

NON-CURRENT FINANCIAL LIABILITIES

Lease inducement	\$ 2,994	\$ —
Accrued benefit liability	\$ 4,351	\$ 3,782
Retained earnings	\$ 35,446	\$ 37,772
Capital additions	\$ 9,289	\$ 916

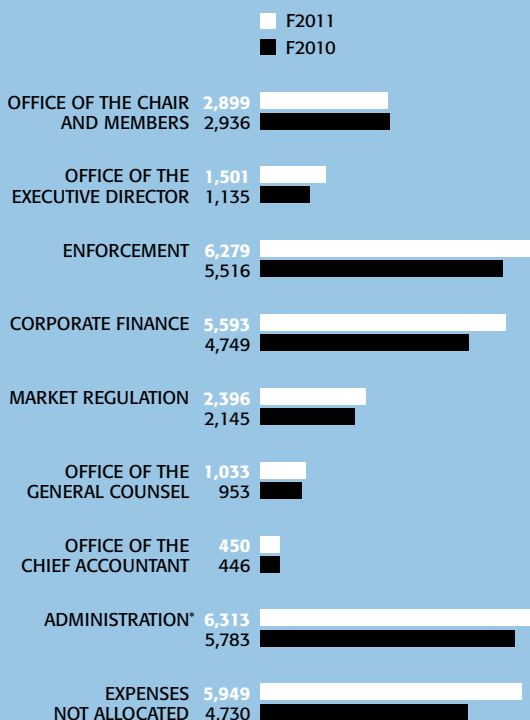
EXPENSE

(\$ Thousands)



DIVISION EXPENSE

(\$ Thousands)



* Communications, Corporate Resources, Financial Services and Investor Education.



BRETT CODE

Director, Enforcement

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 misconduct. Through prompt, fair and visible enforcement action, the division seeks to protect the investing public, foster investor confidence and promote the integrity of the Alberta capital market.

KARI HORN

General Counsel

Office of the 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, including the current court challenges relating to the federal regulator debate. Responsibility for the corporate secretarial and legislative functions also resides in the OGC.

LARA GAEDE

Chief Accountant

Office of the 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 advisers. This division is involved in policy initiatives that relate to these areas of expertise. The Office also oversees the training of the professional accountants within the organization.

STEVE SLIPP

Controller

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 Ministry of Finance and Enterprise.

Market Regulation

Market Regulation

Market Regulation provides effective and responsive securities regulation to the Alberta capital market by developing and administering rules and policies relating to exchanges, alternative trading systems, registrants (dealers and advisers) and self-regulatory organizations, including the Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada. Staff are also focused on performing targeted compliance examinations, considering registration and exemption applications, and registering individuals and firms. The Executive Director is currently the acting Director of Market Regulation.

Executive Management Team



TOM GRAHAM

Director, Corporate Finance

Corporate Finance

Corporate Finance is responsible for reviewing offering documents, monitoring continuous disclosure filings and making recommendations on applications for exemptive relief from securities legislation. Closely related to these day-to-day services, Corporate Finance is active in formulating and developing appropriate rules, regulatory instruments, policies, blanket orders and legislative amendments used in the regulation of the Alberta capital market, with a particular focus on the oil and gas industry.

TAMERA VAN BRUNT

Director, Communications and Investor Education

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.

DAVID LINDER

Executive Director

Office of the Executive Director

The Executive Director reports to the Chair and is the ASC's Chief Administrative Officer, overseeing the Corporate Finance, Corporate Resources, Enforcement, Finance, and Market Regulation divisions, and the Office of the Chief Accountant. The Executive Director also participates on 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.

BILL RICE

Chair and Chief Executive Officer

Office of the 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 & 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 and Enterprise.

DANNA MCLEOD

Director, Corporate Resources

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.

Commission Members

Alberta's Lieutenant Governor in Council appoints the ASC Commission Members. Members determine policy, consider and approve new rules and recommend changes to the *Securities Act* (Alberta), the regulations made pursuant to the Act, and the Alberta Securities Commission Rules. They are also empowered to grant discretionary exemptions from the requirements of Alberta securities laws and to conduct hearings into matters that affect the public interest in Alberta's capital market. In addition, the Members act as the ASC's board of directors, overseeing the management of the ASC.

A majority of the 14 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 a fourth Member (Fred Snell) was, within the last three years, a member of the ASC's executive. Accordingly, those four Members 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. All ASC board committees, the Audit, Human Resources, and Governance committees, are exclusively made up of Independent Members. All members of the Audit Committee are financially literate as that term is used in NI 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 the duties and responsibilities of the Members.

The ASC's Governance Policy, which contains a description of the Commission's orientation program for new Members and ongoing continuing education for all Members, is available on the ASC website at www.albertasecurities.com.



WILLIAM S. RICE
Q.C. Chair

Mr. Rice was reappointed in December 2009 to a second term as Chair and Chief Executive Officer of the Alberta Securities Commission to conclude July 15, 2015. In January 2011, he was appointed Chair of the Canadian Securities Administrators for a two-year term, ending March 31, 2013. Mr. Rice acts as an ex officio member on all ASC Committees. At the beginning of his tenure with the ASC in 2005, Mr. Rice had over 25 years of experience as a securities lawyer and had most recently concluded a 32-year career with the Bennett Jones LLP law firm with a five-year term as its national managing partner. Mr. Rice has also had extensive board membership and chair responsibilities with both public and private companies.

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)
Audit Committee – 5/5 (100%)
Governance Committee – 3/3 (100%)
Human Resources Committee – 2/2 (100%)



GLENDA A. CAMPBELL
Q.C., ICD.D Vice-Chair

Ms. Campbell was appointed Vice-Chair in September 1999. Prior to that, she served the ASC as Director, Legal Services and Policy Development and was instrumental in creating a national voice for Alberta through the development of policies and legislation at the national and local levels with a view to harmonizing the securities regime in Canada. Ms. Campbell has lectured extensively in professional continuing education seminars and has authored a number of papers on administrative law and securities regulation. Ms. Campbell was appointed Queen's Counsel in 1999 and received her ICD.D designation from the Institute of Corporate Directors in 2010.

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)



STEPHEN R. MURISON
Vice-Chair

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

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)



BEVERLEY A. BRENNAN
FCA

Ms. Brennan became a Member in April 2006 and is a member of the ASC's Audit Committee. She holds an MBA from the University of Saskatchewan and was awarded the FCA designation by both the Institutes of Chartered Accountants of Alberta and Saskatchewan. Ms. Brennan was the CFO (1988–2000) and Corporate Secretary (1992–2003) of Philom Bios Inc., an agricultural biotechnology company. Ms. Brennan served as Chair of the Canadian Institute of Chartered Accountants from 1998 to 1999. She is active on non-profit boards and consults on governance and strategic issues.

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)
Audit Committee – 5/5 (100%)



ALLAN L. EDGEWORTH
P. Eng.

