in the business of protecting investors

>> 2006 annual report

ASC

Alberta Securities Commission

Securities laws are designed to protect investors from fraudulent, manipulative and misleading practices and ensure that the capital market operates fairly and efficiently.

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abbreviations

AIF
Annual Information Form

ASC
Alberta Securities Commission

CSA
Canadian Securities Administrators

IDA
Investment Dealers Association of Canada

MFDA
Mutual Fund Dealers Association of Canada

MI
Multilateral Instrument

NI
National Instrument

NP
National Policy

NRD
National Registration Database

SEDAR
System for Electronic Document Analysis and Retrieval

SEDI
System for Electronic Disclosure by Insiders

SRO
Self-Regulatory Organization

(L TO R) Jonathan Taylor — Securities Analyst >> Kelly Holmes — Assistant, Investigations >> Allison Neapole — Litigation Counsel >>Marti Foss —Assistant, Case Assessment >> Diane Volk — Litigation Counsel >> Danielle Grover — Sr. Assistant, Enforcement Division >> Mark Klassen — Litigation Counsel

>> Protecting Investors <<

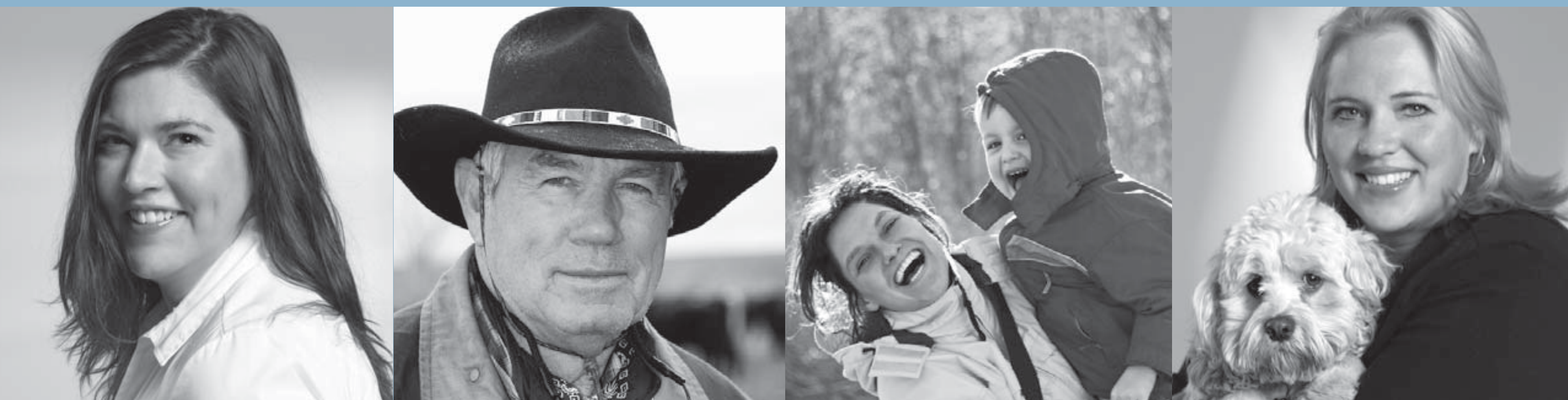
The Alberta Securities Commission is an industry-funded organization that administers the province's securities laws to secure a fair and efficient capital market in Alberta and to protect investors. To accomplish this, Alberta's securities laws require that reporting issuers provide investors with access to timely, accurate information on which to base their investment decisions. Further, those who sell securities in Alberta are required to be registered and conduct themselves according to the terms of their registration.

In addition to directly regulating Alberta's capital market, the ASC jointly oversees the activities of the TSX Venture Exchange, and regulates in Alberta the activities of Market Regulation Services Inc., the Investment Dealers Association of Canada and the Mutual Fund Dealers Association of Canada.

The ASC is a member of the Canadian Securities Administrators, a council of Canada's 13 provincial and territorial securities regulators, whose objectives are to improve, coordinate and harmonize the regulation of Canadian capital markets.

>> Our Guiding Principles <<

The Alberta Securities Commission's strategic principles guide the Commission and our staff in responding appropriately to emerging policy issues and new developments in the Alberta capital market. We use these principles to formulate objectives and set priorities for our annual business plan, ensuring that we can achieve our mandate of protecting investors and regulating the capital market.



>> Our Guiding Principles <<

The ASC has five strategic principles:

1. Ensure investor confidence in the integrity of Alberta's capital markets through:
    - Targeted compliance review
    - Prompt, visible and fair enforcement
    - Timely and responsive policy development
    - Focused and relevant education programs
    - Clear and informative communication.

2. Be a persuasive advocate for issues material or unique to the Alberta capital markets locally, nationally and internationally, and a recognized leader within the CSA.

3. Be — and be acknowledged by all stakeholders to be — a highly professional, soundly governed, efficient, effective and responsive securities regulator.

4. Actively explore and pursue with other regulatory bodies opportunities for cooperation, coordination and rationalization of activities so as to minimize, wherever possible, the duplication of regulation, and to promote and assist in the development of a highly harmonized national system of securities regulation.

5. Be recognized as an attractive employer based on work environment, mutual cooperation and quality of work, training, remuneration and potential for career development.

>> Message from the Chair <<

To all ASC constituents:

I will begin by acknowledging and thanking all the employees of the Alberta Securities Commission who have contributed commendable service during the past fiscal year — one of significant change for the Commission. Although change can be unsettling and distracting, our employees undertook their responsibilities with dedication, persistence and a determined focus on results. I speak for all our Members in conveying our profound appreciation to ASC employees for a job well done.

Alberta is favoured with an entrepreneurial business climate that encourages and supports innovation and achievement in all areas of endeavour. Our business community is a meritocracy that rewards initiative, hard work and value creation. An important component of this business environment is a supportive capital market.

Our task at the ASC is to ensure investor confidence in the integrity of Alberta's capital markets. We do this through:

- targeted compliance review;
- prompt, visible and fair enforcement;
- timely and responsive policy development;
- focused and relevant education programs; and
- clear and informative communication.

In policy development, which is increasingly a national exercise, the ASC represents the views and interests of Alberta, while working to maximize levels of national coordination, consolidation and streamlining of both rules and procedures. In the delivery of services, the ASC aims to meet or exceed the demands and expectations of those for whom we formulate, monitor and enforce securities regulations.

The ASC enters fiscal 2007 with a freshly reorganized structure intended to derive maximum return from our professional complement and enhance our policy-making by the contributions of those with the greatest practical experience in the application of our policies. The newly-created department of Corporate Finance, led by Tom Graham, is responsible for: analysis of securities offerings, continuous disclosure documents and exemption applications; review and response to contested take-over bid applications; oversight of the corporate finance function of the TSX Venture Exchange; and development of relevant policies. Our other new department, Market Regulation, led by David McKellar, is responsible for: registration of those who trade in securities; oversight of, among others, the Investment Dealers Association of Canada, the Mutual Fund Dealers Association of Canada, Market Regulation Services Inc. and the TSX Venture Exchange; review of applications for relevant exemptive relief; and formulation of policy relevant to the foregoing.

I want to congratulate the many members of our management and staff who contributed to the successful reorganization completed in November 2005 and make special mention of the sizeable contributions made by: David Linder, our Executive Director, who oversaw the transition; the ASC's Chief Accountant, Fred Snell, who stepped in to lead both the Corporate Finance and Market Regulation departments on an interim basis; Blaine Young, who headed the Legal Services and Policy Development department pending the reorganization; and Danna McLeod, Director, Corporate Resources, who, although she did not join the ASC until September 2005, was instrumental in the successful restructuring.

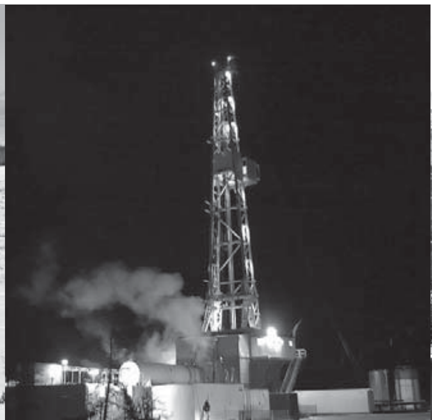


We made significant progress in fiscal 2006 advancing the fundamental goals expressed in the September 2004 Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation (the "MOU"), which was signed by the governments of all the provinces and territories of Canada, except the Province of Ontario. Under the direction of the Council of Ministers, chaired by Alberta's Deputy Premier and Minister of Finance, the Honourable Shirley McClellan, both the Provincial/Territorial Securities Taskforce and the Passport Steering Committee undertook a number of initiatives in fiscal 2006 to advance the harmonization, streamlining and simplification of securities law as contemplated by the MOU. Those initiatives included:

- implementation on September 14, 2005, of National Instrument 45-106 *Prospectus and Registration Exemptions,* which harmonizes and streamlines prospectus and registration exemptions across all jurisdictions;
- adoption and implementation on September 19, 2005, of Multilateral Instrument 11-101 *Principal Regulator System,* the first phase of the "passport system";
- amendment in December 2005 of National Instrument 44-101 *Short Form Prospectus Distributions* to harmonize with National Instrument 51-102 *Continuous Disclosure Obligations* and expand the eligibility of the short-form system to many more issuers; and
- introduction to the Alberta legislature on March 23, 2006, of Bill 25, which proposed amendments to the *Securities Act* (Alberta) that will provide for statutory-based civil liability in the secondary market and increased harmonization of Alberta's securities legislation with those of other jurisdictions in Canada.

The ASC has clear direction from the government of Alberta to advance the principles of the MOU to the greatest degree and within the shortest timeframes possible. These harmonization efforts will continue throughout fiscal 2007.

The ASC recognizes both the importance of accessible capital markets to the province's oil and gas industry and our responsibility to protect and enhance the integrity of those capital markets. National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") came into force on September 30, 2003. The new disclosure standards and related reserves evaluation procedures have enhanced the consistency with which key information relating to reserves is prepared and disclosed to investors by the oil and gas industry. After more than two years of experience with the standards and requirements imposed under NI 51-101, the ASC is conducting a thorough review of the effectiveness of the rule. That ongoing review process included the convening of a meeting of representative constituents on June 28, 2006, and a request for submissions in advance of that meeting.


In January 2006, the ASC put into place an Ethical Conduct Policy that underlines the expectations of the ASC for the highest standards of ethical conduct on the part of all our Members, management and staff and provides a reporting ("whistleblowing") protocol to be followed in the circumstance of observed wrongdoing. This latter feature is the first to be formally implemented by one of Canada's provincial or territorial securities regulators.

The ASC launched an investor education program in August 2005 directed at first-time investors and those facing material first-time financial choices. For fiscal 2007, we have introduced a new education program focused on creating broad awareness of fraud and other wrongdoing in the capital markets. The purpose of our investor education programs is to enhance investor protection and confidence by educating all participants. The programs are supported by a dedicated website, school and public venue appearances, and media advertising.

The ASC has been and continues to be a significant contributor to the Canadian Securities Administrators (the "CSA"), which represents provincial and territorial securities administrators across Canada. The high level of goodwill, cooperation and shared effort currently being demonstrated by members of the CSA deserves particular recognition. Credit for this goes to all CSA participants and the provincial and territorial government ministers responsible for securities regulation. Ministers and their departments and Chairs and their commissions have been a model for cooperation and progress within Canada's federal structure. One example of cooperative decision-making was the agreement among CSA members, reached in March 2006, on a Canadian approach to how the management of public companies assess their controls over financial reporting. That agreement is positive evidence of the effectiveness of Canada's current securities regulatory regime.

The subject of enforcement has attracted the attention of Canada's financial regulators, governments, the financial community and the public generally. The latter half of calendar 2006 will see the ASC pursuing a detailed analysis of our enforcement structure and procedures and implementing changes or initiatives to enhance the effectiveness of our enforcement responsibilities.

