Management's Discussion and Analysis

The financial statements that appear on pages 42-57 in this annual report present the financial position, operating results and cash flows of the Alberta Securities Commission (ASC) in accordance with Canadian public sector generally accepted accounting principles (GAAP) for the fiscal year ended March 31, 2007 with 2006 comparatives and accompanying notes. The comments in this Management's Discussion and Analysis (MD&A), prepared as of May 31, 2007, analyze the ASC's financial performance during the fiscal year ended March 31, 2007 and view for the future.

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

In this MD&A, references to years, for example Fiscal 2007, refer to the fiscal (F) years of the ASC ending March 31.

Overview

The ASC, an industry-funded provincial corporation, is the regulatory agency responsible for administering the province's securities laws. It is entrusted to foster a fair and efficient capital market in Alberta and to protect investors. As a member of the CSA, the ASC works to improve, coordinate and harmonize the regulation of Canada's capital markets.

The ASC is also an administrative tribunal with quasi-judicial powers. Panels hear enforcement proceedings and consider applications for discretionary exemptions from the requirements of Alberta securities laws. In addition, the ASC sits as an appeal body to hear appeals from decisions of the Executive Director, TSXV, Mutual Fund Dealers Association (MFPA) and the Alberta District Council of the Investment Dealers Association (IDA) of Canada.

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

Selected Annual Information

($ Thousands)	F2007 Budget	F2007 Actual	F2006 Actual	F2005 Actual
Revenue	$ 19,787	$ 33,398	$ 22,355	$ 20,963
Expense	25,177	23,288	20,143	17,940
Net Income (loss)	$ (5,390)	$ 10,110	$ 2,212	$ 3,023
Assets				
Cash		$ 4,034	$ 2,542	$ 3,185
Investments		32,146	23,316	19,790
Capital assets		3,275	1,913	2,124
Total assets		$ 40,454	$ 29,012	$ 26,596
Non-current financial liabilities				
Lease inducement		$ 370	$ 494	$ 618
Accrued benefit liability		2,464	2,070	1,666
Retained earnings		34,183	24,073	21,861
Capital additions	$ 570	$ 2,060	$ 414	$ 450

Highlights

The ASC's net income in F2007 was $10.1 million, compared with a budgeted loss of $5.4 million and a net income of $2.2 million in F2006. The increase in F2007 net income was largely the result of a record August 2006 settlement receipt of $7.6 million following an insider trading investigation and increased distribution, financial statement filing and registration fees of $4 million arising from continued strength in the Alberta capital markets. The revenue increases were partially offset by incremental compensation costs of $2.5 million resulting from the addition of 15 staff, non-recurring retiring allowances and severance, higher costs for bonuses and additional administration and occupancy costs of $1.2 million primarily for rent, office operation, travel and member fees.

At March 31, 2007, the ASC had cash and investments of $36.2 million. The increase of $10 million from the prior year is attributable primarily to the record settlement proceeds and fee revenues.

Actual Operating Results Compared With Budget

Budgets set important reporting and accountability standards. The ASC prepares an annual budget that is approved by the Commission Members and Alberta's Minister of Finance and consolidated with the Finance Department's budget.

The ASC's net income for F2007 of $10.1 million surpassed the budgeted loss (including the contingency) by $15.5 million because administrative penalties, settlement payments and cost recoveries exceeded budget by $7.6 million, fees and investment income were $6 million greater than budget and actual expenses were $1.9 million less than budgeted.

Outlook

Management will focus on several financial trends:

Fee revenue and investment income may fall if equity markets weaken. We expect continued pressures from inflationary compensation demands and costly staff recruitment in the Alberta job market. These trends reinforce the need for the graduated fee increases introduced October 1, 2006 with continuing increases of 7% and 5%, effective April 1, 2007 and 2008, respectively.

Expenditures will increase as staff are added to strengthen enforcement, disclosure compliance, national policy development and information technology processes.

A budgeted loss in F2008 of $6.4 million, which includes a contingency amount of $2.5 million, highlights the continued need for strong cost control and the ASC's approach for balance between fee increases and the use of accumulated surpluses to fund current operations.

Analysis of the ASC's operating results for F2007, and plans and expectations for future operations follow.

