COAL · OIL · PIPELINES · MINERALS · OIL SANDS · ELECTRICITY · NATURAL GAS · PETROCHEMICALS

Alberta Ministry of Energy

2005-2006 ANNUAL REPORT

Alberta

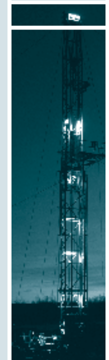
Public Accounts 2005-2006 Preface

The Public Accounts of Alberta are prepared in accordance with the Financial Administration Act and the Government Accountability Act. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 23 Ministries.

The annual report of the Government of Alberta released June 30, 2006 contains the Minister of Finances accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the Measuring Up report.

This annual report of the Ministry of Energy contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the Ministry business plan. This Ministry annual report also includes:

- the financial statements of entities making up the Ministry including the Department of Energy, the Alberta Energy and Utilities Board and the Alberta Petroleum Marketing Commission;
- other financial information as required by the Financial Administration Act and Government Accountability Act, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report;
- and the financial information relating to trust funds.



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Minister's Accountability Statement

The Ministry's Annual Report for the year ended March 31, 2006, was prepared under my direction in accordance with the Government Accountability Act and the government's accounting policies. All of the government's policy decisions as at September 1, 2006, with material economic or fiscal implications of which I'm aware have been considered in the preparation of this report.

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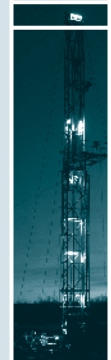
Greg Melchin, MLA
Minister of Energy



Message from the Minister

Alberta is becoming a global energy leader. We have centuries of energy supply and the necessary energy expertise to make Alberta the safest and most reliable place in the world to invest.

Alberta's energy sector is attracting investment, creating employment, providing training and facilitating energy related research that generates benefits for all Albertans. The activity in Alberta's energy sector today is building a foundation for success that will continue beyond our lifetime. The ability of Alberta to use its abundant energy resources wisely is an important part of this government's commitment to sustainable resource and environmental management – striking the balance.

Alberta collected a record high $14.3 billion in non-renewable resource revenues in 2005-06. Our strong royalty revenue stream contributes to low personal and corporate taxes and significantly funds investment in priority areas such as health care, education and infrastructure.

About $3.5 billion of the total resource revenues was received from the sale of oil sands, petroleum and natural gas mineral rights in 2005-06, setting a new record for the most revenue collected in a fiscal year. Crown mineral rights auctions are an important component in managing Alberta's resources, and Albertans can be proud of a process that is looked upon as one of the best in the world.

This past year, much attention was given to Alberta's oil sands and conventional oil industries. Alberta has the second largest proven oil reserves in the world with 175.3 billion barrels, of which 173.7 billion barrels are bitumen reserves. With improvements in technology, that number could reach 300 billion barrels or more in years to come.

Alberta's reserves of coalbed methane, or natural gas in coal, are estimated to contain up to 500 trillion cubic feet of natural gas. Alberta's regulatory framework, carried out by the Alberta Energy and Utilities Board, ensures that development of this resource is done in a safe, responsible and sustainable manner. In 2005-06, the Preliminary Findings document from the Multi-Stakeholder Advisory Committee (MAC) on coalbed methane was completed. This document is helping to lay the groundwork for future coalbed methane development. Over 1,000 Albertans participated in the MAC's coalbed methane consultation over the past two years.

To provide further price protection to Alberta natural gas consumers, the Alberta government extended the Natural Gas Rebate Program for three more years until March 2009, and added October as a rebate month. In 2005, Alberta's Natural Gas Rebate Program enabled Alberta consumers to pay approximately 22 per cent less than the national average for natural gas.

In 2005, the Alberta government reinforced its commitment to Alberta's competitive electricity market by approving and enacting several of the recommendations in the Electricity Policy Framework. This included a significant change in policy regarding the Regulated Rate Option (RRO) for residential, farm and small commercial customers. This will improve the way the RRO will be calculated. The new method will be gradually introduced over the next four years.

Alberta's energy future will be based on an integrated approach to resource development ensuring that resource development in Alberta takes place in a coordinated, managed and environmentally sustainable manner. Albertans can be confident that regulations and policies around safety, energy development, access, environmental standards and protection are effective, reasonable and consistently applied.

Energy technology and innovation is a key priority in the new integrated approach. The whole energy sector in Alberta has benefited from, and is open to technological innovation. New technologies will help recover more conventional reserves and continue to encourage responsible development of oil, natural gas, coal and oil sands.

Coal is presently a key fuel source for electricity generation, but it also has potential to be a future feed stock for synthetic gas, chemicals, and hydrogen which are all essential components of Alberta's long-term energy future. We will continue to support steps that will lead to cleaner coal technologies, such as coal and petcoke gasification.

In Alberta we are also realizing our potential for upgrading, refining, processing, and secondary manufacturing using our energy resources. This will increase value-added opportunities for Albertans and ensure that we capture the best value and best use of these resources.

I want to personally thank all ministry staff and energy sector stakeholders who worked so hard to contribute to the success of the Ministry of Energy in 2005-06. Thank you also to my colleague Mel Knight, MLA for Grande-Prairie Smoky, for his continued efforts with the U.S. Energy Council and Pacific Northwest Economic Region.

I would also like to thank Albertans for their hard work, dedication and entrepreneurial spirit that is an important part of making Alberta the best place to work, live and visit.

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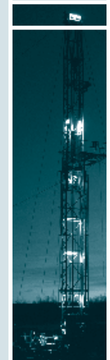
Greg Melchin, MLA
Minister of Energy



Management's Responsibility for Reporting

The Ministry of Energy includes:

- Alberta Department of Energy (DOE)
- Alberta Energy and Utilities Board (EUB)
- Alberta Petroleum Marketing Commission (APMC)

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Energy. Under the direction of the Minister we oversee the preparation of the Ministry's annual report including consolidated financial statements and the performance results of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

As senior executives, in addition to program responsibilities, we establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money, provide information to manage and report on performance;
- safeguard the assets and properties of the Province under the Ministry administration;
- provide Executive Council, Treasury Board, the Minister of Finance and the Minister of Energy any information needed to fulfill their responsibilities; and
- facilitate preparation of Ministry business plans and annual reports required under the Government Accountability Act.

In fulfilling responsibilities for the Ministry, we have relied, as necessary, on the executive of the individual entities within the Ministry.

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Dan McFadyen
Deputy Minister
Department of Energy

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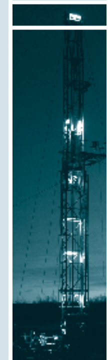
Neil McCrank
Chairman
Alberta Energy and Utilities Board



Ministry of Energy Organizational Structure

COAL • OIL • PIPELINES • MINERALS • OIL SANDS • ELECTRICITY • NATURAL GAS • PETROCHEMICALS

The Ministry of Energy consists of the Department of Energy (DOE), the Alberta Energy and Utilities Board (EUB), and the Alberta Petroleum Marketing Commission (APMC).

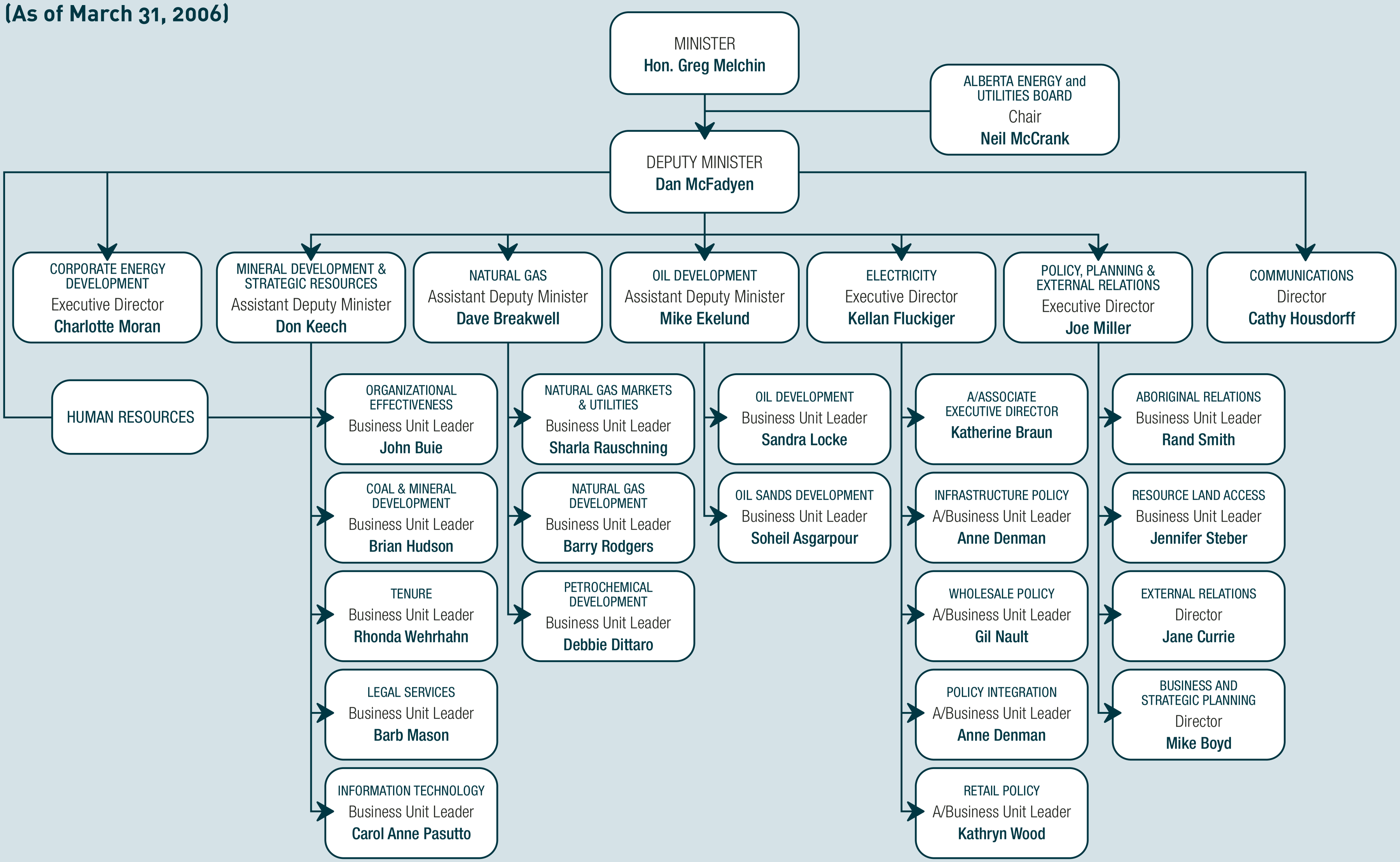
The department manages the private sector development of provincially owned energy and mineral resources and the assessment and collection of non-renewable resource revenues in the form of royalties, freehold mineral taxes, rentals and bonuses. The department promotes development of Alberta's energy and mineral resources, recommends and implements energy and mineral related policy, grants rights for exploration and development to industry and establishes and administers fiscal regimes and royalty systems. To effectively manage the development of these commodities, the department has organized itself along commodity business lines. This structure builds knowledge and strengthens communication between business areas and Alberta's resource industries. Over 500 employees effectively manage a wide range of functions including revenue calculation and collection, the sale and administration of agreements, policy development and external relationships. The department works within the provinces framework of sustainable resource and environmental management to maintain or enhance resource exploration and development opportunities.

The EUB is an independent, quasi-judicial agency of the Government of Alberta with responsibility to regulate Alberta's energy resource and utility sectors. While the Alberta Minister of Energy has governance responsibility for the EUB, it makes its formal decisions independently in accordance with various statutes and regulations. The EUB's operations are jointly funded by the Crown and a mandatory administrative levy applied to industry. The EUB has approximately 800 staff in 14 locations across the province, with the main office in downtown Calgary. The EUB also includes the Alberta Geological Survey (AGS) whose role is to provide geoscience information and expertise to government, industry and the public in support of the sustainable development of Alberta's energy and mineral resources. In addition, the EUB Chairman has governance responsibility for the Market Surveillance Administrator (MSA). The MSA monitors Alberta's electricity market for fairness and balance in the public interest and oversees the performance of Alberta's electricity market to ensure it operates fairly, efficiently, and in an openly competitive manner.

The APMC accepts delivery of the Crown's royalty share of crude oil and sells it at current market value. Unlike other energy commodities conventional crude oil royalties are paid with 'in-kind' product. The department and the APMC's operations are integrated and fully funded by the Crown.

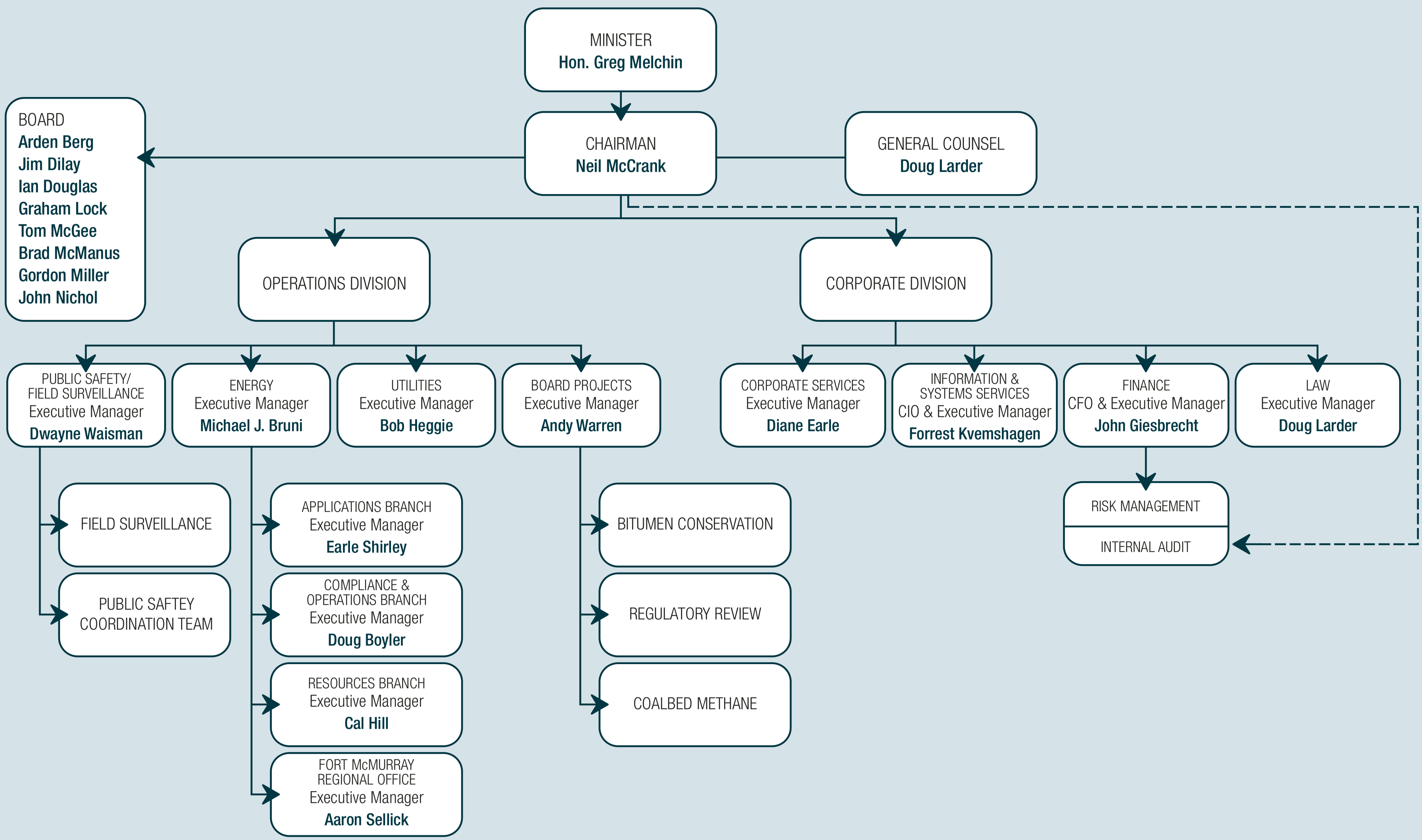
Department of Energy

(As of March 31, 2006)



Alberta Energy and Utilities Board

(As of March 31, 2006)



MINISTRY OPERATIONAL OVERVIEW

Ministry Operational Overview

The Alberta Crown owns 81 per cent of the province's mineral rights. The Ministry of Energy manages the development of these resources on behalf of the people of Alberta. The remaining 19 per cent are owned by individuals and companies or by the federal government in National Parks or on behalf of First Nations.

The Ministry of Energy has responsibility for a diverse resource development and commodity portfolio that includes natural gas, conventional oil, oil sands, coal, minerals, petrochemicals and electricity. To effectively manage the development of these resources and commodities, the department has organized itself along commodity business lines and has identified the following four core businesses:

Securing Benefits for Albertans – Secure Albertans' share and benefits from energy and mineral resource development.

This core business includes all department operations involved in the assessment, calculation, collection, and audit of royalties, freehold mineral taxes and other revenue from the energy and mineral industry. It includes all APMC operations related to the marketing and sale of the Crown's in-kind oil royalty share. The core business also includes the department's analysis and review of existing royalty features and systems and the development of new royalty features.

Resource Development – Ensure Alberta's energy and mineral resources remain accessible, competitive and attractive to investment and development.

This core business includes all department operations involved in directly managing the leasing and development of energy and mineral resources, including work undertaken to promote development in Alberta, maintain access to the resource, and encourage development of new technologies and new sources of energy. It also involves monitoring and assessing the competitiveness of Alberta's energy and mineral development policies, regulations and royalty programs to ensure Alberta continues to attract investment.

Energy for Albertans – Ensure Alberta consumers have a choice of reliable and competitively priced energy.

This core business includes all departmental operations related to policy and market (wholesale and retail) design for electricity as well as retail market design for natural gas. Its aim is to provide an efficient, competitive marketplace that maintains reliable energy supplies and provides fair and equitable prices to customers.

Regulation of Energy Development – Regulate the development and delivery of Alberta's energy resources and utilities services in a manner that is fair, responsible and in the public interest.

The Energy and Utilities Board (EUB) is an independent, quasi-judicial body that regulates the development and delivery of energy resources in Alberta. It also applies technical standards for the safe and reliable operation of energy facilities while having regard for social, economic and environmental effects. The EUB conducts inspections to ensure compliance with regulations and provides geo-science information and expertise needed by government, industry and the public. In the utility sector, the EUB ensures that regulated electricity and natural gas utilities provide Albertans with reliable service at reasonable prices that also give the owners of regulated utilities an opportunity to earn a fair return on their investment and recover their costs.

Ministry Highlights for 2005-06

(Cdn $ millions)	2005-06	2004-05	2003-04	2002-03	2001-02
Natural gas and by-products	8,388	6,439	5,450	5,125	4,030
Conventional crude oil royalties	1,463	1,273	981	1,177	987
Bonuses from the sale of Crown leases	3,490	1,252	967	565	970
Synthetic crude oil and bitumen	950	718	197	183	185
Rentals and fees	156	153	154	153	148
Coal	11	11	9	10	17
Alberta Royalty tax credit	-111	-102	-82	-83	-109
Total Non-Renewable Resource Revenue	14,347	9,744	7,676	7,130	6,228
Freehold Mineral tax	334	306	288	202	319
Other Revenue*	116	98	101	90	84
Total Revenue**	14,797	10,148	8,065	7,422	6,631
Expenses*	201	192	199	165	149
Net Ministry of Energy Revenue	14,596	9,956	7,866	7,257	6,482

* revenues and expenses are for the Department of Energy and the EUB

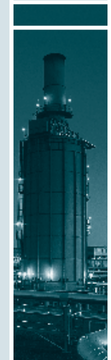
Ministry Operations:

2005-06 was a year of record oil and gas prices, record industry activity, and at $14.3 billion, record non-renewable resource revenue. In 2005, oil and gas industry investment also reached record levels, at an estimated $31.2 billion. Alberta's energy sector continues to be the key driver of Alberta's economy and with a real Gross Domestic Product growth rate of 4.5 per cent, Alberta led the country in 2005. Non-renewable resource revenues accounted for about 40 per cent of the provincial government's total revenue this fiscal year. This revenue is critical to keeping taxes low and to providing necessary funding for important public programs, such as education, health and infrastructure.

Record industry activity has placed a significant amount of pressure on all areas of Ministry operations: calculating and collecting royalties, reviewing posting requests, conducting public sales of mineral rights, issuing and maintaining mineral rights agreements, reviewing and approving well licenses, reviewing oil sands projects, handling transfers and continuations of leases and advocating for access to mineral resources.

Industry drilling in Alberta reached record levels in 2005, driven by record prices for oil and natural gas. In 2005, 23,733 well licenses were issued by the EUB - an increase of almost 10 per cent over 2004, and an increase of nearly 25 per cent from 2003. In 2005-06 the DOE maintained and managed nearly 100,000 active energy and mineral agreements.