With the rapid growth of Alberta's resource sector, business community and capital markets, and Alberta's position at the forefront of Canada's prosperity, the ASC has undergone significant growth and change. We are charged with responsibility for the integrity of Alberta's capital markets, maintaining a fair and level playing field for investors and overseeing the conduct of participants in the capital market. With those responsibilities, the ASC must anticipate that we will continue to attract interest, attention, analysis and criticism as we strive to deliver the highest quality of service and generate the highest degree of confidence. I am pleased that we have an organization and team in place that is structured to manage the challenges that we see before us. In that regard, I am particularly pleased to welcome as new Members of the ASC – Beverley Brennan, Allan Edgeworth, The Honourable Jack Major, Neil Murphy and Karen Prentice. In addition, I heartily thank James Allard, Jerry Bennis, Thomas Cooke and Mike Shaikh for their time, counsel and loyalty during their recently completed terms with the ASC.

We look forward to the challenges of a dynamic environment where, at the ASC as elsewhere in this fortunate country and province of ours, everyone has the opportunity to do his or her very best.

WILLIAM S. RICE, Q.C., Chair and Chief Executive Officer

>> Our 2006 Achievements <<

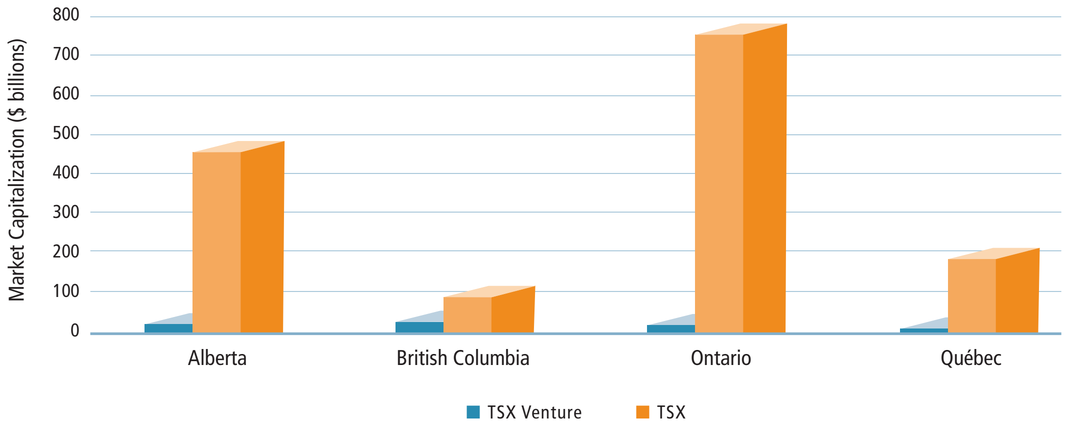
"The growth in the oil and gas industry from 2004 to 2006 has resulted in Alberta capturing an additional 8% of the aggregate Canadian market capitalization. This increased prominence of Alberta's capital market in the overall Canadian capital market continues to support the ASC playing a very active role in policy development and other initiatives within the CSA."

ALBERTA CAPITAL MARKET PROJECT

The ASC began its Alberta Capital Market Project three years ago under the direction of the General Counsel, to focus and enhance its regulatory efforts by acquiring better insights into the capital market it regulates. The ASC has used the information gathered to identify priorities and as background for other projects and rules, including those relating to continuous disclosure, corporate governance, prospectuses and capital raising in the exempt market.

The ASC released the first report in March 2004 (the "2004 Report") and completed an update to the 2004 Report in April 2006 (the "2006 Report"). The 2004 Report and the 2006 Report consist of an overview of public companies – that is, reporting issuers (corporations, limited partnerships and income trusts) with securities listed on either the Toronto Stock Exchange ("TSX") or the TSX Venture Exchange ("TSXV"). The 2006 Report reviewed the number, size (by market capitalization) and industry classifications of these public companies. It also analyzed Alberta's capital market relative to the markets in British Columbia, Ontario and Québec, focusing on these four provinces because public companies based in those provinces account for 93% of all public companies listed on the two exchanges and 86% of aggregate market capitalization. (A copy of the report can be obtained from the ASC website at **www.albertasecurities.com** or by contacting the ASC.)

Aggregate Market Capitalization by Province and Exchange



Distribution of Aggregate Market Capitalization by Province and Exchange

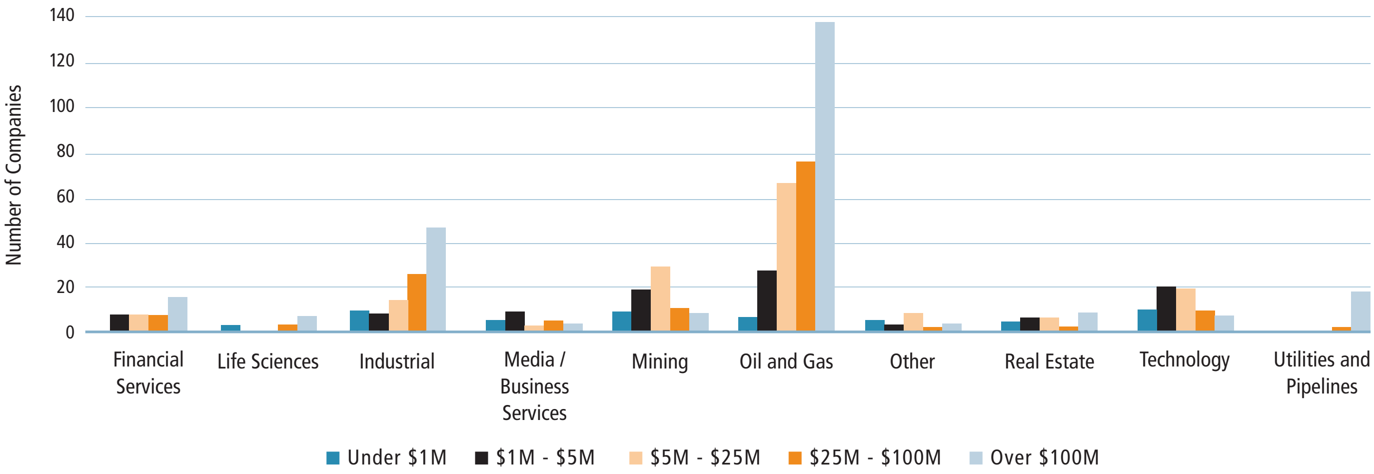
The chart above illustrates (as at December 31, 2005) the aggregate market capitalization of public companies listed on the TSX and the TSXV according to the jurisdiction in which the company is headquartered. Based on aggregate market capitalization, Alberta has the second most significant provincial capital market in Canada. Ontario has the largest aggregate market capitalization at $790 billion or 42% of the total, followed by Alberta at $494 billion or 26%, Québec at $216 billion or 12%, and British Columbia at $116 billion or 6%. At the time of the 2004 Report, Alberta had 18% of the total market capitalization, Ontario had 45%, Québec had 14% and British Columbia was at 5%. The combined market capitalization of all the other provinces and territories is $102 billion or 5% of the Canadian total.

Distribution of Alberta-based Public Companies by Industry and Market Capitalization

The chart on the following page shows the industries in which Alberta-based public companies are engaged and the relative size of those companies based on market capitalization. Not surprisingly, the oil and gas industry is the most significant to Alberta's capital market. Approximately 44% of Alberta-based companies are engaged in the oil and gas industry, representing 76% of Alberta's aggregate market capitalization. Although less significant than oil and gas, the industrial, mining and technology sectors also play a significant role in the Alberta capital market: 15% of public companies are engaged in the industrial sector (representing 16% of aggregate market capitalization), 11% are in mining (2.4% of aggregate market capitalization), and 9% are technology companies (approximately 0.4% of aggregate market capitalization).

The chart also indicates that Alberta-based public companies are represented in all market capitalization ranges. Oil and gas public companies are represented in all sizes, but there are significantly more large companies than small. For example, there are twice as many oil and gas public companies with market capitalization of over $100 million than those with market capitalization of between $5 million and $25 million. Sixty-nine per cent of Alberta-based oil and gas companies have a market capitalization of over $25 million and 44% have a market capitalization of over $100 million. Both mining and technology-based companies tend to be smaller. For example, 74% of Alberta's mining companies and 75% of its technology companies have market capitalization of under $25 million.

Distribution of Alberta Companies by Industry and Market Capitalization



Growth in Income Trusts

Income trusts represent almost 10% of the aggregate market capital in Canada and 6% of the listings on the TSX and TSXV. The aggregate market capital associated with income trusts has grown 180% and the number of income trusts has grown by 84% since the 2004 Report. Income trusts represent 23% of the aggregate market capital of Alberta-based companies and 12% of the total number of Alberta-based companies. Since the 2004 Report, with respect to Alberta-based income trusts, the aggregate market capital has increased by 256%, while the number of trusts has increased by 87%.

Conclusions that may be drawn from the findings of the published report include the following:

1. The growth in the oil and gas industry from 2004 to 2006 has resulted in Alberta capturing an additional 8% of the aggregate Canadian market capitalization. This increased prominence of Alberta's capital market in the overall Canadian capital market continues to support the ASC playing a very active role in policy development and other initiatives within the CSA.

2. The dominance and rapid growth of, and increased investment in, the oil and gas industry, which represents almost 30% of Canada's aggregate market capital, warrants increased attention and focus on these companies by securities regulators in Canada and by the ASC in particular.

3. The Canadian capital market continues to be made up of very distinct provincial capital markets, each of which can bring a unique perspective to the CSA for policy formulation.

4. Because the capital markets in Alberta and Canada are very clearly tiered markets, the application of the principles of proportionate regulation — regulation tailored to the size of the company — continues to require careful consideration by the ASC and the CSA in policy formulation.

5. An increased focus on income trusts, which almost doubled in number and almost tripled in aggregate market value since the 2004 Report, will be appropriate given the increase in their representation in Canada's capital markets.

HARMONIZING ACROSS CANADA

On September 19, 2005, one year after the "Provincial-Territorial Memorandum of Understanding Regarding Securities Regulation" (the "MOU") was signed by all but one of the provincial and territorial Ministers responsible for securities regulation, the CSA implemented Multilateral Instrument 11-101 *Principal Regulator System* ("MI 11-101") and Companion Policy 11-101CP *Principal Regulator System*. The instrument enables an issuer or registrant to have access to the capital markets by complying with the laws of the jurisdiction of its principal regulator so that it would generally deal only with that principal regulator. An issuer's or registrant's principal regulator will usually be in the jurisdiction where its head office is located. All provinces (except Ontario) and territories adopted MI 11-101.

While the initiatives contemplated by the MOU unfold, the CSA (including Ontario) continues to work within the existing securities regulatory framework to make it as cost-effective and efficient as possible. Within this environment, the ASC is working with its counterparts at the CSA to represent the interests of Alberta's market participants at the national level.

Targeted Act Amendments

A major initiative contemplated by the MOU is the creation of highly harmonized, streamlined and simplified securities laws. All members of the CSA have been working together on the implementation of amendments to the securities legislation in all Canadian jurisdictions in an effort to meet this objective. In Alberta, the *Securities Amendment Act, 2006* ("Bill 25") was introduced into the provincial legislature in March 2006 and received Royal Assent on May 24, 2006. In addition to contributing to the achievement of increased harmonization of securities legislation across Canada, these Act amendments, once proclaimed, will result in the implementation of a civil liability regime for the secondary market, creating a statutory right of action for investors in the secondary market to sue companies and other responsible persons for misrepresentations (written or oral) or for a failure to make timely disclosure.

DISCLOSURE REVIEWS

Oil and Gas Activities

In 2003, the ASC led the implementation of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101").

Corporate Finance has completed its annual review of continuous disclosure and NI 51-101 filings. The results were published in June 2006 and are available on the ASC website.

In addition to ongoing reviews, our Oil and Gas branch stays current with industry issues through its participation in conferences, workshops and industry committees such as the Canadian Oil and Gas Evaluation Handbook committee. Current issues concerning mined and in-situ bitumen and coal bed methane are being considered.

As part of our ongoing commitment to ensuring our rules and policies are serving our constituents, the ASC conducted an industry consultation to obtain feedback on NI 51-101 in a public forum in Calgary on June 28, 2006. The participants included issuers, reserves evaluators, and financial advisors and intermediaries. Any potential amendments will address feedback provided through the consultative process, as well as items noted by ASC staff in the course of implementation of NI 51-101 and our ongoing reviews.

Continuous Disclosure

In cooperation with the ASC's Chief Accountant's office, Corporate Finance maintained its continuous disclosure review program in 2005-06, undertaking both general and issue-specific reviews of disclosure materials filed. The results of our study, which were published in April 2006, are part of our ongoing annual communication process to provide targeted and timely feedback to issuers on emerging disclosure issues.