Analysis of F2007 Operations and Financial Position

Revenue

	F2007		F2006
($ Thousands)	Budget	Actual	Actual
Distribution of securities fees	$ 8,339	$ 11,345	$ 9,372
Registration fees	6,478	7,522	6,497
Annual financial statement fees	3,315	4,025	3,125
Order (Application) fees	355	331	291
Total fees	$ 18,487	$ 23,223	$ 19,285
Investment income	1,000	2,238	2,486
Settlement payments and cost recoveries		7,790	50
Administrative penalties	300	121	449
Other		26	85
Total revenue	$ 19,787	$ 33,398	$ 22,355

The ASC obtains revenues primarily from registrants and reporting issuers.

Distribution of securities fees arise from specific activities, such as prospectus and filings distributions of securities in Alberta. Companies are required to pay fees to the ASC upon the filing of a prospectus and other specified disclosure documents, as well as upon the completion of a distribution. Distribution of securities fees are calculated based on the proceeds obtained from distributions placed in Alberta. Public (prospectus) and private (prospectus exempt) distribution of securities fees historically contribute 45% - 50% of ASC fee revenues and are the most variable component of the ASC's revenue base. A major component of distribution of securities fees is exempt distribution fees and fees paid with notices of proceeds in respect of prospectus offerings. This component is based on the size of each distribution in Alberta. Distribution of securities fees in F2007 were greater than those in the prior year reflecting a robust Alberta capital market and increased access to distribution exemptions arising from rule modifications.

Registration fees from dealers, advisers and salespersons accounted for approximately 32% of fee revenues or $7.5 million in F2007, consistent with the historical average of 33% or more. These fees are relatively stable as there is a base in Alberta of over 500 firms and 26,893 salespersons. In addition, an average 20% salesperson turnover rate provides additional fee revenue during any given year. This turnover rate fluctuates minimally even in years of poor market performance. Registration fee increases in F2007 reflect a strong Alberta capital market, additional registrants and fee increases averaging 8%.

Annual financial statement filing fees historically account for approximately 16% of fees. However, in F2007 these fees increased $900,000 from the prior year because of the mid-year fee increase of 8%, 391 new reporting issuers and approximately 200 additional issuers eligible to use the short-form prospectus system. During F2006, eligibility rules for short-form prospectus use were changed and these changes increased the number of reporting issuers electing to use the short-form and pay the related annual fee increase of $1,750. The total number of reporting issuers in Alberta is approximately 6,557 and remains reasonably stable from year to year.

Other revenue sources:

Investment income includes interest, dividends and capital gains and losses. Investment income in F2007 was comparable to F2006 as changes in F2007 equity and bond fund rates of return and income offset each other and averaged 12% (29% in F2006) and 5.9% (5.5% in F2006), respectively.

Application fees (for ASC orders) were increased from amounts of $150 or $300 per application to $500 effective October 1, 2006. Fees were paid in connection with the approximately 900 applications processed in F2007. The ASC expects application frequency will continue to decline as provincial securities policies and processes are further harmonized. Further, future fees may only be collectible from reporting issuers having the ASC as their principal regulator. If this fee harmonization initiative proceeds, application fees will fall by approximately 80% or $250,000.

Administrative penalties, settlement payments and cost recoveries are discretionary, depending on the circumstances of specific cases, and vary from year to year. Settlement payments, cost recoveries and administrative penalty revenues of $7.9 million in F2007 include settlements and cost recoveries of $7.8 million and administrative penalties of $121,000. Exclusive of the record August settlement of $7.6 million, settlement payments, cost recoveries and administrative penalty receipts were $300,000. This compares with $499,000 for the prior year and a historic five-year average of approximately $387,000.

Cash flow from administrative penalties accumulates as restricted cash and is segregated from other assets because of restrictions on the use of these funds. The Alberta Securities Act allows administrative penalties revenue to be used to fund certain expenses to enhance the knowledge and information of persons about the operation of the securities markets. In F2007, invested funds arising from administrative penalties earned interest of $37,000, while expenses of $466,000 were deducted, principally for eligible investor education program costs. Restricted cash, composed of interest-bearing deposits, was $576,000 at March 31, 2007 ($895,000 in 2006).