Mr. Edgeworth is the ASC's Lead Independent Member. He became a Member in April 2006 and is Chair of the ASC's Governance Committee. He served in various executive capacities with Westcoast Energy Inc. (now Spectra Energy Transmission West) and Alliance Pipeline. A geological engineer by profession, Mr. Edgeworth retired from his position as President and Chief Executive Officer of Alliance Pipeline in December 2004. Mr. Edgeworth is a director of AltaGas Ltd., Emera Inc. and Pembina Pipeline Corporation, and is currently President of ALE Energy Inc.

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)
Audit Committee – 5/5 (100%)
Governance Committee – 3/3 (100%)
Human Resources Committee – 2/2 (100%)



HONOURABLE J.C. (JACK) MAJOR
C.C., Q.C.

The Honourable J.C. Major became a Member in April 2006 and is a member of the ASC's Governance Committee. He helped shape the legal landscape in Canada through his years as a lawyer, judge and now Counsel. Mr. Major was appointed to the Alberta Court of Appeal in 1991 after 34 years as litigation counsel and to the Supreme Court of Canada in 1992. He retired as a Supreme Court of Canada justice in December 2005 and has since rejoined Bennett Jones LLP as Counsel.

Attendance at meetings during fiscal 2011
Commission – 8/11 (73%)
Governance Committee – 3/3 (100%)



RODERICK J. MCKAY
FCA, ICD.D

Mr. McKay became a Member in April 2007 and is Chair of the ASC's Audit Committee. He is currently a member of the Board and Audit Committee of Fidelity Capital Structure Corporation, and a member of the boards of Tourism Calgary, the Heart and Stroke Foundation of Canada, the Calgary Counselling Centre and Quest Theatre. He held various senior executive roles in the Canadian and international firm of KPMG until his retirement in September 2006.

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)
Audit Committee – 5/5 (100%)



DANIEL MCKINLEY
FCA

Mr. McKinley became a Member in May 2010 and serves on the ASC's Audit Committee. He has over 30 years' experience in public accounting and is currently a partner in the Grant Thornton tax services group in Edmonton. During his career, Mr. McKinley has specialized in matters of taxation and related areas, such as financing proposals, restructuring arrangements, cross-border transactions and operations, and litigation settlements. He received his Bachelor of Commerce degree from the University of Alberta and, in 2001, was awarded his FCA designation by the Institute of Chartered Accountants of Alberta.

Attendance at meetings during fiscal 2011
Commission – 9/9 (100%)
Audit Committee – 5/5 (100%)



NEIL W. MURPHY

Mr. Murphy became a Member in April 2006 and serves on the ASC's Human Resources Committee. He graduated with a B.Sc. from Loyola College (now Concordia University) in Montréal in 1968 and held several managerial positions with Royal Trust Company. In 1985, Mr. Murphy joined RBC Dominion Securities and served as a retail broker in Calgary for 19 years until his retirement in 2004.

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)
Human Resources Committee – 2/2 (100%)



KENNETH B. POTTER
Q.C.

Mr. Potter became a Member in April 2007 and serves on the ASC's Human Resources Committee. Prior to his retirement in 2011, he was a partner of the Macleod Dixon LLP law firm in Calgary where he practised in the securities and corporate law areas. Holding an LL.B. from the University of Alberta and an LL.M. from the London School of Economics, Mr. Potter has taught securities and corporate law as a sessional instructor at the University of Calgary and in New Zealand and has written numerous articles on corporate and securities law matters.

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)
Human Resources Committee – 2/2 (100%)



KAREN A. PRENTICE
Q.C., ICD.D

Ms. Prentice became a Member in April 2006 and serves as Chair of the ASC's Human Resources Committee. She holds an LL.B. from the University of Calgary. Ms. Prentice has spent over 25 years in various legal and executive management roles. Most recently, she was Executive Vice-President, Legal and Corporate Affairs of Enmax Corporation. Ms. Prentice is a member of the Board of Trustees of Homburg Canada Real Estate Investment Trust, a director of the Alberta Capital Market Foundation and a member of the Executive Committee of the Calgary Chapter of the Institute of Corporate Directors.

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)
Human Resources Committee – 2/2 (100%)



GLEN D. ROANE
ICD.D

Mr. Roane became a Member in April 2007 and serves on the ASC's Governance Committee. He is a corporate director who previously spent 18 years in various roles in the Canadian financial services industry. Employers included the Toronto Dominion Bank, Burns Fry Ltd. and Lancaster Financial Inc. Mr. Roane is currently a director of Enerplus Corporation, Badger Daylighting Ltd., Logan International Inc., SilverBirch Energy Corporation and the GBC North American Fund Inc. He holds a B.A. and an MBA from Queen's University in Kingston.

Attendance at meetings during fiscal 2011
Commission – 11/11 (100%)
Governance Committee – 3/3 (100%)



RICHARD A. SHAW
Q.C., ICD.D

Mr. Shaw became a Member in May 2011. He has close to 40 years of experience providing legal advisory services in a number of areas including boards of directors, independent and special committees, director and officer liability, corporate governance, shareholder rights plans, securities and corporate finance. Mr. Shaw is a former senior partner at McCarthy Tétrault LLP in Calgary and former Chair of the Calgary Chapter of the Institute of Corporate Directors. He is currently the Chair of the Board of Governors of Mount Royal University and sits as a director on a number of company boards.

Began appointment after 2011 fiscal year.



FRED R. N. SNELL
FCA

Mr. Snell became a Member in May 2011. He has more than 40 years of experience in the accounting field with an extensive background in securities regulation, accounting, auditing and finance. A former partner at Ernst & Young LLP, Mr. Snell held the position of Chief Accountant at the ASC from 2001-2009. He was appointed a Fellow of the Institute of Chartered Accountants (FCA) in 1998 in recognition of his service to the profession.

Began appointment after 2011 fiscal year.

Committees

ASC staff established four advisory committees of industry representatives to act as sounding boards with respect to the development of new or amended securities regulation. They 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.

Advisory Committees

Financial Advisory Committee

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

Jill Angevine, CA
FirstEnergy Capital Corp.

Scott Bandura, CA
PricewaterhouseCoopers LLP

Rhonda Bashnick, CA
Shaw Communications Inc.

Matt Bootle, FCA
Ernst & Young LLP

Dell Chapman, CA
Equal Energy Ltd.

Sean Du Plessis, CA
Meyers Norris Penny LLP

Patricia Newson, CA
AltaGas Utility Group Inc.

John Peltier, CA
CIBC World Markets

Philip J. Scherman, CA
KPMG LLP

Wesley Twiss
Corporate Director

Jonathan Winn, CA
BDO Dunwoody LLP

Ward Zimmer, CA
Deloitte & Touche LLP

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.