Audit Committee Compliance Review

During fiscal 2006, in cooperation with the Office of the General Counsel, Corporate Finance participated in a CSA review of a sample of 95 Canadian reporting issuers with respect to compliance with Multilateral Instrument 52-110 *Audit Committees* ("MI 52-110"). The review focused on each reporting issuer's compliance with the requirements relating to audit committee composition and responsibilities.

With respect to the audit committee charters that were reviewed, 36% failed to set out all of the responsibilities prescribed by MI 52-110. With respect to the composition requirements, although the entire sample complied with the financial literacy requirement, 8% did not have fully independent audit committees.

Overall, the ASC does not view this level of compliance as satisfactory. Reporting issuers are expected to comply fully with MI 52-110. The ASC intends to conduct additional reviews of compliance by reporting issuers in the near future. The ASC will follow up on deficiencies identified in this review and will pursue remedies where appropriate.

The full results of the 2005 Audit Committee Compliance Review are available in CSA Staff Notice 52-312 on the ASC website in the section 'Company Disclosure and Compliance', sub-section 'Disclosure Review Programs'.

National Instrument 45-106 *Prospectus and Registration Exemptions* ("NI 45-106")

On September 14, 2005, the CSA implemented a national instrument that harmonized prospectus and registration exemptions among Canadian jurisdictions. This instrument replaces most existing local exemptions from the prospectus and registration requirements of securities acts. The exemptions are written in plain language to make them more straightforward and user friendly. Alberta played the lead role in the development of this consolidated instrument. The CSA's NI 45-106 committee is currently considering one-year amendments to the rule.

National Instrument 44-101 *Short Form Prospectus Distributions* and OSC Rule 41-501 *General Prospectus Requirements* ("NI 44-101" and "OSC Rule 41-501")

On December 30, 2005, the CSA published NI 44-101. The instrument allows issuers access to the capital markets using a short-form prospectus, combined with their existing continuous disclosure record. The new short-form prospectus system more fully integrates the disclosure systems for the primary and secondary markets and enables issuers to respond more quickly and efficiently to market opportunities.

The CSA is now completing its revision of prospectus instruments by creating a national instrument for long-form distributions. The Ontario Securities Commission's current Rule 41-501 *General Prospectus Requirements* is being reformulated into the new proposed National Instrument 41-101 *Prospectus Requirements*. It is anticipated that this instrument will encompass issuers doing initial public offerings, issuers who are not eligible for short-form distributions, and issuers who are investment funds that do not qualify for the simplified prospectus available for mutual funds. Disclosure requirements in the prospectus rules will conform to continuous disclosure requirements, as appropriate.

National Instrument 51-102 *Continuous Disclosure Obligations* ("NI 51-102")

NI 51-102 was implemented on March 30, 2004. Proposed amendments to NI 51-102 were published for comment on December 9, 2005. The comment period expired on March 9, 2006, and the CSA's NI 51-102 committee is reviewing the comment letters. Proposed amendments are targeted for implementation by November 2006. Those amendments will address issues and inquiries that have arisen since implementation of the rule.

National Instrument 62-104 *Take-Over Bids* ("NI 62-104")

The ASC is leading the development of a national take-over bid and issuer bid rule. NI 62-104 will consolidate and harmonize take-over bid and issuer bid requirements and related early warning systems that currently exist in nine jurisdictions into one harmonized national take-over bid and issuer bid rule. The CSA hopes to have this rule implemented in all Canadian jurisdictions in the first half of 2007.

Currently, issuers wishing to effect a multi-jurisdictional take-over bid or issuer bid must familiarize themselves with the bid requirements in each of the relevant jurisdictions. NI 62-104 is expected to eliminate duplication and inconsistencies in existing take-over bid and issuer bid regimes and codify discretionary exemptions that are routinely granted by the ASC. When the new national rule is implemented, market participants will generally have to look no further than NI 62-104 for a single set of requirements and restrictions governing any bids made in Canada.

Uniform Securities Transfer Act

Uniform securities transfer legislation is now receiving legislative review in each of the jurisdictions of Canada. In Alberta, the *Securities Transfer Act* ("Bill 36") was introduced in the spring 2006 sitting of the Alberta legislature and received Royal Assent on May 24, 2006. In Ontario, the Act was passed in May 2006. The proposed *Securities Transfer Act* is not securities regulatory law, but is commercial property-transfer law governing the transfer and holding of securities and interests in securities. It also replaces securities settlement rules currently contained in provincial business corporations acts. Implementation of the *Securities Transfer Act* will provide a sound legal foundation for existing practices and support the continuing evolution of future market practices by harmonizing existing legislation within Canada and with the laws in the United States.

Registration Reform Project

The CSA's Registration Reform Project ("RRP") is one implementation aspect of the "passport system". The "passport system" is designed to give market participants one-window access to the capital markets across Canada, allowing them to deal with the regulators and the laws of their principal jurisdictions. The overall goal of RRP is to harmonize the registration regulatory framework across Canada and reduce the need for capital market participants to deal with securities regulators outside their home jurisdictions.

The RRP has four primary objectives:

1. Implement the National Registration System ("NRS"). National Instrument 31-101 *National Registration System* and related documents came into effect in April 2005, thereby creating the NRS. The NRS uses mutual reliance among regulators to permit registrants who are applying for registration in multiple jurisdictions to comply only with the "fit and proper" registration requirements of their principal regulator.

2. Implement the National Registration Rule ("NRR"). The ASC is co-lead with the Ontario Securities Commission in drafting the rule, which will streamline registration rules and categories across all jurisdictions, as well as the registration exemptions contained in provincial statutes and National Instrument 45-106 *Prospectus and Registration Exemptions.* As part of this work, the CSA is considering changes to the registration trigger and adding fund managers as a new category of registrant.
3. Update the National Registration Database to allow filers from Québec to use the database, as well as incorporate changes necessary to implement the NRS and NRR.
4. Implement the core principles of the 2004 "Fair Dealing Model" published by the Ontario Securities Commission. This process involves amending SRO bylaws and policies to ensure a clear allocation of responsibility between registrants and clients and to increase the transparency of registrants' dealings with clients.

Corporate Governance Guidelines and Disclosure Requirements

Effective June 30, 2005, the CSA implemented National Policy 58-201 *Corporate Governance Guidelines* ("NP 58-201") and National Instrument 58-101 *Disclosure of Corporate Governance Practices* ("NI 58-101").

These corporate governance disclosure initiatives are designed to address investor confidence concerns by providing greater transparency for market participants regarding issuers' corporate governance practices, while being sensitive to the realities of the large number of small companies and controlled companies in Canada.

NP 58-201 provides guidance on corporate governance. The main areas of focus relate to specific attributes of a company's board of directors: independence, composition, mandate, responsibilities, and features of the compensation and nomination committees of the board. The guidelines are not meant to be prescriptive; rather, each issuer is encouraged to consider the guidelines in formulating corporate governance practices that are appropriate for that issuer given its particular circumstances.

The associated disclosure rule, NI 58-101, requires issuers to provide security holders an overview of their corporate governance practices. For non-venture issuers (e.g., companies listed on the TSX), the required disclosure is to be provided according to the guidelines set out in the policy. For example, if the board has neither an independent chair nor a lead director, the disclosure would have to include an explanation of what the board does to provide leadership for its independent directors. For venture issuers (those companies listed soley on the TSX Venture Exchange and unlisted reporting issuers), the required disclosure is less extensive and not required to be compared against the guidelines. NI 58-101 also requires issuers to file their codes of ethics, if any, on SEDAR.

Reporting on Internal Control over Financial Reporting

On February 4, 2005, after considerable research, consultation and discussion, all of the members of the CSA except British Columbia published for comment proposed Multilateral Instrument 52-111 *Reporting Requirements for Internal Control over Financial Reporting* ("MI 52-111"), which would have required issuers, other than venture issuers, to conduct an annual evaluation of their internal control over financial reporting against a specified control framework and to require their auditors to provide an opinion on the effectiveness of those controls. The instrument would have introduced into Canada requirements substantially similar to the rules made by the U.S. Securities and Exchange Commission in response to section 404 of the Sarbanes-Oxley Act, 2002 ("SOX 404").

After extensive review and consultation and in view of the delays and ongoing debate in the U.S. over the rules implementing SOX 404, the CSA announced on March 10, 2006, that it would not proceed with MI 52-111. Instead, the CSA will be proposing amendments to Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("MI 52-109") and to the Management's Discussion and Analysis ("MD&A") requirements in National Instrument 51-102 *Continuous Disclosure Obligations*.

The March 10, 2006, announcement via CSA Notice 52-313 set out certain particulars of the proposal, including: 1) the expansion of MI 52-109 to require the Chief Executive Officer and Chief Financial Officer of every reporting issuer to represent in their annual certificates that they have evaluated the effectiveness of the issuer's internal control over financial reporting as of the end of the financial year; 2) the requirement that CEOs and CFOs certify that, based on their evaluation, they have caused the issuer to disclose in its annual MD&A their conclusions about the effectiveness of internal control over financial reporting as of the end of the financial year; and 3) the expansion of MD&A requirements to include a description of the process for evaluating the effectiveness of the issuer's internal control over financial reporting and the conclusions reached regarding the effectiveness of internal control over financial reporting as of the end of the financial year.

Under the proposal, issuers will not be required to obtain an internal control audit opinion from their auditors concerning management's assessment of the effectiveness of internal control over financial reporting.

The proposed amendments to MI 52-109 and NI 51-102 have not yet been published for comment.

Amendments to Existing Corporate Governance and Investor Confidence Initiatives

On June 6, 2005, MI 52-109 was amended to provide an extended transition period during which the CEOs and CFOs of reporting issuers would not be required to file certifications in respect of their issuers' internal control over financial reporting. Additionally, MI 52-109 became a National Instrument on September 19, 2005, as a result of British Columbia's adoption of the instrument.

Amendments to Multilateral Instrument 52-110 *Audit Committees*, designed to update and clarify the meaning of independence in the rule, became effective June 30, 2005.

ENFORCEMENT

The ASC monitors market activity and responds to complaints about contraventions of Alberta securities laws. The ASC's Enforcement department assesses and investigates alleged contraventions and, where appropriate, proceeds either to take administrative enforcement proceedings before an ASC tribunal or prosecute charges brought before the Provincial Court of Alberta.

The ASC has statutory authority to impose various sanctions if, following a hearing, contraventions are found to have occurred. These sanctions include: cease trade orders respecting securities; prohibition from acting as a director and officer of an issuer; payment of the costs of investigation and the hearing; and a monetary administrative penalty. When a case is prosecuted in Provincial Court, conviction for contravention of the *Securities Act* may result in imprisonment, imposition of a fine, or both and also includes the sanctions referred to in the previous sentence.

At the end of fiscal 2006, there were four cases on reserve pending decision, two ASC hearings and one trial in progress, and seven further cases scheduled for hearing during fiscal 2007.

Prosecutions

During fiscal 2006, charges of contravening the *Securities Act* were prosecuted in Provincial Court in Calgary and Edmonton against two individuals, in each case relating to alleged failures to comply with prior ASC orders.

Thomas Kim Seto

In May 2005, in Provincial Court in Edmonton, Mr. Seto pleaded guilty to five charges of contravening section 194 of the *Securities Act* and following submissions was sentenced to a total of five months imprisonment, prohibited from trading in securities and acting as a director or officer for 12 years, and ordered to pay $18,000 restitution and $10,000 towards costs.

Phillip David Archer

In November 2005, Mr. Archer pleaded guilty in Provincial Court in Calgary to breaching a 1991 ASC order prohibiting him from trading in securities. He was sentenced to a 60-day conditional sentence and prohibited from trading in securities for 10 years.

