



Alberta Securities Commission

2003 Annual Report

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ABBREVIATIONS	CICA	Canadian Institute of Chartered Accountants
	CSA	Canadian Securities Administrators
	IDA	Investment Dealers Association of Canada
	MI	Multilateral Instrument
	MRRS	Mutual Reliance Review System
	NASAA	North American Securities Administrators Association
	NI	National Instrument
	NP	National Policy
	SEDAR	System for Electronic Document Analysis and Retrieval
	SRO	Self-Regulatory Organization
	TSX	The Toronto Stock Exchange Inc.
	TSXV	TSX Venture Exchange Inc.
	USL	Uniform Securities Legislation

The Alberta Securities Commission (ASC) is the industry-funded provincial corporation responsible for maintaining the efficiency and integrity of the capital markets in Alberta through the administration of the *Alberta Securities Act*, the *Securities Regulation* and the *Alberta Securities Commission Rules*. The ASC also serves as an administrative tribunal with quasi-judicial powers.

As a member of the Canadian Securities Administrators (CSA), an organization consisting of the 13 provincial and territorial securities regulators, the ASC plays a vital role in developing and operating a harmonized system of securities regulation, policy and practice in Canada.

Members

There are 12 Members of the ASC, including the Chair and two full-time Vice-Chairs, appointed by the Lieutenant Governor in Council.

Panels of Members hear enforcement proceedings and consider applications for discretionary exemptions from the requirements of the securities legislation. The ASC also hears appeals from decisions of the Executive Director, TSX Venture Exchange (TSXV) and the Alberta District Council of the IDA.

In addition to their adjudicative functions, the Members act as the board of directors of the ASC. They are responsible for overseeing the management of the business and operational affairs of the ASC, including approval of the strategic principles, annual business plan and operating budget. The Members meet regularly to determine policy, consider whether changes to the *Alberta Securities Act* and *Securities Regulation* are appropriate, and make rules.

Reporting to the Members and the Alberta Minister of Revenue, the Chair serves as the Chief Executive Officer of the ASC.

Stephen R. Sibold, Q.C. was appointed Chair of the ASC in May 2000. He joined the ASC with more than 20 years of legal experience, primarily in securities and corporate/commercial law. Prior to joining the ASC, Mr. Sibold was the Senior Vice-President and General Counsel of Canadian Airlines Corporation and prior to that he was a partner with Bennett Jones LLP in Calgary.

Glenda A. Campbell, Q.C. was appointed Vice-Chair in September 1999. Prior to the appointment, 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.

Eric T. Spink became a Member in August 1995, was appointed Vice-Chair in 1998 and left the Commission on January 31, 2003. From 1990 to 1997, he was Counsel to the Alberta Law Reform Institute. Mr. Spink served as the Director of Market Standards of the ASC from 1988 to 1990.

James E. Allard became a Member in January 1999 and is a member of the Audit Committee. He has almost 35 years of experience in operations, finance, international business, and the oil and gas industry. Mr. Allard is the past Senior Vice-President of a major international oil and gas corporation, has launched a publicly traded oil company and has brought his corporate governance skills to several companies.

Jerry A. Bennis, FCA became a Member in January 1999 and is currently Chair of the Audit Committee. He has been in the accounting profession for almost 40 years during which time he established an accounting practice in Peace River, Alberta. Mr. Bennis is past President of the Institute of Chartered Accountants of Alberta.



STEPHEN P. SIBOLD, Q.C.



GLEND A. CAMPBELL, Q.C.



ERIC T. SPINK



JAMES E. ALLARD



JERRY A. BENNIS, FCA

Wendy E. Best, Q.C. was appointed in 1997 and is a member of the Human Resources Committee. She is a partner with the Calgary law firm of Dunphy Best Blocksom and has practiced in the litigation area for more than 20 years. Ms. Best is active at both the local and national levels of the Canadian Bar Association. She is a frequent speaker for continuing legal education programs of both the Bar and the Courts.



WENDY E. BEST, Q.C.

David W. Betts, CFA was appointed as a Member in 2001 and is a corporate financial consultant with over 30 years of experience as an investment analyst and investment banker. Most recently, Mr. Betts acted as a corporate financial consultant, primarily to the oil and gas industry. Prior to that, he was employed with RBC Dominion Securities Inc. As a consultant, Mr. Betts has extensive experience advising executive management of both private and public companies in merger, acquisition and equity financing situations.



DAVID W. BETTS, CFA

Thomas G. Cooke, Q.C. became a Member in April, 2000 and is a member of the Audit Committee. Mr. Cooke has almost 25 years of experience in corporate, commercial and administrative law, having been a partner at a number of law firms in Edmonton. In April 2000, he was appointed President of a private land development company conducting business both in Canada and internationally. He is an active member of the Legal Education Society of Alberta.



THOMAS G. COOKE, Q.C.

John W. Cranston was appointed in 1998 and is a member of the Human Resources Committee. He is President, Simcoe Press Limited and former Associate Director of a national investment dealer. As well, Mr. Cranston has wide-ranging directorship experience. He is Chair of the Alberta Capital Market Foundation, past Chairman of The Alberta Stock Exchange, and Director of the Alberta and Calgary Scout Foundations. He also served as director and governor of several national governing bodies for the investment industry.



JOHN W. CRANSTON

John T. McCarthy, Q.C. was appointed as a Member in 2001 and has over 25 years of experience in civil litigation with a wide range of commercial clients. He is a partner at Miles Davison McCarthy McNiven LLP. Mr. McCarthy has been involved in legal education as a lecturer and speaker and has been active as a board member of a number of non-profit organizations in the community.



JOHN T. MCCARTHY, Q.C.

James A. Millard, Q.C. was appointed as a Member in 2001 and previously practiced in the corporate/commercial and securities law areas in Calgary for over 40 years, as a partner in the former Mackimmie Matthews law firm. Most recently, Mr. Millard has been involved as a practice review investigator with the Law Society of Alberta. He is a former director of a number of public and private corporations and is a former Governor of the Calgary Petroleum Club.



JAMES A. MILLARD, Q.C.

Walter B. O'Donoghue, Q.C. has been a Member since 1997 and is Chair of the Human Resources Committee. He is a partner with the law firm of Bennett Jones LLP and has practiced corporate law primarily in securities, banking and the oil and gas sector. Mr. O'Donoghue serves as a director of several public companies.



WALTER B. O'DONOGHUE, Q.C.

Staff



DAVID C. LINDER
EXECUTIVE DIRECTOR

The Executive Director is the Chief Administrative Officer and reports to the Chair. The Executive Director is responsible for the following departments:



PATRICIA M. JOHNSTON
DIRECTOR, LEGAL SERVICES
AND POLICY DEVELOPMENT

Legal Services and Policy Development is responsible for formulating recommendations for policy development, drafting rules and legislative changes; analyzing and making recommendations to the ASC on applications for exemptive relief from the requirements of securities legislation; and handling contested take-over bids.



KENNETH A. PARKER, CA
DIRECTOR, CAPITAL MARKETS

Capital Markets is responsible for reviewing prospectuses and other offering documents; reviewing and monitoring continuous disclosure filings; registering persons or companies that advise on or trade in securities or exchange contracts; conducting compliance reviews of registrants; and analyzing and making recommendations to the Executive Director on applications for exemptive relief from the requirements of securities legislation.



FRED R.N. SNELL, FCA
CHIEF ACCOUNTANT

The **Office of the Chief Accountant** provides expert opinions to ASC staff and Members on accounting, auditing, valuation and financial reporting matters. The Chief Accountant and staff provide assistance to reporting issuers and their advisers on the practical implementation of accounting and financial disclosure standards and other financial reporting matters.



WAYNE S. ALFORD
DIRECTOR, ENFORCEMENT

Enforcement is responsible for investigating suspected violations of securities law; commencing enforcement proceedings before the ASC; and conducting prosecutions under the *Securities Act* in the Provincial Court of Alberta.



GRAHAME NEWTON, CFA
DIRECTOR, ADMINISTRATIVE SERVICES

Administrative Services has two primary roles – providing the tools and environment to enable staff to fulfill the ASC's mission and communicating key messages to internal and external stakeholders. Administrative Services includes Administration, Human Resources, Information Technology, Communications and Investor Education, and Finance. As well as handling staff accounting functions and internal and external financial reporting, Finance also develops and coordinates ASC budgets and business plans and oversees the management of ASC investments.

In the business media, at professional conferences and seminars, and in boardrooms across Canada, the conversation has turned to the future of securities regulation in Canada. Canada's multijurisdictional securities regulatory structure has allowed for local innovation but it has also added costs. Market participants search for cost-effective ways to enhance the competitiveness of Canadian capital markets internationally while still fostering the growth of new enterprises locally, regionally and nationally.

Different jurisdictions and governments have weighed in with their views on the way that securities law should be administered and while there has not been a consensus among stakeholder groups on an ideal solution, what has become evident is that some form of remedy is required, and it is required in a reasonable amount of time.

With the other members of the CSA, the ASC has spent a great deal of time this year working toward an achievable plan to reduce the burden on Canadian public companies – the Uniform Securities Legislation (USL) Project. The goal of the USL Project is to harmonize securities laws in all Canadian jurisdictions, reducing the number of different sets of laws Canadian public companies must deal with in order to do business. I'm proud of the CSA's efforts and pleased that the ASC has had a major role in developing what I view as a very practical, achievable and significant improvement to Canadian securities regulation.

This year, we have seen one of the most significant sentences for securities violations ever handed down by the courts with the prosecution of Sheldon Zelitt. With four years in jail and nearly \$2 million in fines, the message is clear – rogues who take advantage of investors will not be treated lightly.

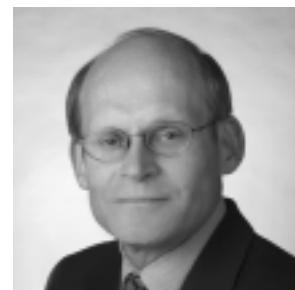
Enforcement will continue to be a priority as long as there are companies and individuals who don't take securities legislation seriously. In addition, we continue to develop investor education initiatives to arm Albertans with the knowledge needed to make sound financial decisions. Our research has told us that Albertans want and need information from a credible and reliable source and we will continue to provide them with resources to assist them in making wise financial choices.

Appropriate regulation and compliance with that regulation, meaningful enforcement when companies and individuals don't comply and informed and aware investors – these are the elements necessary to maintain market confidence. While we have already made significant strides, we will continue to proactively participate in national initiatives with our CSA counterparts to continually improve the efficiency and fairness of our capital markets.

Much of this is due to ASC Members' and staff support of these bold objectives. I would like to especially thank retiring Members Eric Spink, Walter O'Donoghue and Wendy Best for their invaluable dedication and service to the Commission. I also want to thank ASC employees, who continue to demonstrate creativity and insight in their efforts to improve our regulatory landscape.



Stephen P. Sibold, Q.C.



STEPHEN P. SIBOLD, Q.C.

The ASC strategic principles form a framework for the Commission's activities, advancing the Commission as a leader in regulatory efficiency and effectiveness within Alberta, and throughout Canada.

1. The ASC should increase confidence in the integrity of Alberta's capital markets through: timely and relevant education programs; proactive and effective compliance programs; and, effective and visible enforcement activities.
2. The ASC should be an effective advocate for issues of importance to the Alberta capital markets locally, nationally and internationally.
3. The ASC should be, and be acknowledged by all stakeholders to be, a highly professional, efficient, effective and responsive securities regulator, and accordingly, recognized as a leader within the CSA.
4. The ASC should actively promote and assist the development of an efficient and cost-effective national system of securities regulation.
5. The ASC should explore and pursue with other regulatory bodies opportunities for cooperation and coordination of activities, so as to minimize the duplication of resources in those areas of regulation where there is a mutual interest.
6. The ASC should be recognized as an attractive employer based on quality of work, training, remuneration and potential for career development.

1. The ASC should increase confidence in the integrity of Alberta's capital markets through:

TIMELY AND RELEVANT EDUCATION PROGRAMS: Investor Education programs provide Albertans with resources to help them make suitable investment decisions and protect themselves from investment fraud. The ASC will continue to support initiatives that allow people from all over Alberta to access investor information to help safeguard their finances.

2002 INVESTOR
EDUCATION MONTH

In April 2002, the ASC actively participated in the fifth annual Investor Education Month. Presentations in Grande Prairie, Medicine Hat, Vegreville, Red Deer, Whitecourt, Wetaskiwin and Valleyview impressed upon rural communities the need to understand the basics of investing, including financial goal setting, types of securities and choosing a financial adviser. The ASC also made presentations in several rural high schools, talking to students about investing as one of the components of personal finance and money management.