Philip Aldred
SilverBirch Energy Corporation

Barry Ashton, P. Eng.
AJM Petroleum Consultants

Steve Balog, P. Eng.
West Butte Management Inc.

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

Chris Fong, P. Eng.

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

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

Jim Screamon, CA
Strategic Oil and Gas Ltd.

Floyd Siegle, P. Eng.
Charger Energy Corp.

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

Bruce Watson, B.Sc., CGA
Japan Canada Oil Sands Ltd.

John Zahary, P. Eng.
Harvest Energy Trust

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
Fraser Milner Casgrain LLP

Brian Mainwaring
Gowling Lafleur Henderson LLP

William Maslechko
Burnet, Duckworth & Palmer LLP

John Osler
McCarthy Tétrault LLP

David Robottom, Q.C.
Enbridge Pipelines Inc.

James Thomson, Q.C.

Bryce Tingle
Zero Emission Energy Plants Inc.

Andrea Whyte
Osler, Hoskin & Harcourt LLP

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.
Macleod Dixon LLP

Arthur N. Korpach, FCA
CIBC World Markets

Philip J. Scherman, CA
KPMG LLP

Commission Member Committees

Board Committees are made up of the following Independent Members. All are independent except William S. Rice and Kari F. Horn, who sit as ex officio where indicated.

Audit Committee

Roderick J. McKay
(Chair)

Beverley A. Brennan

Daniel McKinley

Allan L. Edgeworth
(ex officio)

William S. Rice
(ex officio)

Human Resources Committee

Karen A. Prentice
(Chair)

Neil W. Murphy

Kenneth B. Potter

Allan L. Edgeworth
(ex officio)

William S. Rice
(ex officio)

Governance Committee

Allan L. Edgeworth
(Chair)

Jack C. Major

Glen D. Roane

Kari F. Horn
(ex officio)

William S. Rice
(ex officio)

Management's Discussion and Analysis

The financial statements that appear on pages 37-52 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, 2011. The comments in this Management's Discussion and Analysis (MD&A), prepared as of May 2, 2011, analyze the ASC's financial performance during the fiscal year ended March 31, 2011, and present a view for the future.

NOTE: In this MD&A, references to years, for example F2011, 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 F2012 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 the Commission;
- a commitment to continuous improvement and annual staff performance assessment;
- quarterly reports of actual versus budget performance and updated full-year forecasts;
- the requirement of Commission approval of significant unbudgeted expenses or re-allocations; and
- quarterly testing of the design and effectiveness of critical financial controls.

Overview

The ASC, a 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 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 has jurisdiction 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selected Annual Information

<i>(\$ Thousands)</i>	F2011	F2011	F2010	F2009
	Budget	Actual	Actual	Actual
Revenue	\$ 27,854	\$ 30,087	\$ 32,733	\$ 23,107
Expense	36,500	32,413	28,392	26,517
Net (loss) income	\$ (8,646)	\$ (2,326)	\$ 4,341	\$ (3,410)

Assets

Cash	\$ 9,114	\$ 11,343	\$ 8,188
Investments	\$ 28,238	\$ 30,749	\$ 28,826
Capital assets	\$ 9,991	\$ 2,028	\$ 2,305
Total assets	\$ 47,595	\$ 44,895	\$ 39,757

Non-current financial liabilities

Lease inducement	\$ 2,994	\$ –	\$ 124
Accrued benefit liability	\$ 4,351	\$ 3,782	\$ 3,316
Retained earnings	\$ 35,446	\$ 37,772	\$ 33,431
Capital additions	\$ 11,703	\$ 9,289	\$ 916

Highlights

The ASC had a loss of \$2.3 million in F2011 compared to a budgeted loss of \$8.6 million and income of \$4.3 million in F2010.

Revenues declined \$2.6 million in F2011 but exceeded budget by \$2.2 million. Investment income fell from \$3.9 million in the prior year, the result of a significant recovery in investment equity values in F2010, to \$2.6 million in F2011 when there were more modest gains. Fee revenues increased \$724,000 as capital markets continued to recover. Registration fees increased \$1.1 million, the result of new registration requirements for exempt market dealers effective September 2010 and overall registrant number increases. These increases were partially offset by a decrease in exempt distribution fees. Enforcement receipts of \$1.0 million declined \$2.0 million from the prior year when receipts included a record number of insider trading and other settlements and a significant recovery of penalties assessed in prior years. These receipts fluctuate annually because of the variability in cases, the timing of their resolution and success in recovering prior-year assessments.

Costs increased \$4.0 million in F2011 but were \$4.1 million less than budgeted. Additional costs were primarily the result of additional staff and annual compensation increases totalling \$2.2 million, professional services for specialist legal and policy issues that increased \$335,000, and costs related to relocating to new premises and investor education initiatives that added \$1.0 million. An increase in amortization reflects the move to new premises and significant capital additions of \$9.3 million.

At March 31, 2011, the ASC had cash and investments of \$37.3 million. The decrease of \$4.7 million from the prior year is the result of capital investments for the new premises, which was partially offset by a \$3.3 million lease inducement. The reduction in investments was the result of a \$5.0 million transfer to operations that was offset by the retention of \$2.5 million of investment income.

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 F2011 loss of \$2.3 million was \$6.3 million less than the budgeted loss of \$8.6 million. Fee revenues, primarily registration fees for new exempt market dealer registrants and others, exceeded budget by \$600,000. Administrative penalties, settlement receipts and cost recoveries exceeded budget by \$400,000. Investment income reflected continued strength in the equity markets and was greater than budget by \$1.2 million. Expenses were \$4.1 million less than budget because of staff vacancies and operating cost control and because the \$1.8 million provision for unanticipated expenses was not required.

While the ASC has forecast continuing budget losses through the next three years, accumulated funds are sufficient to make unlikely any change to the existing fee structure for these years. Further, the ASC is committed to fulfill its regulatory mandate effectively and efficiently and will minimize fee increases, if any, beyond the next three years. Fee increases will be subject to public consultation and must be authorized by a Government of Alberta "Order in Council" prior to implementation.

Analysis of Fiscal 2011 Operating Results and Financial Position

Revenue

(\$ Thousands)

	F2011	F2011	F2010
	Budget	Actual	Actual
Revenue			
Distribution of securities fees	\$ 11,700	\$ 10,954	\$ 11,658
Registration fees	9,243	10,210	9,082
Annual financial statement fees	4,698	5,014	4,686
Other	26	-	-
Order (application) fees	232	290	318
Total fees	25,899	26,468	25,744
Investment income (loss)	1,355	2,557	3,930
Settlements and cost recoveries	-	801	2,499
Other	-	35	18
Administrative penalties	600	226	542
Total revenue	\$ 27,854	\$ 30,087	\$ 32,733

The ASC administers the Alberta capital market regulatory system and collects fees from those who participate in the system. The ASC does not receive transfers from government tax revenues. The ASC funding model matches total costs and revenues. 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, contribute to funding all 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 \$5.5 million (\$5.6 million in F2010). The variable fee component is calculated based on the proceeds obtained from public (prospectus) and private (prospectus-exempt) distributions of securities sold in Alberta. The variable fee component accounted for \$5.5 million in F2011 (\$6.1 million in F2010) and 21 per cent (23 per cent in F2010) of ASC fee revenues.