Sheldon Zelitt

In 2003, former VisuaLABS Chief Executive Officer and Chief Scientist Sheldon Zelitt was convicted on 11 counts of securities offences in Provincial Court in Calgary for making misrepresentations in documents filed with the ASC. Mr. Zelitt moved to the Czech Republic before his trial commenced and failed to attend for trial. However, in his absence, he was convicted and sentenced to imprisonment for four years and fined $1.85 million (or four additional years of imprisonment in default). Mr. Zelitt was arrested on May 26, 2004, in the Czech Republic. Following extradition proceedings instituted by the federal Department of Justice with the assistance of the Attorney General of Alberta, the Minister of Justice of the Czech Republic ordered him returned to Canada. He was extradited in May 2005 to answer to a charge of defrauding the public under section 380 of the *Criminal Code* and to serve the sentence imposed upon him respecting his offences under the *Securities Act*. A Charter and habeas corpus application by Mr. Zelitt to the Court of Queen's Bench of Alberta challenging his extradition and imprisonment was dismissed in March 2006. Mr. Zelitt recently applied to the Alberta Court of Appeal to extend the time permitted him to appeal his conviction and sentence.

Major ASC Hearings

The hearing of evidence in the enforcement proceedings initiated against J. Gordon Ironside and Robert W. Ruff was completed in September 2005. The case is reserved pending decision.

The enforcement proceedings initiated against Peter J. Workum and Theodor Hennig also involved a lengthy hearing that continued throughout 2006. It is scheduled to continue during fiscal 2007.

Additional Cases Before the ASC

The following enforcement proceedings were concluded during fiscal 2006 and are worthy of note.

Wenzel, Botting, Wolanuk and Stewart

In June 2005, Reasons for Decision were issued regarding Christopher Wesley Stewart, a former securities broker sanctioned for unauthorized discretionary trading. Mr. Stewart was ordered to pay an administrative penalty of $10,000, $5,000 towards costs, and prohibited from trading securities for 10 years (with some exceptions for personal accounts). Earlier, in January 2005, Stewart's co-respondents – Douglas Brian Wenzel, Cathy Lynn Botting and Duane Steve Wolanuk – concluded a settlement for contravening the takeover bid provisions of the *Securities Act*. Mr. Wenzel agreed to pay the amount of $10,000 to settle the allegations and $25,000 towards investigation costs. He also undertook to cease acting as and resign from any position as a director or officer of any issuer for five years and to cease trading in securities for a period of five years. Mr. Wolanuk and Ms. Botting each agreed to pay the amount of $5,000 to settle the allegations and $2,500 towards investigation costs. They also undertook to cease trading in securities for a period of one year.

Kenneth and Lyle Pretty

In June 2005, the Respondents concluded a settlement and admitted to insider tipping and insider trading contraventions during a four-year period relating to merger/acquisition discussions involving five junior oil and gas companies. Kenneth Pretty agreed to pay $145,000 to settle the allegations and $3,000 towards investigation costs. He also undertook to cease trading in securities and refrain from acting as a director or officer of any reporting issuer for a period of five years. Lyle Pretty agreed to pay $95,000 to settle the allegations and $2,000 towards investigation costs. He undertook to cease trading in securities for a period of three years.

Mercury Partners and Company Inc., Kusumoto, Cockburn, Auck

In June 2005, settlement was concluded with Mercury Partners and Company Inc. and a former officer of the company, Tian Kusumoto, for contraventions of the takeover bid rules and insider reporting obligations of the *Securities Act*. Mercury, now Black Mountain Capital Corp., agreed to pay $40,000 to settle the allegations and $10,000 towards costs for using nominee corporations to accumulate share positions in Cybersurf Corp. and Takla Star Resources Ltd. The nominee corporations were privately owned by Mr. Kusumoto's sister Jasmin Auck and a friend, Shaun Cockburn. Mr. Kusumoto agreed to pay $50,000 to settle allegations of coordinating and trading in the nominee accounts and for failing to ensure that Mercury made required filings with the ASC. He has also agreed to cease trading in securities, with minor exceptions, and to refrain from acting as a director or officer of a publicly traded company for nine years. Mr. Cockburn agreed to pay $10,000 to settle the allegations against him, $5,000 towards costs, and to refrain from trading in securities and from acting as a director or officer for four years. Ms. Auck agreed to pay $10,000 to settle the allegations against her and $2,500 towards costs and to refrain from trading in securities and from acting as a director and officer for one and a half years.

Instadial Technologies Corp., J. Allen, Smith, Atwell and Kabir

In December 2005, Reasons for Decision were issued finding the Respondents liable with respect to illegal distribution of Instadial Technologies Corp. shares. Instadial was ordered to cease trading in securities, denied exemptions until in receipt of a prospectus in Alberta, and to pay a $50,000 administrative penalty and $7,500 towards costs. Joseph Edward Allen was ordered to cease trading in securities, denied exemptions for 10 years and to pay a $30,000 administrative penalty and $5,000 towards costs. Vern Smith was ordered to cease trading in securities, denied exemptions, and prohibited from acting as director or officer for five years and ordered to pay a $25,000 administrative penalty and $5,000 towards costs. Douglas Atwell and Syed Kabir were each ordered to cease trading in securities, denied exemptions and ordered to pay a $15,000 administrative penalty and $2,500 towards costs.

Court of Appeal Decision

The Institute for Financial Learning et al v. ASC

In August 2005, Reasons for Judgment were released, dismissing the Institute's appeal respecting a procedural ruling made against it in the course of an ASC investigation.

Interim Cease Trade Order Applications

When the Enforcement department identifies capital market activity that appears to present an immediate risk of continuing serious harm to the investing public of Alberta, it applies to an ASC hearing panel for an interim order prohibiting such activity until a hearing can be held. In such cases, the department subsequently continues its investigation to determine whether further ASC enforcement action is warranted or whether a referral to other enforcement authorities, such as the police, is appropriate, or both. During fiscal 2006, interim orders prohibiting trading in securities (cease trade orders) were obtained in five cases:

- In April 2005, an interim cease trade order was issued against Fair Share Investing Inc. and Gary Wojciechowski.
- In August 2005, ASC staff obtained written undertakings to the Executive Director from Stone Mountain Precious Metals Depository Corp. and from Capital Alternatives Inc., to cease trading in securities.
- In November 2005, an interim cease trade order was issued against Maitland Capital Ltd., Al Grossman, Gail Rubin, Jack Elliot, William Rouse, Ralph Jay, Jason Snow, Rick Blaine, Robert Thorne, Ron Gardner, Jack Travin, Tom Mezinski, Ron Catone, Robert Sinclair and Dianna Cassidy.
- In December 2005, an interim cease trade order was issued against Arbour Energy Inc., Dennis Morice, Heinz Weis and Arthur Wigmore.
- In March 2006, an interim cease trade order was issued against Limelight Capital Management Inc., Abraham Herbert Grossman and Hanoch Ulfan.

Participation in IMET

The ASC seconded an investigator to the RCMP's Integrated Market Enforcement Team to assist with the efforts of its Calgary-based team.

Development of MICA II Software

In conjunction with other Canadian securities regulators, in fiscal 2006 a major project was completed to upgrade the Market Integrity Computer Analysis ("MICA") software program, which is used to analyze market trading data. Training of ASC Enforcement personnel to use this software is ongoing.

REVISED ORGANIZATION

Corporate Finance

As a result of a review of various alternatives and assessment of how the ASC can best serve our constituents, in 2006 we created the Corporate Finance department, which merged the operations of two predecessor departments – Legal Services and Policy Development, and Capital Markets. Accounting, legal professionals and support people work in the new department. In recognition of the fundamental importance of the petroleum industry to Alberta's capital market, the Corporate Finance department also includes the Oil and Gas branch, which has among its staff industry professionals in engineering and geological sciences.

Corporate Finance's role is two-fold. It provides day-to-day regulatory service to reporting issuers for their corporate finance activities in Alberta. In particular, Corporate Finance reviews prospectus offerings, the ongoing continuous disclosure of issuers and considers applications for discretionary relief. Also, Corporate Finance is involved in the development of the policy framework for these entities and transactions. Under the new structure, these roles are integrated to provide more seamless, efficient and consistent service.

Market Regulation

The ASC established the Market Regulation department as part of the reorganization. Market Regulation is responsible for:

- registering individuals and companies that advise or deal in securities and exchange contracts;
- conducting targeted financial and compliance examinations of registered companies;
- conducting oversight audits of recognized self-regulatory organizations ("SRO") and the TSX Venture Exchange and of three exempt exchanges in Alberta;
- advising the ASC on the development of market regulation rules, regulatory instruments and legislative amendments; and
- advising the ASC on granting exemptive relief from certain requirements of Alberta securities and related market regulation.

Market Regulation's staff represents the ASC on a number of CSA committees, including those dealing with the Registration Reform Project, the National Registration Database, the National Registration System, Market Structure and Exchange Oversight and SRO oversight.

Office of the General Counsel

As part of the reorganization of the ASC, the responsibilities and reporting structure changed for the Office of the General Counsel ("OGC"). The legislative function moved to the OGC – this function was previously managed in Legal Services and Policy Development, one of the predecessor departments to Corporate Finance. Additionally, the OGC is now responsible for compliance with privacy legislation and also serves as the interface for projects initiated by or involving the Alberta government. The new reporting structure has the Corporate Secretary now reporting to the General Counsel and the General Counsel reporting directly to the Chair.

INVESTOR EDUCATION

In August 2005, the ASC launched a revamped Investor Education program to respond to research findings that indicated Albertans' desire for simplified and easy-to-access investment information. The first part of the campaign focused on developing a strategy and materials to present investment information in an engaging and straightforward format. The initial program targeted potential first-time investors with an interactive website and several school-based initiatives. In fiscal 2007, the campaign focus will shift to encompass fraud awareness. The ASC's Investor Education team participates in national investor education initiatives through the CSA, which helps ensure that local and national initiatives complement each other. One of those initiatives, the CSA's "Test Your Financial IQ" contest, attracted 21,815 contestants aged 15 to 21 years old. Ashleigh Bell of Fort Saskatchewan won the Alberta provincial prize of $750.

THREE-YEAR STATISTICAL SUMMARY

(as of March 31, 2006)

	F2006	F2005	F2004
Enforcement Activity			
Inquiries received	3,239	3,665	4,108
Complaints received	553	551	488
Concluded investigations	215	185	192
Current investigations	122	87	95
Interim cease trade orders	3	7	n/a*
Settlements	10	16	3
Hearings	23	11	15
ASC costs levied	$ 82,000	212,000	248,000
ASC costs recovered	$ 50,000	186,500	236,750
Administrative penalties levied	$ 620,000	251,000	192,500
Administrative penalties recovered	$ 425,000	226,500	215,000
Prosecutions initiated in Provincial Court	1	3	0
Other court proceedings (including appeals)	13	4	2

* Data was not collected for this period

	F2006	F2005	F2004
Active Reporting Issuers			
Short-form eligible	829	654	586
Not Short-form eligible	3,182	3,183	3,065
Mutual fund	2,155	2,633	2,537
Prospectuses and Rights Offerings Filed			
Prospectuses	812	760	710
Mutual fund prospectuses	90	87	88
Capital pool companies	26	33	48
Rights offerings	14	18	16
Exemption and Escrow Applications			
Exemption applications	932	944	929
Escrow applications	1	9	24
Registered Firms			
Dealers (mutual funds, securities, exchange contracts, scholarship plans, security issuers)	234	215	213
Advisors	246	210	186
Total firms	480	425	399
Registered Individuals			
Dealers	22,250	20,397	18,267
Advisors	2,768	2,433	2,127
Total individuals registered	25,018	22,830*	20,394*

* Previous years' comparative figures have been restated to include IDA member firms and individuals.

>> Commission Members <<

The ASC has two operational levels: Members and staff. Alberta's Lieutenant Governor in Council appoints the Members. Of the 13 Members of the Commission, three (the Chair and two Vice-Chairs) are involved in the day-to-day activities of the Commission and are not "Independent Members" as that term is applied in Multilateral Instrument 52-110 *Audit Committees*. The other 10 Members are all Independent Members, with one person from that group designated as the "Lead Independent Member". All Board committees, such as the Audit and Human Resources committees, are exclusively made up of Independent Members.

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

WILLIAM S. RICE, Q.C., Chair >> Mr. Rice was appointed Chair and Chief Executive Officer of the Alberta Securities Commission in July 2005. At the time of his appointment he had more than 25 years of experience dealing with securities law and regulated agencies and had most recently served as the national managing partner of the law firm Bennett Jones LLP. In the course of his practice, Mr. Rice represented a wide variety of enterprises, including major Alberta corporations, junior to mid-sized oil and gas exploration and service companies, major United States energy corporations and almost all institutional members of Alberta's investment banking community. He has had board and chair responsibilities with several public and private companies over the course of some 15 years and has lectured on the subjects of corporate law, public financing, mergers and acquisitions, corporate governance and law firm management.