ALBERTA TEACHERS

The ASC recognizes that the youth of today are the investors of tomorrow and incorporating investor education into the schools and homes of young Albertans is extremely important. By preparing Alberta's youth now for the financial decisions they will have to make later, and providing them with tools and resources to make wise financial choices, they have a better chance of financial success in the future. The ASC is actively connecting with Alberta teachers, providing them with useful, interactive resources and activities for their classrooms.

CSA EDUCATION

At a national level, the ASC has played an important role in investor education programming for Canadians. Like the ASC, the CSA has again directed several efforts towards Canadian youth, including a partnership with CBC Street Cents, which developed and aired several TV segments about investing basics on their popular national television show. In addition, Street Cents hosted a CSA Chat on their Web site, where teens all across Canada could log on and ask investment-related questions of securities regulators.

Scouts Canada has presented several Scouts with the CSA Investing Crest, an initiative in its second year. The Investing Crest program encourages Scouts to learn various aspects of investing, by completing activities like interviewing a financial professional and researching and tracking a specific stock.

The CSA also developed a brochure for seniors, alerting them to warning signs of scams and frauds, which has been distributed through a partnership with the Canadian Association of Retired Persons (CARP).

In January 2003, the CSA administered its annual mid-winter campaign. A media release was issued across Canada, alerting Canadians to the types of complaints most frequently received by regulators. Other news releases included investing for retirement, compensation for investment dealers and advisers, and finance-related stress.

The ASC makes many presentations to professional stakeholder groups throughout the year. In addition to speaking at several events held by professional groups (including the Institute of Internal Auditors, Institute of Chartered Accountants of Alberta, Canadian Investor Relations Institute and Calgary Chamber of Commerce), the ASC presented at several third-party conferences and seminars.

The ASC holds its Chief Accountant's Conference each year, bringing financial, legal and accounting professionals together to learn about new developments in securities regulation. This year's two-day conference, *Keeping Current – A Daily Challenge*, featured numerous panels and roundtable discussion from Canadian and American regulators and business leaders. Key topics at the 2002 conference included insightful discussions of accounting standards, continuous disclosure rules and issues affecting cross-border issuers.

This year, the ASC also undertook a partnership with the Legal Education Society of Alberta (LESA) to co-present the *1st Annual Dialogue with Alberta Securities Regulators*. Aimed primarily at securities legal professionals, this conference highlighted proposed CSA and ASC policy initiatives as well as updates on existing projects.

PROACTIVE AND EFFECTIVE COMPLIANCE PROGRAMS: Investors rely on high-quality disclosure, both by companies doing business in Alberta and the individuals assisting them in making their financial decisions. The ASC expects market participants to fulfill disclosure requirements in a timely and transparent manner as set out by securities legislation.

In addition to reviewing prospectus filings and rights offering circulars, the Commission reviews financial statements and other continuous disclosure filings by reporting issuers. This year, the ASC reviewed 122 issuers, an increase from 71 the previous year. Certain issues that emerged included:

- accounting by certain royalty and income trusts;
- revenue recognition and related disclosure;
- disclosure of stock-based compensation plans; and
- disclosure of related-party transactions.

By monitoring financial reporting and bringing issuers' attention to deficiencies, issuers and auditors can produce higher quality disclosure, to the benefit of investors.

The ASC continues to conduct reviews and examinations of mutual fund dealers, portfolio managers and investment counsel, and scholarship plan dealers, while investment dealers are subject to financial and sales compliance audits by the IDA.

Compliance is not restricted solely to Commission requirements. The ASC noted price and volume increases in the shares of one or both listed companies involved in a merger or acquisition before any public announcements had been made, and, in June 2002, issued a notice reminding all listed issuers of the disclosure obligations to their exchanges, especially in the face of unusual trading activity or rumours. The ASC also reminded issuers that they are expected to provide complete and effective responses to requests for information from the exchanges.

EFFECTIVE AND VISIBLE ENFORCEMENT ACTIVITIES: Enforcement actions must not only remove securities offenders from the market, but must also communicate to the marketplace that breaches of the *Securities Act* will be detected and dealt with in a prompt and serious manner. Whether through its own administrative hearings or Provincial Court, Enforcement staff identified several instances this year where proceedings were necessary to protect Alberta's capital markets.

Michael Hills, sole Director and Officer of TelAlert Inc., was convicted in Provincial Court in 2001 of illegally selling shares of TelAlert Inc. and making misrepresentations to investors and to the ASC. Mr. Hills was given a six-month conditional sentence, but in April 2002, was found to have breached his conditional sentence on two separate occasions. His conditional sentence was terminated and he was taken into custody to serve the remainder of his term in jail.

MICHAEL HILLS

Mr. Hills continues to be subject to a cease trade order, denial of all exemptions under the *Securities Act* and a director and officer ban, all for a period of 10 years.

In Provincial Court in January 2003, Sheldon Stephen Zelitt was convicted on 11 counts of securities offences for making misrepresentations in documents filed with the ASC. Mr. Zelitt was not in attendance during the proceedings, making it one of the first cases to be tried *in absentia* under securities law in Alberta.

SHELDON STEPHEN ZELITT

Staff proved that Mr. Zelitt, as former CEO of VisuaLABS Inc., misled the ASC and VisuaLABS investors regarding the validity of important technology, and that he failed to disclose his partnership in a company that had announced its intention to do business with VisuaLABS.

Mr. Zelitt was ordered to be imprisoned for four years and pay \$1.85 million in fines. In addition to the jail time and fines, Mr. Zelitt was banned from acting as a director or officer, made subject to a cease trade order and was denied use of the exemptions in the *Securities Act*, all for a period of 25 years.

A warrant for committal has been issued for Mr. Zelitt, who apparently now resides in the Czech Republic. Should Mr. Zelitt fail to pay the fines, another four years will be added to his sentence. This is one of the longest jail sentences to be handed down in Canada for securities-related offences.

CHRISTOPHER PETER AGAGNIER

In July 2002, a panel of the ASC found that Mr. Agagnier had conducted an illegal distribution of securities of Avid Canada Corporation. In its decision, the panel prohibited Mr. Agagnier from acting as a director or officer for four years and ordered him to pay costs in the amount of \$15,000.

Between approximately January 1 and October 1, 2000, Mr. Agagnier, a director and the CEO of Avid Canada Corporation, raised approximately US\$250,000 from 30 Alberta investors. The investments were referred to in promotional literature as either debt securities or convertible debentures. No prospectus was filed and no exemption from the prospectus requirements was available, making these transactions illegal distributions of securities.

Mr. Agagnier argued that he had received oral legal advice that the investments were not securities. The panel found that the investments were securities and that it was not reasonable for him to have relied on such advice under the circumstances. The panel, in considering what sanctions to order, considered Mr. Agagnier's role and experience in the capital markets, noted his extensive experience as a senior officer and director of a reporting issuer, and that he had been previously sanctioned for securities violations in 1998. In its decision, the panel noted that Mr. Agagnier "should have been knowledgeable, sensitive and cautious about the need to comply with Alberta securities laws."

The panel found that Mr. Agagnier "has demonstrated that he lacks the requisite judgement and knowledge to act as an officer or director of an issuer and, because of that, he poses a considerable threat to the integrity of the capital markets."

THOMSON KERNAGHAN

In July 2002, the ASC suspended the registration of Thomson Kernaghan Co. Limited, after an order by the IDA which suspended Thomson Kernaghan's IDA membership for failure to maintain prescribed risk adjusted capital. Thomson Kernaghan's IDA membership has since been terminated and the ASC issued a final order cancelling its registration in Alberta.

WAYNE NELSON IUTZI

In February 2003, the ASC issued sanctions against Wayne Nelson Iutzi, a mutual funds salesperson who advised clients to invest in unsecured debentures of Insurcom Financial Corporation, the mutual fund company he worked for. At no time was Mr. Iutzi authorized or registered to trade any securities other than mutual fund securities. Mr. Iutzi admitted that the sales of these debentures to his clients breached the conditions of his registration as a mutual fund salesperson.

The panel ordered that Mr. Iutzi cease trading in securities, and be prohibited from becoming or acting as a director or officer of any issuer, both for a period of four years. Mr. Iutzi was ordered to pay costs of the hearing in the amount of \$2,500.

In February 2003, the ASC found that David Del Bianco and George Kondrat breached the *Alberta Securities Act* by selling Equal Rights securities without being registered and without receiving a receipt for a prospectus.

EQUAL RIGHTS DEFENSE ALLIANCE INC.,
DAVID DEL BIANCO
AND GEORGE KONDRAT

The ASC ordered that Mr. Del Bianco, as President, CEO, Corporate Secretary and Director of Operations of Equal Rights, cease trading in securities, be prohibited from acting as a director or officer of any issuer and be denied the exemptions in Alberta securities laws, all for a period of four years. In addition, he was ordered to pay an administrative penalty of \$10,000 and partial costs of the hearing of \$5,000.

The panel also ordered that Mr. Kondrat, as the Alberta Director of Sales for Equal Rights, cease trading in securities, be prohibited from acting as a director or officer of any issuer, and be denied the exemptions in Alberta securities laws, all for a period of three years. In addition, he was ordered to pay an administrative penalty of \$5,000 and partial costs of the hearing of \$5,000.

In February 2003, a panel of the ASC found that Richard Harry Seto, the former CEO and a Director of Inter-Tech Drilling Solutions Inc., participated in Inter-Tech's Board of Directors' decision to issue options to himself and others at a time when material confidential information of a take-over bid for the securities of Inter-Tech that had not been generally disclosed. The panel found that this conduct by Mr. Seto was contrary to the public interest.

RICHARD HARRY SETO

In its Decision, the panel ordered Mr. Seto to cease trading in any securities for one year, and prohibited Mr. Seto from acting as a director or officer of any issuer for two years. The panel also ordered that Mr. Seto pay an administrative penalty of \$5,000 and costs of the hearing of \$10,000.

In March 2003, the ASC found that Bellporte Black Investment Management Ltd. acted as an advisor in Alberta, when it was not registered to do so.

BELLPORTE BLACK,
PAUL F. BLACK SR.

Bellporte Black, under the direction of its compliance officer, Paul Black Sr., had previously been registered with the ASC as adviser, portfolio manager and investment counsel. However, Bellporte Black allowed its registration to lapse. Bellporte Black continued to advise a client over a year-long period, contrary to the *Alberta Securities Act*.

Bellporte Black was ordered to pay an administrative penalty of \$15,000 plus \$2,000 in partial costs of the investigation. Paul Black Sr. was prohibited from acting as a director or officer of any issuer for one year.

2. Advocate for Regional Interests

2. The ASC should be an effective advocate for issues of importance to the Alberta capital markets locally, nationally and internationally.

Alberta's capital market is as distinctive as its geographic landscape. The ASC recognizes that one-size-fits-all regulation is not feasible for its diverse issuer base and that regional differences play a role in developing regulation for Canadian markets. ASC staff strive to reflect those regional interests at a local, national and international level.

OIL AND GAS DISCLOSURE STANDARDS

The upstream oil and gas sector is a key component of Alberta's and Canada's capital markets. Investors need reliable and current information about oil and gas reserves and activities in order to make informed investment decisions. The ASC is pleased to have led the development (on behalf of the CSA) of NI 51-101 *Standards of Disclosure for Oil and Gas Activities*. The product of an extensive consultation process drawing on Alberta's concentration of oil and gas expertise and experience, NI 51-101 should significantly enhance the quality, consistency, timeliness and comparability of information provided by public oil and gas issuers.

NI 51-101 will require reporting issuers to file, each year, a statement setting out estimated oil and gas reserves and related information accompanied by an independent qualified evaluator's report, together with other information concerning oil and gas activities. The disclosure will apply reserves terminology and evaluation standards set out in the new industry-developed *Canadian Oil and Gas Evaluation Handbook*. Scope is provided for certain issuers, where appropriate, to substitute U.S. public disclosure practices and in-house evaluations.

In January 2003, the CSA published a revised draft of NI 51-101 for public comment. The CSA is proposing implementation of NI 51-101 in September 2003. The first mandatory filings under the Instrument will apply in respect of financial years that end December 31, 2003. The filing deadline will be the same as the deadline for filing audited annual financial statements for that financial year – early 2004 for most reporting issuers.

CAPITAL RAISING EXEMPTIONS

MI 45-103 *Capital Raising Exemptions*, originally a joint initiative of the ASC and the BC Securities Commission, was adopted in March 2002 with much enthusiasm from smaller issuers in Western Canada. MI 45-103 provided four new harmonized exemptions: the private issuer exemption, the family, friends and business associates exemption, the accredited investor exemption and the offering memorandum exemption. The purpose of MI 45-103 is to make it easier for issuers to gain access to capital, reducing the time and costs usually associated with a financing, while still providing appropriate investor protection.