The Mutual Fund Industry

The mutual fund industry is a significant contributor to ASC revenues. There are approximately 2,400 active mutual fund issuers (included in the reporting issuer population of 6,557) and more than 10,000 salespersons (included in the 26,893 registered salesperson total) in Alberta. Revenues related to mutual funds in F2007 included fees of: $2.6 million from annual mutual fund prospectus filings; approximately $2.4 million from mutual fund prospectus distributions; $1.5 million from exempt distributions; $650,000 from mutual fund annual financial statement filing fees; and, approximately $2.7 million from mutual fund registration fees. These totalled $9.8 million or 42% of total fee revenues.

Fee Revenue Sensitivity

During F2007, approximately 30% or $7.1 million (F2006 — 32% or $6.1 million) of total revenue from fees was derived from fees paid on completion of distributions. A distribution fee is calculated based on proceeds obtained from the distribution. Fees vary with the level of capital market activity, equity appreciation and mutual fund sales. Although fees paid in connection with prospectus distributions and exempt financings for non-mutual fund issuers are received shortly after the distribution date, mutual fund fee revenue including exempt distributions (approximately 55% of distribution fees) is deferred an average of six months from sale date. There is, therefore, always a lag between changes in mutual fund sales and the receipt of mutual fund fees.

Distribution fee revenues for F2007 and F2006 fees are higher than the multi-year historic average because of significant activity within the Alberta capital markets and, in particular, the oil and gas sector. The ASC *Alberta Capital Market Report* for 2007 observes that the growth in the oil and gas industry has resulted in Alberta capturing an additional 8% of the aggregate Canadian market capitalization since 2004. Further, that rapid growth of and increased investment in the oil and gas industry have resulted in that industry representing almost 25% of the aggregate captial market value in Canada.

When equity market values are rising, ASC distribution revenues also increase because of increases in public and private securities distributions and mutual fund sales. While equity market activity variances and valuation swings have an impact on ASC revenues, the impact is not proportionately as large as in the broader market because only 25-30% of Commission revenues are directly affected. For example, distribution fees from income trusts were approximately $890,000 in F2006 and $370,000 during F2007. The decline in these fees was offset by strength in exempt and other public distributions during F2007. Prospectus filing fees for non-mutual fund securities distributions also vary with market activity. However, this fee source is less than 5% of total fee revenue and has little impact on overall fee results. Other revenue sources, including registration fees, mutual fund prospectus filings and annual financial statements account for 60% of fee revenues and are reasonably stable.

Expenses

($ Thousands)	F2007 Budget	F2007 Actual	F2006 Actual
Salaries and benefits	$ 15,350	$ 15,329	$ 12,821
Administration	2,374	2,668	1,840
Professional services	2,162	2,359	1,689
Premises	1,726	1,771	1,435
Amortization	676	695	622
Investor education	600	466	468
Special investigations	–	–	1,268
Contingency	2,289	–	–
Total expenses	$ 25,177	$ 23,288	$ 20,143

Expense Analysis

Expenses in F2007 increased 16% to $23.3 million from $20.1 million in F2006. Increased costs arose primarily for: increases in staff compensation and severance of $2.5 million; Member fees, office operation and travel of $750,000; occupancy of $336,000; and staff recruitment, registration administration, and information technology staff and projects of $900,000. These increases were partially offset by the non-recurrence of F2006 special investigation costs of $1.3 million.

Salaries and benefits accounted for 66% of operating expenses (F2006 – 64%) and increased $2.5 million in F2007. Increases were the result of staff additions, annual salary adjustments of 4%, higher bonus costs and incremental retiring allowance and severance costs. There were an average 132 full-time staff during the year (F2006 – 117). The completion of reorganization initiatives that began in F2006 resulted in approximately $400,000 of incremental retirement and severance costs in F2007.

Compensation includes a performance-based incentive program that represents 7.2% of total salary and benefit costs. Total bonus payments are reviewed and approved by the Commission. The Minister of Finance approves Chair, Vice-Chair and Member compensation. Annual compensation increases are based on market surveys and projections and included in the annual budget approval process.