Global recognition of Alberta's vast oil sands resource has increased dramatically over the past three years and resulted in increased investor interest in developing this resource. Project applications (either new or amendments to existing agreements) have steadily increased over the past three years and are expected to continue to increase in the future. Each project must be reviewed in detail by the DOE further. Work was also undertaken to promote the province's potential for upgrading, processing and secondary manufacturing using our energy resources. During the year the DOE has also worked to move coalbed methane (CBM) development forward in the province, assuring availability of future supplies of this valuable resource. The EUB has a strong regulatory framework related to natural gas, and CBM is subject to the same stringent regulatory framework as all natural gas. The EUB ensures CBM is developed safely and responsibly, and continues to refine and enhance regulations in recognition of the emergence of CBM as a viable resource.



A review of the Natural Gas Rebate Program was conducted during the year and as a result, this program was extended to 2009. Work was also completed on a number of policies governing the electricity industry during the year and a Task Force was established to support the government's commitment to efficient and reliable electrical transmission infrastructure.

Energy companies operate almost 206,000 non-abandoned wells, 18,449 oil batteries and associated satellites, 815 gas plants, 10,291 gas batteries and compressor stations, and a pipeline network of more than 350,000 kilometres. Each year the EUB inspects a portion of this vast energy infrastructure to make certain that projects are constructed properly and operated safely. The energy industry's proactive efforts in meeting and exceeding EUB requirements have resulted in overall high compliance rates. Companies have addressed important environmental issues such as sulphur emissions, which have fallen by 27 per cent since 2000 from 78,000 to 57,000 tonnes in 2005. Since 1974, operators of Alberta gas plants have reduced sulphur emissions by about 75 per cent. Sulphur recovery efficiencies at gas plants recovering saleable sulphur are now at 98.9 per cent.

The EUB actively worked with the public in 2005, participating in 34 open houses to address concerns, answer questions, deal with issues, and improve Albertans' understanding of proposed developments. The EUB also participates in synergy groups, which are made up of public, industry, and government representatives who work collaboratively to improve communications and identify and address issues.

The Ministry's workforce requires a high level of expertise and we face challenges in attracting, retaining and developing our staff. Despite these pressures staff remain highly motivated. They recognize the importance of the work they do on behalf of Albertans. This is demonstrated in the results of the 2005 Government of Alberta Corporate Employee Survey in which our employees ranked the Ministry of Energy as one of the best departments in the Government of Alberta to work for. Ministry employees also consider their work meaningful and can see how it makes a positive contribution to the province. They are also seen as valued employees.

Strategic Priorities for 2005-06

During the year, the Ministry worked on a number of strategic priority initiatives:

Global Energy Leader –

Alberta has a vast supply of natural energy resources. Huge non-conventional oil sands and coalbed methane resources complement Alberta's conventional oil and natural gas resource base. Abundant coal reserves offer opportunities for future low emission power generation (clean coal), value added processing and increased exports. World recognition of Alberta's energy resources has increased dramatically in recent years and Alberta is emerging as a global energy leader.

Appropriately, in 2005-06 Alberta Energy introduced a new Vision for Alberta's energy resources: Alberta is a global energy leader, using its world-class knowledge, expertise and leadership to develop the vast energy resources of the province and to market these resources and abilities to the world.

This Vision is about the future. It is about what Alberta has yet to achieve with its vast energy resources and expertise. As global energy leaders Albertans will be positioned to sustain their high quality of life through new opportunities in the global energy market place, environmentally responsible development and securing long term benefits from their energy resources. Alberta's future energy development will be characterized by a new approach – energy integration. Under this approach future energy development in Alberta will build on the strengths of its non-renewable resources; as well as renewable energy resources. Integrated strategies that maximize synergies between energy sources and increase value-added opportunities for the benefit of Albertans will be employed. Future energy development must also integrate consideration of broader factors like labour, capital, environmental management, and other requirements that are necessary to obtain all of the benefits inherent in developing Albertans' energy resources. Partnering of the public and private sectors of our economy will be critical to future energy development.

In 2005-06 work was begun to elaborate on the meaning and direction of the Ministry's vision through what we have described as an "Integrated Energy Vision" (IEV). This vision is an elaboration of the statement and proposed direction for future energy development in Alberta. Alberta Energy is currently completing discussions with other departments prior to reviewing the IEV with the public and external stakeholders. It is expected that this vision will be available for public comment later in 2006.

Access for Resource Development -

The department continued its very active involvement in cross-government integrated resource management initiatives. Working with other departments, Energy consulted with stakeholders to develop a work plan for the Integrated Land Management Project, which will include industry and other stakeholders in the development of Project deliverables. The Integrated Land Management Project will develop a program of operational-scale planning and management tools to minimize the disturbance footprint of industrial and other public land uses, to address their reclamation, and to provide appropriate access to public land. Phase 1 of the Southern Alberta Sustainability Strategy was completed, which incorporated an innovative analysis, facilitated by the department, industry and others, of future development scenarios and their economic, environmental and social implications. This will provide a framework for tools and actions that will sustain a desired level of environmental quality in southern Alberta.

The department remained engaged as a partner in the implementation of Water for Life: Alberta's Strategy for Sustainability. The department became a member of the multi-stakeholder Alberta Water Council formed to provide advice and recommendations on water-related policy.

The department continued as a member of the Endangered Species Coordinating Committee and worked to balance species recovery initiatives and surface access for resource development. The department played a key role in the completion of the caribou and grizzly bear provincial recovery plans.

Public Awareness and Understanding –

A public awareness campaign was conducted in 2005, with advertisements appearing in Alberta's major daily and community newspapers. The campaign was aimed at getting factual information to Albertans about the economic and social benefits that are delivered to the people of the province and the rest of Canada as a result of our energy resources.

Alberta Energy was a sponsor of the second "Energy Education Institute" for Alberta teachers. The Institute is a seven day leadership program that provides classroom teachers with first hand knowledge of the energy resource development sector, what that development means to Alberta and Albertans, and how the challenges of development are being managed.

Alberta Energy also sponsored an oil sands "edutour" that used a site tour and presentations to introduce approximately 30 senior Alberta science teachers to this major development and technological initiative. The site visit was to Syncrude. The department continued to be a significant sponsor and supporter of the work of the Canadian Centre for Energy Information (CCEI). Energy staff reviewed and provided comments on a number of CCEI energy information resource materials, and provided direct support to a host of projects such as the Alberta Energy Fast Facts 'Did You Know?' brochure offering at-a-glance information on petroleum production in Alberta.

Electricity Markets –

A policy paper "Alberta's Electric Policy Framework - Competitive-Reliable-Sustainable" was completed and approved for release in June 2005. The policy paper contained a significant change in policy regarding the Regulated Rate Option (RRO) for residential, farm and small commercial customers. A discussion paper "Roles and Mandates Refinements for Alberta Electric Industry Implementing Agencies" was released for review in November 2005. The paper was drafted to clarify the roles of the four implementing agencies - the Independent System Operator, the Market Surveillance Administrator, the Balancing Pool and the EUB - in response to the evolution of the electricity market in Alberta.

Proposed amendments to the Gas Utilities Act (GUA), Electricity Code of Conduct Regulation and Natural Gas Code of Conduct Regulation were developed and distributed for stakeholder comment. The GUA amendment is intended to support further harmonization of retail marketing of electricity and natural gas by giving the Market Surveillance Administrator (MSA) and a tribunal appointed by the chair of the EUB investigative and enforcement powers to oversee competitiveness of the natural gas retail market as well as the electricity retail market.

Investment in new electric transmission capacity remains a critical component in the development of Alberta's energy resources. To support government's commitment to efficient and reliable electric infrastructure, a MLA Transmission Committee was established to provide recommendations on transmission development. Alberta collaborated with Canadian and US agencies dedicated to electric system reliability to establish a new organisation called the Electric Reliability Organization (ERO), intended to support transmission system reliability across both countries.

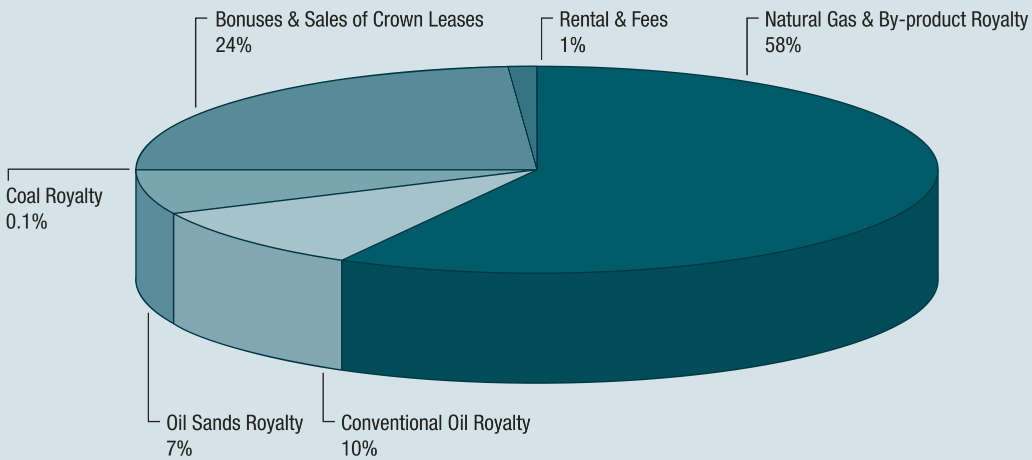
Royalty Systems –

Albertans are the owners of the province's vast and diverse energy and mineral resources and expect to receive a fair share of the revenue from those resources. The Department of Energy optimizes the benefits from these resources by collecting ongoing economic rent on behalf of all Albertans. Revenues received from royalties are a major contributor to funding government programs throughout Alberta, and help keep Alberta's taxes the lowest in Canada. This benefit is a balance between upstream production operations and recognizing the importance of value added initiatives along with a need for continued investment in the province. The department continues to conduct reviews of Alberta's royalty programs assessing both competitiveness with other jurisdictions and the generation of fair share and other economic benefits for Albertans.

Sustainable Resource and Environmental Management (SREM) –

The ministries of Alberta Environment, Sustainable Resource Development (SRD) and Energy committed to and signed a Sustainable Resource and Environmental Management (SREM) Charter. This Charter commits the ministries to work together and take joint responsibility to achieve agreed-upon natural resource and environmental outcomes. The charter commits the ministries to strengthen the ways they work together to become the best natural resource and environmental managers in the world. To achieve this, the ministries commit to work with Albertans, with each other, and with other government departments to better integrate their policies, align and share their information, streamline their regulatory processes, and assess their performance. A project office for SREM was established and four projects were identified and are currently being worked on: Land Use Framework; Oil Sands Strategy; Upstream Oil and Gas Regulatory Review; and Natural Resource Information Sharing.

Fiscal 2005-06 Resource Royalty Sources



Ministry – by the numbers

Record levels of industry activity and record high prices for oil and gas enabled the department to collect non-renewable natural resource revenues of $14.3 billion this fiscal year, the highest year in the province's history. This represented about 40 per cent of total provincial government revenues. Industry investment reached a new record, with an estimated $31.2 billion invested in 2005.

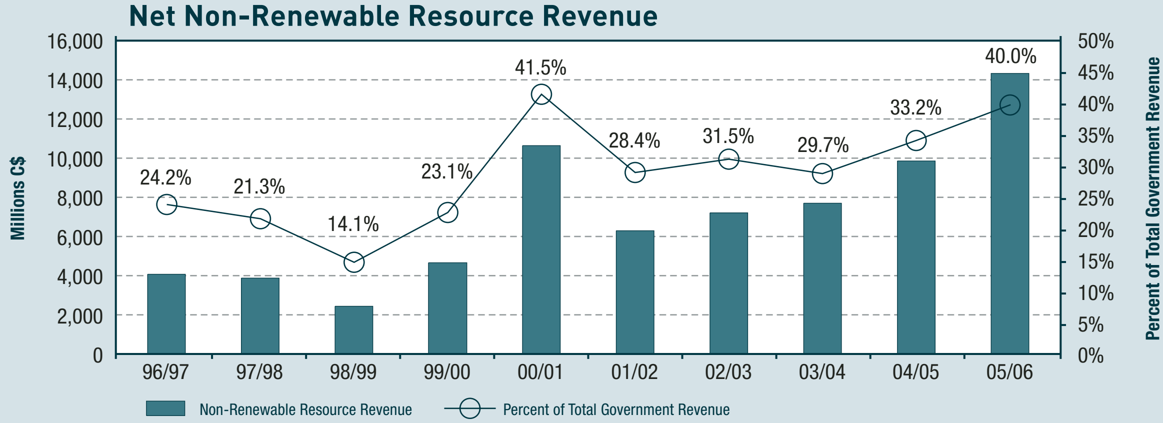
The EUB issued its annual report ST98-2006: Alberta's Energy Reserves 2005 and Supply/Demand Outlook 2006-2015, which details the supply of and demand for the province's diverse energy resources. Alberta's 175.3 billion barrels of remaining established oil reserves in 2005 continues to position the province as the second largest holder of proven oil reserves in the world, after Saudi Arabia. This reserves total includes 173.7 billion barrels of bitumen, a slight decline from 174.1 billion barrels reported for 2004, and 1.6 billion barrels of conventional oil reserves, a 2 per cent increase over the 2004 level.

Total marketable oil sands production, at 966,000 barrels per day (bbl/d) in 2005, continued to outpace conventional crude oil production, at 571,000 bbl/d. Total remaining established natural gas reserves in Alberta – which include coalbed methane (CBM) – stand at 41 trillion cubic feet (Tcf). Of this total, CBM reserves account for about 0.74 Tcf.

Natural Gas

In the 2005-06 fiscal year, the average natural gas price of $8.29/GJ was 37 per cent higher than in 2004-05, when it averaged $6.05/GJ. As a result of record prices and industry activity, natural gas royalties were about $8.39 billion in fiscal year 2005-06, up from $6.44 billion in the previous fiscal year. Natural gas royalties accounted for about 58 per cent of Alberta's 2005-06 non-renewable resource royalty revenue.

Total marketable natural gas production, which includes CBM, decreased slightly from 5.03 Tcf in calendar year 2004 to 5.02 Tcf in 2005. CBM production more than doubled from 2004 to 2005, increasing from about 0.02 Tcf to about 0.05 Tcf.

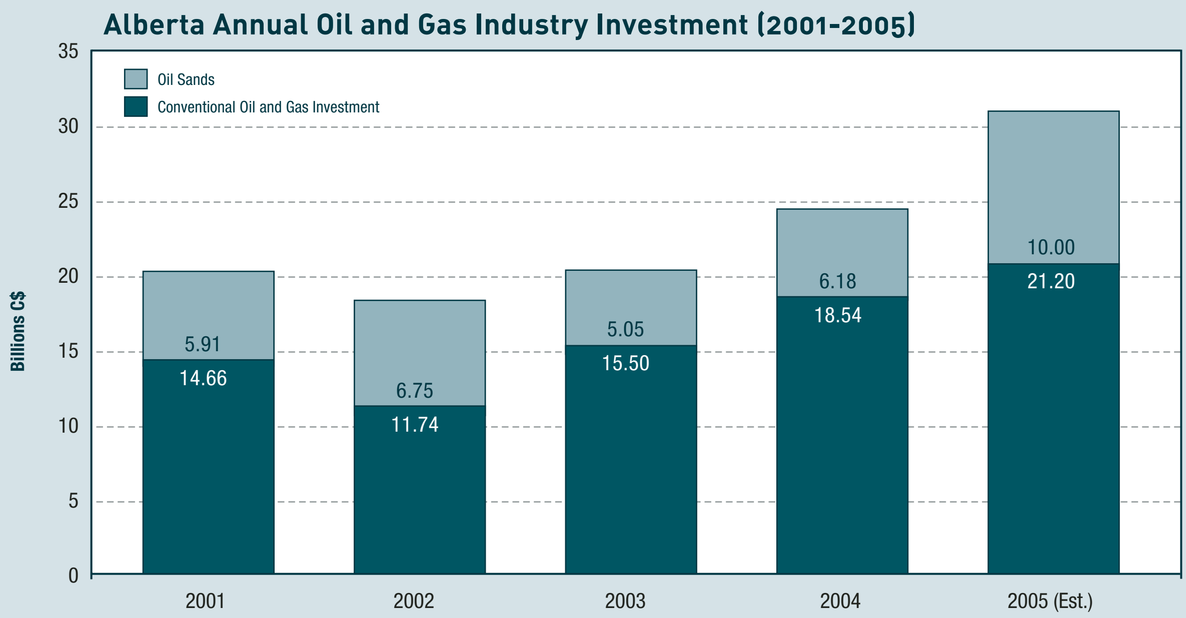


Conventional Crude Oil and Oil Sands

Alberta's oil royalties, from both conventional oil and oil sands, reached $2.4 billion in the 2005-06 fiscal year. This is up significantly from 2004-05 due in part to the increase in oil sands royalties from $718 million in 2004-05 to $950 million in 2005-06. Conventional crude oil royalties also increased by $190 million from 2004-05 to 2005-06. In 2005-06, average oil price was US$ 59.94 per barrel, 33 per cent higher than in 2004-05.

Crude bitumen production exceeded one million barrels per day in 2005. The production of marketable oil sands, consisting of marketable bitumen and synthetic crude oil (which is upgraded from crude bitumen) averaged 966,000 bbl/d. This is slightly less than in 2004, when production reached a record high of 973,300 bbl/d. The decline was primarily a result of the fire at an oil sands facility in January 2005, which temporarily disrupted production, and does not reflect a downward trend.

Investor interest in Alberta's oil sands resource continues to grow with total oil sands investment between 2006 and 2011 currently projected to reach $56.6 billion.



Wells Drilled and Licenses Issued

The EUB issued 23,733 well licenses in 2005, setting a new annual record. This was an increase of more than 2,000 from 2004. 2005 also saw record drilling activity, with 20,384 wells drilled, an increase from 19,245 in 2004.

Bonuses and Sale of Crown Leases

In 2005-06, the department received $3.5 billion from the sale of oil sands, petroleum and natural gas mineral rights. This was almost three times higher than in the previous record year.

Electricity

As a result of Alberta's continued strong economic growth, peak demand for electricity in 2005 increased by 344 MW to a record high of 9,580 MW. During 2005, there was a net decrease of 621 MW in the net margin primarily because of the decommissioning of the Clover Bar generating plant (629 MW).

Coal

Alberta's raw coal production in 2005 amounted to 33.7 million tonnes, of which 26 million tonnes were sub-bituminous coal, 3.2 million tonnes were metallurgical coal and 4.4 million tonnes were bituminous thermal coal. This production resulted in marketable coal deliveries increasing to 29.4 million tonnes in 2005, up from 27.2 million tonnes in 2004. The price of bituminous coal, which is primarily used for export, remained stable during 2005.

Remaining established reserves of all types of coal in Alberta were recently estimated to be 33.5 gigatonnes (Gt). Of this amount, 22.7 Gt (or about 68 per cent) is considered recoverable by underground mining methods, and 10.8 Gt is recoverable by surface mining methods. Alberta's coal reserves can support current production and consumption levels for hundreds of years.

Minerals

The new Metallic and Industrial Minerals Tenure Regulation came into effect in July 2005. The new regulation was developed in consultation with industry and provides a number of enhancements to the previous regulation. Those include longer terms for permits, an additional type of lease, increased evidence of mineral deposits prior to lease issuance and changes to mineral assessment reporting.

In early 2006 there was significant uranium exploration activity in south-western Alberta, with approximately 500,000 hectares staked by junior exploration companies. The rush was spurred by record uranium prices and reports in Alberta Geological Survey files of low-grade uranium occurrences south of Pincher Creek. A number of companies have commenced exploration programs.

In late 2005 a major new limestone quarry near Fort MacKay was being developed. The quarry will supply construction aggregate and lime for industrial and construction applications in the aggregate-deficient Athabasca oil sands area.

2005-06 royalty revenues for the major industrial and metallic minerals (i.e. limestone, salt, gold, and shale and stone) were $327,473.