Subsequent to the adoption of MI 45-103 in Alberta and British Columbia, each of the other Canadian provinces and territories, except Ontario and Quebec, indicated an interest in adopting MI 45-103. In 2002, the ASC led a new project that resulted in a revised version of MI 45-103 being published for comment in September 2002. The revised version of MI 45-103 is anticipated to be adopted by mid-June 2003. If adopted, the revised MI 45-103 will provide a harmonized capital raising regime in each of the participating jurisdictions. The revised version of MI 45-103 will also introduce a new uniform report of exempt distribution to replace the various local forms (e.g. ASC Form 20) required to report distributions under exemptions.

In March 2002 the ASC introduced ASC Blanket Order 45-506, which provided new exemptions for trades to employees, senior officers, directors and consultants.

TRADES TO EMPLOYEES,
SENIOR OFFICERS, DIRECTORS,
AND CONSULTANTS

In November 2002, several securities commissions proposed to simplify and harmonize the existing registration and prospectus exemptions for trades to employees, senior officers, directors and consultants. The ASC is leading a new project to implement proposed MI 45-105 *Trades to Senior Officers, Directors and Consultants*, which will ease the regulatory burden on issuers by simplifying and consolidating a variety of local rules, instruments and blanket orders and by eliminating existing unnecessary reporting requirements.

It is anticipated that MI 45-105, led by ASC staff, will be implemented in all participating jurisdictions by June 2003.

In order to provide appropriate regulation for the Alberta capital markets, the ASC seeks to further its understanding of its market participants and their formation.

ALBERTA CAPITAL MARKETS PROJECT

The Alberta Capital Markets Project is a research project intended to focus and enhance the ASC's regulatory efforts by providing the ASC with a better understanding of the capital markets it regulates. Specifically, the ASC is seeking detailed information on the type of issuers raising capital in Alberta (e.g., by industry category, size and form of organization, etc.); how they are raising capital (e.g., private placement or prospectus offering); and how much capital is being raised at different stages of the issuers' development. The ASC will also examine the types of investors investing in the Alberta capital market, the reasons different types of issuers go public or choose to stay private, the costs of various types of financing, and the markets on which issuers choose to trade and the reasons for those choices.

This information will be used to help identify priorities for the ASC and provide background information for other existing projects, including the continuous disclosure, corporate governance, proportionate regulation, prospectus and capital raising projects.

3. Effective and Responsive Regulator

3. The ASC should be, and be acknowledged by all stakeholders to be, a highly professional, efficient, effective and responsive securities regulator, and accordingly, recognized as a leader within the CSA.

The ASC has taken several leadership roles on various committees and initiatives that will advance securities regulation, not only in Alberta, but throughout Canada. By working closely with its counterparts in other jurisdictions, the ASC has made many contributions to a made-in-Canada approach to securities regulation.

UNIFORM SECURITIES
LEGISLATION (USL) PROJECT

Canada's current "patchwork" system of securities regulation is a pressing issue. The calls to improve Canada's securities regulatory system come from many directions: industry participants, issuers, investors and securities regulatory authorities themselves. While there is widespread agreement that Canada's securities regulatory system can and should be improved, there are divergent views on how that improvement can be best accomplished.

The CSA's approach to regulatory reform is to remove the barriers caused by having 13 similar but slightly different securities laws, while preserving the ability of each jurisdiction to respond to regional or local market priorities. The USL Project is led by ASC Chair Stephen Sibold and is the top priority of the ASC and the CSA. Its goal is to develop a uniform securities act and rules that will be adopted across Canada.

In January 2003, the CSA published for public comment a concept proposal entitled "Blueprint for Uniform Securities Law for Canada." The comment period ended April 30, 2003, and regulators are looking forward to thoughtful feedback through this consultative process.

In some areas, the concept proposal proposes substantive changes to current laws. These proposed changes are either well-advanced CSA initiatives for which the USL Project presents an ideal opportunity to make necessary legislative amendments, or they will further the project's complementary goal of streamlining and simplifying the system of securities regulation in Canada. The concept proposal specifically outlines:

- the ability of a securities regulatory authority to delegate decision-making across all regulatory functions to another securities regulatory authority;
- a streamlined system for inter-jurisdictional registration of firms and individuals;
- a civil liability regime for secondary market participants; and
- a streamlined securities act with details largely contained in rules to allow future changes to securities laws to be made in a timely and harmonized manner through the rule-making process.

The CSA objective is to have uniform legislation ready for consideration by each province and territory in Spring 2004.

As a result of the recent corporate scandals in the United States, much discussion has taken place regarding the initiatives that the U.S. government has put in place to restore investor confidence, namely the *Sarbanes-Oxley Act* of 2002, and the subsequent rules and policies adopted by the U.S. Securities and Exchange Commission, the New York Stock Exchange and NASDAQ. A variety of opinions have been presented through the media and other forums, and the debate has been largely whether or not Canada needs to implement similar measures. The ASC, together with its CSA counterparts, has been considering whether, and to what extent, it is appropriate – given the unique characteristics of the Canadian capital markets – to implement similar rules in Canada.

In mid-September, the ASC surveyed over 3,000 market participants consisting of all reporting issuers listed on the TSX Venture Exchange and all other Alberta-based reporting issuers to obtain feedback on the advisability of adopting the U.S. style corporate governance initiatives. In addition, five separate focus groups were held with representatives from various stakeholder groups including lawyers, accountants, investment dealers and public company representatives. Subsequently, the ASC conducted a survey of retail investors to ascertain the extent of investors' concerns with the honesty, integrity and accountability of directors and management of public companies and the factors investors consider when investing.

From the surveys and focus groups it appears that, although there are no serious concerns with the current corporate governance standards of Canadian public companies, there is a sense that some regulatory reform is appropriate. However, it was also clear that market participants recognized a distinction between larger and smaller companies and that, in formulating a regulatory response, it would be appropriate to consider the nature of the local capital market and the size of the issuers comprising the local market.

The feedback received from the surveys and focus groups will be important considerations as the ASC works with its CSA counterparts over the next number of months to develop and implement corporate governance initiatives.

Recognizing the pivotal role that small business plays in maintaining the vitality of Canada's economy and the large number of small and emerging issuers in our public capital markets, the CSA has launched an examination of the securities regulatory environment for this sector. The goal is to ensure that securities regulation is proportionate to the needs and resources of issuers and investors. A taskforce led by the ASC will consider whether unique treatment may be appropriate for the small and emerging sector.

4. National Regulatory System

4. The ASC should actively promote and assist the development of an efficient and cost-effective national system of securities regulation.

The ASC works closely with other provincial securities regulators to form the Canadian Securities Administrators, which strives to coordinate and harmonize regulation of the Canadian capital markets. The 13 provincial and territorial securities regulators collaborate in reviewing prospectuses, monitoring continuous disclosure, compliance reviews and granting discretionary exemptions from registration and prospectus requirements, as well as in investor education and enforcement initiatives.

MUTUAL RELIANCE REVIEW SYSTEM (MRRS)

Under mutual reliance policies, CSA staff cooperate to allow market participants to deal with their principal regulator for prospectuses and exemptive relief applications. Other jurisdictions rely on the work of the principal regulator, which minimizes duplication of effort among regulators, reduces the amount of time it takes for prospectus receipts and decisions to be reached and ensures consistency between CSA jurisdictions.

Certain policy initiatives also rely on MRRS principles where appropriate, and regional expertise plays a large role in delegating CSA project responsibility. The ASC is pleased to play a leading role in several MRRS policy initiatives.

NATIONAL REGISTRATION DATABASE

The National Registration Database (NRD) is a Web-based system that permits dealers and advisers to file registration forms electronically. Designed to replace in part the current paper-based system, NRD is expected to make the registration process faster and more efficient, resulting in savings for the financial services industry.

Key features of NRD include the ability to register in multiple jurisdictions with a single submission, harmonization of registration procedures across jurisdictions and faster processing of applications. NRD became operational on March 31, 2003.

SYSTEM FOR ELECTRONIC DISCLOSURE BY INSIDERS (SEDI)

The CSA continued its work on SEDI, which will allow insiders to file their reports of trades electronically with all securities regulators via the internet. SEDI is expected to launch in June 2003.

COMMUNICATION WITH BENEFICIAL OWNERS OF SECURITIES OF A REPORTING ISSUER

Two new rules were adopted by the CSA to allow issuers to better identify their shareholders and to communicate with them directly. Previously, an issuer could not generally obtain the names of shareholders who hold their securities through a broker or other intermediary.

NI 54-101 *Communication with Beneficial Owners of Securities of a Reporting Issuer* permits issuers, as of September 2002, to obtain from brokers the names of their shareholders who have not objected to being identified. In addition, it allows issuers holding shareholder meetings on or after September 1, 2004 to send proxy-related materials directly to these shareholders.

NI 54-102 *Interim Financial Statement and Report Exemption* establishes procedures that allow issuers to send interim financial statements and reports only to shareholders who specifically request those documents.

This year, CSA staff launched a review of how well publicly traded issuers comply with their executive compensation disclosure requirements. In the CSA report, 95% of issuers studied discussed executive compensation in very general terms, without explaining specifically how compensation was determined or how it related to the issuers' performance.

CSA staff warned issuers that the compensation committee reports need improvement by the vast majority of companies examined. Review teams issued comment letters to issuers whose disclosure was deficient and received commitments from them to improve, including explaining clearly their reasons for the salaries and bonuses paid, the options granted and the other compensation awarded to their executive officers.

Differing continuous disclosure obligations in each province add complexity and cost for issuers without enhancing the information available to investors.

To address this problem, in June 2002 the CSA released for public comment a proposed national rule setting out updated, uniform continuous disclosure requirements. For reporting issuers other than investment funds, NI 51-102 *Continuous Disclosure Obligations* will, among other things:

- require annual information forms (AIFs) except from junior issuers;
- shorten financial statement and AIF filing deadlines; and
- mandate timely reporting of significant business acquisitions, with financial information about acquired businesses.

NI 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*, published at the same time, will allow certain foreign issuers to satisfy Canadian continuous disclosure requirements by filing similar foreign documents. This will alleviate a reporting burden while ensuring that Canadian investors have access to the information they need.

Updated, uniform continuous disclosure requirements for mutual funds and other investment funds are set out in NI 81-106 *Investment Fund Disclosure*, which was published for comment in September 2002.

After considering public comment on these proposals, the CSA will publish revised rules in 2003. These will likely include a separate rule dealing with accounting principles and auditing standards applicable for both continuous disclosure materials and prospectuses. The CSA plans to implement these rules in the Fall of 2003, for application to filings in 2004.

Selective disclosure occurs when an issuer discloses material non-public information to a few parties but not broadly to the investing public. The practice of selective disclosure poses a serious threat to investor confidence and the fairness and integrity of Canadian capital markets.

National Policy 51-201 *Disclosure Standards* was implemented on July 12, 2002 and was a direct response to growing concerns of securities regulators regarding a number of highly publicized incidents of selective disclosure.

NP 51-201 provides interpretive guidance on existing legislative prohibitions against selective disclosure, highlights disclosure practices where issuers assume a high degree of risk of selectively disclosing information, provides guidance on the type of information that might be material for purposes of securities legislation, and outlines “best disclosure” practices that can be adopted by issuers to ensure compliance with securities legislation.

5. The ASC should explore and pursue with other regulatory bodies opportunities for cooperation and coordination of activities, so as to minimize the duplication of resources in those areas of regulation where there is a mutual interest.

The ASC recognizes a number of entities that perform member and market regulation functions in the securities industry. These entities are referred to as “self-regulatory organizations” (SROs). Currently three SROs aid the ASC and other CSA members in regulating market participants. They include the Investment Dealers Association of Canada, the Mutual Fund Dealers Association of Canada and Market Regulation Services Inc. Each recognized SRO has the authority to adopt and enforce rules governing the operations and business conduct of its members that are consistent with the ASC’s goal of protecting the fairness and integrity of the market.

SELF-REGULATORY ORGANIZATIONS
AND EXCHANGES

TSXV has been recognized as an exchange in both Alberta and B.C. The ASC acts as the lead regulator of TSXV in matters regarding corporate finance policy, corporate governance and risk management. The ASC also led the negotiation and drafting of the Capital Pool Company Operating Agreement, which facilitated the expansion of the TSXV Capital Pool Company program in several Canadian jurisdictions.

In 2002, the CSA and IDA published the results of a survey on the regulation of the fixed-income market. The IDA and the CSA jointly sponsored the survey, asking industry participants to identify problems or issues in the trading practices of participants in the unlisted debt securities market.