Professional services expenses increased $670,000 from the prior year. Costs include: amounts paid to the IDA to administer Alberta IDA registration; costs of CSA operations; and professional service contracts for litigation support and specialized corporate services. Significant increases include: additional IDA administration fees of $115,000 due to increases in the number of registrants and the ASC 8% fee increase; recruitment costs of $250,000 due to the robust Calgary employment market for professionals; and, $300,000 for information technology projects and consultants that strengthened disaster recovery processes and physical and virtual security.

The ASC, as a member of the CSA, funds a portion of CSA operations. All CSA projects, including the development of harmonized securities policies and rules and shared CSA information systems, are coordinated through a permanent Secretariat located in Montreal. The operating costs of the Secretariat are borne on a formula basis by CSA members and the ASC pays approximately 10%. In F2007 the ASC contributed $220,000 (F2006 – $190,000) toward all CSA costs.

Administration

Administration costs increased $828,000 in F2007. Fees for Independent Commission Members increased $450,000 the result of increased per diem rates and retainer fees and an additional 35 hearing days attended by Members. Travel expenses increased $140,000. Most travel expenses relate to coordinating with other CSA jurisdictions on national projects, policy research, rule formulation, and investor education. Office operations increased $250,000, the result of increased staff, additional office space and desktop computing upgrades that were less than the capitalization threshold. The administration cost category includes advertising, insurance, freight, postage, rental equipment, telephones and communications, repairs and maintenance, Member fees, business consultation, audit fees, materials and supplies and travel.

Premises

Increased occupancy costs arose from higher lease operating costs and the acquisition of additional space to accommodate ASC growth.

Special investigations

Special investigation costs in F2006 resulted from an investigation undertaken by the Independent Commission Members at the direction of the Minister of Finance and subsequent related projects. The investigation was completed in F2006.

2007 Budget

The F2007 budget approved by the Commission and Alberta's Minister of Finance includes a contingency of $2.3 million for unplanned expenses and revenue shortfalls. The Commission approved additional F2007 operating expenses including: increases to the staff bonus pool of $400,000; information technology disaster recovery and operations expenses of $230,000; cost for additional leased space of $50,000; additional human resources staff; and, various retainer and per diem fees for Members that were also approved by the Minister of Finance as required by the Act. The additional F2007 operating cost approvals were offset by under expenditure in certain budgeted expenses and by revenues that exceeded budget.

Fiscal 2007 Budget to Actual Variances

Total expenses for F2007 of $23.3 million were consistent with budget, exclusive of the net budget contingency.

Expenses that varied from budget include:

Professional services

Litigation support and enforcement audit follow up costs were $150,000 less than budget. The Chief Accountant was not able to recruit contract support and certain research projects were deferred resulting in under expenditure of $100,000, while information technology projects and professional recruiting costs exceeded budget by $500,000.

Salaries and benefits

Compensation costs approximated budget. While an average 15-position vacancy during the year reduced costs, these savings were offset by retirement and severance payments and increased bonus payments totalling $1.1 million.

Administration

Administration costs include Independent Member fees, travel, recruitment advertising, insurance and office and technology operations costs. Member fees were $450,000 over budget because of fee increases and 35 additional hearing days.

Investor Education

In anticipation of strategic initiatives outlined for F2008, the ASC opted to defer proceeding with elements of the Investor Education program in F2007, resulting in less expenditure than budgeted.

Department Expenses

($ Thousands)	F2007 Budget	F2007 Actual	F2006 Actual
Office of the Chair and Members	$ 2,311	$ 2,678	$ 2,069
Office of the Executive Director	853	866	920
Enforcement	4,271	4,217	3,415
Corporate Finance	5,365	5,111	3,973
Market Regulation	1,218	1,115	844
Office of the General Counsel	817	832	519
Office of the Chief Accountant	488	366	432
Administration			
Corporate Resources	2,672	2,967	2,488
Communications and Investor Education	982	991	738
Financial Services	507	521	443
Administration total	4,161	4,479	3,669
Other Expenses (not allocated)	5,693	3,624	4,302
Total	$ 25,177	$ 23,288	$ 20,143