The ASC receives fees paid in connection with prospectus distributions and exempt financings for non-mutual fund issuers shortly after the distribution date; however, the ASC receives mutual fund fee revenue (approximately 42 per cent of distribution fees including that for exempt distributions) an average of six months after the mutual fund sale date.

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 activity swings have an impact on ASC revenues, the majority of Commission fee revenues are relatively stable.

Registration fees Fees of \$10.2 million in F2011 (\$9.1 million in F2010) from registered firms and individuals accounted for approximately 39 per cent of fee revenues, compared to 35 per cent in the prior year. Registration fees are relatively stable with a registered base in Alberta of almost 700 firms and more than 27,700 individuals. The requirement for registration of exempt market dealers added approximately 90 firms and 400 individuals during F2011. While over 80 per cent of fees are received annually from registration renewals in January, salesperson turnover rates of 15 per cent to 21 per cent annually provide monthly fee revenue during any given year. This turnover rate fluctuates minimally, even in years of poor market performance.

Annual financial statement filing fees Reporting issuers pay financial statement filing fees and these fees account for approximately 19 per cent of fees. The total number of reporting issuers in Alberta is approximately 7,100 (6,800 in F2010) and remains reasonably stable from year to year. Filing fees totalled \$5.0 million in F2011 (\$4.7 million in F2010).

Other Revenue Sources

Investment income In F2011, investment income was \$2.6 million, a decrease from \$3.9 million in F2010. Investment income included equity gains and dividends of \$1.0 million (\$2.7 million in F2010) and interest income of \$1.6 million (\$1.2 million in F2010). F2010 equity gains reflect market value increases of 47 per cent, while market value increases in F2011 were 21 per cent.

Application fees For the most part, only reporting issuers having Alberta as their principal regulator pay application fees. There were approximately 390 applications received in F2011 (425 in F2010) for which \$290,000 was paid in fees.

The mutual fund industry There are approximately 3,200 mutual fund issuers (included in the reporting issuer population of 7,100) and more than 10,000 mutual fund salespeople in Alberta. Revenues from mutual funds in F2011 included fees of: \$3.7 million from prospectus filings; approximately \$2.5 million from prospectus distributions; \$844,000 from exempt distributions; \$870,000 from annual financial statement filing fees; and \$1.1 million from mutual fund registration fees. These mutual fund revenues totalled \$9.0 million (\$9.6 million in F2010) or 34 per cent of total fee revenues.

Enforcement Receipts

<i>(\$ Thousands)</i>	F2011	F2010
Administrative penalties		
Assessed	\$ 6,671	\$ 1,190
Uncollectible	(6,670)	(1,075)
Recoveries from prior years	222	425
Interest income and other	3	2
Total	\$ 226	\$ 542
Settlement receipts		
Assessed	\$ 783	\$ 1,818
Uncollectible	(78)	-
Recoveries from prior years	1	-
Cost recoveries		
Assessed	495	401
Uncollectible	(402)	(139)
Recoveries from prior years	2	419
Total	\$ 801	\$ 2,499

Administrative penalties, settlement payments and cost recoveries These 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 financial payment. Cost recovery receipts arise on collection of assessed costs. Cost recoveries arise in both settlements and hearing decisions. Current year receipts of \$1.0 million (\$3.0 million in F2010) compare to a five-year average of approximately \$1.3 million 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. Recoveries are often limited because respondents have minimal resources, are unable to pay and recovery may not be cost effective. The ASC collected over \$225,000 of prior-year assessments and costs in F2011 (\$800,000 in F2010).

The ASC annually transfers administrative penalties revenue, less eligible expenditures, to a restricted cash account. When eligible expenditures exceed administrative penalty revenues in a year, restricted cash is transferred to the ASC operating 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 F2011 the ASC incurred eligible investor education program costs of \$616,000 (\$469,000 in F2010), while the ASC received related fees from education programs of \$34,000 (\$17,000 in F2010). Restricted cash, composed of interest-bearing deposits, was \$0 at March 31, 2011 (\$280,000 in F2010), following adjustment for annual receipts and eligible expenditures. The decrease in restricted cash was the result of receiving \$226,000 of administrative penalty receipts (\$542,000 in F2010) and \$34,000 of program fees (\$17,000 in F2010) and deducting \$540,000 of the total \$616,000 of eligible expenditures (\$469,000 in F2010).

Expenses

(\$ Thousands)	F2011		F2010
	Budget	Actual	Actual
Salaries and benefits	\$ 22,695	\$ 21,719	\$ 19,501
Premises	3,120	3,051	2,170
Professional services	3,246	2,926	2,591
Administration	3,473	2,781	2,468
Amortization	1,549	1,320	1,193
Investor education	612	616	469
	34,695	32,413	28,392
Contingency	1,805	–	–
Total expenses	\$ 36,500	\$ 32,413	\$ 28,392

Comparative and Budget Expense Analysis

Expenses increased 14 per cent to \$32.4 million from \$28.4 million in F2010, but were 11 per cent less than the F2011 budget of \$36.5 million. Details by expense category follow.

Salaries and benefits Compensation expenses accounted for 67 per cent of operating costs (69 per cent in F2010) and increased \$ 2.2 million in F2011. Increases were the result of staff additions and annual salary adjustments of 2.9 per cent. There were an average of 161 full-time staff during the year (154 in F2010). Compensation costs were less than budgeted because of an average vacancy of nine positions. Compensation includes a performance-based variable pay program that represented 7.1 per cent (7.7 per cent in F2010) of total salary and benefit costs, including variable pay.

Premises Costs increased because of the move to new premises and a period of overlapping rent for both sites.

Professional services Expenses were \$335,000 greater than the prior year and \$320,000 less than budget. Costs for contract professionals assisting with complex policy initiatives and legal advice for technology system issues were greater than last year but less than budget. The ASC used internal resources exclusively as it assisted the provincial government in its preparation for court challenges on the constitutionality of a federal securities statute and regulator. Professional services costs also include those incurred by the ASC as a member of the CSA. 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 F2011 the ASC's share of CSA costs was \$296,000 (\$276,000 in F2010).

Administration Costs increased \$313,000 in F2011 and were \$692,000 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, materials and supplies; and other administration costs of advertising, business consultation and audit fees. Travel expenses increased as the ASC assumed a greater role in national policy initiatives, but were \$143,000 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 \$28,000 in F2011 and were \$172,000 less than budget because there were fewer hearing days than the prior year and less than budgeted. Office operation costs including maintenance, supplies, equipment and rent increased \$132,000 in F2011 because of staff increases and technology initiatives. However, these costs were \$555,000 less than budget because of cost containment in preparation for the F2011 relocation of ASC offices.