Change in Actual Revenue from Prior Year

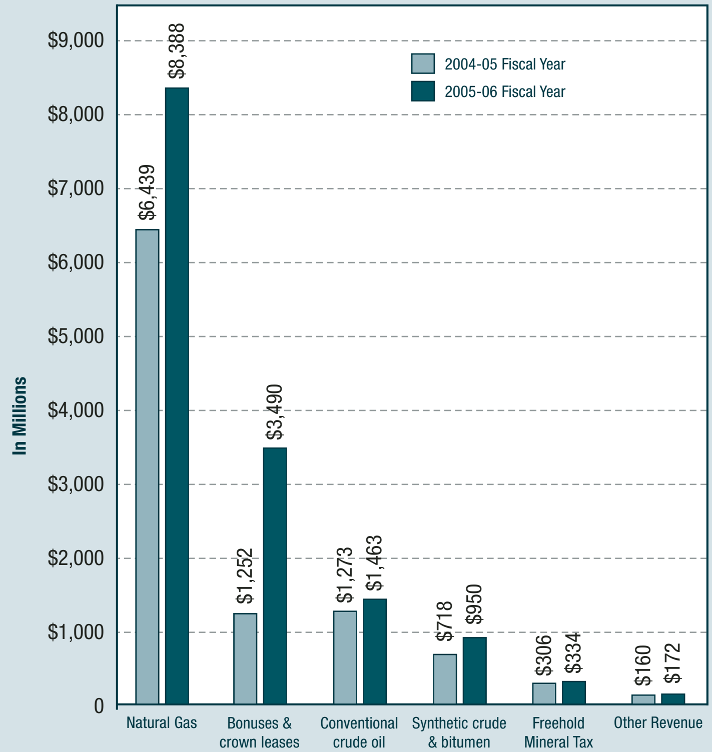
(+$4.60 billion)

Non-renewable resource revenue for the year ended March 31, 2006 was $14.3 billion, an increase of about $4.60 billion from the previous fiscal year. Non-renewable resource revenue accounted for about 40 per cent of total Alberta government revenue during 2005-06.

Natural gas and by-products royalty (+$1.95 billion)

The Alberta Gas Reference Price (ARP) averaged $8.29/GJ for fiscal year 2005-06, setting a new fiscal year record. It was $2.24 GJ higher than the average ARP of $6.05/GJ for the fiscal year 2004-05. As a result, natural gas royalty increased from $6.44 billion in 2004-05 to $8.39 billion in 2005-06, a $1.95 billion increase.

Actual Revenue



Note: other revenue includes rentals and fees, coal royalties, industry levies and licenses, and other Ministry of Energy revenue.

Bonuses and sales of crown leases (+$2.24 billion)

The auction of Alberta's Crown sub-surface mineral rights in 2005-06 resulted in record-high revenue from bonuses and sales of crown leases. The increase in revenue from petroleum and natural gas leases was the result of an average higher price per hectare in the year ended March 31, 2006, compared to the previous year. The average price per hectare paid at petroleum and natural gas mineral rights sales was $398.56 during fiscal year 2004-05 and $693.82 during 2005-06. Petroleum and natural gas mineral rights for 2,825,319 hectares were sold at public auction in 2004-05, and for 3,121,095 hectares in 2005-06.

The average price per hectare paid at oil sands mineral rights sales was about five and a half times higher in 2005-06 than in 2004-05. In 2004-05, the price per hectare was $314.04; in 2005-06, it went up to $1,725.22. Oil sands mineral rights for 291,518 hectares were sold in 2004-05, and for a record 741,809 hectares in 2005-06. With very high prices per hectare and the large number of hectares sold, revenues from oil sands mineral rights offerings in 2005-06 were record-high, at almost $1.3 billion. This was about 14 times higher than in 2004-05, when revenues from oil sands mineral rights sales were about $92 million.

Crude oil royalty (+$190 million)

The price of West Texas Intermediate (WTI) averaged $US 59.94/barrel (bbl) during 2005-06, $US 14.86/bbl higher than in 2004-05, when the average price was $US 45.08/bbl. This increase in price, as well as the growing strength of Canadian dollar vis-à-vis the US dollar was more than enough to offset the declining conventional production.

Oil Sands royalty (+232 million)

With the record high oil prices, oil sands royalty reached $950 million in the fiscal year 2005-06, a $232 million increase from its 2004-05 level of $718 million.

Freehold Mineral Tax (+28 million)

The increase in revenue was due to higher oil and gas prices in the 2005-06 fiscal year compared to the 2004-05 fiscal year.

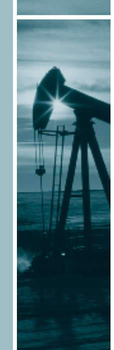
Expenses by Core Business

(Cdn $ thousands)	2005-06 Actual	2005-06 Budget	2004-05 Actual
Core Business			
Securing Benefits for Albertans	37,924	37,578	38,679
Resource Development	28,293	29,615	23,646
Energy for Albertans	4,610	5,519	5,532
Energy and Utility Regulation	130,467	130,234	124,042
Ministry Total	201,294	202,946	191,899

Actual expenses for Securing Benefits for Albertans and Resource Development were higher than the prior fiscal year due to increased staffing costs and oil sands business needs. Energy and Utilities Regulation expenses were higher than the prior fiscal year due to increased industry activity and staffing cost pressures to retain and attract oil and gas industry staff.

Actual 2005-06 expenses were lower than budget due to salary increases and oil sands business needs being offset by capital expenditures.

MINISTRY OF ENERGY RESULTS ANALYSIS



Report of the Auditor General on the Results of Applying Specified Auditing Procedures to Performance Measures

To the Members of the Legislative Assembly

Management is responsible for the integrity and objectivity of the performance results included in the Ministry of Energy's 2005-06 Annual Report. My responsibility is to carry out the following specified auditing procedures on performance measures in the annual report. I verified:

Completeness

1. Performance measures and targets matched those included in Budget 2005. Actual results are presented for all performance measures.

Reliability

2. Information in reports from external organizations, such as Statistics Canada, matched information that the Ministry used to calculate the actual results. For information described in the Ministry's annual report as "not available", I confirmed that the information is not available from the external organization.

3. Information in reports that originated in the Ministry matched information that the Ministry used to calculate the actual results. In addition, I tested the processes the Ministry used to compile the results.

Comparability and understandability

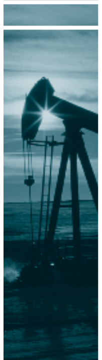
4. Actual results are presented clearly and consistently with the stated methodology and are presented on the same basis as targets and prior years' information.

I found no exceptions when I performed these procedures.

As my examination was limited to these procedures, I do not express an opinion on whether the set of measures is relevant and sufficient to assess the performance of the Ministry in achieving its goals.

Original Signed by Fred J. Dunn, FCA in printed version
Auditor General

Edmonton, Alberta
August 18, 2006



Core Business 1: Securing Benefits for Albertans

Albertans own the majority (81 per cent) of the province's oil, natural gas and other mineral resources. The Department of Energy manages the development of these resources in an environmentally responsible manner that optimizes long-term benefits to the province and the people of Alberta. Albertans share in the benefits of energy and mineral resource development through royalties, freehold mineral taxes, rentals and bonuses paid by industry and collected by the department.

Goal 1:

Optimize Albertans' resource revenue share and benefits from the development of their energy and mineral resources over the long term.

Introduction

Albertans receive their share of energy and mineral resource development through royalties, freehold mineral taxes, rentals and bonuses paid by industry and collected by the Ministry. Alberta's resource development system is designed to capture a fair share of industry revenues from the development of provincial resources, while ensuring industry retains sufficient revenues to continue to invest in the future development of these resources.

Highlights

Non-renewable resource revenue collected by the department reached $14.3 billion in 2005-2006, the highest level ever recorded in Alberta. Oil and natural gas prices reached record highs in fiscal year 2005-2006. The department also received record revenue through bonuses from the sales of Crown mineral rights. Oil sands royalty revenue continued to increase, going up from $718 million in 2004-05 to $950 million in 2005-06. Over the past 5 years, non-renewable resource revenues have averaged about nine billion dollars per year. This benefit is a balance between upstream production operations and recognizing the importance of value added initiatives along with a need for continued investment in the province.

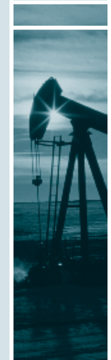
Natural gas has always been an important commodity in the economic health of the province and for the past nine years has represented the greatest portion of non-renewable resource royalty revenue to the province (58 per cent in 2005-06). Coalbed methane (CBM) will be an important future source of natural gas for Alberta. A Multi-Stakeholder Advisory Committee (MAC) comprised of representatives from environmental organizations, landowners, agriculture, local government, the energy industry and provincial government departments completed drafting CBM recommendations for the government which will ensure Alberta's current strong regulatory framework regarding water, surface and air impacts, royalties, tenure and industry best practises remains intact.

Performance Measure

Sharing the Profits from Resource Development.

Target

20 per cent to 25 per cent of industry's annual net operating revenue.



Results

	Year Ending December 31		
	Actual 2002	**Actual 2003**	**Last Actual 2004**
Sharing the Profits from Resource Development –			
Crown Revenue Share – portion of industry's annual net operating revenue that is paid to the Crown as royalty (three-year moving average).	23%	21%	19%

Source: Canadian Association of Petroleum Producers and Department of Energy

Note: Alberta's resource development system is intended to capture a fair share of the revenue from the development of resources, for the benefit of Albertans, while ensuring continued investment in the development of Alberta's resources. For oil, natural gas, and oil sands an indicator of this balance is the portion of industry's annual net operating revenue that is paid to the Crown as royalty.

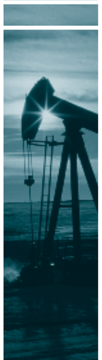
Discussion of Results

Albertans benefit directly from energy resource development through royalties, bonuses and sales of Crown mineral rights, Freehold Mineral Taxes, industry levies and licenses, and indirectly from investment by the petroleum industry and the taxes paid by industry to all levels of government. Alberta's resource development system is intended to capture a fair share of the revenue from the development of resources for the benefit of Albertans, while encouraging continued industry investment.

For oil and natural gas and oil sands, an indicator of this balance is the portion of industry's net operating revenue that is paid as Crown royalty. The measure is influenced by commodity prices and industry operating costs that are beyond the influence of the department. Results presented here reflect a three-year moving average of the percentage of industry's net operating revenue collected by the Crown as royalty from the production of conventional oil, natural gas, and oil sands. The most current result available is for the calendar year 2004. Bonuses and Sales of Crown Leases are not included in this measure. They were $3.5 billion in 2005-06.

In 2004, high energy prices significantly increased industry revenues. Alberta's three-year average royalty share was 19 per cent of industry's net operating revenue from conventional oil, natural gas and oil sands production. This has declined from 21 per cent reported in 2003 and is below the target range of 20 – 25 per cent. Key factors contributing to the measure's decline include:

- Natural gas accounts for the majority of royalty revenues. Among producing wells, the average royalty rate has declined due to an increase in the number of wells with lower daily volume and higher extraction costs.
- Conventional oil royalty rates are determined by a well's production quantity, vintage and density as well as price. The average royalty rate among producing wells has declined as a result of lower well productivity. This is due to the declining production rate in existing pools and lower production rates from newly producing pools, which are becoming smaller as the Western Sedimentary Basin continues to mature.
- Oil sands royalties have been low largely due to significant investments in new projects which pay one per cent gross royalty until capital investment payout is achieved. In 2004, oil sands royalties increased substantially. Over time royalties are expected to increase further as projects achieve payout status, at that time royalties will rise to a 25 per cent net rate. Oil sands production volume is also expected to increase, leading to higher royalty revenue.



Methodology

The measure reflects the royalties collected from conventional oil, natural gas and oil sands, minus the Alberta Royalty Tax Credit, as a portion of the petroleum industry's annual net revenue. The performance measure is the three-year moving average of the following formula:

$$\frac{\text{Royalties – Alberta Royalty Tax Credit}}{\text{Revenues – (Taxes, Operating Costs and General and Administrative Costs)}}$$

Upstream oil and gas industry financial data, such as revenues, operating costs and royalties, are obtained on a calendar year basis from the Canadian Association of Petroleum Producers (CAPP). CAPP reports revenue separately for various commodities (oil sands; crude oil and condensate; natural gas; ethane; pentanes plus; propane; butanes; sulphur) making up Alberta's petroleum industry. However, CAPP combines these same commodities into two categories (petroleum industry; oil sands) when reporting expenditure. CAPP also provides input to the department's calculation of Alberta's portion of the Canadian petroleum industry's current taxes, the primary source of which is Statistics Canada. The Alberta Royalty Tax Credit (ARTC) figures are prepared by the department using data obtained from Alberta Finance.

Performance Measure:

Audit Adjustments to Industry Filing and Reporting

Target:

Audit adjustments to industry filing and reporting to be less than 2.0 per cent.

Results:

Year Ending March 31

	Actual 2004	Actual 2005	Last Actual 2006
Audit Adjustments as a Percentage of Department Resource Revenues (three-year moving average)	2.6%	2.4%	2.4%

Source: Compliance and Assurance, Alberta Department of Energy

Notes: The Department audits industry filing and reporting information used to calculate non-renewable resource revenue to ensure it is complete and accurate. Audit adjustments are an indicator of industry's understanding of, and compliance with, the Department's reporting requirements.

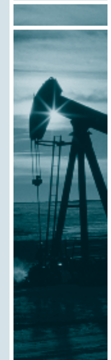
Audit adjustments reported are based on the total absolute value of all adjustments and are accumulated on the basis of completed audits in the current year and include adjustments to prior year's filings subject to the limitations of the Mines and Minerals Act. Resource revenues are based on the fiscal revenues as reported in the externally audited Annual Report.

Discussion of Results

The most recent three-year average results indicate the absolute value of audit adjustments were 2.4 per cent of associated resource revenue. The measure's result exceeded the target by 0.4 per cent. The average dollar value of absolute adjustments arising from audits completed or processed for the three years ending March 31, 2006 was about $212.5 million on an average annual resource revenue base of $8.9 billion.

Among the measure's categories (conventional oil, natural gas, oil sands, coal and Freehold Mineral Tax) of audited resource revenue, two areas (natural gas and oil sands) contributed to exceeding the two per cent target.

- Natural gas and related by-products is the largest area of filer complexity; particularly in filing information required for calculation of the Alberta Gas Reference Price. In response to previous audit findings, the department continues to train industry filers in the requirements and identify opportunities to reduce their complexity.
- Adjustments to synthetic crude and bitumen filings in the current fiscal year decreased from the previous year in which a single client was responsible for the majority of errors. Adjustments in the last fiscal period related primarily to unsupportable or ineligible cost claims.



Methodology

This measure tracks adjustments arising from audits conducted by the department to information filed by industry in accordance with department requirements. The measure expresses the three-year moving average of the annual total absolute dollar value of audit adjustments as a percentage of reported resource revenues. The absolute value of audit adjustments is the sum of all adjustments, both in the Crown's favour and in industry's favour and as such is an indicator of total error rates. Audit adjustments are based on audits completed or processed in the current year. Total adjustments include current year adjustments, adjustments to prior years' filings (based on the current year audit and subject to statutory limitations of the Mines and Minerals Act) and, where applicable, also include the estimated future impact of amendments. Audit adjustments are assessed for conventional oil, natural gas, oil sands, coal and Freehold Mineral Tax revenues. The audit result is a measure of industry's understanding of, and compliance with, the department's reporting requirements. The value of Crown royalty is influenced by commodity prices and production that are beyond the control of the department. Resource revenues are based on the fiscal year revenues as reported in the department's Annual Report.

Core Business 2: Resource Development

Ensure Alberta's energy and mineral resources remain accessible, competitive and attractive to investment and development.

Goal 2:

Maintain the competitiveness of Alberta's energy and mineral resources.

Introduction

Alberta needs to maintain competitive fiscal and regulatory regimes that attract industry investment while ensuring Albertans receive a fair share of benefits from energy and mineral resource development. While doing this the department must also manage the leasing and development of the province's energy and mineral resources. Predictability, certainty, stability and a well-developed infrastructure are all features that make Alberta's resource development system a strong competitor for industry investment. The Ministry assesses the current and future state of Alberta's resource commodities, identifies development opportunities, and encourages industrial integration and maximization of value-added resource upgrading in Alberta. The Ministry is also the principal advocate provincially, nationally and internationally for interests and rights to access, develop and manage energy and mineral resources.

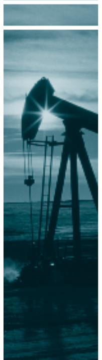
Highlights

Investment:

Investment in Alberta's conventional oil and natural gas, and oil sands continued at a record pace in 2005. At an estimated $31.2 billion, total oil and natural gas industry capital investment in 2005 significantly exceeded the previous all-time high investment of $24.7 billion in 2004. In 2005, total estimated upstream oil and gas investment accounted for about 48 per cent of Alberta's total capital investment.

Conventional oil and natural gas investment, fuelled by record oil and natural gas prices and an increase in drilling costs, was $21.2 billion in 2005, up from $18.5 billion in 2004. Oil sands investment also increased significantly reaching an estimated $10 billion in 2005, up from $6.2 billion in 2004. Investor interest in Alberta's oil sands resource continues to grow with total oil sands investment between 2006 and 2011 currently projected to reach $56.6 billion.

Drilling activity, which makes up the bulk of conventional capital expenditures, reached record highs in 2005. 23,733 well licenses were issued by the province in 2005, an increase of over 2,000 from 2004. A record high 20,384 wells were drilled in 2005, compared to 19,245 in 2004.



In fiscal year 2005-06, petroleum and natural gas mineral rights for 3,121,095 hectares were sold at public auction. Mineral rights for oil sands were sold for 741,809 hectares. Overall, the province received $3.5 billion from the sale of oil, natural gas and oil sands mineral rights in 2005-06, an increase of over $2 billion from the previous fiscal year.

During 2005-06, support was also provided for four Ministerial missions to the United States, plus participation at the World Petroleum Congress in South Africa. These activities are one of the ways the department promotes Alberta as a global energy leader and investment locale. Meetings were also held with senior delegations from many countries, including China, France, India, Kuwait, Mexico, and the Netherlands.

In response to the plan to construct a US $20 billion Alaska natural gas pipeline, which could interconnect with Alberta's infrastructure, department officials worked with officials from BC and the Yukon to promote coordination among Canadian jurisdictions and to capture benefits for Alberta arising from this international pipeline project.

On a national level, Alberta Energy supported work of the Alberta (AB) and British Columbia (BC) Cabinets in the review and negotiation of the ground-breaking Alberta/BC Trade, Investment and Labour Mobility Agreement. Once signed by Premiers in April 2006, and implemented over the next three years, this agreement will remove inter-provincial trade barriers and create the second largest economic region in Canada.

Support was also provided for the AB/BC Memorandum of Understanding for Collaboration in Energy Research, Technology Development and Innovation, as well as for the AB/Yukon Protocol for Cooperation on Oil, Gas and Pipeline Development.

Oil Sands Development:

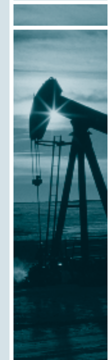
The department continues to work to get the necessary rules and regulations in place to support the anticipated increase in bitumen production to 3.5 million barrels per day by 2020. Increased production will be reached through sustainable oil sands development focusing on minimizing the environmental footprint and increasing value added opportunities for the use of bitumen.

The Department supported the first ever Royal Visit on May 24, by the Duke of Edinburgh to Alberta oil sands, as part of Alberta Centennial Celebrations. With participation in Fort McMurray from industry, community leaders, and international media, Alberta was able to highlight our world class natural resource investment potential, and environmentally responsible approach to development.

In July 2005, MLAs and staff members, including 10 Ministers, participated in a tour of oil sands facilities and Fort McMurray. They were hosted by the Regional Issues Working Group, and learned about the challenges and opportunities provided by the oil sands industry, as well as the impact of oil sands development on Fort McMurray and the Wood Buffalo Regional Municipality. Particular emphasis focused on the importance of oil sands to the province as a whole, and the vision for future development of the resource.

The government announced the release of additional Crown land to make way for much needed housing development in Fort McMurray and the provision of financial assistance for water and wastewater treatment plants. Additionally, Alberta Infrastructure and Alberta Transportation announced investment to support completion of critical transportation projects, specifically to upgrade Highway 63 North of Fort McMurray and Highway 881, and twinning of Highway 63 from Grassland to Fort McMurray.

In August, 2005 a draft strategy on the future development of the mineable oil sands area was prepared and plans for public consultation were developed. The Ministers of Energy, Environment and Sustainable Resource Development met in late December 2005 and decided to reframe the consultation process. The government announced establishment of an MLA-led Stakeholder Consultation Group to recommend plans for consulting on future development of Alberta's oil sands. The Stakeholder Consultation Group submitted its recommendations on March 31, 2006.



The department also held a labour workshop and forum in early 2006 to help participants understand the effect of labour supply and demand on obtaining the full value of Alberta's oil sands resource. The oil sands industry forum participants provided recommendations under six main categories, including: increase labour mobility between regions and into the Wood Buffalo area; inform, attract, develop, and retain labour in the Wood Buffalo area; improve processes to support labour mobility into Alberta; create a more innovative apprenticeship model; industry and government take actions to facilitate affordable housing in the Fort McMurray area; and develop and improve supervisory capacity within the oil sands sector, which, taken together, will accomplish both short and long term goals for labour.

In March 2006, the department, along with The Petroleum Technology Alliance of Canada and Natural Resources Canada, held a workshop titled "Technology Roadmap for Inaccessible Bitumen and Heavy Oil Resources". The workshop identified research and development actions and policy objectives that better position oil sands for long term development.