IDA/CSA MARKET SURVEY
ON THE REGULATION OF
FIXED-INCOME MARKETS

The survey found that concerns about market integrity are minor, although a minority of respondents expressed concerns about certain “sharp” trading practices and client confidentiality. According to the survey results, the majority of respondents rate market integrity in the wholesale market as good, and most market participants feel market integrity has improved in recent years.

The IDA and the CSA will use the results of the survey to develop and apply field examination modules for dealers trading in the debt market.

To strengthen confidence in capital markets and the credibility of financial statements, federal and provincial regulators and Canada’s chartered accountants announced the creation of a new system to oversee the auditors of public companies in Canada. Together with the Office of the Superintendent of Financial Institutions (OSFI), and the Canadian Institute of Chartered Accountants (CICA), the CSA proposed:

INDEPENDENT PUBLIC
OVERSIGHT FOR AUDITORS
OF PUBLIC COMPANIES

- more rigorous inspection of auditors of public companies;
- tougher auditor independence rules; and
- new quality-control requirements for firms auditing public companies.

The new requirements will apply to auditors of publicly listed companies and will be administered and enforced by the newly created Canadian Public Accountability Board (CPAB). The creation of the CPAB will ensure the independence and transparency of the new process.

Major firms conducting public company audits will now be reviewed annually and subject to a more comprehensive examination of their quality control policies and procedures. Failure to remedy significant deficiencies identified by the CPAB will result in sanctions and will also be communicated to the appropriate regulators, who may take action. Within three years, the CPAB requirements will apply to all firms auditing public companies.

MEMBERSHIPS AND AFFILIATIONS

The ASC maintains memberships in several organizations with similar mandates, including the North American Securities Administrators Association (NASAA), the Council of Securities Regulators of the Americas (COSRA), the International Organization of Securities Commissions (IOSCO) and the Criminal Intelligence Service of Alberta.

The ASC also participated in the Joint Securities Enforcement Review Committee, and the ASC Director of Enforcement is Chair of the Canadian Zone NASAA Enforcement Division.

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

Well-qualified and motivated employees are key to the success of any organization, and the ASC believes that the skill, dedication and enthusiasm of employees are critical to making the Commission's vision a reality. The ASC fosters a culture where a highly qualified, motivated team can best perform – a work environment that is challenging and demanding, and provides a competitive compensation and benefits package, job/skill training and company-sponsored social events.

This year, the ASC saw elevated recruitment activity as new employees were sought to fill positions transferred to Calgary as a result of the closure of the ASC's Edmonton office. Candidates with the best possible skill set have been appointed to ensure a smooth transition of Commission functions and avoid interruption of ASC services.

RECRUITMENT

Staff training programs in all areas of Commission business are critical in keeping abreast of new trends, emerging business issues and professional development. Employees are encouraged to upgrade their skills through a variety of courses, including the Enforcement branch's skills training program.

STAFF TRAINING

Each year, the ASC conducts a salary survey to ensure that employees are appropriately compensated. Comparisons to other regulators and within industry and professional groups are made to ensure that salaries are sufficient to attract and retain the level of talent required to take on challenging regulatory initiatives.

SALARY SURVEY

The ASC is fortunate to employ numerous community-minded individuals. Their contributions are many, whether participating in employee events for the United Way campaign and Corporate Challenge, or through their own efforts. Employees are actively involved in their community, volunteering with organizations like homeless shelters, community associations, sports teams and schools, giving blood, and raising money for charity through community walks and runs.

COMMUNITY INVOLVEMENT

Three-Year Statistical Summary

(for the years
ended March 31)

	2003	2002	2001
Active Reporting Issuers			
Short-Form Eligible	532	502	480
Non Short-Form Eligible	3,182	3,325	3,582
Mutual Fund	2,531	2,421	2,333
Prospectus and Rights Offerings Filed			
Prospectuses	530	619	744
Mutual Fund Prospectuses	90 ⁽¹⁾	89	102
Capital Pool Company Prospectuses	28	51	120
Rights Offerings	25	39	30
Exemption and Escrow Applications			
Exemption Applications	982	1,022	467
Escrow Applications	52	87	181
Registered Firms			
Dealers (mutual funds, securities, exchange contracts, scholarship plans, security issuers)	83	83	89
Advisers	162	136	128
Total Companies Registered	240 ⁽²⁾	211	207
Registered Salespeople			
Mutual Funds	10,434	10,566	9,571
Securities	–	4	9
Scholarship Plans	450	381	360
Exchange Contracts	12	18	38
Total Salespeople Registered	10,896	10,969	9,978
Enforcement			
Inquiries Received	5,041	6,397	5,398
Complaints Received	912	434	560
Concluded Investigations	269	302	370
Current Investigations	117	137	145
Interim Orders ⁽³⁾	299	280	131
Final Orders ⁽⁴⁾	244	260	81
Settlements ⁽⁵⁾	7/6	26/20	58/34
Hearings	12	29	18
ASC Costs Recovered	\$ 48,925	\$ 365,000	\$ 111,000
Administrative Penalties Levied	\$ 80,000	\$ 287,454	\$ 491,500
Prosecutions Initiated in Provincial Court	2	1	1
Other Court Proceedings (including appeals)	8	24	10

⁽¹⁾ 90 mutual fund prospectuses qualified 2,531 individual mutual funds for distribution (2002 – 2,421; 2001 – 2,333).

⁽²⁾ Five firms are registered as both dealer and adviser (2002 – 8; 2001 – 10).

⁽³⁾ Pursuant to Section 33 of the *Securities Act*.

⁽⁴⁾ Pursuant to Section 198 of the *Securities Act*.

⁽⁵⁾ Number of respondents/number of agreements.

To be read in conjunction with the audited financial statements for the year ended March 31, 2003.

Note: 2002, 2003 and 2004 refer to the fiscal years of the Commission ending March 31, 2002, 2003 and 2004, respectively.

Note: Dollars are in thousands, unless specified as (units).

OVERVIEW

Commission revenues come principally from securities market participants in the form of reporting issuer transaction filing fees and registrant annual registration fees. Commission expenses are largely employee compensation and occupancy related as well as ongoing support of national CSA operations and initiatives. Several financial trends emerged during 2003 that are the focus of management and are expected to continue into 2004 and possibly beyond. These include:

- revenues that were unchanged,
- expenditures that exceeded 2002 levels because of growth in ongoing activity and non-recurring Edmonton office closure and national CSA project funding requirements, and
- an operating loss that is projected to recur and was funded with accumulated retained earnings.

In summary, 2003 was a year of financial transition. The following comments analyze the Commission's operating results during 2003 and outline plans and expectations for future operations under the following headings:

- Analysis of 2003 Operations and Financial Position (operating loss, revenue, expenses, assets and liabilities, cash flow, fee restructuring),
- 2004 Outlook, and
- Risks and Uncertainties.

ANALYSIS OF 2003 OPERATIONS AND FINANCIAL POSITION

OPERATING LOSS

The Commission reported a 2003 loss of \$3,700, the first annual loss since commencement as a provincial corporation on June 1, 1995.

Revenues, excluding administrative penalties revenue, were comparable to the prior year and to budget. However, depressed equity markets prevented any growth in Commission distribution revenues and equity investment income.

Expenses exceeded the prior year by \$3,900 as staff compensation and numbers increased costs by \$300, premises costs rose \$200 with the Calgary office consolidation, and enforcement and National Policy initiatives consultation increased by \$800. There were also significant non-recurring expenses of \$2,100 for the Edmonton office closure and \$500 for the National Registration Database (NRD) project.

Administrative penalties revenue and settlement cost recoveries, which due to their discretionary nature are not budgeted, contributed \$69 compared to \$500 in the prior year.

REVENUE

Commission revenues come primarily from registrants and reporting issuers.

Reporting issuer fees are primarily transaction based. Public (prospectus) and private (prospectus exempt) securities distributions (see Three-Year Statistical Summary, page 24) contribute approximately 40% to 45% of total commission revenues and are the most variable component of the Commission's revenue base. The major component of securities distribution fees is based on the size of each distribution in Alberta. Annual financial statement filings account for approximately 16% of fees and are relatively stable. Fees for these filings are \$2,000 (units) for issuers eligible to use the short form prospectus system and \$250 (units) for all others. The total number of reporting issuers is approximately 6,200 (see Three-Year Statistical Summary, page 24) and remains reasonably stable from year to year.

Registration fees from dealers, advisers and salespersons account for approximately 37% of revenues or \$5,700 in 2003. These fees are relatively stable as there is a base of 400 companies and over 14,000 salespersons (including approximately 1,500 companies and 3,200 salespersons administered by the IDA in addition to those by the ASC – see Three-Year Statistical Summary, page 24) that fluctuates minimally even in years of poor market performance.

Other revenue sources include:

- investment income that is a combination of interest on cash and bond funds and bond and equity fund capital losses or gains;
- application fees (Commission orders) of \$150, \$300 or \$500 (units) (depending on the type of application) for specific exemptive relief for the approximately 800 applications (see Table 1, page 27) processed in 2003, a 21% decline from 2002; and
- enforcement revenues such as administrative penalties, settlements and cost recoveries that are discretionary, depending on the circumstances of specific cases and which vary from year to year.

The Mutual Fund industry is a significant contributor to Commission revenues, with over 2,500 active mutual fund issuers (included in the 6,200 reporting issuer population) and over 10,000 salespersons (included in the 14,000 salesperson total). Revenues include annual prospectus filings of \$2,500, proceeds on Alberta distributions of approximately \$1,400, annual financial statement filing fees of \$625 and registration fees estimated at \$2,700, totalling \$7,225 or 47% of total revenues.

Table I

	Budget 2003	% (under) over	Actual 2003	% of Total	Actual 2002	% of Total	% Change 2003/ 2002
Revenue (\$000s)							
Distribution of securities	\$ 7,214	(14.4)	\$ 6,172	40.4	\$ 6,986*	45.6	-11.7
Registration	5,065	12.3	5,686	37.2	4,822*	31.5	17.9
Annual financial statements	2,440	0.3	2,448	16.0	2,168	14.1	12.9
Commission orders	453	(24.7)	341	2.2	433*	2.8	-21.2
	\$ 15,172	(3.5)	\$ 14,647	95.8	\$ 14,409	94.0	1.7
Investment income	1,000	(44.9)	551	3.6	437	2.8	26.1
Settlement cost recoveries			12	0.1	365	2.4	-96.7
Administrative penalties, net			57	0.4	104	0.7	-45.2
Other	20	(60.0)	8	0.1	16	0.1	-50.0
	\$ 16,192	(5.7)	\$ 15,275	100	\$ 15,331	100	-0.4

* Restated, see "Revenue Recognition Accounting Policy Change."

Revenue changes from 2002 to 2003 and in comparison to the 2003 budget are the result of:

- a significant reduction in mutual fund sales that is consistent with mutual fund industry reported record net redemptions, resulting in a decrease of proceeds on distribution of approximately \$500 or 25%;
- 2003 registration revenues that increased approximately \$250 because of the change in revenue recognition accounting and an increased number of registrants;
- an increase in total financial statement filing fees resulting from the ending of the \$250 (units) filing fee exemption which was granted to issuers that became reporting issuers in Alberta due to the reorganization of the stock exchanges in Canada from 1999 to 2001;
- a decrease of approximately 21% in Commission applications and related order fees which is consistent with other provincial securities commissions' experience, and is due, in part, to policy revisions designed to reduce the frequency of exemptive relief application requirements; and
- investment income increases in comparison to 2002 resulting from increases in long-term fixed-income returns from 5.7% to 9.5% and equity fund losses not originally budgeted for and accounting for the under-budget result.

REVENUE RECOGNITION ACCOUNTING POLICY CHANGE

During the year, the Commission changed the method it uses to account for distribution, registration, annual financial statement and application fees from an accrual to cash receipt basis. This change is consistent with the revenue recognition policies of other provincial securities commissions. It also reflects change in the business processes of the Commission that reduces fee-related work in progress. These reductions result from a mutual reliance system operational among Canadian securities regulators.

The change in accounting policy has been applied retroactively, with restatement of comparative figures. The restatement has the effect of eliminating the work in progress and unearned revenue balances at March 31, 2002 of \$103 and \$664, increasing opening retained earnings by \$1,062 and reducing net income for 2002 by \$502.

If the policy change had not been made, work in progress and unearned revenue would have been \$84 and \$890 at March 31, 2003, and the loss for the year 2003 would have increased by \$245.

ADMINISTRATIVE PENALTIES

Administrative penalties contributed \$57 of revenue. This compares to \$104 for the prior year. Administrative penalties are discretionary, depending on the circumstances of specific cases and vary from year to year.

The Commission accounts for administrative penalties revenue separate from operating income because of restrictions that exist on the use of these funds. The administrative penalties account earned interest for the year of \$21 while expenses of \$15 were deducted, principally for seminars and education programs. Restricted assets at year-end were \$786.