Department Expenses

Office of the Chair and Members expenses are primarily salaries (as reported in the Schedule of Salaries and Benefits in the financial statements) of the Chair and the two Vice-Chairs (who are full-time Members of the Commission), Member fees, travel and hearing related transcription services. Member fees increased $450,000 during F2007 the result of fee increases and increased hearing participation and totalled $782,000. Of that total, approximately $406,000 ($358,000 in 2006) is attributed to governance oversight and approximately $376,000 ($108,000 in 2006) is attributed to attendances at and work associated with administrative hearings. Member fees exceeded the budget by approximately $400,000 as a result of an increase in the number of hearing days and because fee rates were increased April 1, 2007 following the F2007 budget approval. Member fees are payable annually as to $10,000 by way of retainer, $2,500 for Committee membership, $5,000 for Committee chairing and $5,000 for the Lead Independent Member position. Meeting attendance fees are payable as to $1,000 for an ASC meeting and $750 for a Committee meeting. Hearing fees are payable as to $1,000 per hearing day and $125 per hour of related preparation, review and decision writing. Members' fees are variable because the duration and number of hearings are not easily forecast.

Office of the Executive Director expenses include CSA payments. A staff retiring allowance increased compensation costs in F2006.

Enforcement expenses increased in 2007 because of six additional staff and marketplace compensation adjustments.

Corporate Finance costs were less than budgeted in F2007 because there were four staff vacancies during the year. Costs increased in F2007 because of severance payments, three additional staff and recruiting costs for professionals.

Market Regulation costs were less than budgeted because not all new staff positions were filled for the full year. However, costs increased from the prior year because of three new staff required for incremental registration policy and compliance initiatives.

Office of the General Counsel incurred costs that were consistent with budget in F2007 and greater than the prior year because of two additional staff.

Office of the Chief Accountant costs were less than budget and the prior year because external project staffing was not available and internal resources were used.

Corporate Resources costs exceeded budget because of incremental information technology projects for disaster recovery and operations that were approved by the Commission during the year.

Communications and Investor Education expenses increased in F2007 because two staff vacancies were filled and there were additional expenditures on communication activities with stakeholders.

Financial Services costs increased because of increased training and salary costs.

Capital Expenditures

During the year, the Commission approved increases of $1.5 million to the original capital budget of $560,000. These new capital requirements were necessary for leasehold renovations, office space expansion and related furnishings and an upgraded information technology infrastructure to support the disaster recovery plan and operational enhancements.

Capital expenditures during F2007 included:

Leasehold improvements	$ 943,000
Information technology	823,000
Office furniture and equipment	294,000
Total	$ 2.06 million

Leasehold improvements, office furniture and equipment

Office leasehold renovations were undertaken to add office space for additional staff, modernize and relocate the hearing and training rooms and update and add office furnishings.

Information technology

Expenditures were made for network servers, communication equipment, scanning disk capacity additions, related software upgrades, additional storage devices and wiring and audiovisual equipment for the new hearing and training rooms.

2008 Capital budget

Capital expenditures approved by the ASC for F2008 include:

- $700,000 for information technology software upgrades, scanning disk capacity additions and communication equipment, and

- $1.2 million for leasehold renovation and related office furniture for reconfiguration of existing and development of new space. These renovations will also accommodate additional staff included in the F2008 budget.

Total planned and Commission approved expenditures of $1.7 million in F2008 exceed the provincially approved budget of $480,000. The provincial budget was based on ASC business plans prepared in September 2005 and does not reflect business plan capital requirements for F2008. The province plans to reassess F2008 capital requirements during F2008.

Liquidity and Financial Position

Liquidity

The ASC has sufficient resources to fund its operations and capital purchases. Cash increased by $1.5 million to $4 million, while investments increased $8.8 million to $32 million. Cash flows from operations were $11.8 million while capital asset purchases consumed $1.8 million.

At March 31, 2007, the ASC had working capital of $838,000, reflecting cyclical fourth quarter cash flow strength, and retained earnings of $34 million.

Accounts receivable

Accounts receivables at the end of March 2007 were $32,000 and include $12,000 of current administrative penalty receivables and employee loans for computer acquisitions. The prior year included a receivable of $76,000 from the Canada Revenue Agency.