GLENDA A. CAMPBELL, Q.C., Vice-Chair >> Ms. Campbell was appointed Vice-Chair in September 1999. Prior to that she served the ASC as Director, Legal Services and Policy Development and was instrumental in creating a national voice for Alberta through the development of policies and legislation at the national and local levels with a view to harmonizing the securities regime in Canada. Ms. Campbell has lectured extensively in professional continuing education seminars and has authored a number of papers.

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

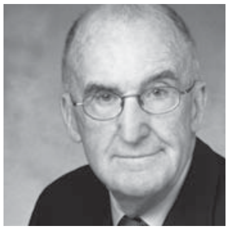
DENNIS A. ANDERSON, FCA >> Mr. Anderson is the Lead Independent Member. He became a Member in April 2003 and is Chair of the Commission's Audit Committee. Mr. Anderson retired from a successful accounting career with KPMG, where he served as a managing partner in Calgary and as a member of that company's National Policy Board and Western Region Management Committee. Mr. Anderson's career includes a number of positions with firms involved in the energy sector. Most recently, he served as a public member of the Alberta Insurance Council. Mr. Anderson has devoted countless hours to his community, and has served as chairman of the board and president of the Calgary Stampede Foundation.

DAVID W. BETTS, CFA >> Mr. Betts became a Member in April 2001 and serves on the Commission's Audit Committee. Before retiring, Mr. Betts was a corporate financial consultant with over 30 years of experience as an investment analyst and investment banker. He was a corporate financial consultant, primarily to the oil and gas industry and was also employed with RBC Dominion Securities Inc. As a consultant, Mr. Betts has extensive experience advising executive management of both private and public companies in merger, acquisition and equity financing situations.

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

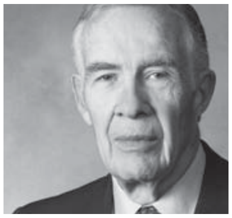
ALLAN L. EDGEWORTH, P. Eng. >> Mr. Edgeworth became a Member in April 2006. He served in various executive capacities with Westcoast Energy (now Duke Energy Gas Transmission West) and Alliance Pipeline. A geological engineer by profession, Mr. Edgeworth retired from his position as President and Chief Executive Officer of Alliance Pipeline in December 2004. Mr. Edgeworth is a Director of AltaGas and Emera Inc. and is actively involved in various community organizations.

KARL M. EWONIAK, CA >> Mr. Ewoniak became a Member in June 2004 and serves on the Commission's Audit Committee. He is an insurance and corporate financial consultant with over 30 years of experience as a senior executive in the insurance, retail, trust and mortgage lending sectors. Mr. Ewoniak is the founder and past president of Trans Global Life Insurance Company and Trans Global Insurance Company. He has extensive corporate governance experience, having served on several public and private company boards of directors. He is currently a director of Canadian Direct Insurance Incorporated and Garner Management Ltd.



THE HONOURABLE J.C. (JACK) MAJOR, Q.C. >> The Honourable J. C. Major became a Member in April 2006. He helped shape the legal landscape in Canada through his years as a lawyer, judge and now counsel. Mr. Major was appointed to the Alberta Court of Appeal in 1991 after 34 years as litigation counsel and to the Supreme Court of Canada in 1992. He retired as a Supreme Court of Canada justice in December 2005 and has since rejoined Bennett Jones LLP as a consultant.

RODERICK J. MCLEOD, Q.C. >> Mr. McLeod became a Member in June 2004 and is also a member of the ASC's Human Resources Committee. He is the founder, former senior partner and retired counsel of McLeod & Company, a Calgary-based law firm. Mr. McLeod holds a B.A. in Economics from Simon Fraser University and an LL.B. degree from Osgoode Hall Law School. He has been, and continues to be, actively involved as a volunteer on numerous not-for-profit boards and advisory committees. Mr. McLeod was a bencher of The Law Society of Alberta, a member of the boards of directors of both private and publicly traded corporations and has donated his time to a variety of charitable, professional and community activities.



JAMES A. MILLARD, Q.C. >> Mr. Millard became a Member in April 2001 and is chair of the Commission's Human Resources Committee. He practiced corporate, commercial and securities law in Calgary for over 40 years as a partner in the MacKimmie Matthews law firm. Mr. Millard has also been involved as a practice review investigator with The Law Society of Alberta. He is a former director of a number of public and private corporations and a former governor of the Calgary Petroleum Club.

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

KAREN A. PRENTICE, Q.C. >> Ms. Prentice became a Member in April 2006 and serves on the Commission's Human Resources Committee. She holds an LL.B. from the University of Calgary. Ms. Prentice joined the City of Calgary law department in 1987 and subsequently moved to ENMAX Corporation. When she concluded her service at ENMAX in 2005, she was Executive Vice-President, Legal and Corporate Affairs and Corporate Secretary. Ms. Prentice is an active member in the community and has served on a variety of non-profit boards.

>> Senior Management Team <<

(Back row L to R): TOM GRAHAM, Director, Corporate Finance > KARI HORN, General Counsel > DAVID MCKELLAR, Director, Market Regulation > DANNA MCLEOD, Director, Corporate Resources > JOHN PETCH, Director, Enforcement > STEVE SLIPP, Controller
(Front row L to R): DAVID LINDER, Executive Director > BILL RICE, Chair and Chief Executive Officer > FRED SNELL, Chief Accountant

Office of the Chair and Chief Executive Officer >> The Chair and Chief Executive Officer is responsible for identifying emerging issues in securities regulation and for leading the ASC to achieve its organizational objectives. The Chair oversees the Office of the General Counsel and Communications and Investor Education. The Chair is appointed by Alberta's Lieutenant Governor in Council and reports to the Members and to Alberta's Minister of Finance.

Office of the Executive Director >> The Executive Director is the ASC's chief administrative officer, overseeing the Corporate Finance, Corporate Resources, Enforcement, Finance, and Market Regulation departments, as well as the Office of the Chief Accountant.

Office of the General Counsel >> The Office of the General Counsel provides specialized legal advisory services to the Chair, the Executive Director and ASC staff on a broad range of operational, transactional and policy projects. The Office of the General Counsel also provides research and advice on emerging issues, as well as guidance to market participants on the interpretation of Alberta securities laws. Responsibility for the corporate secretarial and legislative functions also resides in the Office of the General Counsel.

Communications and Investor Education >> The Communications and Investor Education department directs the release of public information through numerous channels, including news releases and internal communications. The team is responsible for the Investor Education campaign program, Public Information Line and the ASC Library.

Office of the Chief Accountant >> The Chief Accountant provides expert advice to the ASC's staff and Members on accounting, auditing, and financial matters. The office also provides assistance to reporting issuers and their advisors on the practical implementation of accounting and financial disclosure standards and other financial reporting matters.

Corporate Finance >> Corporate Finance is responsible for the ongoing service related to the review of offering documents, monitoring continuous disclosure filings, and making recommendations on applications for exemptive relief from securities legislation. Closely related to these day-to-day services, Corporate Finance is active in the formulation and development of appropriate rules, regulatory instruments, policies, blanket orders and legislative amendments used in the regulation of the Alberta and Canadian capital markets.

Corporate Resources >> The Corporate Resources department supports ASC activities by providing services in the areas of human resources, information technology, and corporate services, including security and business continuity, facility management and information and records management.

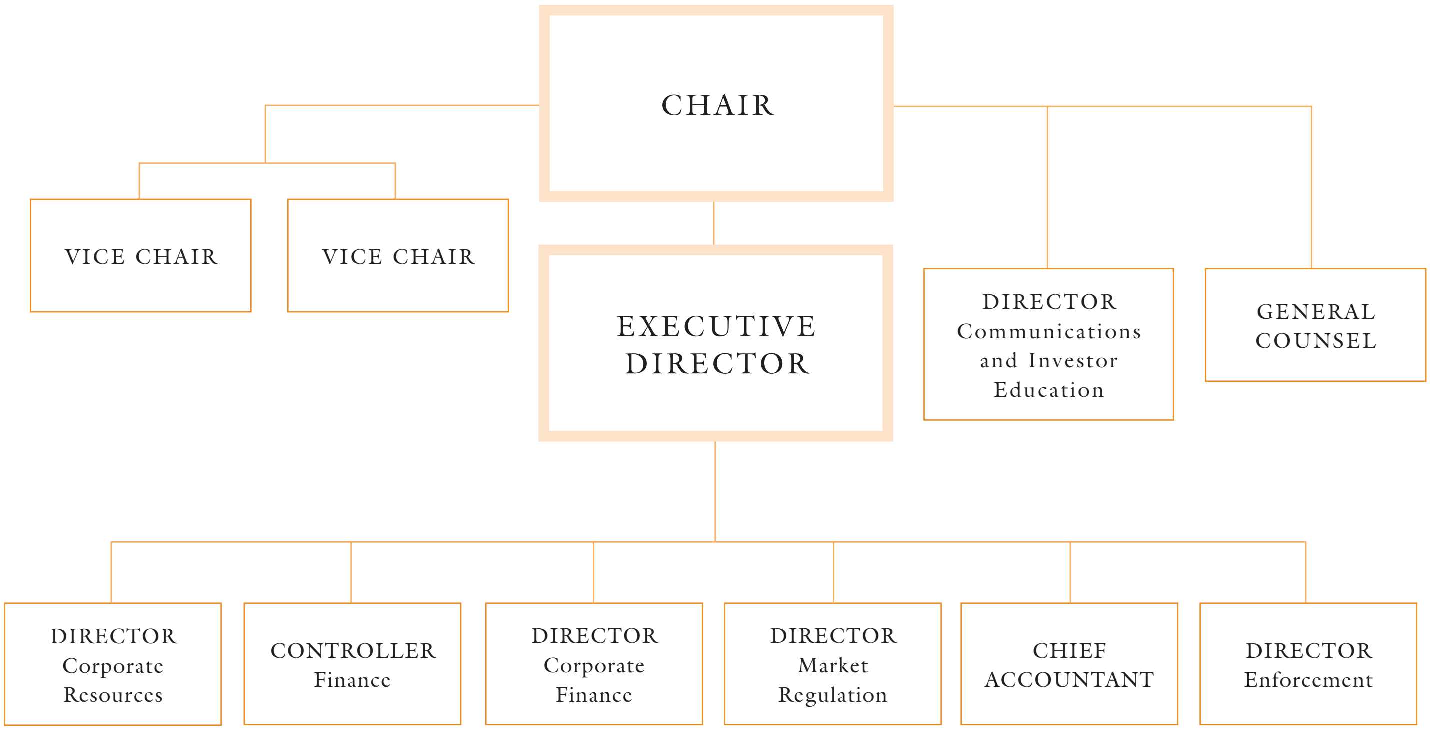
Enforcement >> The Enforcement department investigates and prosecutes contraventions of the *Securities Act* (Alberta) that come to its attention through complaints received from members of the public and referrals from other ASC departments and regulatory agencies. The Enforcement department comprises three separate branches — Case Assessment, Investigations and Litigation.

Finance >> The Finance department is led by the Controller, who is the Commission's senior financial officer, and is responsible for effective budgetary controls, coordination of business plan and risk management processes, and accurate and timely financial reporting to senior management, Commission Members and the provincial Finance Department.

Market Regulation >> Market Regulation provides effective and responsive securities regulation to the Alberta capital market by developing rules and policies, performing targeted compliance examinations, and registering individuals and companies. Market Regulation is also responsible for oversight of the TSX Venture Exchange, exempt exchanges and self-regulating organizations, including the Investment Dealers Association of Canada, Market Regulation Services Inc. and the Mutual Fund Dealers Association of Canada.

>> Alberta Securities Commission Organizational Chart <<

The Commission is a provincial corporation consisting of Members and the Chair appointed by the Lieutenant Governor in Council. The Chair is the Chief Executive Officer.



>> Advisory Committees <<

ASC staff has established four advisory committees of industry representatives who provide an extremely valuable service in helping to keep staff up-to-date on industry views and current business practices.