Investor education Costs were greater than the prior year because of a registrant education program that was funded by administrative penalty receipts specifically designated for the program. In addition, the ASC funded similar investor education programs as the prior year at less cost, because of operating efficiencies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses by Division

(\$ Thousands)	F2011	F2011	F2010
	Budget	Actual	Actual
Office of the Chair and Members	\$ 3,144	\$ 2,899	\$ 2,936
Office of the Executive Director	1,334	1,501	1,135
Enforcement	6,529	6,279	5,516
Corporate Finance	5,863	5,593	4,749
Market Regulation	3,015	2,396	2,145
Office of the General Counsel	1,066	1,033	953
Office of the Chief Accountant	482	450	446
Administration			
Corporate Resources	5,187	4,494	4,073
Communications	1,328	1,265	1,183
Financial Services	618	554	527
	7,133	6,313	5,783
Expenses not allocated	7,934	5,949	4,729
Total	\$ 36,500	\$ 32,413	\$ 28,392

Division expenses are primarily for staff, professional services and travel. These costs were greater than the prior year for most divisions primarily because of increases in compensation, staff numbers and travel.

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. Fee rates are subject to Ministerial approval and have not been increased since 2008. Total Member fees and related hearing costs decreased \$28,000 in F2011 because of a decrease in hearing days.

Capital Expenditures

(\$ Thousands)	F2011	F2011	F2010
	Budget	Actual	Actual
Leasehold improvements	\$ 8,058	\$ 5,681	\$ 319
Information technology	1,400	1,847	538
Office furniture and equipment	2,245	1,761	59
Total	\$ 11,703	\$ 9,289	\$ 916

The ASC moved to new offices in December 2010 and recorded leasehold costs for relocation design and new office construction. Information technology expenditures for the relocation included server and network software and hardware upgrades, meeting and hearing room audiovisual technology installation, and telephone and desktop computer replacements. In addition, costs for licensed software and software development were incurred to enhance information technology security processes and complete development and implementation of the Commission's primary information system and related data management and reporting processes. Furniture expenses for the new offices were minimized by evaluating and retaining existing furniture with continuing utility, while acquiring furniture for the remainder of the new offices (approximately 50 per cent).

Leasehold improvement construction costs were less than construction budget estimates prepared in 2009. These estimates proved to be overstated as the ASC benefitted from the economic downturn and its impact on Calgary construction costs. Furniture costs were less than budget because less furniture was replaced than originally estimated. Information technology costs exceeded budget because certain costs for hearing, training and meeting room technology upgrades were originally included in the leasehold budget rather than the information technology budget.

A lease inducement of \$3.3 million was received in March 2011 and will be amortized for accounting purposes over the 15-year lease term commencing December 1, 2010 as a reduction of rent expense.

Liquidity and Financial Position

Liquidity The ASC has sufficient resources to fund future operations and capital purchases with cash of \$9.1 million (\$11.3 million in F2010) and investments of \$28.2 million (\$30.7 million in F2010).

Accounts receivable Accounts receivable at the end of March 2011 were \$129,000 (\$148,000 in F2010) and include a \$97,000 (\$70,000 in F2010) recovery of lease operating costs, \$8,000 (\$51,000 in F2010) of current administrative penalty receivables and \$24,000 (\$27,000 in F2010) 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 totalled \$28.2 million in F2011 and \$30.7 million in F2010).

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 \$18.0 million to \$36.0 million during F2012. The 2012 year-end balance of investments and cash is estimated to be \$34.0 million, which is within the target range. The \$3.0 million reduction in investments and cash in F2012 is due to estimated cash expenditures for capital additions of \$500,000 and operations of \$2.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Rates of return on investments:

- Fixed income securities – The rate of return (based on market value) was 7 per cent in F2011 compared with 11 per cent in the prior year.
- Equity funds – The average rate of return (based on market value) for the equity funds was 21 per cent in F2011, compared with 47 per cent in the prior year.
- Money market funds – These returned an average of 1 per cent in F2011 and 1 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, and interest rate and currency risk management. 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 requirements.

Bond investments are sensitive to interest rate fluctuations. At March 31, 2011, ASC fixed income securities of approximately \$20.8 million market value had maturities that range from under 1 year (7.3 per cent) to more than 10 years (29.4 per cent) and an average duration of 5.76 years (5.85 in F2010). A 1 per cent increase in the interest rate, assuming no other changes, would reduce market value by 5.76 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). ASC's investments include derivative contracts with a net positive fair value of \$111,000 (\$141,000 in F2010).

Quarterly Results Summary

(\$ Thousands)	F2011				F2010			
	Q4 (Jan-Mar)	Q3 (Oct-Dec)	Q2 (Jul-Sep)	Q1 (Apr-Jun)	Q4 (Jan-Mar)	Q3 (Oct-Dec)	Q2 (Jul-Sep)	Q1 (Apr-Jun)
Revenues								
Fees & other	\$ 14,062	\$ 4,011	\$ 3,876	\$ 5,581	\$ 15,446	\$ 3,938	\$ 4,613	\$ 4,806
Investment income	584	969	691	313	906	160	1,331	1,533
	14,646	4,980	4,567	5,894	16,352	4,098	5,944	6,339
Expenses								
Salaries & benefits	5,775	5,169	5,547	5,228	5,234	4,831	4,695	4,741
Other	3,836	2,414	2,124	2,320	2,722	2,332	1,861	1,976
Net income (loss)	\$ 5,035	\$ (2,603)	\$ (3,104)	\$ (1,654)	\$ 8,396	\$ (3,065)	\$ (612)	\$ (378)
Investments	\$ 28,238	\$ 27,678	\$ 31,719	\$ 31,043	\$ 30,749	\$ 29,861	\$ 29,710	\$ 28,395
Cash	\$ 9,114	\$ 2,360	\$ 2,805	\$ 7,715	\$ 11,343	\$ 3,224	\$ 5,944	\$ 7,319
Restricted cash	\$ 0	\$ 282	\$ 281	\$ 280	\$ 280	\$ 191	\$ 191	\$ 191

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 \$8.2 million (\$7.7 million in F2010) 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 for IIROC (Investment Industry Regulatory Organization of Canada) registrants are subject to external administration costs of approximately \$750,000 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, 2011 amounted to \$59.4 million (\$58.0 million in F2010). Commitments include the lease of premises to March 31, 2025 and rental of office equipment to 2016. These commitments become expenses of the ASC when the terms of the contracts are met.

(\$ Thousands)

2011–12	\$	2,716
2012–13		2,786
2013–14		2,860
2014–15		2,940
2015–16		3,403
Thereafter		44,723
Total	\$	59,428

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, accounts receivable, restricted cash, investments, accounts payable and accrued liabilities, accrued vacation and benefit liabilities and lease inducement. 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 Notes 1, 2 and 4 of the ASC's financial statements.