The Canadian Energy Research Institute conducted a study on the Economic Impact of Alberta's Oil Sands Industry, sponsored by the Alberta Department of Energy, Natural Resources Canada and other organizations. This study analyzed the effects of oil sands development on gross domestic product, employment and government revenues at the regional, provincial, national and international levels for the period 2005-2020. The report found that this investment activity presents huge economic spin-offs and opportunities for all Canadians. For every dollar invested in the oil sands, it generates $8.8 in economic benefit for Canadians of which $6 remains in Alberta. Over the 15-year time frame this will amount to around $600 billion in benefits to Alberta.

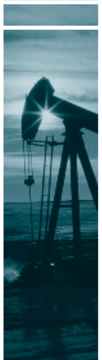
Access and Resource Development:

The departments of Alberta Environment, Sustainable Resource Development (SRD) and Energy committed to and signed a Sustainable Resource and Environmental Management (SREM) Charter. This Charter commits the ministries to work together and take joint responsibility to achieve agreed-upon natural resource and environmental outcomes. Initiatives under SREM include the oil sands strategy (above); improved natural resource information sharing; and, an upstream oil and gas regulatory review which is examining solutions and opportunities for integrating and streamlining upstream oil and gas regulation. In 2005, Alberta Energy also participated in a cross-Ministry initiative to initiate development of a provincial Land Use Framework. This framework is intended to provide an over-arching vision and outcomes for land use on public and private land in the province. Development of the framework will engage Albertans in a discussion of current and future land use needs, issues and opportunities.

The Department of Energy played a key role in the provincial processes leading to the completion of the caribou and grizzly bear provincial recovery plans, and implementation of caribou landscape level plans is proceeding according to the approved recovery plan.

The department continued to demonstrate leadership and to work with other departments in the finalization of the Government of Alberta's First Nations Consultation Policy on Land Management and Resource Development. The department also supported Alberta Aboriginal Affairs and Northern Development in treaty land entitlement negotiations and in that regard finalized the important transfer of mineable oil sand rights to the Fort McKay First Nation facilitating their greater involvement in the oil sands industry. The department committed $250,000 in funding for traditional use studies in approximately 25 First Nations communities and contributed $25,000 in funding to the Aboriginal-specific Labour Force Survey in 2005-06. Support was also provided to Alberta Human Resources and Employment in developing nine Aboriginal training and employment projects.

The department continued to make significant progress on transferring its process for the identification and issuing of mineral rights for public auction onto an electronic platform. Developed jointly with industry, this project will streamline processes between industry and the department by converting an intensively manual process to an electronic one. When completed, Alberta will be the first jurisdiction in the world to manage this process electronically and its successful



implementation will enable companies from around the world to readily participate in auctions for Alberta's mineral rights. Phase's 1 and 2 of this three phase project were successfully implemented over the past two years. Phase 3 involves on-line electronic bidding and is scheduled for implementation in June 2006.

Performance Measure:

Resource Development

Target:

Annual industry investment in the upstream oil and gas industry will be equal to, or greater than, $15 billion.

Results:

	Year Ending December 31		
	Actual 2002	**Actual 2003**	**Last Actual 2004**
Resource Development - Upstream Industry Investment in Alberta	$18.5 billion	$20.5 billion	$24.7 billion

Source: Canadian Association of Petroleum Producers

Notes: Continued investment in Alberta's energy sector demonstrates the competitiveness and attractiveness of resource development in Alberta. The Department has the ability to influence industry's investment decisions through the royalty and tax regime, approval processes, land and market access, and regulatory environment. The Department maintains a fiscal regime which is intended, over the long term, to encourage continued development of Alberta's energy resources and collect a fair share of the resource development profits.

Upstream investment includes expenditures made during the exploration and development of the resource. These costs include geological and geophysical, land, drilling, field equipment, enhanced oil recovery, plants and miscellaneous development expenses.

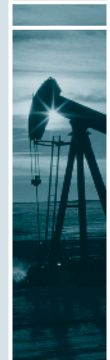
Discussion of Results

The most recent available investment data from Statistics Canada are for the calendar year 2004. In 2004, oil and natural gas industry investment set a new record for Alberta and Canada as a whole. At $24.7 billion, investment in Alberta accounted for about 75 per cent of Canada's total oil and natural gas industry spending of $33 billion. Alberta's conventional oil and natural gas investment, led by increased prices and drilling activity, rose by 20 per cent to $18.5 billion from its 2003 level of $15.5 billion. Oil sands investment in Alberta followed similar growth in 2004, reaching $6.2 billion, a 24 per cent increase over the 2003 level of about $5.0 billion.

Albertans benefit from industry investment through jobs, business opportunities, taxes paid to all levels of government and resource revenues in the form of royalties, lease bonuses and mineral taxes. Industry investment is driven largely by commodity prices over which the department has no influence. However, investment is affected by a number of other considerations, including cash flow, exploration and labour costs, royalty rates, corporate tax rates, regulatory and approval processes including land access, environmental impacts, infrastructure (highways, housing), and access to refining, upgrading, pipelines and markets. The department has the ability to influence industry investment decisions to varying degrees through land access, royalty policy, and the regulatory environment.

Methodology

This measure relies on the Canadian Association of Petroleum Producers (CAPP) report of annual capital spending within Alberta's upstream petroleum industry. Upstream investment includes costs incurred during the exploration and development of the resource. These costs include geological and geophysical, land, drilling, field equipment, enhanced oil recovery, plants and miscellaneous development expenses. The data set is collected by Statistics Canada through a survey of industry covering 95 per cent of upstream oil and natural gas production.



Goal 3:

Secure future energy supply and benefits for Albertans, within a growing and competitive global energy marketplace.

Introduction

Alberta has long enjoyed abundant sources of conventional oil and gas. In the future, new sources of energy will be developed to ensure Alberta has a continued supply of energy. These other sources may include expanded oil sands development and cogeneration of electricity, the application of clean burning technologies to coal, coalbed methane and the development of alternative sources of energy (wind, hydro, biomass, biofuel). New technologies will also be needed to improve the recovery of our existing conventional resources. The Ministry analyzes economics and implements change, when appropriate, to the fiscal and tenure regimes to encourage improved resource recovery, development of new energy sources, or the application of new technologies. Diversification of energy sources will largely be market driven and, therefore, Alberta's energy resources must remain competitive in the broader global energy market. The Ministry works within the province's framework of sustainable development to maintain or enhance resource exploration and development opportunities in a responsible manner that protects the environment and public safety.

Highlights

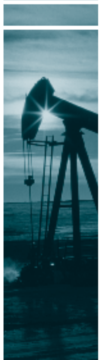
The department continues to encourage and support the development of new technologies that will result in increased recovery from maturing pools of conventional oil and natural gas. The limitations of present day technology mean that only an estimated 26 per cent of available oil is currently recovered, leaving 74 per cent of the resource in the ground. The current level of natural gas recovery is 59 per cent.

The Innovative Energy Technologies Program (IETP), announced in 2003-04, continued in 2005-06. This program provides up to $200 million in royalty adjustments (over five years), to help offset the cost of implementation of innovative technologies to maximize recovery of Alberta's oil, natural gas, and oil sands resources. For successful applicants, the program will provide funding of up to 30 per cent of approved project costs. Industry must provide the remaining 70 per cent or more of total project costs, meaning the total industry/government commitment to important new technologies, assuming full subscription of the program, will be at least $667 million. Industry interest in the program is high, and could produce significant benefits for Alberta. The IETP is expected to generate incremental royalties, and economic activity, from the increased recovery of oil, natural gas and oil sands resources which might not otherwise occur using existing technology. Thirteen projects were approved in 2005, which will result in $340 million in spending on innovative research. The IETP Technical Evaluation Committee is currently reviewing a second round of applications.

A document entitled "Alberta's Integrated Energy Vision – Sustaining the Alberta Energy Advantage", was prepared under the direction of the Minister of Energy during 2005. This paper describes the Ministry's vision for future energy development in Alberta and some of the strategies needed to implement it. The vision was approved by the Government of Alberta for consultation with other ministries, major external stakeholders and the public.

The Hydrocarbon Upgrading Task Force (HUTF), was established in 2004 with a vision and action plan for achieving maximum upgrading of Alberta's bitumen resources within the province. The task force consists of 90 industry and government representatives. The main activities of the HUTF are to develop strategies and business cases, to promote opportunities for refining and petrochemical investment in Alberta, and to recommend to government the specific policies, programs or other supporting activities needed to create a strong integrated refined petroleum products and petrochemical cluster in Alberta. A number of studies commenced during 2005, including: Bitumen Processing Integration Study to assess product integration opportunities associated with bitumen in Alberta; Best Practices Study to assess best practices and benefits from the development of eco-industrial complexes, and the Institute of Energy Economics Japan (IEEJ) Asian Market Study to determine economic return from oil sands-based bitumen and refined products.

In 2005-06, the final report from the Multi-Stakeholder Advisory Committee (MAC) on coalbed methane was completed. This document will be released in the spring of 2006 and will include recommendations for future coalbed methane development in the province. Over 1,000 Albertans participated in the MAC's two-year long coalbed methane consultation.



Alberta has up to 500 trillion cubic feet of natural gas in its coal seams. This will be an important resource for Alberta's future. In 2005, coalbed methane production was about 0.05 Tcf – more than double its 2004 production level of about 0.02 Tcf.

The department continued to take a lead role in the implementation of Water for Life, Alberta's Strategy for Sustainability. In particular, the department continues its participation on the Alberta Water Council, the public multi-stakeholder body charged with assisting with and overseeing implementation of Water for Life. The Council's work in the area of water conservation is a high priority and thus the department continues to be involved in Council project groups working towards sector conservation plans. The department also advised on and influenced the Water Conservation and Allocation Policy for Oilfield Injection (2006) and the accompanying Guidelines document, which form part of the government's strategic approach to long term reduction of oil and gas industry non-saline water use. Other Alberta Water Council projects that the department was involved in include advising on wetland policy development, and the draft water management framework and Interim In-stream Flow Needs for the lower Athabasca River.

The Integrated CO_2 Network (ICO_2N), a joint industry-government consortium, has developed a business case for a CO_2 backbone pipeline network (a network of pipelines that could transport CO_2 throughout the province). CO_2 is an excellent miscible agent for sweeping oil from reservoirs after primary and water flood applications. According to various technical studies, CO_2 flood technology has the potential to add another 500 million barrels of recoverable oil to the province's reserves. However, there is a lack of infrastructure in the province to deliver large quantities of CO_2 to well sites. Alberta Energy is currently evaluating the ICO_2N business case.

Performance Measure:

Energy Resource Portfolio Diversification

Target:

Additional production.

Results: Energy Resource Portfolio Diversification - production from new sources or extended production from existing sources.

			Year Ending December 31
	Actual 2003	**Actual 2004**	**Last Actual 2005**
Oil Production (thousands of bbl/d)			
Extended Oil Recovery[1]	146	143	139
Oil Sands[2]	852[5]	973[5]	966
Natural Gas Production (Tcf/yr)			
Coalbed methane[3]	0.004	0.02	0.05
Electricity Generating Capacity (MW)			
Natural Gas (cogeneration)	3,220[6]	3,219[6]	3,243
Oils (crude, fuel, bitumen)	8	8	13
Renewables (hydro, wind, biofuels[4])	1,218	1,328	1,361

Sources: Alberta Energy, Alberta Energy and Utilities Board

Notes: This measure reflects the need for increasing diversification of Alberta's energy resource portfolio to meet future energy demands.

1 Includes all Ministry programs aimed at extending the productive life of mature conventional oil fields.

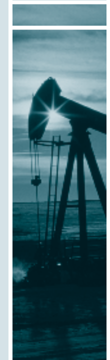
2 Oil sands production includes synthetic crude oil and marketable bitumen.

3 Coalbed methane was listed as natural gas in coal in previous annual reports.

4 Fuel derived from organic materials including biomass, wood waste, landfills gas, etc.

5 Restated due to minor volumetric and methodology changes.

6 Restated due to reclassification of fuel type for a single facility.



Discussion of Results

This measure tracks a portfolio of new and extended sources of energy which reflect an increasing diversification of energy resource development in Alberta. The department influences development in order to meet future energy demands through royalty features that encourage improved resource recovery, the development of new energy sources, or the application of new technologies.

Current Extended Oil Recovery (ExOR) represents about 24 per cent of Alberta's total conventional crude oil production of 571,000 barrels per day. Programs and features that encourage ExOR benefit Albertans beyond the collection of resource royalty to positively impact employment and business opportunities, and expand the tax base at the local, provincial and federal levels.

There was a net decrease of about 7,000 barrels per day in marketable oil sands production between 2004 and 2005. The primary reason for the decline in production was a fire at an oil sands facility at the beginning of 2005. This was only a temporary disruption.

2005 coalbed methane production more than doubled production from 2004. During the past year remaining established reserves tripled to about 0.74 Tcf. The production and reserves are mainly from the Horseshoe Canyon deposit; however, 2005 is the first year to include reserves from the Mannville coal deposits.

Alberta's electricity generation portfolio saw the addition of 24 megawatts (MW) of cogeneration, 5 MW of fuel oil generation and 33 MW of renewable energy sources. The 33 MW of new renewable energy is produced primarily from one new biomass and two new biogas facilities commissioned in 2005.

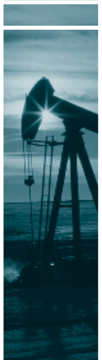
Methodology

Presentation of the measure was changed in the 2005-08 Business Plan to highlight production from new and extended sources of energy. Results for conventional oil and natural gas, pentanes/condensate and electricity generating capacity derived from coal and natural gas (conventional) are no longer included in the table. In addition, the label *Fuel Oils* was renamed *Oils (crude, fuel and bitumen)*, to be more descriptive of the data. Subsequent to publication of the 2005-08 Business Plan, new producers of electricity, using landfill gas and agricultural waste streams as inputs, necessitated the broadening of the "renewables" category. Among the sources of electricity included under renewable electricity generating capacity, *biomass* has been renamed *biofuels*.

Oil and natural gas production volume data is submitted by industry to the Alberta Energy and Utilities Board and reported by Alberta Energy in this measure. ExOR methods use the injection of approved substances to recover additional oil. At present, four programs using industry data and estimation, based on historical conversion factors, comprise Extended Oil Recovery. Results are subject to amendment due to revisions to the volumetric data supplied by industry.

Oil sands data is obtained from the Alberta Energy and Utilities Board.

Information regarding new electricity generation facilities connected to the Alberta Interconnected Electric System is available from the Alberta Energy and Utilities Board and the Independent System Operator. The installed capacity data reported in this measure is subject to amendment based on re-ratings by facility operators. As of 2005, Alberta's total installed generating capacity was 11,463 Megawatts (MW).



Core Business 3: Energy for Albertans

Ensure Alberta consumers have a choice of reliable and competitively priced energy.

Goal 4:

Maintain a competitive market framework that provides Albertans with competitively priced and reliable electricity and natural gas.

Introduction

Alberta restructured its electric industry to provide an efficient, competitive marketplace for electricity that encourages the development of new power generation and offers all consumers choice and reliability of supply. Retail natural gas has been open to choice since 1996 and the Ministry continues to strengthen provisions for retail customer choice, having recently established similar rules for the natural gas and electricity retail markets. Through the Natural Gas Price Protection Act and regulation, the Alberta government also provides consumers with relief from high natural gas prices.

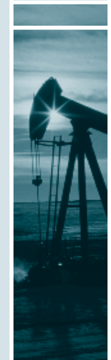
Highlights

A policy paper “Alberta’s Electric Policy Framework - Competitive-Reliable-Sustainable” was completed and approved for release in June 2005. The policy paper contained a significant change in policy regarding the Regulated Rate Option (RRO) for residential, farm and small commercial customers. Effective July 1, 2006, the new RRO policy will begin to introduce a monthly forward hedge for small consumers. This new mechanism will be introduced gradually over a four year period, allowing time for refinements to the wholesale market to be introduced as well as providing time for increased retailer penetration of the market and consumer education.

A discussion paper “Roles and Mandates Refinements for Alberta Electric Industry Implementing Agencies” was released for review in November 2005. The paper was drafted to clarify the roles of the four implementing agencies - the Independent System Operator (ISO), the Market Surveillance Administrator (MSA), the Balancing Pool and the Energy and Utilities Board (EUB) - in response to the evolution of the electricity market in Alberta. Electric Utilities Act (EUA) Advisory Committee members were consulted on proposed refinements. The EUA Advisory Committee is a broad based stakeholder group including over 70 electric industry and consumer representatives and their associations, utilities, wire owners, retailers, and implementing agencies including ISO, MSA, EUB and the Balancing Pool. A revised version of the paper was prepared incorporating stakeholder comments. The revised paper was planned for release at the end of April. Draft regulations under the *Electric Utilities Act* will be shared with stakeholders for review and comment in May.

Proposed amendments to the *Gas Utilities Act* (GUA), Electricity Code of Conduct Regulation and Natural Gas Code of Conduct Regulation were developed and distributed for stakeholder comment. The GUA amendment supports further harmonization of retail marketing of electricity and natural gas by giving the Market Surveillance Administrator (MSA) and a tribunal appointed by the chair of the Energy and Utilities Board (EUB) investigative and enforcement powers to oversee competitiveness of the natural gas retail market as well as the electricity retail market. Stakeholder feedback on the proposed amendments supported aligning oversight of the retail Codes of Conduct for both commodities with the EUB, together with broad oversight of market competitiveness and consumer interest by the MSA.

Investment in new electric transmission capacity remains a critical component in the development of Alberta’s energy resources. As the backbone of the electricity system, reliability and competitive electricity prices are dependent on continued and timely investment in new transmission. The Transmission Development Policy as implemented by the Transmission Regulation, approved by government in August 2004, sets the direction for new development and investment in transmission to support Alberta’s economic and population growth. To support government’s commitment to efficient and reliable electric infrastructure, a MLA Transmission Committee was established to provide recommendations on transmission development. Key transmission priorities include: reinforcement of Edmonton-Calgary transmission to enhance service in this fast-growing corridor, enhancement of southwest transmission capacity to support new investment



in wind power; and expansion of transmission in the Fort McMurray area which is experiencing substantial growth. New transmission development proposals were submitted to the provincial regulator, the Energy and Utilities Board (EUB), for approval. The department worked with BC to formalize understanding on energy related matters such as electricity and a Memorandum of Understanding between the two provinces is anticipated in April 2006. Alberta collaborated with Canadian and US agencies dedicated to electric system reliability to establish a new organisation called the Electric Reliability Organization (ERO), intended to support transmission system reliability across both countries.

During the year the department reviewed the Natural Gas Rebate Program. As a result of this review the program was extended to March 31, 2009. The amendment included district heating systems as eligible for rebates, added the month of October to the program, and provided Ministerial discretion to allow prorating of rebates.

Performance Measure:

New Power Generation

Target:

Margin between installed capacity and peak demand to be 2,680 MW in 2005.

Results:

Year Ending December 31

	Actual 2003	Actual 2004	Last Actual 2005
New Power Generation -			
Margin (MW) between installed capacity and peak demand.	2,671	2,504	1,883
Based on following information			
Installed Generating Capacity* (MW):	11,638	11,740	11,463
Peak Demand** (MW):	8,967	9,236	9,580

Source: Alberta Energy based on EUB, Independent System Operator (ISO) and industry information.

Notes: through industry investment, Alberta's net supply (margin) of electricity will be sufficient to ensure reliable power supply.

* The sum of the maximum continuous operating ratings of all electricity generation facilities connected to the Alberta interconnected electric system, excluding the capacity of inter-ties with British Columbia and Saskatchewan.

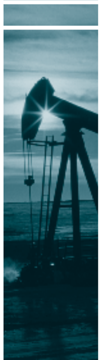
** Peak Demand is the highest recorded system demand in a year as recorded by the Independent System Operator.

Discussion of Results

During 2005, the net margin decreased by 621 Megawatts (MW) from the previous year, primarily due to the September 2005 decommissioning of the 629 MW Clover Bar natural gas-fired power plant. Peak demand increased by 344 MW. This peak demand increase was offset by the net additions of generation from coal (331 MW), biofuels (31 MW), fuel oils (5 MW) and wind (3 MW). Installed generating capacity will need to continue to increase in order to support Alberta's growing demand for electricity.

Methodology

This measure is the difference between installed generating capacity and peak demand for electricity. Information about new electrical generation facilities connected to the Alberta Interconnected Electric System (AIES) is made available to the department and the Energy and Utilities Board (EUB) from the Independent System Operator (ISO). The generating capacity and start-up dates are included in regulatory filings with the EUB required under the *Hydro and Electric Energy Act* and interconnection applications to the ISO. The installed capacity data reported is subject to adjustments based on re-ratings by facility operators. Peak demand is the highest recorded system demand (in Megawatt-hours/hour) in a climatic year (October 1 through to March 31) as recorded by the ISO.



Performance Measure:

Electricity Restructuring

Target:

Alberta will rank among the top 10 for restructuring in North America.

Results:

Year Ending December 31

	Actual 2001	Actual 2002	Last Actual 2003
Electricity Restructuring - CAEM – RED Index			
Ranking of Alberta's restructuring in North America.	1	5	4

Source: Centre for the Advancement of Energy Markets (CAEM), Retail Energy Deregulation (RED) Index, April 2003.