FINANCIAL ADVISORY COMMITTEE

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

Raymond D. Crossley, CA
PricewaterhouseCoopers LLP

Ronald E. Elllis, CA
Ernst & Young LLP

Ward Zimmer, CA
Deloitte & Touche LLP

Arthur N. Korpach, FCA
CIBC World Markets

Melinda Park
Borden Ladner Gervais

Philip J. Scherman, CA
KPMG LLP

John A. Thomson, CA
Independent businessman

Michael A. Williams, FCA *(Chair)*
(retired)

FINANCIAL REVIEW COMMITTEE

This committee reviews and comments on the ASC's annual business plan.

Ian Bruce
Peters & Co. Limited

Arthur N. Korpach, FCA
CIBC World Markets

SECURITIES ADVISORY COMMITTEE

Matthew Bootle
TSX Venture Exchange

Richard W. Clark
Gowling Lafleur Henderson LLP

Nicholas (Nick) P. Fader
Bennett Jones LLP

Leanne C. Krawchuk
Parlee McLaws LLP

Stan Magidson (Chair)
Osler, Hoskin & Harcourt LLP

William S. Maslechko
Burnet, Duckworth & Palmer LLP

John S. Osler
McCarthy Tètrault LLP

Melinda Park
Borden Ladner Gervias LLP

Debra J. Poon
Miller Thomson LLP

David T. Robottom
Enbridge Inc.

James D. Thomson
Parlee McLaws LLP

Bryce C. Tingle
TingleMerrett LLP

RESERVES ADVISORY COMMITTEE

Roy Hennig, P.Eng.
Burlington Resources Canada Ltd.

Stephen E. Balog, P.Eng.
Tasman Exploration Ltd.

John Lacey, P.Eng.
John R. Lacey International Ltd.

Mike Brusset, P.Eng. *(retired)*
Martin and Brusset Associates

Stephen K. Gordon, P.Eng
(retired)

Board Committees are made up of the following Independent Members:

2006/07 AUDIT COMMITTEE

Dennis Anderson, FCA (*Chair)*

David Betts, CFA

Beverley Brennan, FCA

Karl Ewoniak, CA

2006/07 HUMAN RESOURCES COMMITTEE

James Millard, Q.C. (*Chair)*

Roderick McLeod, Q.C.

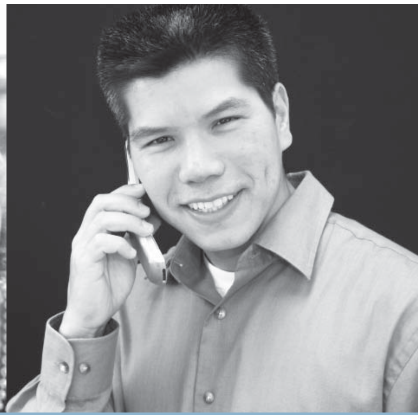
Neil Murphy

Karen Prentice, Q.C.

Independent Members will be selected to form a Governance Committee in 2006/2007.

>> Management's Discussion and Analysis <<



The financial statements that appear on pages 48-51 in this annual report present the financial position, operating results and cash flows of the Alberta Securities Commission ("the Commission" or "ASC") in accordance with Canadian generally accepted accounting principles ("GAAP") for the fiscal year ended March 31, 2006. The comments in this Management's Discussion and Analysis ("MD&A") analyze the Commission's financial performance during the fiscal year ended March 31, 2006, and view for the future. This MD&A should be read in conjunction with the financial statements.

NOTE: In this MD&A, "fiscal" or "F" 2004, 2005, 2006 and 2007 refer to the fiscal years of the Commission ending March 31, 2004, 2005, 2006 and 2007, respectively.

FORWARD-LOOKING STATEMENTS

Certain statements included in this annual report are forward looking and are subject to certain 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.

SELECTED ANNUAL INFORMATION

($ Thousands)	**F2006** Budget	**F2006** Actual	F2005 Actual	F2004 Actual
Revenue	$ 17,388	$ 22,355	$ 20,963	$ 18,567
Expense	22,763	20,143	17,940	17,510
Net income (loss)	**$ (5,375)**	**$ 2,212**	**$ 3,023**	**$ 1,057**
Assets				
Cash		2,542	3,185	1,599
Investments		23,316	19,790	17,258
Capital assets		1,913	2,124	2,218
Total assets		**$ 29,012**	**$ 26,637**	**$ 22,991**
Non-current financial liabilities				
Lease inducement		494	618	785
Accrued benefit liability		2,070	1,666	1,267
Retained earnings		24,073	21,861	18,838
Capital additions	$ 635	$ 414	$ 450	$ 1,012

HIGHLIGHTS

The Commission's net income in fiscal 2006 was $2,212,000, compared with a budgeted loss of $5,375,000 and a net income of $3,023,000 in fiscal 2005. The decrease in net income was largely a result of incremental fiscal 2006 expenses, including:

- $630,000 for staff compensation increases arising from additional staff and compensation adjustments that reflect the competitive market for accounting and legal professionals in Calgary; and
- $1,268,000 of special investigation costs, primarily for activities initiated by the Minister of Finance and undertaken by the Independent Members of the Commission.

At March 31, 2006, the Commission had cash and investments of $25,858,000. The increase of $2,880,000 from the prior year arose primarily from investment income retained in the investment account.

ACTUAL RESULTS COMPARED WITH BUDGET

Budgets set important reporting and accountability standards for measuring performance. The Commission 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 Commission's net income for fiscal 2006 of $2,212,000 surpassed the budgeted loss by $7,587,000 because: fees, investment income and administrative penalty receipts were $4,832,000 greater than budget; certain costs were below budget by $550,000; and a $2,100,000 provision for unanticipated expenses (contingency) was not required.

Outlook

Management will focus on several financial trends:

- Fee revenues and investment income may not be as strong if equity markets weaken. Potentially lower fee revenue and investment income combined with anticipated inflationary compensation pressures in the Alberta job market and staff growth are trends that reinforce the need to introduce graduated fee increases over the next three years.
- Expenditures will increase as a result of the addition of staff required to strengthen enforcement, disclosure compliance and national policy development.
- A projected loss in fiscal 2007 of $5,390,000, which includes a contingency amount of $2,300,000, highlights the continued need for strong cost control and fee increases.

The Commission's operating results for fiscal 2006, and plans and expectations for future operations are analyzed in detail under the following headings:

- Analysis of Fiscal 2006 Operations and Financial Position
- Fiscal 2007 Outlook

ANALYSIS OF FISCAL 2006 OPERATIONS AND FINANCIAL POSITITON

Revenue

($ Thousands)	F2006		F2005	F2004
	Budget	Actual	Actual	Actual
Revenue				
Distribution of securities fees	$ 7,813	$ 9,372	$ 9,178	$ 6,879
Registration fees	5,767	6,497	6,109	6,715
Annual financial statement fees	2,652	3,125	3,300	2,504
Order (application) fees	263	291	300	305
Total fees	**$ 16,495**	**$ 19,285**	**$ 18,887**	**$ 16,403**
Investment income	893	2,486	1,568	1,698
Settlement cost recoveries		50	187	248
Other		85	72	3
Revenue before administrative penalties	17,388	21,906	20,714	18,352
Administrative penalties		449	249	215
Total revenue	**$ 17,388**	**$ 22,355**	**$ 20,963**	**$ 18,567**

The Commission obtains revenues primarily from registrants and reporting issuers.

Distribution of securities fees arise from specific activities, such as prospectus and distributions of securities in Alberta. Companies are required to pay fees to the Commission 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 Alberta distributions. Public (prospectus) and private (prospectus exempt) distribution of securities fees (see "Three-year Statistical Summary" on page 21) contribute 40-45% of total Commission revenues and are the most variable component of the Commission'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 fiscal

2006 were similar to those in the prior year. However, fiscal 2005 fees included non-recurring exempt distribution fees of approximately $1,700,000 that resulted from a multi-year fee recalculation paid by a group of mutual fund trusts. Fiscal 2006 fees reflect a robust Alberta capital market and increases in Alberta securities distributions.

Registration fees from dealers, advisors and salespersons accounted for approximately 29% of revenues or $6,500,000 in fiscal 2006. These fees are relatively stable as there is a base in Alberta of 400 companies and more than 25,000 salespersons (see "Three-year Statistical Summary" on page 21). In addition, an average 20% salesperson-turnover rate adds additional fee revenue during any given year. This turnover rate fluctuates minimally even in years of poor market performance. Registration fee increases in fiscal 2006 reflect strong Alberta capital market activity.

Annual financial statement filing fees generally account for approximately 16% of fees. However, in fiscal 2006 these fees decreased 5% from the prior year. Fees for these filings are $2,000 for issuers eligible to use the short-form prospectus system, and $250 for all others. Although financial statement filing fees are relatively stable from year to year, in fiscal 2005 new continuous disclosure filing requirements (National Instrument 51-102 *Continuous Disclosure Obligations*) for issuers with securities listed on the TSX required financial statement filings within 90 days of the issuer's year-end. The prior rules provided a filing period of up to 140 days. This accelerated filing requirement resulted in additional financial statement filing fees in fiscal 2005 of approximately $650,000. The total number of reporting issuers in Alberta is approximately 6,160 (see "Three-year Statistical Summary" on page 21) and remains reasonably stable from year to year. During fiscal 2006, eligibility rules for short-form prospectus use were changed. These changes are expected to increase the number of reporting issuers electing to use the short-form prospectus. This will increase Alberta financial statement filing fees by approximately $200,000 and is reflected in the fiscal 2007 budget.

Other revenue sources are:

> **Investment income**, which includes interest and capital gains or losses from cash, bonds and equities. Investment income in fiscal 2006 was $900,000 greater than fiscal 2005 because of higher equity and bond fund rates of return that averaged 29% (15% in fiscal 2005) and 5.5% (5.4% in fiscal 2005), respectively.

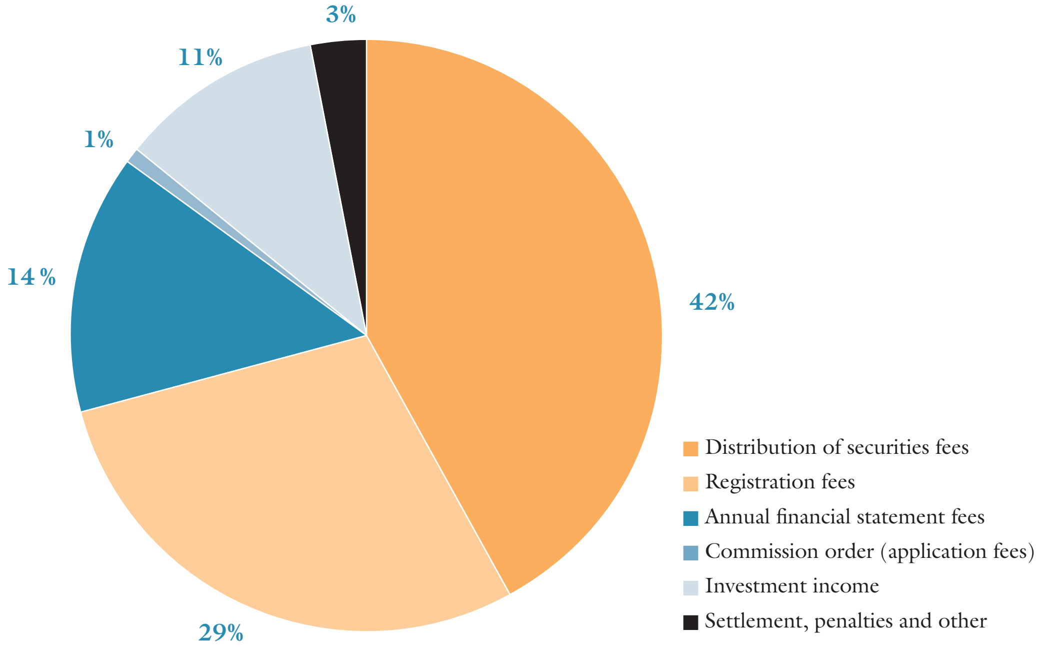
> **Application fees (Commission orders)** are paid in the amounts of $150, $300 or $500, depending on the type of application. Fees were paid in connection with the approximately 1,000 applications processed in fiscal 2006. The Commission expects application frequency will continue to decline as provincial securities policies and processes are further harmonized.

> **Administrative penalties and settlement cost recoveries** are discretionary, depending on the circumstances of specific cases, and vary from year to year. Settlements and administrative penalties revenues of $500,000 in fiscal 2006 include settlements of $50,000 and administrative penalties of $449,000. This compares with $436,000 for the prior year and a historic five-year average of approximately $387,000.