The Public Sector Accounting Board's (PSAB) most recent exposure draft on financial instruments proposes a separate statement of remeasurement gains and losses that reports unrealized fair value gains and losses for derivatives and portfolio investments. These recommendations are scheduled for April 2012 adoption and are subject to final PSAB approval. Currently, the Commission records derivatives at fair value and all other investments at amortized book value. Changes in derivative fair value are recorded in the income statement at each quarterly reporting period. All other non-cash financial instrument gains and losses are recorded on disposition and are not revalued to market at each reporting period. The exposure draft proposes that derivative fair value gains and losses, prior to disposition, be reported in the new remeasurement statement. Further, market value changes for other investments, with readily available market values, would also be included in the remeasurement statement. Currently, the differences between market values and amortized book values are disclosed in Note 4 of the ASC's financial statements.

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 \$58,000 in administration expense (\$35,000 in F2010) primarily for insurance, postage and investment management services.

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 89 per cent of the ASC's fee revenue (86 per cent in F2010) 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 revenues to CSA in excess of system operating costs (surplus). The surplus is not divisible; the CSA principal administrators (British Columbia Securities Commission (BCSC), Alberta Securities Commission (ASC), Ontario Securities Commission (OSC) and *Authrité des marchés financiers* (AMF)) own it as a group.

Funds in trust CDS has accumulated system operating surpluses since inception and interest earned that totalled \$64.9 million for F2011 (\$49.1 million in F2010). This amount is held in trust by the OSC. The CSA principal 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. The CSA is beginning remediation of these systems and has committed approximately \$1.0 million to commence this process, with expenditure to date of \$673,000. Accumulated surpluses held in trust will fund future project expenditures.

International Financial Reporting Standards (IFRS)

The ASC reports financial results using Canadian public sector accounting standards. The adoption of IFRS reporting for the public sector has been clarified following a 2010 public review and comment process by the Public Sector Accounting Board. The ASC is an "other government organization" and is permitted to select either IFRS accounting or public sector accounting depending on user needs and organization nature. The ASC has decided to not adopt IFRS to ensure consistency with the accounting standards of the Government of Alberta.

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. During F2011 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.

Ministerial Budget Approval

On November 15, 2003, 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. Significant MOU 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.

During the year, the ASC executed a Mandate and Roles Document, in collaboration with the Ministry of Finance and Enterprise, as per the requirements of the *Alberta Public Agencies Governance Act*, which is awaiting proclamation. The Mandate and Roles Document includes similar financial reporting terms and conditions as the MOU and will replace the MOU following proclamation of the *Alberta Public Agencies Governance Act*. In the interim, the MOU has been extended by Letter of Agreement between the Department of Finance and Enterprise and the Commission.

Fiscal 2012 Outlook and Assumptions

Revenues The F2012 budget revenues of \$29.5 million assume fee increases of \$600,000 resulting from growth in capital market activity. Investment income forecasts of \$1.7 million assume investment returns of 5 per cent for fixed income securities and 7 per cent for equities. Enforcement receipts increase \$700,000 to \$1.3 million, consistent with the five-year average of enforcement receipts.

Expenses Expenses are budgeted at \$37.3 million, an increase of \$4.9 million over F2011 actual expenses of \$32.4 million. The projected increase includes:

- annual compensation and variable incentive compensation adjustments, additional staff, primarily for Market Regulation, Enforcement and Corporate Finance, and reduced vacancies, totalling \$1.9 million;
- a 5 per cent contingency provision of \$2.0 million; and
- \$1.0 million for administration and professional services because certain expenses planned for F2011 were deferred to F2012.

Loss The ASC forecasts an operating loss of \$7.8 million that assumes full use of the \$2.0 million contingency and limited revenue growth. Actual experience over the last eight 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 F2012 are estimated at \$3.6 million. Cash is available from existing cash and investment balances.

Risks and Uncertainties

Budgets for F2012 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, modest investment income of 5 per cent for fixed income securities 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;
- changes in operations and their impact on cost assumptions; and
- disruption of CDS fee processing that delays fee receipts at ASC's year end.

Federal Regulator

As described in the Chair's message, the possibility of a federal securities regulator awaits the judgement of the Supreme Court of Canada. Until the constitutionality of the federal proposal is determined, the statutory and administrative processes for the ASC's interaction with a federal regulator are uncertain and the ASC cannot forecast resource requirements. Regardless of the outcome of the determination, the ASC will continue to support relationships with other Canadian securities regulators that minimize additional costs and the administrative burden on Alberta registrants and issuers.

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 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

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 balance sheet as at March 31, 2011, and the statements of operations and retained earnings 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, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, CA]
Auditor General

June 8, 2011
Edmonton, Alberta

Balance Sheet

As at March 31

(\$ Thousands)

	2011	2010
Assets		
Current		
Cash (Note 4)	\$ 9,114	\$ 11,343
Accounts receivable	129	148
Prepaid expenses	112	330
	9,355	11,821
Non-current		
Restricted cash (Note 3)	–	280
Investments (Note 4)	28,238	30,749
Capital assets (Note 6)	9,991	2,028
Penalties receivable	11	17
	38,240	33,074
Total assets	\$ 47,595	\$ 44,895

Liabilities and retained earnings

Current		
Accounts payable and accrued liabilities	\$ 4,084	\$ 2,824
Accrued vacation and benefit liabilities	501	393
Lease inducement (Note 7)	219	124
	4,804	3,341
Non-current		
Lease inducement (Note 7)	2,994	–
Accrued benefit liability (Note 8)	4,351	3,782
Total liabilities	12,149	7,123
Retained earnings (Note 3)	35,446	37,772
Total liabilities and retained earnings	\$ 47,595	\$ 44,895

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



Roderick J. McKay, FCA, Member

Statement of Operations and Retained Earnings

Years Ended March 31

<i>(\$ Thousands)</i>	2011 Budget	2011 Actual	2010 Actual
	(Note 11)		
Revenue			
Fees (Note 9)	\$ 25,899	\$ 26,468	\$ 25,744
Investment Income (Note 5)	1,355	2,557	3,930
Settlement payments and cost recoveries (Note 9)	–	801	2,499
Conference fees and other	–	35	18
Administrative penalties (Note 3)	600	226	542
Total revenue	27,854	30,087	32,733
Expense			
Salaries and benefits	22,695	21,719	19,501
Premises	3,120	3,051	2,170
Professional services	3,246	2,926	2,591
Administration	3,473	2,781	2,468
Amortization	1,549	1,320	1,193
Investor education (Note 3)	612	616	469
Total expense	34,695	32,413	28,392
Budget contingency	1,805	–	–
Net (loss) income	\$ (8,646)	(2,326)	4,341
Opening retained earnings		37,772	33,431
Closing retained earnings (Note 3)		\$ 35,446	\$ 37,772