EXPENSES

Table II summarizes Commission expenses, comparing current year expenses to previous year expenses as well as comparing actual expenses to budgeted expenses for the current year. See Charts on page 38.

Table II

	Budget 2003	% (under) over	Actual 2003	% of Total	Actual 2002	% of Total	% Change 2003/2002
Expenses (\$000s)							
Salaries and benefits	\$ 11,567	(8.2)	\$ 10,613	55.9	\$ 10,298	68.3	3.1
Edmonton office closure	–	N/A	2,096	11.1	N/A	N/A	N/A
Premises	1,146	10.3	1,264	6.7	1,109	7.4	14.0
Contract services	1,601	13.7	1,820	9.6	1,088	7.2	67.3
Amortization	645	(13.8)	556	2.9	557	3.7	-0.2
Other	612	7.4	657	3.5	541	3.6	21.4
Travel	622	(36.7)	394	2.1	388	2.6	1.5
CSA project costs	431	81.0	780	4.1	359	2.4	117.3
Material and supplies	368	(18.2)	301	1.6	299	2.0	0.7
Telephone and communications	223	(2.2)	218	1.1	229	1.5	-4.8
Member fees	410	(32.9)	275	1.4	199	1.3	38.2
Total expenses	\$ 17,625	7.7	\$ 18,974	100.0	\$ 15,067	100.0	25.9

BUDGET REVISIONS

The above budget excludes revisions approved by the Commission during the year as a result of major events that were not originally forecast. These included:

- **Edmonton Office Closure** – The decision to close the Edmonton Office was made during the year as part of the Commission's longer term objective of consolidating operations in Calgary to better serve its primary securities market stakeholders and fulfill its stock exchange oversight responsibilities. While the office closure was projected to cost \$2,200 in the current year, subsequent savings are projected to average over \$600 per year. On a discounted cash flow basis these savings exceed the one-time cost of closure over a period of 10 years. The major components of current period actual costs include employee severances of \$1,400, lease termination of \$145, litigation settlement with Edmonton employees of \$250, furniture fixtures and leasehold write-offs of \$200 and operational costs of \$100. In addition, capital-related expenditures required for new office equipment, system purchases (primarily document scanning facilities) and furniture were budgeted at \$185.
- **NRD Project Contribution** – The CSA National Registration Database (NRD) project encountered systems cost escalations arising from design changes that necessitated payments from all project participants to ensure timely project completion. Alberta's share was \$518. In addition, approximately \$230 of recoverable advances were paid late in 2003 to further facilitate project completion. These advances are recorded as advances receivable at March 31, 2003.
- Unexpected revenue shortfalls from distribution proceeds as capital market activity and in particular mutual fund sales were below original forecasts and investment income shortfall, resulting in budgeted revenue reductions of approximately \$1,000.

2003 REVISED BUDGET TO ACTUAL VARIANCES

Actual expenses for the year of \$19,000 were \$1,100/5% less than the revised budget of \$20,069. Expenses that exceeded revised budget estimates included:

- **Premises expense** increased because the Edmonton office closure created the need to sublet more costly Calgary office space to accommodate the additional Calgary staff requirements at an additional cost of approximately \$20 per month for five months.
- **Contract service** costs exceeded budget as high-profile investigations and hearings required more time and resources than originally budgeted.

Expense categories that were significantly less than the revised budget include:

- **Edmonton Office closure** – Savings resulted from reductions in budgeted severance costs that were unnecessary because certain Edmonton staff relocated to Calgary.

- **Travel costs** – Travel cost containment continues to be a focus and resulted in significant budget savings during the year through increased availability and use of discount fares rather than budgeted full fares. However, travel is an ongoing requirement as much of the Commission’s work is done jointly with other securities commissions through the CSA.
- **CSA project costs** – The CSA undertakes national projects and maintains a central office that requires funding from all participants. While the budgeted CSA cost base was increased to accommodate NRD funding accounting for the 117% increase from 2002, the original budgeted expense also included project costs that did not occur.
- **Salaries and Benefits** – The budget shortfall resulted from approved positions that were not filled during the year because of a continued focus on cost control.
- **Member fees** – Fees are paid to part time members for meeting attendance, hearing panel participation and related expenses. These were projected to increase significantly because of an expected increase in hearing days during 2003. While hearing activity did increase, delays developed that have deferred components of certain hearings into the next year.
- **Other** – Hearing activity increased the cost of hearing transcripts and related court procedures documentation.

2003 TO 2002 VARIANCES

Expenses of \$18,974 were 26% greater than the prior year expenses of \$15,067. This increase is primarily the result of:

- Contract Services increased by \$750 as a result of expanded litigation research and hearing preparation requirements,
- Edmonton Office closure costs of \$2,100,
- Salaries and Benefits increased by \$315 because of an annual inflationary increase averaging 3.7% offset by some vacancies during the year,
- CSA costs increased by \$420 as a result of a one-time payment related to NRD,
- Member fees increased \$75 because of increased hearing activity,
- Table III provides an analysis of Commission expenses by branch and non-recurring Edmonton office closure costs. This approximates resource allocation by Commission activity and the relative cost of each.

Table III

(\$000s)	Revised Budget 2003	Actual Expenses 2003	Actual Expenses 2002
Office of the Chair and Members	\$ 2,320	\$ 2,081	\$ 1,974
Office of the Executive Director	1,491	1,502	859
Chief Accountant	461	393	492
Administration			
Administration Office Services	3,031	3,189	2,848
Financial Services	660	520	604
Communications	672	451	456
Human Resources	180	140	82
Information Technology	856	792	697
	<u>5,399</u>	<u>5,092</u>	<u>4,687</u>
Edmonton office closure	2,200	2,096	-
Enforcement	3,020	2,933	2,787
Capital markets	3,115	3,080	2,608
Legal and policy	2,063	1,797	1,660
	<u>\$ 20,069</u>	<u>\$ 18,974</u>	<u>\$ 15,067</u>
Less revisions:			
Edmonton office closure	(2,200)		
Salaries and benefits	223		
NRD contribution	(518)		
Amortization	111		
Premises	(60)		
Total, Original Budget	<u>\$ 17,625</u>		

The Office of the Chair and Members expenses are primarily salaries of the three full-time members of the Commission as reported in Schedule A of the Financial Statements. Members' expenses result from monthly Commission and related meetings, applications and hearings. Costs for Members' attendance at hearings are unpredictable as the duration and number of hearings is not easily forecast.

The Administration function was reorganized in 2003 under the leadership of a new Director. The reorganization was undertaken to strengthen the communications and investor education roles of the Commission, while streamlining administrative functions through Calgary and Edmonton office consolidation, document storage automation and replacement of the former CFO function. The primary focus of increased communication expenditures during 2003 was an updated ASC Web site page to enhance communication with stakeholders and the investing public and completion of preparatory investor education research projects commenced in the prior year. The new ASC Web site is planned for a Fall 2003 launch. Significant incremental investor education expenditures of \$500 are budgeted for 2004.

Capital Markets increased expenses include additional staff for the expanding role of reporting issuer continuous disclosure review. This change in review emphasis from an historical focus on prospectuses and other offering documents reflects the increasing focus by Canadian securities regulators on the accuracy of current reporting by issuers. Resources have been both increased and reallocated to current reporting review functions from more traditional prospectus reviews, as reliance on other jurisdictions has reduced the need for prospectus review.

Executive Director expenses include CSA payments and the increase in 2003 is a result of the one-time CSA related NRD expense of \$500.

Enforcement expense increases resulted from external consultation for certain investigations and hearing preparation.

Capital Expenditures

Capital expenditures during 2003 include:

Leasehold improvements	\$	460
Information technology		316
Office furniture and equipment		71
	<u>\$</u>	<u>847</u>

LEASEHOLD IMPROVEMENTS

Calgary office leasehold improvements are budgeted to cost \$1,000 and \$460 was spent in 2003. These leasehold costs will be funded primarily with the proceeds of a leasehold inducement negotiated with the Calgary office landlord for an eight-year office lease commencing April 1, 2003. This lease replaces the previous lease that had a three-year remaining term. The lease inducement is receivable over a three-year period and has been recorded as a \$400 current and \$588 long-term receivable.

INFORMATION TECHNOLOGY

Expenditures include: replacement desktop computers, server and power supply upgrades and document scanning automation software and hardware.

2004 CAPITAL BUDGET

Capital expenditures approved for 2004 are primarily information technology based and include software upgrades, new desktop equipment, and firewall enhancements, totalling \$463. In addition, the Calgary leaseholds will be completed in 2004 for approximately \$600.

ASSETS AND LIABILITIES

ACCOUNTS AND ADVANCES RECEIVABLE

Accounts receivable have increased from 2002 because of increased IDA registration revenue receivables of \$300 in 2003 and NRD related advances of \$230. IDA receivables and a portion of the NRD advance were collected in April 2003.

INVESTMENTS

The Commission's investment policy requires a reserve to be maintained between 50% and 100% of prior year expenses. The first 50% is invested 60% in bond funds and 40% in equity funds. Any remaining investment balance up to 100% of prior year expenses is allocated equally between bond and money market funds. Any residual balance is invested in money market funds. The 2003 required reserve was based on 2002 expenses of \$15,067. Investment policy targets and year-end balances for 2003 follow:

Expense Component	Bond Fund	Equity Fund	Money Market	Total
First 50%	\$ 4,500	\$ 3,000	\$ –	\$ 7,500
50 – 100%	3,750	–	3,750	7,500
> 100%	–	–	2,500	2,500
Total target	\$ 8,250	\$ 3,000	\$ 6,250	\$ 17,500
March 31/03 investments	\$ 8,755	\$ 2,859	\$ 6,206	\$ 17,820
Current cash component	–	–	(2,500)	(2,500)
	\$ 8,755	\$ 2,859	\$ 3,706	\$ 15,320

Investment allocations are adjusted in the first quarter of the fiscal year consistent with the policy requirements. Year-end balances reflect the variability of earnings during the year.

- Bond funds – The rate of return including book value amortization averaged 9.5% in fiscal 2003 compared to 5.7% in the prior year.
- Equity funds – The average rate of return for the equity funds was -17.5% compared to -2.5% in the prior year.
- Money market funds – These returned an average 2.9% in the current year compared to 4% in the prior year.

The Commission is budgeting a loss of \$3,700 in 2004. The loss will require investment drawdowns resulting in an average annual 2004 investment balance of approximately \$14,500. The resultant investment balance remains within the policy target of 50 to 100% of prior year expenses. The Commission's comprehensive fees review project and plan to restructure fees consistent with long-term funding requirements and stakeholder consultations will ensure that future investment balance erosion ceases.

Investment income for 2004 is projected at \$700 using rates of return averaging 5% for bonds, 3% for money market funds and 5% for equities and an average total invested balance of \$14,500.

CURRENT LIABILITIES

Accounts payable and accrued liabilities at March 31, 2003 increased \$620 as a result of:

- registration refunds for NRD implementation of \$280,
- Edmonton office close severance related payables \$130, and
- an increase of trade payables and accruals of \$210.

Funds held for other participants of \$650 reflect the current liability nature of cash received and held for a national systems enforcement project (MICA).

LEASE INDUCEMENT

Lease inducements arise from a new Calgary office lease that was negotiated for eight years commencing April 1, 2003 and a prior lease with a residual \$120 inducement. The new lease inducement totals \$988, \$400 of which is receivable in the first quarter of 2004 and the remainder in equal instalments at March 31, 2004 and 2005 and January 31, 2006.

ACCRUED BENEFIT LIABILITY

The accrued benefit liability represents future obligations relating to plans established for senior management of the Commission. Expenses are based on actuarial valuations and management estimation for membership changes between valuation updates. The expense for the year was \$292 and has increased from \$212 the prior year because of membership change and actuarial increases. Payments commenced to one plan member in September 2002.

LIQUIDITY

The Commission requires liquidity to fund its operations and capital expenditures on a current basis. The money market Consolidated Cash Investment Trust Fund (CCITF) of \$6,250 is sufficient to fund the budgeted loss projected at \$3,700 in 2004 and any unplanned expenses that may result from new CSA or similar projects.

The Commission, along with other commissions, has guaranteed certain liabilities of the Mutual Fund Dealers Association (MFDA). The Commission's continuing guarantee is limited to a maximum of \$2,160. The Commission's share of the actual MFDA bank indebtedness at June 30, 2002 was \$1,340, a reduction from \$1,550 in 2001 and reflecting a year of MFDA operations. It is not anticipated that the Commission will be called on to meet this guarantee.