Administrative penalties revenue accumulates as restricted cash and is segregated from other assets because of restrictions on the use of these funds. The *Securities Act* (Alberta) allows administrative penalties revenue to be used to fund certain expenses to educate investors and enhance their knowledge about the operation of the securities markets. In fiscal 2006, invested funds arising from administrative penalties earned interest of $24,000, while expenses of $396,000 were deducted, principally for eligible investor education program costs. Restricted cash, composed of interest-bearing deposits, was $895,000 at fiscal year-end.

The mutual fund industry is a significant contributor to Commission revenues. There are approximately 2,150 active mutual fund issuers (included in the reporting issuer population of 6,166) and more than 10,000 salespersons (included in the 25,000 salesperson total) in Alberta. Revenues related to mutual funds in fiscal 2006 included fees of: $2,400,000 from annual mutual fund prospectus filings, approximately $2,000,000 from mutual fund prospectus distributions, and $700,000 from exempt distributions; $600,000 from mutual fund annual financial statement filing fees; and approximately $2,700,000 from mutual fund registration fees. These totaled $8,400,000 or 44% of total fee revenues.

Fiscal 2006 Actual Revenue Analysis



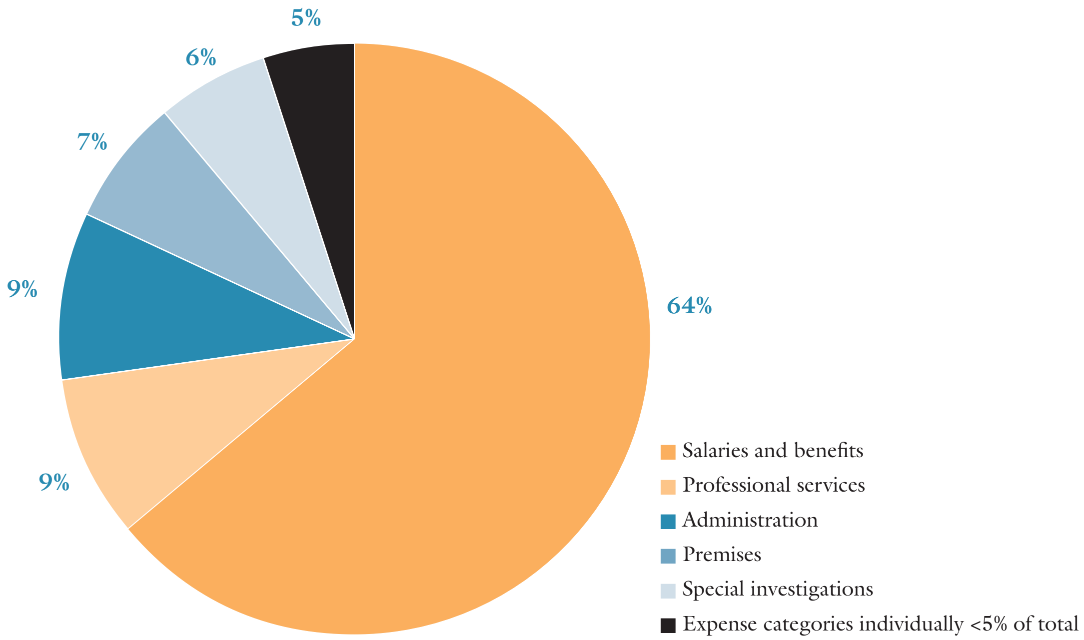
Fee revenue sensitivity > During fiscal 2006, approximately 32% or $6,100,000 (fiscal 2005 – 28% or $5,225,000) of total revenue from fees was derived from fees paid on completion of a distribution. This is 10% higher than average because of significant activity within the Alberta capital markets and in particular the oil and gas sector. 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 activity. 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 is deferred an average of six months from sale date. There is, therefore, always a lag between the receipt of mutual fund fees and changes in mutual fund sales.

When equity market values are rising, Commission distribution revenues also increase because of increases in public and private securities distributions and increased mutual fund sales. While increased equity market activity and valuation swings have an impact on Commission revenues, the impact is not proportionately as large, with only 25-30% of revenues directly affected. Prospectus filing fees for 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)	F2006 Budget	F2006 Actual	F2005 Actual	F2004 Actual
Salaries and benefits	$ 13,935	$ 12,821	$ 12,191	$ 11,363
Professional services	1,893	1,761	1,586	2,179
Administration	2,255	1,840	1,619	1,620
Premises	1,422	1,435	1,347	1,315
Amortization	588	622	541	519
Investor education	600	396	360	514
Special investigations	—	1,268	296	—
Contingency	2,070	—	—	—
Total expenses	**$ 22,763**	**$ 20,143**	**$ 17,940**	**$ 17,510**

Fiscal 2006 Actual Expense Analysis



Expense Analysis

Expenses in fiscal 2006 increased 12% to $20,143,000 from $17,940,000 in fiscal 2005, primarily due to staffing and compensation increases of $630,000 and special investigations of $1,268,000.

Salaries and benefits accounted for 64% of operating expenses (fiscal 2005 – 68%). There was an average 117 full-time staff during the year (fiscal 2005 – 119). Because professional staff is recruited from legal firms, accounting firms, the securities industry and other regulators, their salaries must be competitive. The Commission made market-based adjustments during fiscal 2006 that reflect the robust Calgary employment market for professionals. Compensation includes a performance-based incentive program that represents 5.3% of total salary and benefit costs.

Salary and benefit costs increased 5% to $12,821,000 (fiscal 2005 – $12,191,000) because of merit increases of 3.5%, benefit cost increases, retirement allowances and mid-year market adjustments to professional staff compensation.

Professional services > Professional service expenses increased $175,000 from the previous year's levels and include charges for outsourced Investment Dealers Association of Canada ("IDA") registration that increased $40,000, professional service contracts for litigation support and specialized corporate services, and project-related costs of the Canadian Securities Administrators ("CSA") operations that increased $130,000 because fiscal 2005 included a one-time cost recovery of $120,000.

The Commission, 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. In fiscal 2006, the Commission contributed $50,000 (fiscal 2005 – $45,000) toward the cost of the Secretariat and $54,000 (fiscal 2005 – $53,000) for the systems office. Total CSA spending on projects was $900,000 (fiscal 2005 – $890,000), of which the Commission contributed $90,000 (fiscal 2005 – $89,000).

Administration > Administration costs increased $220,000 in fiscal 2006 primarily because of incremental costs for staff recruitment, increased travel for national policy development and additional library resources. The administration cost category includes advertising, insurance, freight and postage, rental equipment, telephones and communications, repairs and maintenance, member fees, business consultation, audit fees, materials and supplies and travel. Most travel expenses relate to coordinating with other CSA jurisdictions on national projects, policy research and rule formulation.

Special investigations > Special investigation costs resulted from an investigation undertaken by the Independent Commission Members at the direction of the Minister of Finance and subsequent related projects. Costs included: $468,000 ($38,000 in fiscal 2005) of fees for independent professional reviews of enforcement, personnel management and information technology business processes; $424,000 ($70,000 in fiscal 2005) of legal fees advising Members on Commission document confidentiality, wrongful dismissal and business process findings; $233,000 ($170,000 in fiscal 2005) of legal cost indemnification for Commission officers; and $143,000 ($18,000 in fiscal 2005) of incremental Member fees and expenses for managing these processes.

2006 BUDGET

The fiscal 2006 budget approved by Alberta's Minister of Finance includes a contingency of $2,070,000 less a vacancy reserve of $140,000 (net $1,930,000) for unplanned expenses and revenue shortfalls. The contingency was not used in fiscal 2006 because revenues exceeded budget, and expenses, including Commission authorized incremental expenses during the year, were less than budget. During fiscal 2006, the Commission approved additional expenses of $1,350,000 for special investigations initiated by the Minister of Finance and undertaken by the Independent Members, $70,000 for professional assistance in refining procedures related to privacy legislation, $142,000 for the staff bonus pool, $90,000 annually for additional leased space commencing in late fiscal 2006, and $180,000 for leasehold renovation and furniture to accommodate additional staff. Construction delays during fiscal 2006 required extension of the capital expenditures approval into fiscal 2007, with a requirement for $325,000 of additional leasehold and furniture capital expenditures. The additional fiscal 2006 operating cost approvals were offset by under expenditure in budgeted expenses that were not required because of certain project deferrals and staff vacancies.

FISCAL 2006 BUDGET TO ACTUAL VARIANCES

Actual expenses for fiscal 2006 of $20,143,000 were $550,000 less than budget, exclusive of the net budget contingency.

Expenses that were less than budget include:

> Professional services costs > Certain information technology and CSA projects were deferred, while others, including risk assessment, continuous disclosure review and capital markets research, were less expensive than planned.

> Salaries and benefits > Compensation costs were less than budget because of an average 15-position vacancy during the year.

> Administration > Costs were less than budget, primarily because of a focus on cost control by senior management in all areas of administrative expenditure, and fewer hearing days than forecast because of rescheduling and the accelerated conclusion of certain enforcement proceedings.

> Investor Education > The Commission did not proceed with a portion of the intended investor education program in fiscal 2006, resulting in less expenditure than budgeted.

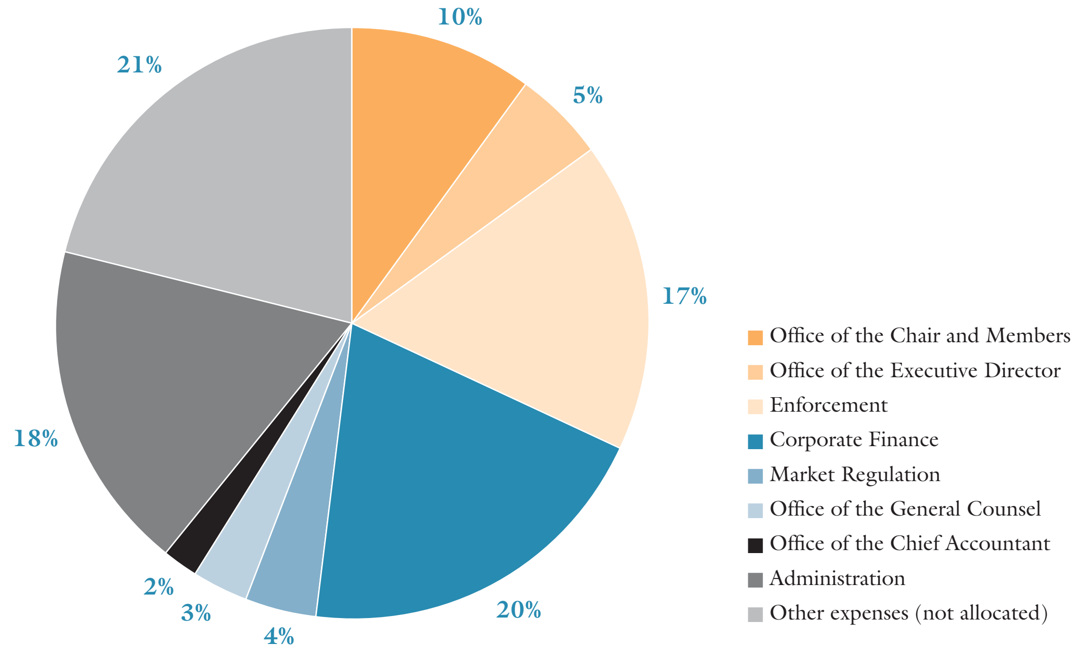
DEPARTMENT EXPENSES

($ Thousands)	**F2006**		F2005	F2004
	Budget	Actual	Actual	Actual
Office of the Chair and Members	$ 2,122	$ 2,069	$ 2,184	$ 1,832
Office of the Executive Director	934	920	638	989
Enforcement	3,436	3,415	2,965	3,004
Corporate Finance (Note 1)	4,768	3,973		
Market Regulation (Note 1)	1,084	844		
Capital Markets (Note 1)			3,033	2,664
Legal Services and Policy Development (Note 1)			1,674	1,737
Office of the General Counsel	507	519	393	352
Office of the Chief Accountant	433	432	415	336
Administrative (Note 2)				
Corporate Resources (Note 2)	2,698	2,488		
Communications (Note 2)	845	738		
Financial Services (Note 2)	407	443		
Administrative total (Note 2)	3,950	3,669	3,215	3,581
Other expenses (not allocated)	5,529	4,302	3,423	3,015
Total	**$ 22,763**	**$ 20,143**	**$ 17,940**	**$ 17,510**

Note 1 > The Capital Markets and Legal Services and Policy Development departments were restructured in fiscal 2006, resulting in two new departments: Corporate Finance and Market Regulation. The new departments combine policy development and compliance review responsibilities for reporting issuer and SRO oversight.