Investments

The ASC's investments are independently managed by the Alberta Investment Manager of the Province of Alberta. The ASC does not participate in capital market investment decisions or transactions. The ASC's investment policy provides guidance relevant to the governance, purpose, size, access, management and asset allocation of the Investment Fund (designated investments totaling $32 million in F2007 and $23 million in F2006). The policy is subject to annual review by the ASC's Audit Committee and any changes require Commission approval. The Audit Committee meets with the Investment Manager annually.

Principal features include:

Size: The Investment Fund should be between 50% and 100% of the ASC's average of expected expenses for the current and subsequent year. This range is forecast as $14.2 million to $28.4 million during F2008.

Asset allocation

Investments include only a nominal amount of cash. Bond and equity market value allocations are targeted at 25% equities and 75% bonds and can fall within a range of plus/minus 5% (i.e., 20%`-30% equities).

Rates of return on investments were:

- Bond fund - The rate of return (based on market value) was 5.9 % in F2007, compared with 5.5% in the prior year.
- Equity funds - The average rate of return (based on market value) for the equity funds was 11.9%, compared with 29.4% in the prior year.
- Money market funds - These returned an average 4.4% in F2007 and 4.0% in the prior year.

While investments are classified as non-current because of their long-term retention objective, they can be accessed on two weeks notice. For F2008, ASC investments will be drawn down to fund operations during the first nine months of F2008 and then increased in the final quarter. In addition, the ASC has access to approximately $576,000 of restricted cash for specific investor education initiatives, which, for F2008, are estimated at $600,000.

Investment income for the F2008 budget is estimated at $1.7 million using rates of return averaging 5% for bonds and 7% for equities and an average total invested balance of approximately $30 million.

Bond investments are sensitive to interest rate fluctuations. At March 31, 2007 ASC investments included bonds with market values of approximately $24.1 million. Using the 10-year Government of Canada bond return rate of 4.11% at March 31, 2007 as a benchmark, a 1% increase in this rate will reduce the market value of the ASC's bond investments by approximately $2.6 million and result in an investment loss, net of interest income, of approximately $1.5 million during the full fiscal year. If the interest rate change occurs during the year, the book value loss will be proportionately less. The average investment balance of $30 million reflects transfers to and from investments during the year to meet fluctuations in quarterly cash flows.

Current liabilities

Funds held for other participants of $135,000 represent cash received and held for a national systems project, the Market Integrity Computer Analysis (MICA). Project work is planned to continue in F2008 and will require additional funding including an estimated $31,000 from the ASC.

Lease inducements

Remaining lease inducements of $494,000 arise from an office lease with an eight-year term ending March 31, 2011.

Accrued benefit liability

The accrued benefit liability represents future obligations relating to retirement plans established for certain senior management of the ASC. Expenses are based on actuarial valuations and management's estimation of membership changes between valuation updates. Payments of $67,000 are anticipated in F2008 and recorded in current liabilities. An actuarial plan valuation was completed for the three-year period commencing April 1, 2006.

Commitments

CDS operates the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI) systems on behalf of the CSA under various operating agreements. The ASC, as one of the agreement signatories, commits to pay CDS up to 11.7% of any shortfall from approved system operating costs that exceed revenues. Alternatively, CDS must pay to CSA revenues in excess of system operating costs (surplus). The surplus is not divisible; the CSA owns it as a group. CDS payments received from system operating surpluses and interest earned totaled $16.2 million at March 31, 2007 ($8.9 million in 2006). This amount is held in trust by the Ontario Securities Commission. The principal CSA administrators, including the ASC, have agreed that surplus amounts can only be used to offset any shortfall in revenues, develop or enhance the systems, and reduce fees.