CASH FLOW

The Commission operates primarily on a cash basis, as revenues are recognized on cash receipt and expenses paid as incurred. However, certain transactions are accrued as expenses or revenues that do not increase or (decrease) cash balances during the year. During 2003 these include:

- receivables from issuers and registrants that do not increase cash until collected and include issuer fees outstanding of \$60 that are primarily charged for late filing of annual financial statements and IDA registrant fees of \$400 for three months (IDA processing delays occurred because of NRD implementation. This delay will not recur.),
- short-term NRD funding receivable of \$230 that will increase cash in 2004,
- accrued payables for operating expenses of \$300 and bonuses payable of \$520 at March 31, 2003 that approximate the prior year balances and will require cash in 2004,

- amortization of \$500 that does not require cash in 2003 and capital additions of \$847 that require cash in 2003,
- accrued pension benefits expense of \$292 that does not require cash in 2003,
- lease inducement amortization of \$40 that does not increase cash in 2003,
- investment book value amortization of approximately \$27 (non-cash income component) that does not increase cash, and
- investment reductions of \$1,300 (offset by investment income) that provide cash in 2003.

FEE RESTRUCTURING

The Commission recognizes that its current strong financial position will quickly erode without revenue increases or cost reductions. The current business plan forecasts a growing requirement for Commission resources consistent with the focus on the need for a strong Alberta capital market and an active Alberta presence in the national securities regulatory system. In response to this, the ASC undertook a preliminary review of existing fees as part of the 2004 budget preparation process and identified several areas where fees were substantially lower than other comparable provincial commissions. An interim fee increase was proposed and submitted for provincial government budget consideration. Approval was given subject to public consultation. At the same time, the need for a more comprehensive fee review was identified. As a result, fee restructuring and public consultation has been deferred one year to enable a more broadly scoped examination of the options. These include:

- the suitability of the new Ontario Securities Commission fee model that incorporates both a participation fee and a transaction fee component for issuers and registrants,
- further examination of the existing fee structure, related transaction costs and comparative jurisdiction fee differences and inequities, and
- alternative fee structures that may more closely align to the specific needs of the Alberta capital market.

2004 OUTLOOK

REVENUES

The Commission has budgeted revenues for 2004 of \$15,700. These revenues anticipate either comparative or reduced activity volumes for fees dependent on prospectus filings and Alberta distributions, approximately 20% of total forecast revenues. Private placements and mutual fund prospectus filing fees are relatively stable revenue sources accounting for approximately 22% of forecast revenues. Mutual fund prospectus filings are forecast as unchanged and a small increase in private placement activity consistent with current experience is anticipated. Registration revenues will increase because of an acceleration in 2004 of the due date for registration fees, a result of the introduction of the new NRD system. Registration renewal fees will be due on December 31 rather than spread throughout the year on designated renewal dates. This will result in incremental registration fees of approximately \$900 in 2004. However, this one-time revenue increase was not budgeted because of uncertainty in the planned NRD implementation date at the time the budget was prepared.

EXPENSES

Commission expenses are budgeted at \$19,400. This includes a 10% contingency of \$1,700 offset by a \$280 vacancy-related compensation reduction resulting in an operating loss of \$3,700. The contingency provision was included in the budget at the request of the provincial government to provide for unexpected expenditures such as the NRD funding requirement in 2003 and the possibility of revenue shortfalls. The Commission's forecast expenses strike a balance between the need for cost containment and the requirements for both a strong provincial and national presence by the ASC.

A more recent assessment of Commission revenues and expenses suggests that the Commission may incur a loss of approximately \$1,800 in 2004 rather than the updated forecast of \$3,700. The loss reduction results from the projected registration fee increase arising from NRD of \$950 that was not budgeted and potential contingency provision cost savings of \$950.

The following table provides a summary reconciliation of forecast expenses to 2003 actual expenditures and identifies incremental initiatives and related costs.

2004 Expense Forecast Comparison to 2003 Actual	(\$000s)
2003 Total Expenses	<u>\$ 18,974</u>
Less non-recurring expenses	
Edmonton office close	(2,100)
NRD contribution	(520)
Recurring expense base	<u>16,354</u>
2004 Incremental Initiatives and Adjustments	
Contingency provision	1,760
Compensation adjustment	309
Staff vacancy provision	(280)
Additional oil and gas engineering resources	90
Investor education programs	450
Enforcement contract services	250
Policy initiatives (net of CSA recoveries)	245
Premises	245
	<u>\$ 19,423</u>
Forecast 2004 Expenses	<u>\$ 19,423</u>

Incremental costs reflect:

- addition of qualified staff to review oil and gas reserve reports to meet the Commission's compliance obligations arising from the new NI 51-101 (Oil and Gas Disclosure national instrument),
- significant investor education program development,
- contract resources to support major enforcement initiatives and preparation for the related hearings,
- Calgary office space increase to accommodate the Edmonton office closure, and
- national policy initiatives including the USL Project, proportionate regulation and Alberta capital market projects.

RISKS AND UNCERTAINTIES

These projections are based on the Commission's experience and assessment of historical and future trends and the application of key assumptions relating to future events. Factors that could cause actual results to differ materially include:

- the severity and duration of the capital markets downturn and the impact on distribution revenues,
- the timing and potential for a one-time accelerated registration revenue collection in 2004 resulting from the introduction of the NRD registration system,
- the timing and magnitude of the Commission's fee restructuring plans that are subject to both industry consultation and government authorization,
- the potential for higher actual costs to be incurred in connection with CSA-sponsored national projects such as NRD,
- implications of the ongoing national discussions on securities regulation processes in Canada, and
- unexpected financial requirements arising from the MFDA loan guarantee and government budget revisions.

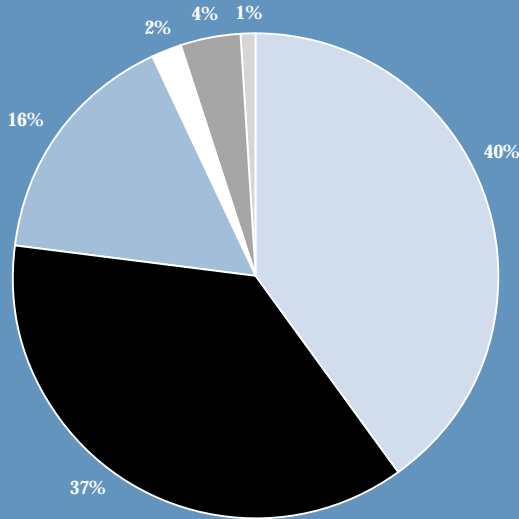
FORWARD-LOOKING STATEMENTS

Certain statements included in this annual report are forward looking and are subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations are described in the Risks and Uncertainties section of Management's Discussion and Analysis.

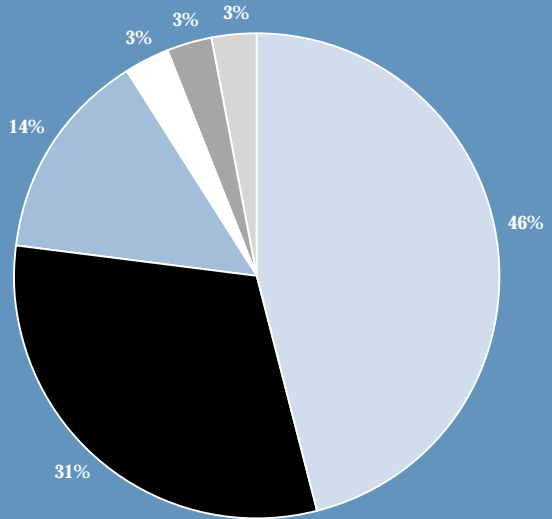
Readers should note that some assumptions, although reasonable at the date of publication, are not guarantees of future performance.

Revenue and Expense Analysis Charts

2003 Revenue Analysis



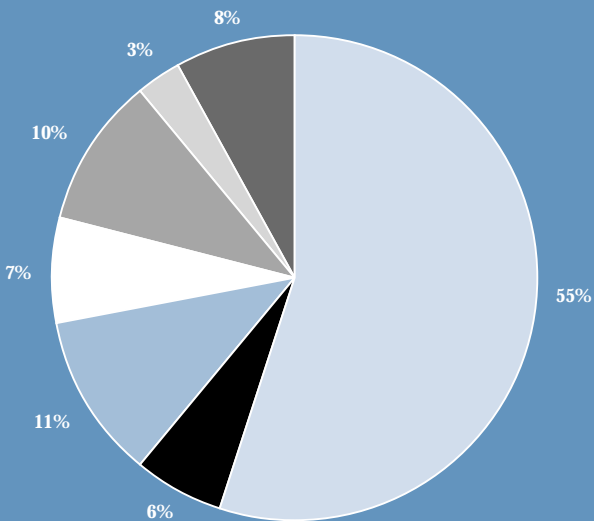
2002 Revenue Analysis



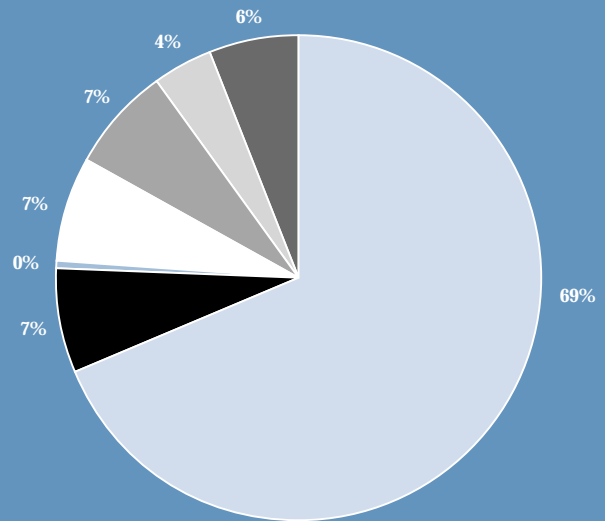
Distribution of Securities*
 Registration*
 Annual Financial Statements
 Commission Orders*
 Investment Income
 Settlement, Penalties & Other

* 2002 restated

2003 Expense Analysis



2002 Expense Analysis



Salaries and Benefits
 Administration
 Edmonton Office Close
 Premises
 Contract Services
 Amortization
 Other (travel, CSA, members)

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

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

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



Stephen P. Sibold, Q.C.
Chair



David C. Linder
Executive Director

May 23, 2003

Auditor's Report

TO THE MEMBERS OF
THE ALBERTA SECURITIES
COMMISSION:

I have audited the balance sheet of the Alberta Securities Commission as at March 31, 2003 and the statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Edmonton, Alberta
May 23, 2003*

[Original Signed by Fred J. Dunn, FCA]

Fred J. Dunn, FCA
Auditor General

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

As at March 31, 2003 (\$ Thousands)	2003	2002 <i>(restated, Note 3)</i>
Assets		
Current		
Cash		
Cash <i>(Note 5)</i>	\$ 2,472	\$ 2,897
Funds held for others <i>(Note 10)</i>	655	-
Accounts and advances receivable <i>(Note 15)</i>	749	182
Lease inducement receivable <i>(Note 8)</i>	400	-
Prepaid expense	55	18
	4,331	3,097
Non-current		
Restricted assets <i>(Note 4)</i>	786	729
Investments <i>(Note 5)</i>	15,320	18,646
Capital assets <i>(Note 7)</i>	1,727	1,619
Lease inducement receivable <i>(Note 8)</i>	588	-
	18,421	20,994
Total assets	\$ 22,752	\$ 24,091
Liabilities and retained earnings		
Current		
Funds held for others <i>(Note 10)</i>	\$ 655	\$ -
Accounts payable and accrued liabilities	1,551	926
Accrued vacation and benefit liabilities	607	777
Lease inducement <i>(Note 8)</i>	170	40
	2,983	1,743
Lease inducement <i>(Note 8)</i>	955	120
Accrued benefit liability <i>(Note 9)</i>	1,033	748
Total liabilities	4,971	2,611
Retained earnings <i>(Note 4)</i>	17,781	21,480
Total liabilities and retained earnings	\$ 22,752	\$ 24,091