Notes: New measures are presently being considered for electricity. The Red (Retail Electricity Deregulation) Index is compiled by the Center for the Advancement of Energy Markets (CAEM).

Discussion of Results

The Retail Energy Deregulation (RED) Index ranked Alberta as first in Canada and fourth in North America, as of April 2003, for electric industry restructuring performance. In 2006, the Centre for the Advancement of Energy Markets informed the department that research and analysis required to compile a result had not been done and there was no immediate plan to provide the data. This measure and a potential replacement measure are under review.

Methodology

Ranking is based on the Retail Energy Deregulation (RED) Index which is prepared by the Center for the Advancement of Energy Markets, an independent, non-profit, Washington, D.C. based think tank specializing in energy competition policies. The RED Index measures a state, province, territory, or country's progress in adopting policies that give consumers the right to choose their electricity supplier.

Performance Measure:

Annual Residential Natural Gas Price

Target:

Average annual residential natural gas price for Alberta should not exceed the annual average national residential price.

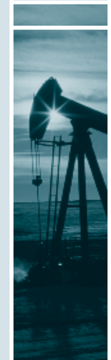
Results:

Year Ending December 31

	Actual 2003	Actual 2004	Last Actual 2005
Annual Residential Natural Gas Price –			
Difference between the average annual natural gas price (ARGP) Albertans pay and the price paid by other Canadian jurisdictions – National Residential Natural Gas Price or NRGP ($/GJ).	-2.41	-1.78	-0.60

Source: Alberta Energy using information obtained from Direct Energy Regulated Services, AltaGas Utilities Inc., Terasen (BC Gas Inc.), SaskEnergy, Manitoba Hydro-Centra Gas Manitoba Inc., Union Gas, and Enbridge Consumers Gas.

Note: This measure does not include Alberta's natural gas rebates.



Discussion of Results

This measure compares the price Albertans pay for natural gas, excluding rebates, with other Canadian jurisdictions. To remain competitive, Alberta's average annual residential natural gas price (ARGP) should not exceed the average national residential natural gas price (NRGP). In 2005, the ARGP was $0.60 per gigajoule (GJ) lower than the NRGP.

In 2005, record-high crude oil prices, strong economic growth and an active hurricane season that damaged key infrastructure in the US Gulf contributed to significant increases in North American natural gas prices. Alberta natural gas rates, adjusted on a monthly basis, reflected this. However, other jurisdictions adjust their rates much less frequently. BC, Manitoba and Ontario adjust their natural gas rates quarterly, and the time between adjustments to Saskatchewan's natural gas rates may be greater than one year. Because of these less frequent adjustments, natural gas rates in other provinces may be understated during times of rising natural gas prices, and thereby narrow the natural gas price differential between Alberta and the other provinces. The ARGP remains lower than the NRGP primarily due to differences in transportation costs.

Methodology

The ARGP is determined using an average of the delivered cost of natural gas from the major utilities to Alberta residents. The average cost is determined annually and excludes taxes and franchise fees.

The NRGP excludes Alberta and is determined using an average of the delivered cost of natural gas, excluding taxes and franchise fees, from utilities serving the cities of Toronto, Sarnia, Winnipeg, Regina and Vancouver. The performance measure data reported is therefore subject to amendment arising from revisions to the industry source data.

Results are calculated on a calendar year basis using a simple average of monthly rates and annual consumption of 135 GJ. The calculation includes gas cost recovery rates, variable and fixed delivery rates and company specific rate riders (i.e., a customer's share of monthly financial gain or loss achieved through production and storage arrangements). The calculation excludes federal and provincial sales taxes, franchise fees and government rebates. Results of the comparison calculation are presented as the difference between the average Alberta price and the average national price.

Core Business 4: Regulation of Energy Development by the Alberta Energy and Utilities Board

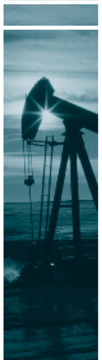
The Minister of Energy and the Government of Alberta, through legislation, ensure that the Alberta Energy and Utilities Board (EUB/Board) is an independent and quasi-judicial regulator. In this capacity, the EUB is responsible for regulating Alberta's energy resources and utility sectors. The EUB ensures that the discovery, development and delivery of Alberta's energy resources and utility services take place in a manner that is fair, responsible, and in the public interest.

Goal 5:

A regulatory framework for the energy and utility sectors that is fair, responsible and in the public interest.

Introduction

Each year the EUB effectively processes thousands of applications. The EUB ensures public safety, environmental protection, and resource conservation through regulatory requirements, monitoring, and surveillance and enforcement. Field staff enforce standards and conditions set out in licences, approvals, and EUB regulations and requirements.



In the utility sector, the EUB ensures that regulated electricity and natural gas utilities provide consumers with reliable service at just and reasonable prices that also provide the owners of the regulated utilities with a reasonable opportunity of earning a fair return on their investment and recovering their costs. The EUB does not regulate the wholesale commodity prices for natural gas and electricity.

In addition, the EUB is responsible for the collection, storage, analysis, appraisal, and dissemination of information and the knowledge associated with it. Open access to information develops awareness, understanding and responsible behaviour, which ultimately allow the EUB and its stakeholders to make informed decisions about energy and utility matters.

The EUB's Alberta Geological Survey provides geoscience information and expertise needed by government, industry, and the public for the stewardship and sustainable development of Alberta's earth resources, while the EUB's Core Research Centre is a state-of-the-art facility that provides the most complete drilling history of any area in the world.

Highlights

In November 2005, the Board issued Decision 2005-122, stemming from a public hearing held in Calgary the previous summer, in which an EUB panel weighed the technical, geological and other relevant evidence on bitumen conservation. The Board concluded that certain natural gas production from the Wabiskaw-McMurray formation, if allowed, would place bitumen recovery at risk. The Board had previously shut in gas comprising about 7.9 billion cubic metres (about 0.7 per cent) of Alberta's remaining gas reserves following interim hearings in 2004. Decision 2005-122 ruled that production from certain Wabiskaw-McMurray gas zones would not be allowed in 917 wells. The decision conserves about 25.5 billion barrels of potentially recoverable bitumen.

The EUB suspended 91 energy facilities and operations in calendar 2005 because of noncompliance situations, compared to 118 such suspensions in calendar 2004. The EUB has suspended 825 energy facilities and operations in Alberta since 2000. The oil and gas industry's compliance rate with major and serious EUB regulatory requirements reached 98 per cent in 2005, unchanged from last year.

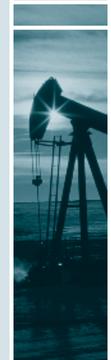
ST60B-2006: Upstream Petroleum Industry Flaring and Venting Report revealed that solution gas flaring in Alberta decreased by 72 per cent since 1996 and that solution gas venting decreased by 59 per cent since 2000. These reductions occurred during the 2005 calendar year, when a record number of wells was drilled in Alberta and the production of solution gas fell by 1.9 per cent. Overall, 96.3 per cent of all solution gas produced in Alberta was conserved for use or sale in calendar 2005 rather than being flared or vented.

In spite of record activity, the average EUB turnaround time for routine facility applications—which includes wells, pipelines, batteries and gas plants—was 1.2 working days, compared to 1.7 working days the previous year, exceeding the target turnaround time of 3 to 3.5 working days.

In 2005, the EUB updated its approach to regulating new and amended enhanced oil recovery (EOR) activities. The new EOR application process leads to greater standardization of EUB expectations and application requirements, which improves the efficiency and quality of the application process.

Now in its fourth year, the EUB's Appropriate Dispute Resolution (ADR) program provides an option for applicants and interveners to settle difficult disputes prior to going to a hearing. As a result of ADR, 27 hearings were avoided in calendar 2005.

The EUB opened its Customer Contact Centre (CCC) in September 2005 to provide ease of access to the EUB for both the public and industry to ensure prompt, professional, and knowledgeable service. The CCC team works with all branches of the EUB to provide excellent customer service by fielding as many calls as possible and forwarding those it cannot immediately respond to – such as complex technical questions or policy issues – to an appropriate EUB staff member.



The Public Safety and Sour Gas Initiative remains a primary focus for the EUB. In fiscal 2005, the EUB continued to work with its stakeholders to address the 87 recommendations made by the Provincial Advisory Committee on Public Safety and Sour Gas. By the end of the fiscal year, 70 recommendations had been completed and work had begun on the remaining 17.

Also in 2005, the EUB implemented the Large Facility Liability Management Program (LFP), which was developed in collaboration with industry. This program complemented the Licensee Liability Rating (LLR) program, which protects Albertans from the costs to suspend, abandon, remediate and reclaim any orphaned upstream oil and gas facility. The LFP includes facilities such as sulphur recovery gas plants, standalone straddle plants and in situ oil sands processing plants. The LFP assesses the liability of a licensee to address its suspension, abandonment, remediation and reclamation liabilities based on a comparison of its deemed assets to its deemed liabilities.

The pipeline failure rate in Alberta has fallen steadily since 2000. The number of pipeline failures per 1,000 km of pipeline was 2.3 in calendar 2005 compared with 2.4 per 1,000 km in calendar 2004 and 3.3 in 2000. In calendar 2005, the public registered 924 complaints with the EUB about oil and gas activities, up nine per cent from calendar 2004 and unchanged from 2000. Sulphur emissions have fallen by 26 per cent since 2000, from 78,000 to 57,000 tonnes of sulphur emissions in calendar 2005.

The Alberta Electric System Operator (AESO) Edmonton-Calgary 500 kilovolt (kV) Decision 2005-031, issued in April 2005, saw the Board approve the need to strengthen the Edmonton-to-Calgary electric transmission system to alleviate constraints and improve efficiencies. Hearing participants agreed that the transmission development was necessary, and focused on two different concepts: AESO’s preferred 500 kV alternative and a 240 kV option. The EUB examined these two possibilities and concluded that the 500 kV concept was the appropriate way to address the need in terms of system planning and performance, routing considerations, and economics.

EUB Utilities staff also provided oversight and coordination of implementation work with respect to the Tariff Billing Code, which establishes standards for presenting and communicating site-specific distribution and transmission tariff charges and usage information from distributor to retailer. The July 1, 2005 implementation of the Regulated Default Supply Regulation was successful, with EPCOR Energy Alberta Inc. and FortisAlberta achieving compliance through use of the Tariff Billing Code requirements. Work continues to have remaining wire owners and ATCO Gas meet July 1, 2006 deadlines for compliance with Tariff Billing Code requirements to align the retail natural gas and electric markets under the Tariff Billing Code.

As identified in the 2005-2008 Ministry of Energy Business Plan, performance measures were under review for Goal 5. Since the publication of the 2005-2008 Ministry of Energy Business Plan, two measures were developed for this goal and are Application Resolution and Protection of Public Safety. Because these two measures were being developed in 2005, targets are not included in this report, but are included in the 2006-2009 Ministry of Energy Business Plan. A performance measure for Service Standards of Utility Companies is under development and will be included in future reports.

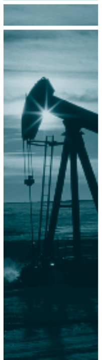
Performance Measure:

Application Resolution

Results:

	Year Ending March 31 **Last Actual 2006**
Percentage of oil and gas facility and resource applications filed with objections resolved without a hearing	96.5%

Source: Integrated Application Registry (IAR)



Discussion of Results

This measure quantifies the EUB's ability to facilitate and resolve landowner, public and industry objections to new energy and resource development applications through mechanisms other than the hearing process. Whether an application goes to a hearing or not, eventually an application has a status of dispositioned or closed. The objections may be dealt with through field facilitation, direct negotiation between applicant and objector, and formal Appropriate Dispute Resolution (ADR) with an independent mediator; all of which may result in a withdrawal of the application by the applicant, or a closure of the application by the EUB rather than proceeding to a formal hearing before the Board. Board staff attempt to facilitate these options with the various parties during the processing of a particular application.

There were 53,669 energy and resource applications filed during the fiscal year. There were only 1,030 applications dispositioned, which had linked objections. Of the 1,030 applications, 994, or 96.5 per cent were resolved without a hearing, with the remaining 36 applications going to a hearing. There were 18 hearings held to consider these 36 applications. More than one application may be considered at the same hearing, as one hearing may be held to consider a couple of wells, related pipelines and surface facilities.

Success in dispositioning applications without a hearing can be attributed to the EUB responding to heightened public and industry concerns in a number of ways, a few of which are identified below.

EUB facilitation staff are available to attend meetings between landowners and companies to discuss new oil and gas well and facility projects in order to help identify and resolve conflicts before they intensify.

The EUB encourages the use of various other mediation tools, such as company-sponsored consultation, negotiation and third-party mediation to allow the parties to come to possible solutions.

During the normal review of an application, EUB Application staff work diligently with all affected parties to identify issues and concerns and offer alternative solutions to applicant and landowner proposals, which may result in agreement between the various parties.

The EUB encourages senior company officials to meet with affected landowners during mediations in order to show commitment on behalf of the applicant to the objector's concerns, which can lead to building a longer term relationship.

Methodology

For the purposes of this measure, applications filed with objections means applications dispositioned or closed with linked objections during the fiscal year. Information is taken from the Integrated Application Registry (IAR) system to identify the number of applications dispositioned or closed with linked objections that went to a hearing versus applications dispositioned or closed with linked objections that did not go to a hearing.

Performance Measure:

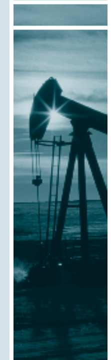
Protection of Public Safety

Results:

Year Ending December 31

	Actual 2003	Actual 2004	Last Actual 2005
Percentage of major and serious unsatisfactory field inspections of regulatory noncompliance	3.0%	2.3%	2.6%

Source: ST 99-2006: Provincial Surveillance and Compliance Summary 2005, January-December 2005



Discussion of Results

In calendar year 2005, there were 9,569 initial inspections. Of these inspections, 252 were considered unsatisfactory, and of the 252, only 2 were considered serious.

Although there was increased industry activity and therefore an increase in the number of inspections, the compliance performance in 2005 was similar to 2004. Overall, industry performance has remained consistent. The EUB continues to work with industry to increase awareness of the EUB's expectations and of new regulatory requirements.

Starting in January 2006, there will be a terminology change from satisfactory and minor unsatisfactory inspections to satisfactory and low risk unsatisfactory inspections, and major and serious unsatisfactory inspections to high risk unsatisfactory inspections. Also, starting in 2006, this measure will include field inspections for drilling waste, well sites, and waste management.

Methodology

This indicator measures the EUB's ability to ensure industry's compliance with regulatory requirements.

The EUB Public Safety/Field Surveillance Branch inspects operations of the upstream oil and gas industry with respect to the exploration, production, and disposition of hydrocarbons and associated wastes. All inspection results are recorded as satisfactory, minor unsatisfactory, major unsatisfactory or serious unsatisfactory and are entered into the Field Inspection System database. Inspections and investigations are counted for in the year that the event was initialized. This information is then reported in the annual ST99-2006: Provincial Surveillance and Compliance Summary which reports on a calendar year basis. Field inspections for this measure are initial inspections for drilling, gas facility, oil facility, pipeline, and well service operations initiated in the calendar year. It does not include field inspections for drilling waste, well sites, and waste management.

A major unsatisfactory inspection finds a contravention of regulation(s) and/or requirement(s) that an operator has failed to address and/or that has the potential to cause an adverse impact on the public and/or environment. A serious unsatisfactory inspection finds a major noncompliance combined with demonstrated disregard for the regulation(s)/ requirements(s).

Organizational Capacity and Effectiveness

Successful delivery of the department's core business depends on building and maintaining a strong organization with the knowledge and capacity to respond to changing future business and economic circumstances. A separate Organizational Capacity goal, which supports all of the Ministry's core businesses, has been established to address this requirement.

Goal 6:

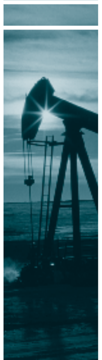
Build an organizational environment for success

Introduction

Organizational Capacity and Effectiveness addresses the challenge and importance of maintaining and building organizational capacity to respond to changing business needs. Organizational capacity means having the right resources, people, processes and tools to deliver the Ministry's core businesses.

Highlights

Industry continues to use the Petroleum Registry of Alberta (Registry) at an ever increasing rate. The Registry is accessed via the Internet and brings a new level of e-business based efficiency to the upstream oil and gas industry and the Ministry by providing stakeholders with a single, authoritative source of secure, valid and timely petroleum related information.



Since implementation in October of 2002, the department has seen utilization of the Registry increase each year, to the point that in 2005-06 there are over 16,000 users registered. While usage continues to grow, so does satisfaction with the services the Registry provides. During 2005-06, the department gauged industry satisfaction with the Registry. Industry satisfaction with Registry performance is high, with an 80 per cent overall satisfaction rate. This is up from 71 per cent two years earlier.

The department is streamlining administrative processes for the Freehold Mineral Tax program. Consultation with industry and freehold owners began two years ago to identify opportunities to streamline processes that would benefit both the department and industry. Recommendations made by the consultation working group are now in the development stage and scheduled for implementation in December 2007. The improvements include: automation of several manual processes, elimination of paper filing and reporting, a Web based system to provide industry with timely information about their freehold properties and the ability to manage and transfer their leasing and payment roles, publication of clear and updated business rules and the establishment of common industry practices. The new technology and processes will reduce the administrative burden and costs associated with the program and reduce the turn around times for managing the tax, the tax appeals and any amendments.

The 2005 Government of Alberta Corporate Employee Survey demonstrated that the department continued to support and develop its staff. Our employees consistently rank the Department of Energy as one of the best departments in the Government of Alberta to work for. Year after year, the department continues to be one of the top performers within government as assessed by Government employees.

The EUB actively creates and implements new strategies that improve and sustain employee satisfaction. The EUB continued its Investing in People initiative, which includes the Chairman's Award of Distinction, On-the-Spot Awards, Recognition Cards, Safe Driving Awards, and the Service Recognition program. All of these awards acknowledge the dedication and commitment of staff to the EUB. The results of the 2005 Alberta Corporate Employee Survey once again revealed that the EUB continues to develop and support its staff. Overall, EUB employees are satisfied and recognized they are valued workers; the EUB ranked higher than other provincial Crown agencies and Government of Alberta departments.

Performance Measure:

Industry Satisfaction with Department Services and Electronic Information Management

Target:

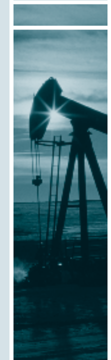
Industry satisfaction 80 per cent or higher.

Results:

			Year Ending December 31
	Actual 2001	**Actual 2003**	**Last Actual 2005**
Industry Satisfaction – with Department services	81%	84%	84%
Industry Satisfaction – with Department electronic information management	92%	94%	90%

Source: 2005 Banister Research and Consulting Inc., 2003 and 2001 Environics Research Group

Notes: Surveying is conducted every two years.



Discussion of Results

The department continues to receive high satisfaction ratings from its industry stakeholders. A satisfaction rate of 84 per cent was achieved in 2005, unchanged from the 2003 survey results. The helpfulness and professionalism of department staff is rated even higher at 86 per cent. Results are considered accurate +/- 4.0 per cent 19 times out of 20. The department applies the Government of Alberta's framework for service excellence, focusing on courteous, competent and timely service to clients. Industry satisfaction is surveyed to ensure that department services keep pace with changing requirements in the energy sector and identify opportunities for improvements. Industry satisfaction is an indicator of staff competence, knowledge, satisfaction and service.

In an increasingly global business environment where partnerships and information sharing are keys to success, effective use of information technology to deliver business products/services and manage information is essential. Industry satisfaction with electronic information management is surveyed to assess the department's commitment to system availability and security; timeliness; and ease of use. Results for industry satisfaction with electronic information management in 2005, the last year the survey was conducted, are considered accurate +/- 4.4 per cent 19 times out of 20. The department's 2005 result decreased by 4 per cent primarily because of lower satisfaction with the format of monthly Corporate Accounting Reporting System statements (72 per cent in 2005 vs. 84 per cent in 2003) and account set up procedures in order to access Electronic Transfer System Land Searches (65 per cent in 2005 vs. 81 per cent in 2003).

Methodology

In November 2005, Banister Research and Consulting Inc., conducted telephone interviews. For industry satisfaction with department services the focus of courteous, competent and timely service to clients was used to develop questions given to 472 randomly selected industry clients. Results are a mean average of client responses to a single question on overall satisfaction with nine business units. The number of business units surveyed was the same in 2005, as in 2003, however, Coal and Minerals was surveyed for the first time, while Rural Utilities was dropped as they were transferred out of the department. In order to gauge satisfaction with electronic information management, 397 randomly selected industry companies were asked questions about availability, security, timeliness, and ease of use of department electronic data processing systems. Results are a mean average of client responses to questions, about availability, security, timeliness, and ease of use of five department electronic data processing systems.