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

Statement of Cash Flows

Years Ended March 31

<i>(\$ Thousands)</i>	2011	2010
Operating transactions		
Fees and other	\$ 26,486	\$ 25,790
Settlement payments and cost recoveries	801	2,499
Payments to and on behalf of employees	(21,012)	(18,735)
Payments to suppliers for goods and services	(8,698)	(7,911)
Investment income	2,557	3,930
Administrative penalties	274	506
Cash from operating transactions	408	6,079
Capital transactions		
Cash used to acquire capital assets	(8,720)	(911)
Cash from lease inducement	3,286	–
Proceeds on disposal	6	–
Cash used in capital transactions	(5,428)	(911)
Investing transactions		
Decrease (increase) in restricted cash	280	(90)
Increase in portfolio investments	(2,489)	(3,863)
Transfer from portfolio investments	5,000	1,940
Cash received from (used in) investing transactions	2,791	(2,013)
(Decrease) increase in cash	(2,229)	3,155
Opening cash	11,343	8,188
Closing cash	\$ 9,114	\$ 11,343

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

Notes to Financial Statements

March 31, 2011

(\$ Thousands)

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 and Enterprise. AIMCo invests the Commission's assets in pooled investment funds in accordance with the investment policy asset mix approved by the Commission. The ASC does not participate in capital market investment decisions or transactions.

The ASC, as an Alberta provincial corporation, is exempt from income tax.

Note 2 Significant Accounting Policies

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

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

(a) Investments

Fixed income securities and equities are recorded at cost. Cost includes the amount of applicable amortization of discount or premium using the straight-line method over the life of the investments.

Derivative contracts not designated as hedges are recorded at fair value.

Investments are recorded as of the trade date.

The cost of disposals is determined on the average cost basis.

Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(b) Investment income and expenses

Investment income and investment expense are recorded on the accrual basis. Investment income is accrued where there is reasonable assurance as to its measurement and collectibility.

Gains and losses arising as a result of disposal of investments are included in the determination of investment income.

Income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

(c) 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.
- (iii) 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 ASC's investment in the Canadian Dollar Public Bond Pool and certain equity funds (Note 4). The fair value of derivative contracts is determined at the reporting date.

(d) Valuation of financial assets and liabilities

Because of their short-term nature, the fair value of cash, accounts receivable, restricted cash, accounts payable and accrued liabilities, accrued vacation and benefit liabilities, and a lease inducement are estimated to approximate their book values.

(e) 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 commencing December 2010

(f) Fees, administrative penalties, settlement payments and cost recoveries recognition

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

Administrative penalties, settlement payments and cost recoveries are recognized when the decision is issued or agreement reached.

(g) 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 comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for the service relating to prior years.

The 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 benefit method pro-rated on services and management's best estimate of economic assumptions. Past service costs and actuarial losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the Supplemental Pension Plan. The average remaining service period of active employees of the Supplemental Pension Plan is five 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.

(h) Lease inducement

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

(i) 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.

(j) 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.

Note 3 Restricted Cash and Retained Earnings

Retained earnings include \$0 accumulated net penalty revenues (\$280 in F2010) because eligible expenditures exceeded accumulated penalty revenues. The F2010 amount was represented by restricted cash, as described in Note 2(j).

The change in restricted cash is comprised of:

	2011	2010
Administrative penalties	\$ 6,671	\$ 1,190
Less provision for uncollectible amounts	(6,670)	(1,075)
Plus recoveries of prior-year assessments	222	425
Net realizable value	223	540
Interest income and other	3	2
Administrative penalty revenue	226	542
Plus: Education seminar fees	34	17
Less: Eligible education expenses	(616)	(469)
Plus: Eligible expenses funded from operations	76	–
Restricted cash (decrease) increase	(280)	90
Restricted cash opening balance	280	190
Restricted cash closing balance	\$ –	\$ 280

Note 4 Cash and Investments

(a) Summary

	2011			2010		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	\$ 9,114	\$ 9,114		\$ 11,343	\$ 11,343	
Investments						
Deposit in the CCITF	\$ 75	\$ 75	0.2	\$ 74	\$ 74	0.2
Fixed-income securities	21,041	20,823	71.9	22,564	22,267	72.1
Equities	7,122	8,080	27.9	8,111	8,539	27.7
	\$ 28,238	\$ 28,978	100.0	\$ 30,749	\$ 30,880	100.0

Cash 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, 2011, securities held by the CCITF have a time-weighted return of 1.1 per cent per annum (1.0 per cent in F2010).

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, 2011 have maturities ranging from less than one year to over 20 years and an average duration of 5.76 years. 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.

(b) Investment risk management

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

AIMCo manages risk through diversification within each asset class, quality and duration constraints on fixed income instruments, and extensive use of derivative contracts. ASC's investments include derivatives as described in the annual MD&A.

In order to earn an optimal financial return at an acceptable level of risk, 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.

Note 5 Investment Income

The ASC's investment income included \$1,546 from interest-bearing securities (\$1,388 in F2010) and \$1,011 from equities (\$2,542 in F2010).

The ASC's investments increased in market value 10.6 per cent for the year ended March 31, 2011 (20.9 per cent in F2010). This performance compares to a benchmark (composite of DEX T-Bill, Bond and S&P/TSX indexes) gain of 9 per cent in F2011 and a benchmark gain of 13.9 per cent in F2010.

Note 6 Capital Assets

	Computer equipment and software	Furniture and equipment	Leaseholds	2011 Total	2010 Total
Estimated useful life	3 years	10 years	Lease Duration		
Cost					
Beginning of year	\$ 2,820	\$ 1,009	\$ 4,332	\$ 8,161	\$ 7,912
Additions	1,847	1,761	5,681	9,289	916
Disposals	(504)	(446)	(3,906)	(4,856)	(667)
	\$ 4,163	\$ 2,324	\$ 6,107	\$ 12,594	\$ 8,161
Accumulated amortization					
Beginning of year	\$ 2,065	\$ 652	\$ 3,416	\$ 6,133	\$ 5,607
Amortization expense	529	135	623	1,287	1,193
Disposals	(504)	(407)	(3,906)	(4,817)	(667)
	2,090	380	133	2,603	6,133
Net book value	\$ 2,073	\$ 1,944	\$ 5,974	\$ 9,991	\$ 2,028

Leaseholds at March 31, 2011 are for a 15-year lease commencing December 1, 2010.

Leaseholds at March 31, 2010 included \$426 for the current lease and the remainder for a lease that terminated March 31, 2011.

Disposals are a result of the December 2010 office relocation.

Amortization of \$1,320 includes capital amortization of \$1,287, plus a loss on disposal of \$39 less proceeds on disposal of \$6.