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

Approved by the Members



Stephen P. Sibold, Q.C., *Chair*



Jerry A. Bennis, FCA, *Member*

Statement of Income and Retained Earnings

For the year ended March 31, 2003 (\$ Thousands)	2003		2002
	Budget (Note 13)	Actual	Actual (restated, Note 3)
Revenue			
Fees (Note 14)	\$ 15,172	\$ 14,647	\$ 14,409
Investment income (Note 6)	1,000	551	437
Settlement cost recoveries	–	12	365
Other	20	8	16
	<u>16,192</u>	<u>15,218</u>	<u>15,227</u>
Expense			
Salaries and benefits (Schedule A)	11,567	10,613	10,298
Edmonton office closure (Note 11)	–	2,096	–
Premises	1,146	1,264	1,109
Contract services	1,601	1,820	1,088
Amortization	645	556	557
Other	612	657	541
Travel	622	394	388
CSA project costs (Note 12)	431	780	359
Materials and supplies	368	301	299
Telephone and communications	223	218	229
Member fees (Schedule A)	410	275	199
Total expense	<u>17,625</u>	<u>18,974</u>	<u>15,067</u>
Income (loss) from operations	(1,433)	(3,756)	160
Administrative penalties revenue (Note 4)	(57)	57	104
Net income (loss)	<u>\$ (1,490)</u>	<u>(3,699)</u>	<u>264</u>
Opening retained earnings, as originally reported		20,920	20,154
Change in accounting policy (Note 3)		560	1,062
Opening retained earnings, as restated		<u>21,480</u>	<u>21,216</u>
Closing retained earnings (Note 4)		<u>\$ 17,781</u>	<u>\$ 21,480</u>

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

For the year ended March 31, 2003 (\$ Thousands)	2003	2002
Cash flows from operating activities		
Cash receipts from fees	\$ 14,580	\$ 14,411
Cash receipts from settlement cost recoveries	12	365
Cash paid to and on behalf of employees	(10,254)	(9,550)
Cash paid to suppliers for goods and services	(5,741)	(4,465)
Edmonton office closure	(1,966)	–
Investment income	561	980
Cash flows from (used in) operating activities	(2,808)	1,741
Administrative penalties	57	104
Cash flows from (used in) operating activities and administrative penalties	(2,751)	1,845
Cash flows from investing activities		
Lease inducement received	19	200
Increase in restricted assets	(57)	(104)
Cash used for capital assets ⁽¹⁾	(727)	(595)
Cash (used for) provided from investments ⁽²⁾	3,327	(2,786)
Cash advanced to CSA for NRD funding (Note 15)	(236)	–
Cash from investing activities	2,326	(3,285)
Decrease in cash	(425)	(1,440)
Opening cash	2,897	4,337
Closing cash	\$ 2,472	\$ 2,897
Supplemental cash flow information		
⁽¹⁾ Additions to capital assets	\$ (847)	\$ (321)
Increases (decreases) in capital asset liabilities	120	(274)
	(727)	(595)
⁽²⁾ (Additions) reductions in investments	3,337	(2,241)
Loss on disposal of investments	(10)	(545)
	\$ 3,327	\$ (2,786)

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

NOTE 1: NATURE OF OPERATIONS

The Alberta Securities Commission is a Provincial Corporation under the *Securities Act* (Alberta). The business of the Commission is the regulation of the Alberta capital market, including the administration of the Act, the *Securities Regulation* and the *Alberta Securities Commission Rules*.

The mission of the Commission is to foster a fair and efficient capital market in Alberta and confidence in that market. In carrying out its mission, the Commission strives to balance the needs of investors for adequate protection with the needs of industry to access capital necessary for continued economic growth.

The Commission, as an Alberta Provincial Corporation, is exempt from income tax.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

The accounting policies of significance to the Commission are as follows:

(A) PORTFOLIO INVESTMENTS

Portfolio investments are recorded at cost. Realized gains and losses on disposal of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

(B) INVESTMENT INCOME

Investment income is recorded on the accrual basis where there is reasonable assurance as to its measurement and collectability.

Income and expense on index swaps and interest rate swaps are accrued as earned and gains and losses arising as a result of disposal of investments are included in the determination of investment income.

(C) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act.

The fair values of cash, receivables, payables and accrued liabilities are estimated to approximate their book values.

The methods used to determine the fair values of portfolio investments and derivative contracts are explained in the following paragraphs:

Public fixed-income securities and equities are valued at the year-end closing sale price, or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

The value of derivative contracts is included in the fair value of portfolio investments. Equity and bond index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps are valued based on discounted cash flows using current market yields. Equity index futures are valued based on quoted market prices. The value of cross-currency interest rate swaps is included with the value of the underlying security. Cross-currency interest rate swaps are valued at quoted prices based on discounted cash flows using current market yields.

(D) CAPITAL ASSETS

Capital assets are recorded at cost.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment	3 years
Furniture and equipment	10 years
Leasehold improvements	8 years

(E) FEE REVENUE RECOGNITION

Fees are recognized when cash is received (see Note 3).

(F) EMPLOYEE FUTURE BENEFITS

The Commission participates in the Public Service Pension Plan, a multi-employer pension plan, with other government entities. Pension costs included in these financial statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for the service relating to prior years.

The Commission maintains a Supplemental Pension Plan (the Plan) for certain designated executives of the Commission. The cost of the pension is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of economic assumptions. Past service costs are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the Plan. The average remaining service period of active employees of the Plan is 11 years.

The Commission also maintains a plan whereby it makes Registered Retirement Savings Plan contributions on behalf of certain employees of the Commission. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the Registered Retirement Savings Plan contribution of \$13.5. The expense included in these financial statements represents the current contributions made on behalf of the employees.

(G) LEASE INDUCEMENT

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

(H) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(I) RESTRICTED ASSETS

Revenues received by the Commission from Administrative Penalties are not to be used for normal operating expenditures of the Commission and can only be used for endeavours or activities that in the opinion of the Commission enhance the capital market in Alberta.

NOTE 3: CHANGE IN ACCOUNTING POLICY – FEE RECOGNITION

The Commission changed its accounting method for fees from distributions, registrations, and filing of annual financial statements and applications. Fees are now recognized when cash is received. This change reflects the new regulator model where fees are not based on specific services provided to a filer, rather fees are charged to enable the Commission to fulfill its overall regulatory responsibilities. Further, as fees are not refundable, except at the Commission's discretion, fees represent revenue when received. In addition, the new policy is consistent with other Canadian Securities Commissions.

The change in accounting policy has been applied retroactively, with restatement of comparative figures. The restatement has the effect of eliminating the work in progress and unearned revenue balances at March 31, 2002 of \$103 and \$664, increasing opening retained earnings by \$1,062 and reducing 2002 net income by \$502 (revenue decrease of \$510: distributions \$217, registrations \$267, orders \$26 and expense increase of \$8).

If the policy change had not been made, work in progress and unearned revenue would have been \$84 and \$890 at March 31, 2003, and the loss for the year 2003 would have increased by \$245.

NOTE 4: RESTRICTED ASSETS AND RETAINED EARNINGS

Retained earnings include \$786 (2002 – \$729) of restricted assets, as described in Note 2(I).

NOTE 5: CASH AND INVESTMENTS

(A) SUMMARY

	2003			2002		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Bank deposit	\$ 627	\$ 627		\$ 2,897	\$ 2,897	
Less funds held for others (Note 10)	(655)	(655)		-	-	
CCITF cash	2,500	2,500		-	-	
	<u>\$ 2,472</u>	<u>\$ 2,472</u>		<u>\$ 2,897</u>	<u>\$ 2,897</u>	
Investments						
Deposit in the CCITF	\$ 6,206	\$ 6,206	35.2	\$ 7,114	\$ 7,114	38.5
Fixed-income securities (Schedule B)	8,755	8,544	48.5	8,786	8,399	45.4
Canadian equities (Schedule C)	2,859	2,877	16.3	2,746	2,980	16.1
	<u>17,820</u>	<u>17,627</u>	<u>100.0</u>	<u>18,646</u>	<u>18,493</u>	<u>100.0</u>
Less CCITF cash held for current purposes	(2,500)	(2,500)		-	-	
	<u>\$ 15,320</u>	<u>\$ 15,127</u>		<u>\$ 18,646</u>	<u>\$ 18,493</u>	

Cash consists of deposits in the Consolidated Cash Investment Trust Fund that is managed by the Ministers of Alberta Revenue and Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

The Commission's investments are held in investment funds established and managed by the Ministers of Alberta Revenue and Alberta Finance. Investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of units.

(B) INVESTMENT RISK MANAGEMENT

The value of investments is exposed to credit and price risk.

Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of interest rate risk and market risk. Interest rate risk relates to the possibility that the investments will change in value due to fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn an optimal financial return at an acceptable level of risk, management of the Commission has established an investment policy, which is reviewed annually. Risk is reduced through asset class diversification, diversification within each asset class and quality and duration constraints on fixed-income instruments. Controls are in place respecting the use of derivatives. While the Commission reports the results of these risk management initiatives in its accounts, the Commission is a passive third-party recipient of these transactions and does not engage directly in derivative or swap contracting.

(C) DERIVATIVE CONTRACTS

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The fund manager uses derivative contracts within the investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. There are underlying securities supporting all swaps, and leveraging is not allowed.

As at March 31, 2003, the Commission's proportionate share of the notional amount of derivative contracts amounted to \$1,921 (2002 – \$1,801) and 28% (2002 – 38 %) of these contracts mature within three years. As at March 31, 2003, index swaps, interest swaps and equity index futures contracts, with a notional amount of \$1,315 (2002 – \$1,101), had a negative fair value of \$34 (2002 – \$5). Cross-currency interest rate swap contracts, which comprised the remaining notional amount of \$606 (2002 – \$700), are valued as a package, including the underlying security. As at March 31, 2003, the combined fair value of cross-currency swaps and underlying securities amounted to \$621 (2002 – \$696).

NOTE 6: NET INVESTMENT INCOME

	2003	2002
Interest	\$ 873	\$ 945
Net realized loss on investments	(257)	(545)
Derivative income (loss)	(106)	2
Dividends	41	35
	<u>\$ 551</u>	<u>\$ 437</u>

NOTE 7: CAPITAL ASSETS

	2003		2002	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer equipment	\$ 1,560	\$ 1,162	\$ 398	\$ 353
Furniture and equipment	481	167	314	322
Leasehold improvements	1,684	669	1,015	944
	<u>\$ 3,725</u>	<u>\$ 1,998</u>	<u>\$ 1,727</u>	<u>\$ 1,619</u>

NOTE 8: LEASE INDUCEMENTS

Lease inducement balances and current amortization includes:

Lease	Term	Current Inducement	Future Inducement
Calgary, old	10 years, ending 2006	\$ 40	\$ 80
Calgary, new	8 years, ending March 2011	123	865
Calgary sublease	3 years, ending October 2005	7	10
		<u>\$ 170</u>	<u>\$ 955</u>

The new Calgary lease inducement of \$988 is receivable over three years with \$400 due in May 2003.

NOTE 9: ACCRUED BENEFIT LIABILITY AND PENSION EXPENSE

The accrued benefit liability includes:

	2003	2002
Retirement Plan	\$ 201	\$ 207
Supplemental Pension	832	541
	<u>\$ 1,033</u>	<u>\$ 748</u>

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

	2003	2002
Public Service Pension Plan	\$ 194	\$ 180
Registered Retirement Savings Plan	240	242
Retirement Plan	6	13
Supplemental Pension Plan	292	212
	<u>\$ 732</u>	<u>\$ 647</u>

(A) PUBLIC SERVICE PENSION PLAN

The Commission participates in the Public Service Pension Plan (the PSPP). The expense for this pension plan equals the amount recorded in the accounts for the year ending March 31, 2003. At December 31, 2002, the PSPP reported an actuarial deficiency of \$175,528 and in 2001 an actuarial surplus of \$320,487.

(B) REGISTERED RETIREMENT SAVINGS PLAN

The Commission makes contributions on behalf of employees who do not participate in the PSPP to employee Registered Retirement Savings Plans.

(C) RETIREMENT PLAN

The Commission has a retirement plan for a designated executive. The provisions of the retirement plan were established pursuant to a written agreement with the designated executive. The retirement plan provides pension benefits based on a fixed schedule of payments over a 15-year period commencing in September 2002 and ending in 2017. Accrued benefits are payable on the death of the designated executive. The retirement plan is not pre-funded and the benefits will be paid from the assets of the Commission as they come due.

(D) SUPPLEMENTAL PENSION PLAN

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

The Plan provides pension benefits to the designated executives which are defined by reference to earnings which are in excess of the \$86 limit imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Plan are payable on or after attainment of age 55 and are equal to 1.75% of highest average pensionable earnings (average over five years) for each year of service with the Commission. Members of the Plan become vested in the benefits of the plan after two years of service. Accrued benefits are also payable on early retirement (with reductions), death or termination of employment of the designated executive.

The Plan is not pre-funded and the benefits will be paid from the assets of the Commission as they come due.

An actuarial valuation of the Plan and retirement plan was performed by an independent actuary in March 2001 and updated to March 31, 2002. The accrued benefit liability was determined as at March 31, 2001. During the current year, management has estimated, based on information from prior actuarial valuations, the incremental costs of employee change within the plans of approximately \$55 in addition to the actuarial valuation determined expense (prior to employee change) of \$237.