In 2005, we surveyed two new areas for e-business which are Postings-Mineral Agreement Posting Process and Transfers-Transfer of Mineral Ownership Agreements. These are new electronic processes for the Department of Energy and are related to the Tenure survey questions of 2003. We did not survey Mineral Revenue Information System (MRIS) – AC2/AC4 in 2005 because that process has been moved to the Petroleum Registry of Alberta (PRA).

Surveying for these measures is conducted every second year. The next surveys will be conducted in the fall of 2007.

Performance Measure:

Increase stakeholder satisfaction with EUB information and access to it

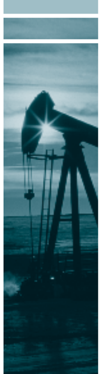
Target:

74 per cent stakeholder satisfaction with EUB information and access to it.

Results:

	Year Ending March 31	
	Actual 2005	**Last Actual 2006**
Stakeholder satisfaction with EUB information and access to it.	79%	68%

Source: External Stakeholder EUB Satisfaction Survey



Discussion of Results

The results from the Satisfaction Survey were below the target of 74 per cent and below last year's results. The drop in customer satisfaction could have resulted from the following:

The EUB redesign of the existing Web site and introduction of a new area within the Web site called the "Public Zone" meant that users had to adapt and become familiar with the changes, which affected their level of satisfaction.

Industry activity has increased, resulting in unusually high volumes of drilling and exploration activities that require information and data from the EUB. Customers indicated slower turnaround times in phone, mail and e-mail order completion by the EUB.

EUB customers continue to express a desire to have more data and information available in electronic form through an "on-line store" capability over the Internet. While some EUB data is available electronically, a large collection of data is still only available in microfilm or paper form.

Steps taken to improve stakeholder satisfaction levels include continued enhancements to the Electronic Application System (EAS) to improve reliability and performance. The EUB is also continuing to make advances in collecting more data in electronic form, while also exploring the potential for converting microfilm and paper data to electronic form and considering developing an on-line store capability.

Methodology

This measure encourages the EUB to provide useful and reliable information to stakeholders to assist in long-term planning and in making more informed decisions. The EUB contracted MPA public and government affairs to conduct the 2005 External Customer Survey. Three broad populations were sampled:

- EUB customers through the EUB master printing list, Guide 44 Licensee/Agent Code list, the Public Safety Implementation Team list, and the Rightfax/ACT subscription list maintained by EUB Information Services
- Industry members, through membership in the Alberta Land Surveyor's Association, lists from the Canadian Oil Registry, and invitations and postings circulated to members of the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC)
- An open invitation to any and all wishing to reply by a posting on the EUB Web site

An estimated 3,500 direct invitations were issued to all EUB customers and industry members with 333 responses received. Questions were graded on a scale from 1 (completely satisfied) to 5 (not satisfied). Satisfaction was defined as the sum of "completely satisfied," "very satisfied," and "satisfied."

Performance Measure:

Alberta Energy and Utilities Board Staff Retention

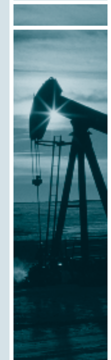
Target:

Maintain the percentage of voluntary turnover at a level equal to or lower than that reported by industry. Industry reported a target of 6.5 per cent which represents voluntary turnover for the energy industry for 2004.

Results:

		Year Ending March 31
	Actual 2005	**Last Actual 2006**
Percentage of voluntary turnover	5.4%	9.1%

Source: EUB personnel files



Discussion of Results

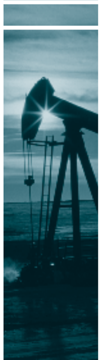
Fulfillment of EUB core business commitments is hindered if appropriate staff expertise is not in place. The EUB recognizes that it must provide a workplace that allows it to retain staff and attract others to join its team as required. To ensure the EUB keeps its most important asset in place during these challenging times and in the future, the EUB has implemented leadership process plans and staffing and compensation strategies.

To date, the percentage of voluntary turnover is above the targeted threshold of 6.5 per cent, as identified in the 2005 Mercer Total Compensation Survey (MTSC), which represents the 50th percentile of voluntary turnover for the energy industry for 2004. The EUB's 9.1 per cent equates to 72 voluntary terminations among the 2005 average workforce complement of 791, as compared to 42 voluntary terminations among the average 780-person workforce in 2004.

Methodology

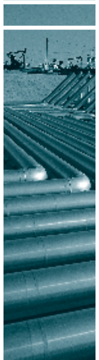
The EUB maintains a list identifying terminated employees. Voluntary turnover is calculated as the number of terminations defined as voluntary as a percentage of average permanent employee head count. Voluntary termination is defined as all terminations excluding those due to downsizing and layoffs and those of temporary, casual, and contract employees. Contract employees are external consultants not on payroll.

This performance measure will not be reported in the subsequent annual report, as it is not included in the 2006-09 Ministry of Energy Business Plan.



MINISTRY OF ENERGY

CONSOLIDATED FINANCIAL STATEMENTS - March 31, 2006



Alberta

AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Energy as at March 31, 2006 and the consolidated statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Ministry'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 consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original Signed by Fred J. Dunn, FCA in printed version
Auditor General

Edmonton, Alberta
May 19, 2006

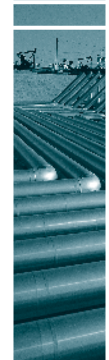
Ministry of Energy

Consolidated Statement of Operations

For the year ended March 31, 2006
(in thousands)

	2006		2005
	Budget	**Actual**	**Actual**
Revenues: (Schedule 1)			
Non-renewable resource revenue	$ 7,680,000	$ 14,346,661	$ 9,743,926
Freehold mineral rights tax	310,000	334,079	306,420
Industry levies and licences	74,000	74,097	74,315
Other revenue	9,759	41,866	24,077
	8,073,759	14,796,703	10,148,738
Expenses - Directly Incurred (Note 2 and Schedules 2 and 3)			
Energy and utility regulation	130,234	130,467	124,042
Resource development and management	70,890	68,936	66,317
Ministry support services	1,822	1,891	1,540
	202,946	201,294	191,899
Net operating results	$ 7,870,813	$ 14,595,409	$ 9,956,839

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



Ministry of Energy

Consolidated Statement of Financial Position

As at March 31, 2006
(in thousands)

	2006	2005
Assets:		
Cash (Note 3)	$ 1,085,724	$ 614,602
Accounts receivable (Note 4)	1,776,750	1,360,505
Inventory held for resale	18,376	25,930
Prepaid expenses	1,462	1,707
Accrued pension asset (Note 8)	8,272	7,495
Tangible capital assets (Note 5)	59,026	57,256
	$ 2,949,610	$ 2,067,495
Liabilities:		
Accounts payable and accrued liabilities	$ 105,784	$ 87,253
Unearned revenue	77,202	70,935
Gas royalty deposits (Note 6)	787,595	649,747
Security deposits (Note 7)	19,178	18,186
Tenant incentives	3,247	3,972
	993,006	830,093
Net Assets:		
Net assets, beginning of year	1,237,402	933,201
Net operating results	14,595,409	9,956,839
Net transfer to General Revenue	(13,876,207)	(9,652,638)
Net assets, end of year (Note 9)	1,956,604	1,237,402
	$ 2,949,610	$ 2,067,495

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

Ministry of Energy

Consolidated Statement of Cash Flows

For the year ended March 31, 2006
(in thousands)

	2006	2005
Operating transactions:		
Net operating results	$ 14,595,409	$ 9,956,839
Non-cash items		
Amortization	13,690	14,037
Pension expense	5,708	5,446
Valuation adjustments	476	59
	14,615,283	9,976,381
Changes in operating non-cash working capital		
Increase in accounts receivable	(416,245)	(306,806)
Decrease (increase) in inventory	7,554	(8,805)
Decrease (increase) in prepaid expenses	245	(140)
Increase in accounts payable and accrued liabilities	18,055	30,283
Increase (decrease) in unearned revenues	6,267	(401)
Decrease in tenant incentives	(725)	(725)
Cash provided by operating transactions	14,230,434	9,689,787
Financing transactions:		
Increase in gas royalty deposits	137,848	97,332
Net transfer to General Revenue	(13,876,207)	(9,652,638)
Pension obligations funded	(6,485)	(6,673)
Increase in security deposits	992	5,646
Cash used by financing transactions	(13,743,852)	(9,556,333)
Capital transactions:		
Purchase of tangible capital assets	(15,460)	(15,596)
Cash used by capital transactions	(15,460)	(15,596)
Increase in cash	471,122	117,858
Cash, beginning of year	614,602	496,744
Cash, end of year	$ 1,085,724	$ 614,602

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

Ministry of Energy

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended March 31, 2006

(in thousands)

Note 1 Authority

The Minister of Energy has been designated as responsible for various Acts by the Government Organization Act and its regulations. To fulfill these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Energy.

Organization	Authority
Department of Energy	Government Organization Act
Alberta Energy and Utilities Board (The Board)	Alberta Energy and Utilities Board Act
Alberta Petroleum Marketing Commission (The Commission)	Petroleum Marketing Act and the Natural Gas Marketing Act

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

Basis of Financial Reporting

Basis of Consolidation

The accounts of the Department, the Board and the Commission are consolidated. Revenue and expense transactions, capital and financing transactions, and related asset and liability accounts between entities within the Ministry have been eliminated.

The reporting period of the Commission is December 31. Transactions that have occurred during the period to March 31, 2006 and that significantly affect the consolidation have been recorded.

Revenues

All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue.

Crude oil and natural gas royalties are determined based on monthly production. Revenue is recognized when the resource is produced by the mineral rights holders.

Freehold mineral taxes and synthetic crude oil and bitumen royalty are determined at the end of a calendar year based on production and costs of production incurred in the calendar year. Revenue is recognized on a prorated basis, by month, of the estimated calendar year taxes and royalty that will be due to the Crown.

Revenue from bonuses and sales of crown leases is recognized when the crown leases are sold. Rentals and fees revenue is recognized over the term of the leases.

Industry levies and assessments are recognized as revenue in the year receivable.

Expenses

Directly Incurred

Directly incurred expenses are those costs the ministry has primary responsibility and accountability for, as reflected in the Government's budget documents.

Directly incurred expenses include:

- amortization of tangible capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- current service costs for the defined benefit pension plans. The Board has its own defined benefit pension plans. The Board's pension expense is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service lives of the related employee group (8 years). For the purpose of calculating the expected return, plan assets are valued at fair value.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Incurred by Others

Services contributed by other entities in support of the ministry operations are disclosed in schedule 3 and are not reflected in the consolidated statement of operations.

Assets

Inventory consists of conventional and synthetic oil in feeder and trunk pipelines. Inventories are stated at net realizable value.

Tangible capital assets are recorded at historical cost and are amortized over their estimated useful lives. The Department threshold for capitalizing new systems development is $100 and the threshold for all other tangible capital assets is $5.

Assets acquired by right, such as mineral resources, are not included.

When physical assets are gifted or sold for a nominal sum to parties external to the government reporting entity, the fair values of these physical assets less any nominal proceeds are recorded as grants in kind.

Liabilities

Liabilities include all financial claims payable by the Ministry at fiscal year end.

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, accounts receivable, advances, accounts payable and accrued liabilities, security deposits, and gas royalty deposits are estimated to approximate their carrying values because of the short term nature of these instruments.

Note 3 Cash

Cash includes a deposit in the Consolidated Cash Investment Trust Fund, which is managed by the province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. The average effective market yield for fiscal 2006 was 3.95 per cent (2005 – 2.79 per cent).

Note 4 Accounts Receivable

Accounts receivable is secured by a claim against the mineral leases.

Note 5 Tangible Capital Assets

	2006				2005
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	3-10 years	$ 118,311	$ 80,225	$ 38,086	$ 40,501
Software under development	3-10 years	6,255	-	6,255	2,766
Equipment	3-20 years	20,514	11,437	9,077	7,638
Leasehold Improvement	Term of Lease	9,448	4,160	5,288	6,031
Land	-	320	-	320	320
		$ 154,848	$ 95,822	$ 59,026	$ 57,256

Note 6 Gas Royalty Deposits

The Department requires that natural gas producers maintain a deposit equal to the lesser of one-sixth of the prior calendar year's royalties or the amount determined by multiplying last year's deposit by the ratio of the current long term gas reference price to the prior year long term gas reference price. The Department does not pay interest on the deposits.

Note 7 Security Deposits

The Board encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines, and oilfield waste facilities by holding various forms of security.

At March 31, 2006, the Board held $19,178 (2005 – $18,186) in security deposits, and an additional $49,534 (2005 – $29,793) in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

Note 8 Employee Future Benefits

The Ministry participates in multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $7,594 for the year ended March 31, 2006 (2005 – $6,676).

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,895 (2004 – $268,101) and the Public Service Pension Plan reported a deficiency of $187,704 (2004 – $450,068). At December 31, 2005, the Supplementary Retirement Plan for Public Service Managers had a surplus of $10,018 (2004 – $9,404).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2006, the Bargaining Unit Plan reported an actuarial deficiency of $8,699 (2005 – $11,817) and the Management, Opted Out and Excluded Plan an actuarial surplus of $8,311 (2005 – $3,208). The expense for these two plans is limited to the employer's annual contributions for the year.

In addition, the Board maintains a defined benefit Senior Employees Pension Plan and Supplementary Benefit Plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration. The most recent actuarial valuation of the Senior Employees Pension Plan was at January 1, 2006 and the supplementary plans were valued at January 1, 2004. The next valuation is scheduled for January 1, 2007 for the Senior Employees Pension Plan and the supplementary plans. Significant actuarial and economic assumptions used to value accrued benefit obligations and pension benefit costs are as follows:

	2006	2005
Accrued benefits obligations		
Discount rate	5.3%	5.8%
Rate of compensation increase (weighted average)	3.5%	3.5%
Benefit costs for the year		
Discount rate	5.8%	6.1%
Expected long-term rate of return on plan assets	3.4% to 6.8%	3.6% to 7.1%
Rate of compensation increase	3.5%	3.5%

The funded status and amounts recognized in the Statement of Financial Position are as follows:

	2006	2005
Plan assets at fair value	$ 28,681	$ 23,847
Accrued benefit obligation	26,210	22,913
Plan surplus	2,471	934
Unamortized amounts	5,801	6,561
Accrued pension asset	$ 8,272	$ 7,495

Additional information about the Board defined benefit plans are as follows:

	2006	2005
The Board's contribution	$ 2,317	$ 2,742
The Board employees' contribution	328	303
Benefit paid	1,475	894
Pension benefit costs	1,540	1,517

The asset allocation of the defined benefit pension plans investments as at March 31 was as follows:

	2006	2005
Equity securities	56.3%	55.3%
Debt securities	33.4%	31.3%
Other	10.3%	13.4%
	100.0%	100.0%

Note 9 Net Assets

Net assets are comprised of:

	2006	2005
Department of Energy	$ 1,907,898	$ 1,189,652
Alberta Energy and Utilities Board	48,706	47,750
Total	$ 1,956,604	$ 1,237,402

Note 10 Trust Funds under Administration

The Ministry administers trust funds which are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds, and administers them for the purpose of various trusts, they are not included in the Ministry's financial statements.

As at March 31 trust funds under administration were as follows:

	2006	2005
Oil and Gas Conservation Trust	$ 1,975	$ 855

Note 11 Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2006 amount to $37,918 (2005 – $ 44,085). These commitments will become expenses of the Ministry when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature. These amounts include obligations under long-term leases with lease payment requirements in future years of:

2006/07	$ 5,475
2007/08	5,487
2008/09	5,462
2009/10	4,859
2010/11	3,441
Thereafter	4,425
	$ 29,149

Royalty Paid Natural Gas

The Province is committed to payout January 1, 1994 balances of royalty paid natural gas and by-products injected into underground reservoirs prior to January 1, 1994. At March 31, 2006, the commitment was estimated at $41,884 (2005 – $50,641). The commitment was estimated using the current gas price, royalty rates and volumes being amortized to 2007.

Alberta Petroleum Marketing Commission

The Alberta Petroleum Marketing Commission has allocated a portion of its anticipated pipeline requirements to firm transportation agreements expiring in March 2012. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2005 is $51,419 (2004 – $60,367). This commitment will be paid from future oil royalty revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

Note 12 Contingencies and Other Liabilities

Set out below are details of contingencies resulting from administrative actions and litigation, other than those reported as liabilities.

(a) Natural Gas and By-products Royalty Liability

Four royalty payers have requested the Department to keep 2001 production year open to accept amended production data. The impact of this upon the revenue reported can not be determined.

(b) Land Claims

The government has identified and set aside specific tracts of land to satisfy land claims by Indian Bands. The claims related to these lands are not yet resolved. In the interim, the Ministry has issued 23 petroleum and natural gas dispositions on these lands and collected bonus and rental payments on the areas under dispute. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

(c) Legal Claims

At March 31, 2006 the Department is a defendant in six legal claims (2005 – six legal claims). Five of these claims have specified amounts totaling $10,575,321 and the remaining claim has no specified amount (2005 – five with specified amounts totaling $10,825,243 and one claim with no specified amount). Included in the total legal claims are three claims amounting to $10,572,500 in which the Department has been jointly named with other entities (2005 – three with specified amounts totaling $10,572,500). One claim amounting to $572,500 (2005 – one claim – $572,500) is covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

Note 13 Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Natural gas and by-products revenue, and synthetic crude oil and bitumen revenue, recorded as $9,338,173 in these financial statements, is subject to measurement uncertainty.

Natural gas and by-products revenue is calculated based on allowable costs incurred by the royalty payers and production volumes that are reported to the Department by royalty payers. These costs and volumes could vary

significantly from that initially reported. The Department estimates what the costs, volumes and royalty rates for the fiscal year should be based on statistical analysis of industry data. Based on historical data, natural gas and by-products revenue could change by $130,000.

Synthetic crude oil and bitumen revenue reported does not reflect an estimate for adjustments resulting from audits by the Department of the allowable costs and revenues reported by the producers. Based on the average of the audit results for the last four fiscal years revenue could change by $28,000.

Note 14 Related Party Transactions

The Ministry paid $9,952 (2005 – $9,729) to various other Government of Alberta departments, agencies or funds for supplies and/or services during the fiscal year and received $1,204 (2005 – $716) as revenue. Included in these services was a payment of $412 (2005 – $412) for the lease of a research facility from Alberta Infrastructure. The remaining term of this lease is 80 years and the future payments are $412 to 2009 and $48 to 2086 annually.

Accommodations, legal, telecommunications, personnel, audit services, and certain financial costs were provided to the Ministry by other government organizations at no cost. However, services contributed by other entities in support of the Ministry operations are disclosed in schedule 3.

Note 15 Royalty Reduction Programs

The Department provides eleven oil and gas royalty reduction programs. These programs reduce Crown royalties to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2006, the royalties received under these programs were reduced by $948,498 (2005 – $533,352).

Note 16 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by $175,360 for the year ended March 31, 2006 (2005 – $152,222).

Note 17 Approval of Financial Statements

The financial statements were approved by the Deputy Minister and the Senior Financial Officer of the Department.

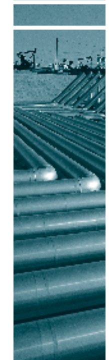
Ministry of Energy

Schedule 1

Consolidated Schedule of Revenue

For the year ended March 31, 2006
(in thousands)

	2006		2005
	Budget	**Actual**	**Actual**
Non-renewable resource revenue			
Natural gas and by-products	$ 5,418,000	$ 8,387,920	$ 6,439,267
Bonuses and sale of crown leases	886,000	3,490,142	1,251,944
Crude oil royalties	923,000	1,462,504	1,272,503
Synthetic crude oil and bitumen	393,000	950,253	718,145
Rentals and fees	145,000	156,223	152,600
Coal	8,000	11,072	11,224
Alberta royalty tax credit	(93,000)	(111,453)	(101,757)
	7,680,000	14,346,661	9,743,926
Freehold mineral rights tax	310,000	334,079	306,420
Industry levies and licenses	74,000	74,097	74,315
Other revenue			
Other	8,509	40,531	22,988
Interest	1,250	1,335	1,089
	9,759	41,866	24,077
Total Revenues	$ 8,073,759	$ 14,796,703	$ 10,148,738



Ministry of Energy

Schedule 2

Consolidated Schedule of Expenses Detailed by Object

For the year ended March 31, 2006
(in thousands)

	2006		2005
	Budget	Actual	Actual
Salaries, wages and employee benefits	$ 114,685	$ 121,695	$ 111,265
Supplies and services	60,336	51,672	52,800
Amortization of capital assets	15,011	13,690	14,037
Well abandonment	13,000	13,561	13,614
Grants	415	714	648
Valuation adjustments	35	476	59
Financial transactions and other	80	84	78
Gross expenses for operations	203,562	201,892	192,501
Less: Recovery from support service agreements with related parties	(616)	(598)	(602)
Total Net Expenses	$ 202,946	$ 201,294	$ 191,899

Ministry of Energy

Schedule 3

Consolidated Schedule of Allocated Costs

For the year ended March 31, 2006
(in thousands)

	2006				2005
		Expenses Incurred by Others			
	Directly Incurred Expenses (1)	Accommodation Costs	Other Services	Total Expenses	Total Expenses
Program:					
Energy and utility regulation	$ 130,467	$ 118	$ -	$ 130,585	$ 124,042
Resource development and management	68,936	3,726	1,810	74,472	71,673
Ministry support services	1,891	196	64	2,151	1,775
	$ 201,294	$ 4,040	$ 1,874	$ 207,208	$ 197,490

(1) Expenses - Directly Incurred as per Statement of Operations.