Quarterly Results Summary

($ Thousands)	**F2007**				F2006			
	Q4 (Jan-Mar)	**Q3** (Oct-Dec)	**Q2** (Oct-Dec)	**Q1** (Apr-June)	**Q4** (Jan-Mar)	**Q3** (Oct-Dec)	**Q2** (Oct-Dec)	**Q1** (Apr-June)
Revenues								
Fees & other	$ 12,356	$ 3,281	$ 10,904	$ 4,619	$ 9,653	$ 3,170	$ 2,538	$ 4,508
Investment income	504	828	637	269	631	352	948	555
	12,860	4,109	11,541	4,888	10,284	3,522	3,486	5,063
Expenses								
Salaries & benefits	4,229	3,821	3,449	3,830	3,465	3,097	2,941	3,318
Other	3,080	1,899	1,468	1,584	2,254	1,306	1,694	2,068
	7,237	5,720	4,917	5,414	5,719	4,403	4,635	5,386
Net income (loss)	$ 5,623	$ (1,611)	$ 6,624	$ (526)	$ 4,565	$ (881)	$ (1,149)	$ (323)
Investments	$ 32,146	$ 29,480	$ 29,666	$ 23,563	$ 23,316	$ 20,008	$ 19,666	$ 20,327
Cash	$ 4,034	$ 742	$ 1,987	$ 1,524	$ 2,542	$ 669	$ 1,837	$ 2,255
Restricted cash	$ 576	$ 923	$ 913	$ 904	$ 895	$ 846	$ 840	$ 834

Quarterly Variance Analysis

Fee revenue

Quarterly fee revenue is variable because the timing of fee related filings varies among the reporting issuer population. Further, annual registration renewal fees of $6.3 million (F2006 -$5.4 million) are received in January and result in increased fourth quarter fee revenue each year. Second quarter "fees and other" include the $7.6 million settlement.

Other expenses

Salaries and benefit costs increase in the fourth quarter because the final bonus amount is determined in that quarter. Other expenses vary from quarter to quarter because of timing variability. For example, professional services for litigation support depend on the nature and progress of investigations and technology project timing depends on resource availability.

Contractual Obligations

Commitments to outside organizations with respect to contracts in place as at March 31, 2007 amounted to $8.3 million (F2006 – $8.3 million). These commitments become expenses of the ASC when the terms of the contracts are met.

Commitment amounts are primarily comprised of obligations under operating leases that expire on various dates to March 31, 2011. The aggregate amounts payable for these obligations are as follows:

($ Thousands)

2007-08	$ 2,055
2008-09	$ 2,046
2009-10	$ 2,078
2010-11	$ 2,117
Thereafter	–
Total	$ 8,296

The ASC has contractual commitments for a supplemental pension plan maintained for certain senior executives. Payment amounts are dependent on the future decisions of plan participants and are not included in the summary of contractual obligations because they are recorded as liabilities.

Financial Instruments

The ASC's financial instruments include cash, accounts receivable, advances and lease inducement receivables, investments and payables. Investments are managed by Alberta's Ministry of Finance and include derivative contracts for effective investment risk and return management. Details of these financial instruments are included in Notes 1 and 4 of the ASC's financial statements.

Related Party Transactions

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $65,000 ($71,000 in 2006) in administration expense primarily for postage, investment management services and audit.

Fee Restructuring

Following public consultation, the ASC received regulatory approval through Order in Council for fee increases in August 2006. Fee increases on selected fees of 8% commenced October 1, 2006, with further increases of 7% and 5% to be effective April 1, 2007 and April 1, 2008, respectively.

While ASC's fees were increased in F2007 they continue to be among the lowest in Canada. Prior to the current year, ASC fees were last subject to revision in 1997 when fees were reduced an average 20%. The last fee increase occurred in 1993.

Reliance on CDS

CDS operates a number of major systems on behalf of the CSA and the ASC. Approximately 92% (F2006 – 92%) of the ASC's fee revenue is collected through the SEDAR and NRD systems. CDS recovers the costs to operate the systems by charging filers user fees in addition to the fees collected for the ASC and other members of the CSA. The NRD system was launched on March 31, 2003. The current operating agreement for the NRD will run until March 2009. CDS developed a national SEDI system for the CSA, which was launched in May 2003. CDS has backup and disaster recovery processes for these systems that are tested annually. However, if CDS became unwilling or unable to operate one or all of these systems, the ASC and CSA will need to ensure continued operation of these systems because of the material impact on ASC cash flows.

Risk Management Initiatives

The ASC has substantially completed emergency response plans and processes, which are designed to allow the continuation of critical regulatory services should the ASC face a significant disruption to its operations. Individual business continuity plans have been developed for each priority business function. Each plan includes documented recovery procedures, including manual workarounds and mitigation strategies. An offsite recovery service and facility was successfully tested for information systems continuity and future annual testing is planned to ensure continued validity of the plan.