Note 9 Cont.

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

	2003	2002
<i>Balance Sheet at March 31</i>		
Market value of assets	\$ -	\$ -
Accrued benefit obligation	1,033	829
Unfunded obligation	1,033	829
Unamortized transitional obligation	(229)	(255)
Unamortized actuarial gain	(33)	(33)
Employee change cost estimate	61	-
Accrued benefit liability	\$ 832	\$ 541
<i>Accrued Benefit Obligation</i>		
Accrued benefit obligation at beginning of period	\$ 829	\$ 596
Service cost	190	134
Interest cost	60	54
Net actuarial loss (gain)	(46)	45
Accrued benefit obligation at end of period	\$ 1,033	\$ 829
<i>Pension Expense</i>		
The pension expense for the Plan is as follows:		
Service cost	\$ 206	\$ 134
Interest cost	60	54
Amortization of transitional obligation	26	24
Pension expense	\$ 292	\$ 212

Actuarial Assumptions for Actuarial Valuation of the Plan

The assumptions used in the actuarial valuation of the Plan performed in March 2001 and updated to March 31, 2002 are summarized below. The discount rate was established in accordance with the yield on long corporate bonds. Other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on best estimate of the future experience of the plans.

	2003	2002
Discount rate	7.15%	7.15%
Rate of inflation	2.2%	2.2%
Salary increases	3.7%	3.7%

NOTE 10: FUNDS HELD FOR OTHERS

The Commission holds \$655 in cash for participants in the Market Integrity Computer Analysis (MICA) system upgrade project. In addition, the Commission is committed to contributing \$170 to the project, of which \$35 has been spent and recorded as a Commission expense. Funds are disbursed as payments are made for approved expenditures. Expenditures, if any, in excess of the amounts held for others and the Commission's MICA commitment require further participant approval and contribution. The MICA project will assist participants in the analysis of trading activities.

NOTE 11: EDMONTON OFFICE CLOSURE

The Commission closed its Edmonton office on February 1, 2003. Closure costs of \$2,096 include: employee severances of \$1,400, lease termination of \$145, litigation settlement with Edmonton employees of \$250, furniture fixtures and leasehold write-offs of \$200 and operational costs of \$100.

NOTE 12: COMMITMENTS, CONTINGENCIES AND GUARANTEES

Set out below are details of commitments to organizations outside the Commission and contingencies from guarantees and legal actions. Any losses arising from the settlement of contingencies are treated as expenses in the year of settlement.

(A) COMMITMENTS

Commitments arising from contractual obligations associated primarily with the eight-year lease of premises and three-year average rental of office equipment at March 31, 2003 amounted to \$12,656 (2002 – \$5,058). These commitments become expenses of the Commission when the terms of the contracts are met.

The commitment amount includes the Commission's remaining contribution of \$135 for the Market Integrity Computer Analysis project (see Note 10).

2003-04	\$ 1,617
2004-05	1,463
2005-06	1,542
2006-07	1,573
2007-08	1,658
Thereafter	4,803
Total	<u>\$ 12,656</u>

The Commission also agreed to share, based on an agreed upon cost sharing formula, the costs incurred for the maintenance of the Canadian Securities Administrators (CSA) Project Office, and any third-party costs incurred in the development of harmonized rules, regulations and policies. The CSA Project Office was established to assist in the development and harmonization of rules, regulations and policies across Canada.

(B) GUARANTEES

The Commission, along with the Ontario Securities Commission and the British Columbia Securities Commission, guaranteed the liabilities of the Mutual Fund Dealers Association of Canada. The Commission's share of the guarantee is limited to \$2,160.

(C) CONTINGENCY, NATIONAL REGISTRATION DATABASE

The Commission is contingently liable in the amount of \$518, which represents the Commission's share of certain development costs of the National Registration Database System (NRD System), should the NRD System fail and cannot be restored. Otherwise, these costs are contractually recoverable from system users. Subsequent to March 31, 2003 the NRD system was implemented, certain of these costs have been recovered and, based on current NRD system operations, the contingency will be eliminated in early 2004. No provision has been made in the financial statements for any potential cost to the Commission, as the Commission does not expect to pay any amount.

(D) LEGAL ACTIONS

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

NOTE 13: BUDGET

The Commission members approved the original budget in February 2002. The following changes were subsequently authorized by the Commission Members: fees and investment income reductions of \$1,300, net expense reductions of \$300, Edmonton office closure expense of \$2,200 (not previously budgeted), contract services increase of \$518 to provide additional funding for the National Registration Database, and capital expenditures for premises increases of \$1,000 for Calgary leasehold capital renovations and expansions.

NOTE 14: FEES

	2003	2002
Distribution of securities <i>(Note 3)</i>	\$ 6,172	\$ 6,986
Registrations <i>(Note 3)</i>	5,686	4,822
Annual financial statements	2,448	2,168
Orders <i>(Note 3)</i>	341	433
Total	<u>\$ 14,647</u>	<u>\$ 14,409</u>

NOTE 15: ADVANCES

The Commission advanced \$236 to the NRD project in late fiscal 2003 and consistent with the terms of this advance will be repaid this amount during fiscal 2004.

SCHEDULE OF SALARIES AND BENEFITS

For the Year Ended March 31, 2003

	2003				2002	
	Number of Individuals (1)	Salary (2)	Benefits & Allowances (3)	Total	Number of Individuals (1)	Total
Securities Commission						
Members (part-time)	9	\$ 275,405	\$ -	\$ 275,405	9	\$ 198,681
Chair, Securities						
Commission ⁽⁴⁾	1.0	\$ 435,150	\$ 33,155	\$ 468,305	1.0	\$ 456,485
Vice Chair, Securities						
Commission ⁽⁴⁾	1.0	\$ 212,150	\$ 18,731	\$ 230,881	1.0	\$ 222,532
Vice Chair, Securities						
Commission ^(4,5)	0.8	\$ 494,025	\$ 47,221	\$ 541,246	1.0	\$ 221,148
Executive Director ⁽⁶⁾	1.0	\$ 242,900	\$ 19,981	\$ 262,881	1.0	\$ 260,763
Director, Legal/Policy	1.0	\$ 192,650	\$ 17,986	\$ 210,636	1.0	\$ 204,137
Director, Capital Markets	1.0	\$ 181,151	\$ 17,499	\$ 198,650	1.0	\$ 190,922
Director, Enforcement	1.0	\$ 168,350	\$ 17,836	\$ 186,186	1.0	\$ 177,990
Director, Administration ⁽⁷⁾	0.6	\$ 93,346	\$ 12,756	\$ 106,102	-	-

⁽¹⁾ Number of individuals is the weighted average during the year.

⁽²⁾ Salary includes regular base pay, bonuses, overtime and lump-sum payments and honoraria.

⁽³⁾ Employer's share of all employee benefits and contributions or payments made on behalf of employees including pensions, registered retirement savings plan contributions, health care, dental coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long- and short-term disability plan, vacation payouts, professional memberships, tuition, club memberships and Chair's automobile allowance.

⁽⁴⁾ The Chair and Vice Chairs are full-time Commission Members.

⁽⁵⁾ The Vice Chair resigned effective January 31, 2003. Retiring allowance and bonus amounts included in Salary. Vacation payout included in Benefits and Allowances. A new Vice Chair was appointed on April 9, 2003.

⁽⁶⁾ Automobile provided, no dollar amount included in benefits and allowance figures.

⁽⁷⁾ Director, Administration was hired September 9, 2002 as a new member of the senior management team.

SCHEDULE OF INVESTMENTS IN FIXED-INCOME SECURITIES

	Commission's share			
	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Deposit in the Consolidated				
Cash Investment Trust Fund	\$ 15	\$ 15	\$ 94	\$ 94
Public fixed-income securities				
Government of Canada				
direct and guaranteed	1,788	1,754	2,485	2,368
Provincial:				
Alberta, direct and guaranteed	20	21	26	26
Other, direct and guaranteed	1,617	1,592	1,525	1,446
Municipal	181	180	128	124
Corporate	4,067	3,949	3,337	3,218
Private fixed-income securities				
Corporate	975	941	1,110	1,042
	8,663	8,452	8,705	8,318
Accounts receivable and				
accrued investment income	111	111	193	193
Accounts payable and accrued liabilities	(19)	(19)	(112)	(112)
	92	92	81	81
	\$ 8,755	\$ 8,544	\$ 8,786	\$ 8,399

- (a) Fixed-income securities held as at March 31, 2003 have an average effective market yield of 5.41% per annum (2002 – 5.80% per annum) and the following term structure based on principal amounts:

	2003	2002
	%	%
under 1 year	2	7
1 to 5 years	37	34
5 to 10 years	31	31
10 to 20 years	11	10
over 20 years	19	18
	100	100

- (b) The Commission's fixed-income securities are held in the Canadian Dollar Public Bond Pool (the Pool). The Pool is managed by the Ministry of Revenue with the objective of providing above average returns compared to the total return of the Scotia Capital Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high-quality Canadian fixed-income instruments and related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

SCHEDULE OF INVESTMENTS IN CANADIAN EQUITIES

	Commission's share			
	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Deposits in the CCITF	\$ 25	\$ 25	\$ 38	\$ 38
Public equities (a)(b)				
Financial	887	952	772	897
Energy	361	446	273	380
Materials	457	437	417	430
Consumer discretionary	243	199	256	232
Industrials	209	193	261	267
Telecommunication services	168	155	120	116
Information technology	191	145	265	241
Consumer staples	109	119	93	111
Utilities	113	117	86	97
Health care	98	92	108	111
	2,836	2,855	2,651	2,882
Passive index	11	10	39	42
	2,847	2,865	2,690	2,924
Receivable from sale of investments and accrued investment income	8	8	26	26
Accounts payable and accrued liabilities	(21)	(21)	(8)	(8)
	(13)	(13)	18	18
	\$ 2,859	\$ 2,877	\$ 2,746	\$ 2,980

- (a) The Commission's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling \$667 (2002 – \$612) which are used as underlying securities to support the notional amount of Canadian equity index swap contracts and futures contracts.
- (b) The industrial classifications are those used by the Toronto Stock Exchange indices.
- (c) The Commission's investments in Canadian equities are held in the following pooled funds administered by the Ministry of Revenue.

	2003		2002	
	Cost	Fair Value	Cost	Fair Value
Domestic Passive Equity Pooled Fund (i)	\$ 1,250	\$ 1,272	\$ 1,222	\$ 1,318
Canadian Pooled Equity Fund (ii)	1,156	1,173	1,160	1,279
External Managers Canadian Large Cap Equity Pool (iii)	453	432	364	383
	\$ 2,859	\$ 2,877	\$ 2,746	\$ 2,980

- (i) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (TSX) Index. The portfolio is comprised of publicly traded equities in Canadian corporations similar in weights to the TSX Index. To enhance investment returns with no substantial increase in risks, the pool uses structured investments such as domestic equity index swaps. The Pool's investment in units of the Floating Rate Note Pool (FRNP) are used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high-quality floating-rate instruments with remaining term to maturity of 10 years or less.
- (ii) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the Toronto Stock Exchange (S&P/TSX) Index. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.
- (iii) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. Each portfolio is actively managed by an external manager with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the TSX index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

SCHEDULE OF INVESTMENT RETURNS

The Commission uses the time-weighted rate of return based on market values to measure performance. The measure involves the calculation of the return realized by the Commission over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and gains or losses (realized and unrealized).

The time-weighted rate of return measures the compounded rate of growth of the initial investment over the specified period. It is designed to eliminate the effect that the size and timing of cash flows have on the internal rate of return. The investment industry uses time-weighted rates of return calculated using market values when comparing the return of pools with other pools or indices.

Investment returns for the Commission are as follows:

	2003	One-Year Return		2000	Four-Year Compound Annualized Return
		2002	2001		
<i>Time-weighted rates of return</i>					
<i>Short-term fixed income</i>	2.9	4.0	5.8	5.1	4.4
Scotia Capital 91-day T-Bill Index	2.7	3.7	5.7	4.7	4.2
<i>Long-term fixed income</i>	9.5	5.7	9.4	1.3	6.4
Scotia Capital Universe Bond Index	9.2	5.1	8.7	1.3	6.0
<i>Canadian equities</i>	(17.5)	n/a	n/a	n/a	n/a
Toronto Stock Exchange (S&P/TSX)	(17.6)	n/a	n/a	n/a	n/a
<i>Overall</i>	2.3	4.3	8.6	2.1	4.3

ASC staff have established three advisory committees composed of industry representatives. These committees provide an extremely valuable service and help inform ASC staff of industry views and current practices.

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Alberta Securities Commission

4th Floor, 300 – 5th Ave. SW
Calgary, AB T2P 3C4

www.albertasecurities.com