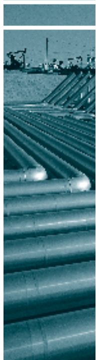
Ministry of Energy

Schedule 4

Consolidated Schedule of Intra-Ministry Transactions

For the year ended March 31, 2006
(in thousands)

	2006		2005
	Budget	**Actual**	**Actual**
Assets			
Alberta Petroleum Marketing Commission	$ -	$ (16,244)	$ (10,099)
Total net assets	$ -	$ (16,244)	$ (10,099)
Liabilities			
Alberta Petroleum Marketing Commission	$ -	$ (16,244)	$ (10,099)
Total net liabilities	$ -	$ (16,244)	$ (10,099)
Revenue			
Alberta Energy and Utilities Board funding from the Department	$ (46,475)	$ (45,975)	$ (41,009)
Total net revenue	$ (46,475)	$ (45,975)	$ (41,009)
Expense			
Funding to Alberta Energy and Utilities Board	$ (46,475)	$ (45,975)	$ (41,009)
Total net expense	$ (46,475)	$ (45,975)	$ (41,009)



DEPARTMENT OF ENERGY

FINANCIAL STATEMENTS - March 31, 2006

Alberta

AUDITOR'S REPORT

To the Minister of Energy

I have audited the statement of financial position of the Department of Energy as at March 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Department'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 Department as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original Signed by Fred J. Dunn, FCA in printed version
Auditor General

Edmonton, Alberta
May 19, 2006

Department of Energy

Statement of Operations

For the year ended March 31, 2006
(in thousands)

	2006		2005
	Budget (Schedule 3)	**Actual**	**Actual**
Revenues: (Schedule 1)			
Non-renewable resource revenue	$ 7,680,000	$ 14,346,660	$ 9,743,926
Freehold mineral rights tax	310,000	334,079	306,420
Other revenue	500	30,515	13,338
	7,990,500	14,711,254	10,063,684
Expenses - directly incurred (Note 2b and Schedule 6)			
Voted (Schedules 2 and 3)			
Ministry support services	1,822	1,890	1,540
Resource development and management	70,855	68,460	66,258
Energy and utilities regulation	46,475	45,975	41,009
	119,152	116,325	108,807
Statutory (Schedules 2 and 3)			
Valuation adjustments			
Provision for doubtful accounts	35	2	39
Provision for vacation pay	-	474	20
	35	476	59
	119,187	116,801	108,866
Net Operating Results	$ 7,871,313	$ 14,594,453	$ 9,954,818

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

Department of Energy

Statement of Financial Position

As at March 31, 2006
(in thousands)

	2006	2005
Assets:		
Cash	$ 1,032,849	$ 567,949
Accounts receivable (Note 3)	1,768,059	1,346,304
Inventories held for resale (Note 2)	18,376	25,930
Tangible capital assets (Note 4)	18,934	17,459
	$ 2,838,218	$ 1,957,642
Liabilities:		
Accounts payable and accrued liabilities	$ 68,038	$ 48,235
Gas royalty deposits (Note 5)	787,595	649,747
Unearned revenue	74,687	70,008
	930,320	767,990
Net Assets:		
Net assets, beginning of year	1,189,652	887,470
Net operating results	14,594,453	9,954,818
Net transfer to general revenues	(13,876,207)	(9,652,636)
Net assets, end of year	1,907,898	1,189,652
	$ 2,838,218	$ 1,957,642

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

Department of Energy

Statement of Cash Flows

For the year ended March 31, 2006
(in thousands)

	2006	2005
Operating transactions:		
Net operating results	$ 14,594,453	$ 9,954,818
Non-cash items included in net operating results		
Amortization	3,951	4,684
Valuation adjustments	476	59
	14,598,880	9,959,561
Increase in accounts receivable	(421,757)	(295,723)
Decrease (increase) in inventories held for resale	7,554	(8,805)
Increase in accounts payable and accrued liabilities	19,329	10,034
Increase in unearned revenue	4,679	615
Cash provided by operating transactions	14,208,685	9,665,682
Financing transactions:		
Net transfer to General Revenues	(13,876,207)	(9,652,636)
Increase in gas royalty deposits	137,848	97,332
Cash used by financing transactions	(13,738,359)	(9,555,304)
Capital transactions:		
Purchase of tangible capital assets (Schedule 3)	(5,426)	(4,513)
Cash used by capital transactions	(5,426)	(4,513)
Increase in cash	464,900	105,865
Cash, beginning of year	567,949	462,084
Cash, end of year	$ 1,032,849	$ 567,949

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

Department of Energy

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006

(in thousands)

Note 1 Authority and Purpose

The Department of Energy operates under the authority of the Government Organization Act, Chapter G-10, Revised Statutes of Alberta 2000.

The Department manages the development of provincially owned energy and mineral resources by industry and the assessment and collection of non-renewable resource revenues in the form of royalties, freehold mineral taxes, rentals and bonuses. The Department promotes development of Alberta's energy and mineral resources, recommends and implements energy and mineral related policy, grants rights for exploration and development to industry and establishes and administers fiscal regimes and royalty systems.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting.

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments.

(a) Reporting Entity

The reporting entity is the Department of Energy, which is part of the Ministry of Energy and for which the Minister of Energy is accountable. Other entities reporting to the Minister are the Alberta Petroleum Marketing Commission and the Alberta Energy and Utilities Board. The activities of these organizations are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance. All cash receipts of the departments are deposited into the Fund and all cash disbursements made by the departments are paid from the Fund. Net transfer to General Revenues is the difference between all cash receipts and all cash disbursements made.

(b) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue.

Crude oil and natural gas royalties are determined based on monthly production. Revenue is recognized when the resource is produced by the mineral rights holders.

Freehold mineral taxes and synthetic crude oil and bitumen royalty are determined at the end of a calendar year based on production and costs of production incurred in the calendar year. Revenue is recognized on a prorated basis, by month, of the estimated calendar year taxes and royalty that will be due to the Crown.

Revenue from bonuses and sales of crown leases is recognized when the crown leases are sold. Rentals and fees revenue is recognized over the term of the leases.

Expenses

Directly Incurred

Directly incurred expenses are those costs the department has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program operating expenses like salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Incurred by Others

Services contributed by other entities in support of the department operations are disclosed in schedule 6.

Assets

Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals as well as inventories held for resale.

Inventory consists of oil in feeder and trunk pipelines. Inventory is stated at net realizable value.

Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $100 and the threshold for all other tangible capital assets is $5. Assets acquired by right, such as mineral resources, are not included.

When physical assets are gifted or sold for a nominal sum to parties external to the government reporting entity, the fair values of these physical assets less any nominal proceeds are recorded as grants in kind.

Liabilities

Liabilities include all financial claims payable by the Department at fiscal year end.

Net Assets

Net assets represents the difference between the carrying value of assets held by the Department and its liabilities.

Note 3 Accounts Receivable

Accounts receivable is secured by a claim against the mineral leases.

Note 4 Tangible Capital Assets

	2006				2005
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	10 years	$ 60,580	$ 49,167	$ 11,413	$ 13,575
Software under development	10 years	1,931	-	1,931	-
Equipment	3 to 10 years	12,934	7,344	5,590	3,884
		$ 75,445	$ 56,511	$ 18,934	$ 17,459

Note 5 Gas Royalty Deposits

The Department requires that natural gas producers maintain a deposit equal to the lesser of one-sixth of the prior calendar year's royalties or the amount determined by multiplying last year's deposit by the ratio of the current long term gas reference price to the prior year long term gas reference price. The Department does not pay interest on the deposits.

Note 6 Commitments

As at March 31, 2006, the Department has commitments totaling $8,769 (2005 – $11,573). These commitments will become expenses of the Department when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature.

Royalty Paid Natural Gas

The Province is committed to payout January 1, 1994 balances of royalty paid natural gas and by-products injected into underground reservoirs prior to January 1, 1994. At March 31, 2006, the commitment was estimated at $41,884 (2005 – $50,641). The commitment was estimated using the current gas price, royalty rates and volumes being amortized to 2007.

Note 7 Contingencies and Other Liabilities

Set out below are details of contingencies resulting from administrative actions and litigation, other than those reported as liabilities.

(a) Land Claims

The government identifies and sets aside specific tracts of land to satisfy land claims made by Indian Bands. The claims related to these lands are under negotiation but are not yet resolved. In one instance, the Department may have to revoke 23 petroleum and natural gas dispositions for which the government accepted bonus, rental payments, and royalties. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

(b) Legal Claims

At March 31, 2006 the Department is a defendant in six legal claims (2005 – six legal claims). Five of these claims have specified amounts totaling $10,575,321 and the remaining claim has no specified amount (2005 – five with specified amounts totaling $10,825,243 and one claim with no specified

amount). Included in the total legal claims are three claims amounting to $10,572,500 in which the Department has been jointly named with other entities (2005 – three with specified amounts totaling $10,572,500). One claim amounting to $572,500 (2005 – one claim – $572,500) is covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

(c) Natural Gas and By-products Royalty

Four royalty payers have requested the Department to keep 2001 production year open to accept amended production data. The impact of this upon the revenue reported can not be determined.

Note 8 Trust Funds under Administration

The Department administers the Oil and Gas Conservation Trust which is a regulated fund consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the fund and administers the fund for the purpose of various trusts, the fund is not included in the Department's financial statements.

As at March 31, 2006, the funds in the Oil and Gas Conservation Trust was $1,975 (2005 – $855).

Note 9 Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Natural gas and by-products revenue, and synthetic crude oil and bitumen revenue, recorded as $9,338,173 in these financial statements, is subject to measurement uncertainty.

Natural gas and by-products revenue is calculated based on allowable costs incurred by the royalty payers and production volumes that are reported to the Department by royalty payers. These costs and volumes could vary significantly from that initially reported. The Department estimates what the costs, volumes and royalty rates for the fiscal year should be based on statistical analysis of industry data. Based on historical data, natural gas and by-products revenue could change by $130,000.

Synthetic crude oil and bitumen revenue reported does not reflect an estimate for adjustments resulting for audits by the Department of the allowable costs and revenues reported by the producers. Based on the average of the last four fiscal years revenue could change by $28,000.

Note 10 Defined Benefits Plans

The Department participates in multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $3,425 for the year ended March 31, 2006 (2005 – $2,744).

At December 31, 2005, the Management Employees Pension Plan reported a deficiency of $165,895 (2004 – $268,101) and the Public Service Pension Plan reported a deficiency of $187,704 (2004 – $450,068). At December 31, 2005, the Supplementary Retirement Plan for Public Service Managers had a surplus of $10,018 (2004 – $9,404).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2006, the Bargaining Unit Plan reported an actuarial deficiency of $8,699 (2005 – $11,817) and the Management, Opted Out and Excluded Plan an actuarial surplus of $8,311 (2005 – $3,208). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 11 Over Expenditure of Authorized Budget

The Department's total of actual voted operating expense and equipment/inventory purchases exceeded the authorized budget by $284 for the year ended March 31, 2006. As required by the *Financial Administration Act*, this amount must be charged against the voted appropriation for the year ending March 31, 2007. See schedule 3 to the financial statements.

Note 12 Royalty Reduction Programs

The Department provides eleven oil and gas royalty reduction programs. These programs reduce Crown royalties to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2006, the royalties received under these programs were reduced by $948,498 (2005 – $533,352).

Note 13 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by $175,360 for the year ended March 31, 2006 (2005 – $152,222).

Note 14 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, accounts receivable, accounts payable and accrued liabilities, and gas royalty deposits are estimated to approximate their carrying values because of the short-term nature of these instruments.

Note 15 Approval of Financial Statements

The financial statements were approved by the Deputy Minister and the Senior Financial Officer.

Department of Energy

Schedule 1

Schedule to Financial Statements

Revenues

For the year ended March 31, 2006
(in thousands)

	2006		2005
	Budget	**Actual**	**Actual**
Non-renewable Resource Revenue:			
Natural gas and by-products royalty	$ 5,418,000	$ 8,387,920	$ 6,439,267
Bonuses and sales of crown leases	886,000	3,490,142	1,251,944
Crude oil royalty	923,000	1,462,504	1,272,503
Synthetic crude oil and bitumen royalty	393,000	950,253	718,145
Rentals and fees	145,000	156,222	152,600
Coal royalty	8,000	11,072	11,224
Royalty tax credit	(93,000)	(111,453)	(101,757)
	7,680,000	14,346,660	9,743,926
Freehold Mineral Rights Tax	310,000	334,079	306,420
Other Revenue	500	30,515	13,338
Total Revenue	$ 7,990,500	$ 14,711,254	$ 10,063,684

Department of Energy

Schedule 2

Schedule to Financial Statements

Expense Directly Incurred - Detailed by Object

For the year ended March 31, 2006
(in thousands)

	2006		2005
	Budget	Actual	Actual
Voted			
Grants	$ 46,890	$ 46,689	$ 41,657
Salaries, Wages & Employee Benefits	44,135	44,046	39,531
Supplies and Services	25,152	22,153	23,460
Amortization Of Tangible Capital Assets	3,511	3,951	4,684
Financial Transactions and Other	80	84	77
Total Voted Expenses before Recoveries	119,768	116,923	109,409
Less: Recovery from Support Service Arrangements with Related Parties [a]	(616)	(598)	(602)
Total Voted Expenses	$ 119,152	$ 116,325	$ 108,807
Statutory			
Valuation adjustments			
Provision for doubtful accounts	$ 35	$ 2	$ 39
Provision for vacation pay	-	474	20
	$ 35	$ 476	$ 59

(a) The Department provides financial services to Community Development, Alberta Environment and Sustainable Resource Development.

Department of Energy

Schedule 3

Schedule to Financial Statements

Comparison of Expense - Directly Incurred, Equipment/Inventory Purchases and Statutory Expenses, by Element to Authorized Budget

For the year ended March 31, 2006
(in thousands)

	2005-2006 Authorized Budget	Actual Expense (a)	Unexpended (Over Expended)
Expenses:			
Voted Expense, Equipment/Inventory Purchases			
Program 1 - Ministry Support Services			
1.0.1 Minister's Office	$ 315	$ 377	$ (62)
1.0.2 Standing Policy Committee on Energy and Sustainable Development	100	128	(28)
1.0.3 Deputy Ministers' Office	405	515	(110)
1.0.4 Communications	1,002	870	132
	1,822	1,890	(68)
Program 2 - Resource Development and Management			
2.1 Revenue Collection			
2.1.1 Revenue Collection			
- Operating Expense	48,287	45,245	3,042
- Equipment/Inventory Purchases	2,315	5,072	(2,757)
	50,602	50,317	285
2.2 Resource Development			
2.2.1 Resource Development			
- Operating Expense	22,568	23,215	(647)
- Equipment/Inventory Purchases	-	354	(354)
	22,568	23,569	(1,001)
Program 3 - Energy and Utilities Regulation			
3.0.1 Assistance to the Alberta Energy and Utilities Board	46,475	45,975	500
	46,475	45,975	500
Total Voted Expenses	$ 121,467	$ 121,751	$ (284)
Program Operating Expense	$ 119,152	$ 116,325	$ 2,827
Program Capital Investment	2,315	5,426	(3,111)
Total Voted Expenses	$ 121,467	$ 121,751	$ (284)
Statutory Expenses:			
Valuation adjustments			
Program 2.1.1 Revenue Collection	$ 35	$ 476	$ (441)
	$ 35	$ 476	$ (441)

(a) Includes achievement bonus of $1,217

Department of Energy

Schedule 4

Schedule to Financial Statements

Salaries and Benefits Disclosure

For the year ended March 31, 2006
(in thousands)

	2006				2005
	Salary [1]	Other Cash Benefits [2]	Other Non-cash Benefits [3]	Total	Total
Deputy Minister [4][5]	$ 158	$ 132	$ 7	$ 297	$ 241
Executives					
Assistant Deputy Minister - Electricity and Gas	128	19	28	175	150
Assistant Deputy Minister - Mineral Development	147	26	33	206	178
Assistant Deputy Minister - Oil Development	140	21	31	192	164
Executive Director - Human Resources	122	21	28	171	153
Executive Director - Policy, Planning & External Relations	126	23	28	177	158

Total salary and benefits relating to a position are disclosed.

(1) Salary includes regular base pay.

(2) Other cash benefits include bonuses, overtime, vacation payout and lump sum payments.

(3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disability plan, professional memberships and tuition.

(4) Automobile provided, no dollar amount included in other non-cash benefits.

(5) Two individuals occupied this position during the fiscal year ended March 31, 2006.

Department of Energy

Schedule 5

Schedule to Financial Statements

Related Party Transactions

For the year ended March 31, 2006
(in thousands)

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Department had the following transactions with related parties recorded on the Statement of Operations at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		**Other Entities**	
	2006	**2005**	**2006**	**2005**
Expenses - Directly Incurred:				
Grants	$ 45,975	$ 41,009	$ -	$ -
Other services	2,081	2,029	5,041	4,922
	$ 48,056	$ 43,038	$ 5,041	$ 4,922

The above transactions do not include support service arrangement transactions disclosed in schedule 2.

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are disclosed in schedule 6.

	Entities in the Ministry		**Other Entities**	
	2006	**2005**	**2006**	**2005**
Expenses - Incurred by Others:				
Accommodation	$ -	$ -	$ 3,922	$ 4,040
Travel	-	-	329	-
Legal	-	-	1,545	1,551
	$ -	$ -	$ 5,796	$ 5,591

Department of Energy

Schedule 6

Schedule to Financial Statements

Allocated Costs

For the year ended March 31, 2006
(in thousands)

	2006							2005
		Expenses Incurred by Others			Valuation Adjustments			
Program	Directly Incurred Expenses (1)	Accommodation Costs	Transportation Costs	Legal Services	Vacation Pay	Doubtful Accounts	Total Expenses	Total Expenses
Ministry Support Services	$ 1,890	$ 196	$ 2	$ 62	$ -	$ -	$ 2,150	$ 1,775
Resource Development and Management	68,460	3,726	327	1,483	474	2	74,472	71,673
Energy and Utilities Regulation	45,975	-	-	-	-	-	45,975	41,009
	$ 116,325	$ 3,922	$ 329	$ 1,545	$ 474	$ 2	$ 122,597	$ 114,457

(1) Expenses - Directly Incurred as per Statement of Operations, excluding valuation adjustments.

ALBERTA ENERGY AND UTILITIES BOARD

FINANCIAL STATEMENTS - March 31, 2006

EUB

Alberta Energy and Utilities Board

Alberta

AUDITOR'S REPORT

To the Members of the Alberta Energy and Utilities Board

I have audited the statement of financial position of the Alberta Energy and Utilities Board as at March 31, 2006 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Board'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 Board as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original Signed by Fred J. Dunn, FCA in printed version
Auditor General

Edmonton, Alberta
May 5, 2006

Alberta Energy and Utilities Board

Statement of Operations

For the year ended March 31, 2006
(thousands of dollars)

	2006		2005
	Budget (Schedule 3)	**Actual**	**Actual**
Revenues			
Industry levies and assessments	$ 74,000	$ 74,097	$ 74,315
Provincial grant	46,475	45,975	41,009
Information, services and fees	8,009	10,016	9,650
Investment	1,250	1,335	1,089
	129,734	131,423	126,063
Expenses			
Energy regulation (Schedule 1)	117,234	116,906	110,428
Orphan abandonment (Note 3)	13,000	13,561	13,614
	130,234	130,467	124,042
Net operating results	$ (500)	$ 956	$ 2,021

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

Alberta Energy and Utilities Board

Statement of Financial Position

As at March 31, 2006
(thousands of dollars)

	2006	2005
Assets		
Current		
Cash (Note 4)	$ 26,149	$ 20,715
Security deposits (Note 5)	19,178	18,186
Accounts receivable	2,623	4,003
Prepaid expenses	1,462	1,707
	49,412	44,611
Computer software (Note 6)	27,338	26,007
Property and equipment (Note 7)	12,754	13,790
Accrued pension asset (Note 8)	8,272	7,495
	$ 97,776	$ 91,903
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 13,523	$ 10,962
Grant payable to Orphan Well Association	10,607	10,106
Security deposits (Note 5)	19,178	18,186
Unearned revenue	2,515	927
Current portion of deferred lease incentives	725	725
	46,548	40,906
Deferred lease incentives	2,522	3,247
Total liabilities	49,070	44,153
Net Assets		
Net assets, beginning of year	47,750	45,729
Net operating results	956	2,021
Net assets, end of year	48,706	47,750
	$ 97,776	$ 91,903

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

Alberta Energy and Utilities Board

Statement of Cash Flows

For the year ended March 31, 2006
(thousands of dollars)

	2006	2005
Operating Activities		
Net operating results	$ 956	$ 2,021
Non-cash expenses		
Amortization	9,739	9,353
Pension	5,708	5,446
Changes in operating non-cash working capital		
Decrease (increase) in accounts receivable	1,380	(1,144)
Decrease (increase) in prepaid expenses	245	(140)
Increase (decrease) in accounts payable and accrued liabilities	2,561	(1,558)
Increase in grant payable to Orphan Well Association	501	9,615
Increase (decrease) in unearned revenue	1,588	(1,018)
	22,678	22,575
Investing Activities		
Investment in computer software	(7,012)	(7,314)
Investment in property and equipment	(3,022)	(3,769)
	(10,034)	(11,083)
Financing Activities		
Pension obligations funded	(6,485)	(6,673)
Lease incentives repaid	(725)	(725)
	(7,210)	(7,398)
Net cash provided	5,434	4,094
Cash, beginning of year	20,715	16,621
Cash, end of year	$ 26,149	$ 20,715

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

Alberta Energy and Utilities Board

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2006

(thousands of dollars)

Note 1 Authority and purpose

The Alberta Energy and Utilities Board (EUB) operates under the authority of the Alberta Energy and Utilities Board Act, Chapter A-17, Revised Statutes of Alberta, 2000, as amended. The EUB's mission is to ensure that the discovery, development, and delivery of Alberta's energy resources and utility services take place in a manner that is fair, responsible, and in the public interest.