During F2006, the ASC completed a project that assessed ASC-wide risks and existing mitigation strategies. Areas deemed as high risk include Alberta Securities Act contraventions, inaccurate continuous disclosure filings by reporting issuers, a loss of public confidence in the ASC and emergency response plans and processes. The ASC believes that existing business processes are well designed to minimize these risks and that these processes were further strengthened following implementation of recommendations from a number of organizational reviews carried out during F2006. These reviews included human resource management, disaster recovery and related information technology system restructuring, enforcement business processes, governance committee formation, communications benchmarking and investor education redesign. As a result, quarterly risk assessment reports, planned for F2007 were deferred to F2008 and will assist in monitoring these risks and related mitigation processes on an ongoing basis.

Memorandum Of Understanding

Alberta's Minister of Finance entered into a Memorandum of Understanding (MOU) with the ASC that outlines the ongoing roles, responsibilities and accountability relationships between the two parties. The MOU requires Ministerial approval of annual ASC budgets and any subsequent changes that materially modify the budget, inclusion of a contingency provision in the budget not to exceed 10% of expenses, and quarterly ASC reporting to the Minister of actual financial results and budget updates.

Fiscal 2008 Outlook

Revenues

The ASC F2008 budget revenues of $23.6 million include selective full year fee increases of 7% and growth of 5% from mutual fund and exempt security distributions in Alberta. The fees budget also includes $300,000 of receipts from administrative penalties, settlement payments and cost recoveries that are less than the five-year historical average of approximately $400,000 exclusive of the record $7.6 million settlement in 2007.

Expenses

ASC expenses are budgeted at $30 million, an increase of $6.7 million from F2007 actual expenses of $23.3 million. The projected increase is primarily a result of:

- compensation adjustments averaging 5% ($600,000), a further $1.5 million (including benefits) for 13 additional staff primarily for market regulation, enforcement, hearing, policy, continuous disclosure and information technology processes, and a reduced average staff vacancy rate accounting for an additional $1.3 million;

- a contingency provision of $2.7 million;

- increased amortization of $300,000 reflecting leasehold additions; and,

- $750,000 for professional services, member fee increases and additional occupancy costs.

Loss

An operating loss of $6.4 million is forecast, including full contingency expenditure of $2.7 million. Actual experience over the last four years has not required any contingency expenditure.

Staff costs

Costs for existing staff will continue to increase with annual compensation inflation and marketplace competition for seasoned securities market professionals. In addition, the ASC has forecast future staff increases of five positions annually for the next two years to meet emerging demands for more resources. These demands arise from the need for a strong Alberta policy presence at the CSA and increasing stakeholder expectations of enforcement and compliance functions. Staff levels and costs continue to be reviewed.

Liquidity and Cash Flow

The ASC operates primarily on a cash basis. Cash requirements for F2008 are estimated at $4.8 million. The cash requirement includes March 31, 2007 payable reductions of $1 million and the F2008 budgeted loss, excluding the contingency and certain non-cash expenses primarily for amortization net of capital additions and pension liability accruals. Cash is available from existing cash and investment balances.

Risks And Uncertainties

Budgets for F2008 are based on the ASC's experience and assessment of historical and future trends and the application of key assumptions relating to future events. Factors that could cause actual results to differ materially include:

- capital market volatility and the impact on distribution of securities fee revenues;
- disruption of CDS fee processing that delays fee receipts;
- the potential for higher actual costs to be incurred in connection with CSA-sponsored national projects;
- implications of the ongoing discussions on securities regulatory reform in Canada; and
- unexpected financial requirements arising from contingencies and government budget revisions.

Management's Report

The financial statements included in this annual report are the responsibility of management and have been approved by the Members of the Commission. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) for the public sector.

Financial information contained elsewhere in this annual report is consistent with the financial statements.

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

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

David C. Linder,
Executive Director

Auditor's Report

To the Members of the Alberta Securities Commission

I have audited the balance sheet of the Alberta Securities Commission (ASC) as at March 31, 2007 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the ASC'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 ASC as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

AUDITOR GENERAL Alberta

Edmonton, Alberta	FCA
May 18, 2007	Auditor General