Note 7 Lease Inducement

Lease Term		2011	2010
15 years ending November 30, 2025	Current inducement	\$ 219	–
	Long-term inducement	\$ 2,994	–
8 years ending March 31, 2011	Current inducement	–	\$ 124

Note 8 Accrued Benefit Liability and Pension Expense

The accrued benefit liability is comprised of:

	2011	2010
Retirement Plan	\$ 160	\$ 184
Supplemental Pension Plan	4,274	3,681
Less: current portion	(83)	(83)
	\$ 4,351	\$ 3,782

The following pension expense for the plans is included in the Statement of Operations and Retained Earnings under salaries and benefits.

	2011	2010
Public Service Pension Plan	\$ 749	\$ 550
Registered Retirement Savings Plan	489	446
Supplemental Pension Plan	653	551
	\$ 1,891	\$ 1,547

(a) Public service pension plan

The ASC participates in the Public Service Pension Plan. At December 31, 2010, the Public Service Pension Plan reported a deficiency of \$2,067,151 and in 2009 a deficiency of \$1,729,196.

(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 (\$24 in F2011, \$24 in F2010) 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 (\$125 effective January 1, 2011 and \$122 effective January 1, 2010) 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 Commission. 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 April 1, 2009, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for April 1, 2012. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below:

Balance sheet at March 31	2011	2010
Accrued benefit and unfunded obligation	\$ 4,253	\$ 3,676
Unamortized transitional obligation	(34)	(64)
Unamortized actuarial gain	55	69
Accrued benefit liability	\$ 4,274	\$ 3,681
Accrued benefit obligation		
Accrued benefit obligation at beginning of the year	\$ 3,676	\$ 3,192
Service cost	393	322
Interest cost	244	216
Benefits paid	(60)	(54)
Accrued benefit obligation at end of the year	\$ 4,253	\$ 3,676

Pension expense	2011	2010
The pension expense for the Supplemental Pension Plan is as follows:		
Service cost	\$ 393	\$ 322
Interest cost	244	216
Amortization of transitional obligation	30	29
Recognized actuarial gains during the year	(14)	(16)
	\$ 653	\$ 551

The assumptions used in the actuarial valuation of the Supplemental Pension Plan and three-year projections are summarized below. The discount rate was established in accordance with the yield on long-term corporate bonds and applies to both the accrued benefit obligation and benefit costs. Other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on a best estimate of the future experience of the plans.

	2011	2010
Discount rate, year-end obligation	6.2%	6.2%
Discount rate, net benefit cost prior year	5.4%	5.4%
Rate of inflation	2.5%	2.5%
Salary increases	4.0%	4.0%
Remaining service life	5 years	5 years

Note 9 Fees, Settlement Payments and Cost Recoveries

	2011	2010
Distribution of securities	\$ 10,954	\$ 11,658
Registrations	10,210	9,082
Annual financial statements	5,014	4,686
Orders (applications)	290	318
Total fees	\$ 26,468	\$ 25,744
Settlement payments and cost recoveries	\$ 1,278	\$ 2,219
Less provision for uncollectible amounts	(480)	(139)
Plus recoveries of prior-year assessments	3	419
Total settlement payments and cost recoveries	\$ 801	\$ 2,499

Note 10 Commitments and Contingencies

Details of commitments to organizations outside the ASC and contingencies from legal actions are set out below. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

(a) Commitments

Premises lease and equipment rental Commitments arising from contractual obligations are associated primarily with the lease of premises to March 31, 2025 and rental of office equipment to 2016 totalling \$59,428 (\$57,969 in F2010). 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.

2011–12	\$	2,716
2012–13		2,786
2013–14		2,860
2014–15		2,940
2015–16		3,403
Thereafter		44,723
Total	\$	59,428

Canadian Securities Administrators (CSA) 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.

National systems operations agreements CDS Inc. (CDS) operates the SEDAR (electronic filing and payment), NRD (national registration database) and SEDI (insider trading) systems on behalf of the CSA under various operating agreements. The ASC, as one of the 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. CDS payments received from accumulated system operating surpluses since inception and interest earned totalled \$64,880 at March 31, 2011 (\$49,135 in F2010). This amount is held in trust by the OSC. 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. The CSA is remediating these systems and has committed approximately \$1,000 to commence this process, with expenditure to date of \$673.

(b) Legal actions

The ASC is not currently involved as a defendant in any legal actions.

Note 11 Budget

The ASC's budget was approved on January 13, 2010.

Note 12 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 \$58 in administration expense (\$35 in F2010).

Schedule of Salaries and Benefits – Schedule A

For the Year Ended March 31, 2011

(\$ Thousands)	2011				2010
	Base Salary ⁽¹⁾	Cash Benefits ⁽²⁾	Non-Cash Benefits ⁽³⁾	Total	Total
Chair, Securities Commission ⁽⁴⁾	\$ 495	\$ 83	\$ 131	\$ 709	\$ 698
Executive Director	\$ 323	\$ 55	\$ 144	\$ 522	\$ 515
Vice-Chair, Securities Commission ⁽⁴⁾	\$ 295	\$ 45	\$ 113	\$ 453	\$ 451
Vice-Chair, Securities Commission ⁽⁴⁾	\$ 295	\$ 45	\$ 85	\$ 425	\$ 407
Independent Members ⁽⁵⁾	\$ 532	–	–	\$ 532	\$ 561

(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.

(3) Employer's share of all employee benefits including 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.

(5) The Independent Members compensation includes fees paid in dollars for governance responsibilities of \$294,000 (\$342,000 in F2010) and hearing and application panel participation of \$238,000 (\$219,000 in F2010). 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 market interest rate, and 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.

(\$ Thousands)	2011			2010	
	Current Service Costs	Prior Service and Other Costs	Total	Total	
Chair, Securities Commission	\$ 112	\$ (9)	\$ 103	\$	92
Executive Director	\$ 93	\$ 22	\$ 115	\$	114
Vice-Chair, Securities Commission	\$ 72	\$ 11	\$ 83	\$	79
Vice-Chair, Securities Commission	\$ 54	\$ 5	\$ 59	\$	56

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

(\$ Thousands)	Accrued Obligation April 1, 2010	Changes in Accrued Obligation	Accrued Obligation March 31, 2011
Chair, Securities Commission	\$ 397	\$ 82	\$ 479
Executive Director	\$ 683	\$ 49	\$ 732
Vice-Chair, Securities Commission	\$ 530	\$ 71	\$ 601
Vice-Chair, Securities Commission	\$ 256	\$ 54	\$ 310



Mixed Sources

Product group from well-managed
forests and other controlled sources
www.fsc.org Cert no. SW-COC-001659
© 1996 Forest Stewardship Council

Design by **Karo Group Calgary** Photography by **Jason Stang**



Suite 600, 250 – 5th Street S.W. Calgary AB T2P 0R4 www.albertasecurities.com