Note 2 Significant accounting policies

These financial statements are prepared in accordance with the following significant accounting policies:

(a) Amortization

All tangible and intangible assets with an economic life greater than one year are recorded at cost and are amortized using the following methods:

Computer software	Declining balance - 20 per cent per year
Furniture and equipment	Straight line - 3 to 20 years
Computer hardware	Straight line - 3 to 5 years
Leasehold improvements	Straight line - lease term to a maximum of 10 years

(b) Pension

Accrued pension benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement.

For the purpose of calculating the expected return, plan assets are valued at fair value.

Any excess of the net accumulated actuarial gain or loss over 10 per cent of the greater of the accrued benefit obligation and the fair value of the plan's assets is amortized over the average remaining service period of the active employees, which is 8 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

Defined contribution plan accounting is applied to multi-employer defined benefit pension plans as the EUB has insufficient information to apply defined benefit plan accounting.

(c) Deferred lease incentives

Deferred lease incentives are amortized on a straight-line basis over the term of the lease.

(d) 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 accounts receivable, accounts payable and accrued liabilities, grant payable to Orphan Well Association, and security deposits are estimated to approximate their carrying values.

(e) Revenue recognition

All grants provided by Government of Alberta organizations, industry levies and assessments are recognized as revenue in the year receivable.

Note 3 Orphan abandonment

The EUB has delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (Orphan Well Association). The EUB grants all of its orphan abandonment revenues (levy and application fees) to the Orphan Well Association. During the year ended March 31, 2006 the EUB levied the oil and gas industry $12,101 (2005: $12,044) and collected $1,460 (2005: $1,570) in application fees.

Note 4 Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. The average effective yield for fiscal 2006 was 3.95 per cent (2005: 2.79 per cent).

Note 5 Security deposits

The EUB encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines, and oilfield waste management facilities by holding various forms of security. At March 31, 2006, the EUB held $ 19,178 (2005: $18,186) in cash and an additional $49,534 (2005: $29,793) in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

Note 6 Computer software

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	$ 47,015	$ 24,001	$ 23,014	$ 23,241
Software under development	4,324	-	4,324	2,766
	$ 51,339	$ 24,001	$ 27,338	$ 26,007

Computer software assets with a net book value of $546 (Cost: $1,895 ; Accumulated Amortization: $1,349) with no remaining economic life were decommissioned during the year. Accordingly, a loss of $546 is included in Amortization - computer software on Schedule 1.

Note 7 Property and equipment

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 10,716	$ 7,057	$ 3,659	$ 3,685
Leasehold improvements	9,448	4,160	5,288	6,031
Furniture and equipment	7,580	4,093	3,487	3,754
Land	320	-	320	320
	$ 28,064	$ 15,310	$ 12,754	$ 13,790

Note 8 Pension

The EUB participates in the Government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan, and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equal to the annual contribution of $4,168 for the year ended March 31, 2006 (2005: $3,929).

In addition, the EUB maintains its own defined benefit Senior Employees Pension Plan and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

The most recent actuarial valuation of the Senior Employees Pension Plan was at January 1, 2006 and the supplementary plans were valued at January 1, 2004. The next valuation is scheduled for January 1, 2007 for the Senior Employees Pension Plan and the supplementary plans.

Significant actuarial and economic assumptions used to value accrued benefit obligations and pension benefit costs are as follows:

	2006	2005
Accrued benefits obligations		
Discount rate	5.3%	5.8%
Rate of compensation increase (weighted average)	3.5%	3.5%
Benefit costs for the year		
Discount rate	5.8%	6.1%
Expected rate of return on plan assets	3.4% to 6.8%	3.6% to 7.1%
Rate of compensation increase (weighted average)	3.5%	3.5%

The funded status and amounts recognized in the Statement of Financial Position are as follows:

	2006	2005
Fair value of plan assets	$ 28,681	$ 23,847
Accrued benefit obligations	26,210	22,913
Plan surplus	2,471	934
Unamortized net actuarial loss	5,801	6,561
Accrued pension asset	$ 8,272	$ 7,495

Additional information about the defined benefit plans is as follows:

	2006	2005
EUB contribution	$ 2,317	$ 2,742
Employees' contribution	328	303
Benefits paid	1,475	894
Pension benefit costs	1,540	1,517

Note 8 Pension, continued

The asset allocation of the defined benefit pension plans investments as at March 31 was as follows:

	2006	2005
Equity securities	56.3%	55.3%
Debt securities	33.4%	31.3%
Other	10.3%	13.4%
	100.0%	100.0%

Note 9 Future operating lease commitments

The future minimum operating lease payments, net of lease incentives, are as follows:

2007	$ 5,475
2008	5,487
2009	5,462
2010	4,859
2011	3,441
Thereafter	4,425
	$ 29,149

Note 10 Related party transactions

The EUB paid $4,911 (2005: $4,807) to various other Government of Alberta organizations for supplies and services during the current fiscal year. Included in these services was a payment of $412 (2005: $412) for the lease of a research facility from Alberta Infrastructure. The remaining term of this lease is eighty years and the future annual payments are $412 to 2009 and $48 thereafter.

The EUB received a grant of $45,975 (2005: $41,009) and service revenue of $1,204 (2005: $716) from Government of Alberta organizations.

Note 11 Contingent liability

The EUB is a defendant in a legal proceeding, jointly with the Province of Alberta and other public sector employers, as a result of its participation as an employer member of the Public Service Pension Plan. The validity and outcome of this proceeding is undeterminable at March 31, 2006.

Note 12 Comparative figures

Certain 2005 figures have been reclassified to conform to the 2006 presentation.

Note 13 Approval of financial statements

These financial statements were approved by the Board of the EUB on May 23, 2006.

Alberta Energy and Utilities Board

Schedule 1

Energy Regulation Expenses

For the year ended March 31, 2006
(thousands of dollars)

	2006	2005
Personnel	$ 77,644	$ 71,733
Buildings	8,932	8,806
Consulting services	6,331	6,263
Computer services	5,892	5,796
Amortization - computer software	5,681	5,536
Amortization - property and equipment	4,058	3,817
Travel and transportation	3,737	3,444
Administrative	3,114	3,028
Abandonment and enforcement	1,024	1,435
Equipment rent and maintenance	493	570
	$ 116,906	$ 110,428

Alberta Energy and Utilities Board

Schedule 2

Salaries and Benefits Disclosure

For the year ended March 31, 2006
(thousands of dollars)

	2006				2005
	Base Salary (a)	Cash Benefits (b)	Non-cash Benefits (c)	Total	Total
Chairman	$ 245	$ 7	$ 52	$ 304	$ 286
Board Member 1	146	28	33	207	194
Board Member 2	146	11	36	193	180
Board Member 3	146	35	12	193	179
Board Member 4	146	22	24	192	178
Board Member 5	146	11	32	189	177
Board Member 6	146	11	32	189	176
Board Member 7	146	35	4	185	176
Board Member 8	146	33	5	184	176

(a) Pensionable base pay.

(b) Bonuses and payments in lieu of vacation, health, and pension benefits

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans and health benefits or payments made on behalf of the employees for professional memberships, and tuition fees. Automobiles were provided, but no amount is included in these figures.

Alberta Energy and Utilities Board

Schedule 3

Authorized Budget

For the year ended March 31, 2006
(thousands of dollars)

	Plan			
	Budget (Estimate)	Changes	Authorized Budget	Actual
Revenues				
Industry levies and assessments	$ 74,000	$ -	$ 74,000	$ 74,097
Provincial grant	46,475	-	46,475	45,975
Information, services and fees	8,009	1,800	9,809	10,016
Investment	1,250	-	1,250	1,335
	129,734	1,800	131,534	131,423
Expenses				
Energy regulation	117,234	1,500	118,734	116,906
Orphan abandonment	13,000	300	13,300	13,561
	130,234	1,800	132,034	130,467
Net capital investment				
Capital investments	11,000	(1,000)	10,000	10,034
Less: Amortization	(11,500)	1,000	(10,500)	(9,739)
	(500)	-	(500)	295
	$ -	$ -	$ -	$ 661

Note: The Budget is based on the EUB Business Plan for the year ended March 31, 2006. The Budget and Changes have been authorized by the Treasury Board of the Government of Alberta.

ALBERTA PETROLEUM MARKETING COMMISSION

FINANCIAL STATEMENTS - December 31, 2005

Alberta

AUDITOR'S REPORT

To the Members of the Alberta Petroleum Marketing Commission

I have audited the statement of financial position of the Alberta Petroleum Marketing Commission as at December 31, 2005 and the statements of operations 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 December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original Signed by Fred J. Dunn, FCA in printed version
Auditor General

Edmonton, Alberta
March 31, 2006

Alberta Petroleum Marketing Commission

Statement of Operations

For the Year Ended December 31, 2005
(in thousands)

	2005	2004
Crude oil revenue	$ 1,598,354	$ 1,321,037
Expense		
Crude oil purchases	110,288	88,254
Transportation	35,020	35,372
Marketing fees	1,503	1,602
	146,811	125,228
Excess of revenue over expense	1,451,543	1,195,809
Other revenue		
Interest earned	247	172
Other	5	2
	252	174
Net revenue to transfer to the Province of Alberta	1,451,795	1,195,983
Due to the Province of Alberta, beginning of year	100,883	86,529
Cash transferred to the Province of Alberta	(1,411,441)	(1,181,629)
Due to the Province of Alberta, end of year	$ 141,237	$ 100,883

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission

Statement of Financial Position

As At December 31, 2005
(in thousands)

	2005	2004
Assets		
Cash and short-term investments (Note 3)	$ 8,887	$ 7,942
Accounts receivable	132,138	102,443
Inventory	30,040	16,634
	$ 171,065	$ 127,019
Liabilities		
Accounts payable (Note 4)	$ 29,828	$ 26,136
Due to the Province of Alberta	141,237	100,883
	$ 171,065	$ 127,019

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission

Statement of Cash Flow

For the Year Ended December 31, 2005
(in thousands)

	2005	2004
Cash provided by operating activities		
Net revenue to transfer to the Province of Alberta	$ 1,451,795	$ 1,195,983
Change in non-cash working capital		
(Increase) decrease in Accounts receivable	(29,695)	(9,583)
(Increase) decrease in Inventory	(13,406)	(1,145)
Increase (decrease) in Accounts payable	3,692	(470)
Cash provided	1,412,386	1,184,785
Cash transferred to the Province of Alberta	(1,411,441)	(1,181,629)
Net increase (decrease) in Cash	945	3,156
Cash at beginning of year	7,942	4,786
Cash at end of year	$ 8,887	$ 7,942

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2005

Note 1 Authority

The Alberta Petroleum Marketing Commission (the "Commission") operates under the authority of the Petroleum Marketing Act, Chapter P-10, Revised Statutes of Alberta 2000, and the Natural Gas Marketing Act, Chapter N-1, Revised Statutes of Alberta 2000. This legislation designates the Commission as agent of the Province of Alberta to accept delivery of and market the Crown royalty share of crude oil.

Note 2 Significant Accounting Policies

(a) Crude Oil Revenue

Revenue is recognized when the Commission accepts or is due the delivery of crude oil at the inlet to the pipeline.

(b) Crude Oil Valuation

The Crown Royalty share of crude oil is combined with Agents' supply of like crude. The value of Crown Royalty crude oil is based on a pro-rata share of the net results of the Agents' marketing activities, which may include the sale, purchase, and transportation of crude oil.

(c) Inventory

Inventory represents Crown Royalty oil in feeder and trunk pipelines. At the balance sheet date inventories are stated at net realizable value.

(d) Financial Instruments

Currency and price risks are inherent in the sale and purchase of crude oil. Sales proceeds are remitted to the Commission in Canadian funds and foreign currencies are converted to Canadian funds at daily or average monthly rates on or near payment due date. Operational oil price hedging may be used to address risk. The fair values of the Commission's assets and liabilities approximate their carrying values as at December 31, 2005.

Note 3 Cash and Short-term Investments

Cash and short-term investments consist of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2005, securities held by the Fund have an average effective market yield of 3.62 per cent per annum (2004: 2.64 per cent).

Note 4 Accounts Payable

	2005	2004
Transportation and purchases	$ 13,524	$ 12,509
Goods and services tax	16,304	13,627
	$ 29,828	$ 26,136

Note 5 Commitments

The Commission has entered into transportation agreements for the ensuing six and one quarter years for a portion of its anticipated pipeline requirements. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2005 is $51,419 (2004 – $60,367). This commitment will be paid from future oil sales revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

Note 6 Related Party Transactions

The Commission accepts delivery of and markets the Crown royalty share of crude oil. The Commission remits the proceeds from the sale of the Crown royalty share of crude oil to the Department of Energy. The Department provides accounting, administrative and other support services to the Commission at no charge.

Note 7 Approval of Financial Statements

The Members of the Commission have approved these financial statements.

Alphabetical List Of Entities' Financial Statements In Ministry 2005-06 Annual Reports

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

MINISTRY, DEPARTMENT, FUND OR AGENCY	MINISTRY ANNUAL REPORT
Agriculture Financial Services Corporation[1]	Agriculture, Food and Rural Development
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Capital Finance Authority	Finance
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Gaming
Alberta Government Telephones Commission	Finance
Alberta Heritage Foundation for Medical Research Endowment Fund	Finance
Alberta Heritage Savings Trust Fund	Finance
Alberta Heritage Scholarship Fund	Finance
Alberta Heritage Science and Engineering Research Endowment Fund	Finance
Alberta Historical Resources Foundation	Community Development
Alberta Insurance Council	Finance
Alberta Pensions Administration Corporation	Finance
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Innovation and Science
Alberta Risk Management Fund	Finance
Alberta School Foundation Fund	Education
Alberta Science and Research Authority	Innovation and Science
Alberta Securities Commission	Finance
Alberta Social Housing Corporation	Seniors and Community Supports
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development
Alberta Treasury Branches	Finance
ATB Investment Services Inc.	Finance
Child and Family Services Authorities:	Children's Services
Calgary and Area Child and Family Services Authority	
Central Alberta Child and Family Services Authority	
East Central Alberta Child and Family Services Authority	
Edmonton and Area Child and Family Services Authority	
North Central Alberta Child and Family Services Authority	
Northeast Alberta Child and Family Services Authority	
Northwest Alberta Child and Family Services Authority	
Southeast Alberta Child and Family Services Authority	
Southwest Alberta Child and Family Services Authority	
Metis Settlements Child and Family Services Authority	
Credit Union Deposit Guarantee Corporation	Finance
Crop Reinsurance Fund of Alberta[1]	Agriculture, Food and Rural Development
Department of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Department of Children's Services	Children's Services
Department of Community Development	Community Development
Department of Education	Education
Department of Energy	Energy
Department of Finance	Finance

MINISTRY, DEPARTMENT, FUND OR AGENCY	MINISTRY ANNUAL REPORT
Department of Gaming	Gaming
Department of Health and Wellness	Health and Wellness
Department of Innovation and Science	Innovation and Science
Department of Seniors and Community Supports	Seniors and Community Supports
Department of Solicitor General	Solicitor General
Department of Sustainable Resource Development	Sustainable Resource Development
Environmental Protection and Enhancement Fund	Sustainable Resource Development
Gainers Inc.	Finance
Government House Foundation	Community Development
Historic Resources Fund	Community Development
Human Rights, Citizenship and Multiculturalism Education Fund	Community Development
iCORE Inc.	Innovation and Science
Lottery Fund	Gaming
Ministry of Advanced Education[2]	Advanced Education
Ministry of Aboriginal Affairs and Northern Development[2]	Aboriginal Affairs and Northern Development
Ministry of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Ministry of Children's Services	Children's Services
Ministry of Community Development	Community Development
Ministry of Economic Development[2]	Economic Development
Ministry of Education	Education
Ministry of Energy	Energy
Ministry of Environment[2]	Environment
Ministry of Finance	Finance
Ministry of Executive Council[2]	Executive Council
Ministry of Gaming	Gaming
Ministry of Government Services[2]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[2]	Human Resources and Employment
Ministry of Infrastructure and Transportation[2]	Infrastructure and Transportation
Ministry of Innovation and Science	Innovation and Science
Ministry of International and Intergovernmental Relations[2]	International and Intergovernmental Relations
Ministry of Justice[2]	Justice
Ministry of Municipal Affairs[2]	Municipal Affairs
Ministry of Restructuring and Government Efficiency[2]	Restructuring and Government Efficiency
Ministry of Seniors and Community Supports	Seniors and Community Supports
Ministry of Solicitor General	Solicitor General
Ministry of Sustainable Resource Development	Sustainable Resource Development
N.A. Properties (1994) Ltd.	Finance
Natural Resources Conservation Board	Sustainable Resource Development
Persons with Developmental Disabilities Community Boards:	Seniors and Community Supports
Calgary Region Community Board	
Central Region Community Board	
Edmonton Region Community Board	
Northeast Region Community Board	
Northwest Region Community Board	
South Region Community Board	

Persons with Developmental Disabilities Provincial Board	Seniors and Community Supports
Provincial Judges and Masters in Chambers Reserve Fund	Finance
Supplementary Retirement Plan Reserve Fund	Finance
Victims of Crime Fund	Solicitor General
Wild Rose Foundation	Community Development

ENTITIES NOT INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

FUND OR AGENCY	MINISTRY ANNUAL REPORT
Alberta Cancer Board	Health and Wellness
Alberta Foundation for Health Research	Innovation and Science
Alberta Heritage Foundation for Medical Research	Innovation and Science
Alberta Heritage Foundation for Science and Engineering Research	Innovation and Science
Alberta Mental Health Board	Health and Wellness
Alberta Teachers' Retirement Fund Board	Education
Improvement Districts' Trust Account	Municipal Affairs
Local Authorities Pension Plan	Finance
Long-Term Disability Income Continuance Plan - Bargaining Unit	Human Resources and Employment
Long-Term Disability Income Continuance Plan - Management, Opted Out and Excluded	Human Resources and Employment
Management Employees Pension Plan	Finance
Provincial Judges and Masters in Chambers Pension Plan	Finance
Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	Finance
Public Post Secondary Institutions	Advanced Education
Public Service Management (Closed Membership) Pension Plan	Finance
Public Service Pension Plan	Finance
Regional Health Authorities	Health and Wellness
School Boards	Education
Special Areas Trust Account	Municipal Affairs
Special Forces Pension Plan	Finance
Supplementary Retirement Plan for Public Service Managers	Finance
Workers' Compensation Board	Human Resources and Employment

1 The Crop Reinsurance Fund of Alberta was merged into the Agriculture Financial Services Corporation, effective April 1, 2003.

2 Ministry includes only the departments so separate department financial statements are not necessary.

Additional Information

For additional copies, contact:

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The Ministry of Energy Annual Report 2005-2006 is available on the following Web site:
www.energy.gov.ab.ca/AboutUs/Publications/AnnualReports.htm

Current information about the organizations that were part of the Ministry of Energy in 2005-2006 is available at the following Web sites:

For the Alberta Department of Energy:

www.energy.gov.ab.ca
e-mail: **http://www.energy.gov.ab.ca/1465.asp**

For the Alberta Energy and Utilities Board:

www.eub.gov.ab.ca
e-mail: **eub.info_services@eub.gov.ab.ca**

MINISTRY OF ENERGY 2005-2006

www.energy.gov.ab.ca
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ISSN: 1703-4574