Note 2 > The Administrative Services department was restructured in fiscal 2006, resulting in three new departments: Corporate Resources, Communications and Financial Services.

Fiscal 2006 Department Expenses



Department Expenses

Office of the Chair and Members expenses are primarily salaries (as reported in Schedule A of the financial statements) of the Chair and the two Vice-Chairs, each of whom is a full-time Member of the Commission. Members' fees result from their attendance at monthly Commission and related committee meetings, and securities legislation exemptive relief applications and hearings. Cost reductions are primarily the result of a reduction in the Chair's non-cash pension benefit accrual in fiscal 2006 of $107,000 and variability in Members' costs. Members' fees are unpredictable because the duration and number of hearings are not easily forecast. Professional services costs and related Member fees for Independent Members' special investigations are reported separately as special investigation costs.

Office of the Executive Director expenses include CSA payments. The increase in fiscal 2006 CSA costs is a result of a one-time "L'Autorité des marchés financiers du Québec" ("AMF")" payment to the CSA for use of the National Registration Database ("NRD") system in fiscal 2005. This payment reduced the Commission's CSA costs in fiscal 2005 by approximately $120,000. In addition, a staff retiring allowance increased compensation costs in fiscal 2006.

Enforcement expenses increased in 2006 because of additional staff and marketplace compensation adjustments.

Corporate Finance is a new Commission department, combining the former Capital Markets and Legal Services and Policy Development departments and an Oil and Gas team. Corporate Finance comprises securities analysts, legal counsel, securities review officers, oil and gas specialists, a mutual fund analyst, a compliance officer, statutory filings analysts, and administrative support staff. Corporate Finance is responsible for all aspects of corporate finance, including policy development, applications for exemptive relief, continuous disclosure filings, and securities distributions. Costs were less than budgeted in fiscal 2006 because of staff vacancies during the year.

Market Regulation is a new department responsible for the registration of dealers and other market participants, registration-related policy development, and oversight of self-regulatory organizations. Members of this group include examiners, registration officers, legal counsel and administrative support staff. Costs were less than budgeted in fiscal 2006 because of staff vacancies during the year.

Costs of the **Office of the General Counsel** in fiscal 2006 reflect compensation increases and additional staff resulting from the reorganization.

The **Corporate Resources** department provides the services for the Commission's information technology, human resources and administrative operations. This department emerged from a reorganization of the former Administrative Services department that also resulted in the creation of the Financial Services and Communications and Investor Education departments.

Communications and Investor Education manages internal and external communications, including media relations, and is also responsible for the Commission's investor education programs.

Financial Services is responsible for financial transaction processing, financial reporting and budget preparation.

CAPITAL EXPENDITURES

Capital expenditures during fiscal 2006 included:

Leasehold improvements	$ 103,000
Information technology	278,000
Office furniture and equipment	33,000
Total	**$ 414,000**

Leasehold improvements and office furniture and equipment > Office leasehold renovations were undertaken to reconfigure office space for departmental reorganization, accommodate additional staff and provide office furnishings.

Information Technology > Expenditures include replacement desktop computers, network servers, communication equipment, scanning disk capacity additions, related software upgrades and additional storage devices.

2007 Capital Budget > Capital expenditures approved for fiscal 2007 include:

- $430,000 for information technology software upgrades, new desktop equipment, scanning disk capacity additions and communication equipment, and
- $465,000 for leasehold renovation and related office furniture and communications equipment for additional leased space, reconfiguration of existing space and new telephone system technology.

These renovations will also accommodate nine additional staff included in the fiscal 2007 budget.

Total planned expenditures of $895,000 include $570,000 of capital in the provincially approved budget and an additional $325,000 approved by the Commission for fiscal 2007. The additional amount was necessary because of changes to the Commission's space requirements following provincial budget finalization.

ASSETS AND LIABILITIES

Accounts and advances receivable > Accounts receivable at the end of March 2006 were $98,000 and include a Canada Revenue Agency receivable (over-paid withholdings) and employee loans for computer acquisitions.

Investments > The Commission's investments are managed by Alberta's Ministry of Finance, which has responsibility for provincial fund management. The Commission's investment policy provides guidance on the purpose, size, access, management and annual income of its investments. The policy is subject to annual review by the Commission's Audit Committee and any changes require Commission approval. During fiscal 2006, the Audit Committee, in consultation with Commission management and the investment manager, clarified the investment policy to fix the Commission's investment market value asset allocation at 25% equities, 75% bonds and a small residual cash balance. This change reflects the original intent of the authors of the investment policy and is consistent with best-practice asset allocation processes as explained by the provincial investment manager. The Commission approved the amended investment policy. Principal features continue to include:

- Size > The Investment Fund should be between 50% and 100% of the Commission's average of forecast expenses for the current and subsequent year. This range is forecast as $10,750,000 to $21,500,000 during fiscal 2007. The year-end investment balance forecast is $21,100,000.
- 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 5.5 % in fiscal 2006, compared with 5.4% in the prior year.
  - *Equity funds* > The average rate of return (based on market value) for the equity funds was 29.4%, compared with 15% in the prior year.
  - *Money market funds* > These returned an average 4.2% in fiscal 2006 and 3.7% in the prior year.

While investments are classified as non-current because of their long-term retention objective, they can be accessed on one month's notice. For fiscal 2007, Commission investments will be drawn down to fund operations during the first nine months of fiscal 2007 and then increased in the final quarter. The forecast investment balance achieves the Commission's policy target of 50-100% of forecast expenses. In addition, the Commission has access to approximately $895,000 of restricted cash for specific investor-education initiatives, which, for fiscal 2007, are estimated at $600,000.

Investment income for the fiscal 2007 budget is projected as $1,000,000 using rates of return averaging 5% for bonds and 7% for equities and an average total invested balance of approximately $20,000,000. Budget forecasts are prepared six months in advance of year-end and do not reflect incremental fees during the last six months of the fiscal year, which account for a higher year-end investment balance than forecast for budget purposes. Investment allocations for fiscal 2006 are approved as 75% bonds and 25% equities within a rebalancing range of +/- 5%. Using the 10-year Government of Canada bond return rate of 4.25% at March 31, 2006 as a benchmark, a 1% increase in this rate reduces the market value of the Commission's bond investments by approximately $3,300,000 and results in an investment loss, net of interest income, of approximately $2,400,000 during a full fiscal year. If the interest rate change occurs during the year, the book value loss is less because it is prorated over a future period and not marked to market in the period of valuation change. The average investment balance reflects transfers to and from investments during the year to meet fluctuations in quarterly cash flows.

Current liabilities > Funds held for other participants of $4,000 represent cash received and held for a national systems project, the Market Integrity Computer Analysis ("MICA").

Lease inducements > Remaining lease inducements of $618,000 arise from an office lease with an eight-year term commencing April 1, 2003. The Commission received final inducement payments receivable of $389,000 in fiscal 2006 (fiscal 2005 – $199,000) from this lease.

Accrued benefit liability > The accrued benefit liability represents future obligations relating to retirement plans established for certain senior management of the Commission. Expenses are based on actuarial valuations and management's estimation of membership changes between valuation updates. Payments of $51,000 are anticipated in fiscal 2007 and recorded in current liabilities. An actuarial plan valuation was completed for the three-year period commencing April 1, 2006.

Commitments — SEDAR operations agreement > CDS INC. ("CDS") operates the System for Electronic Document Analysis and Retrieval ("SEDAR") electronic filing and payment system on behalf of the CSA under an August 1, 2004 agreement. The Alberta Securities Commission, as one of the agreement signatories, commits to pay CDS 11.7% of any shortfall from SEDAR system operating costs that exceed revenues. Alternatively, CDS must pay the CSA SEDAR revenues in excess of system operating costs ("surplus"). The surplus is not divisible; the CSA owns it as a group. At March 31, 2006, the Ontario Securities Commission ("OSC") held in trust $8,865,000. This amount represents the SEDAR surpluses generated during the November 1, 2002 to October 31, 2005 period and interest earned. The principal CSA administrators, including the Commission, have agreed that SEDAR surplus amounts can only be used to offset any shortfall in SEDAR revenues, develop or enhance the systems of SEDAR and the System for Electronic Disclosure by Insiders ("SEDI"), and reduce SEDAR fees.

QUARTERLY RESULTS SUMMARY

($ thousands)	**F2006**				F2005			
	Q4 (Jan-Mar)	Q3 (Oct-Dec)	Q2 (July-Sept)	Q1 (Apr-June)	Q4 (Jan-Mar)	Q3 (Oct-Dec)	Q2 (July-Sept)	Q1 (Apr-June)
Revenues								
Fees and other	$ 9,653	$ 3,170	$ 2,538	$ 4,508	$ 9,950	$ 2,589	$ 2,686	$ 4,170
Investment income	631	352	948	555	387	490	391	300
	10,284	3,522	3,486	5,063	10,337	3,079	3,077	4,470
Expenses								
Salaries and benefits	3,465	3,097	2,941	3,318	3,383	2,897	2,954	2,957
Other	2,254	1,306	1,694	2,068	2,109	1,133	1,058	1,449
	5,719	4,403	4,635	5,386	5,492	4,030	4,012	4,406
Net income (loss)	$ 4,565	$ (881)	$ (1,149)	$ (323)	$ 4,845	$ (951)	$ (935)	$ 64
Investments	$23,316	$20,008	$19,666	$20,327	$ 19,790	$ 16,216	$ 17,232	$ 17,547
Cash	$ 2,542	$ 669	$ 1,837	$ 2,255	$ 3,349	$ 791	$ 708	$ 1,285
Restricted cash	$ 895	$ 846	$ 840	$ 834	$ 829	$ 949	$ 943	$ 937

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 $5,400,000 are received in January and account for the increase in fourth-quarter fee revenue.

Other expenses > Other expenses vary from quarter to quarter because of timing variability in the use of professional services.

CONTRACTUAL OBLIGATIONS

Commitments to outside organizations with respect to contracts in place as at March 31, 2006, amounted to $8,850,000 (fiscal 2005 – $10,450,000). These commitments become expenses of the Commission when the terms of the contracts are met.

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

2006-07	$ 1,646
2007-08	1,675
2008-09	1,660
2009-10	1,650
2010-11	1,647
Thereafter	–
Total	$ 8,278

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

FINANCIAL INSTRUMENTS

The Commission'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 Note 4 and schedules B, C and D of the Commission's financial statements.

FEE RESTRUCTURING

The Commission's fees continue to be among the lowest in Canada and were last subject to revision in 1997 when fees were reduced an average 20%. Fees have not been increased since 1993.

During fiscal 2004, the Commission undertook a fee review to determine options for a fee increase. A fee increase is considered necessary to ensure that projected Commission losses do not exceed the Alberta government's loss tolerance for the Commission and the Commission is adequately financed to fulfill its mandate. The Commission's current budget includes graduated fee increases of 8% effective October 1, 2006, 7% effective April 1, 2007, and 5% effective April 1, 2008. These fee increases reflect a reasonable inflationary expectation and provide for the continuing cost of staff increases in fiscal 2007.

Fee increases require stakeholder consultation and amendment of the Fee Regulation by an Order in Council. The fee change process is expected to extend over the June to September 2006 period.

RELIANCE ON CDS INC.

CDS INC. operates a number of major systems on behalf of the CSA and the Commission. Approximately 92% (fiscal 2005 – 92%) of the Commission's fee revenue is collected through SEDAR and the NRD system. CDS recovers the costs to operate the systems by charging filers user fees in addition to the fees collected for the Commission 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. Should CDS become unwilling or unable to operate one or all of these systems, the Commission and the CSA would need to explore options to continue operating these systems.

RISK MANAGEMENT INITIATIVES

The Commission has substantially completed a Business Resumption Plan ("BRP"), which is designed to allow the continuation of critical regulatory services should the Commission 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 selected and a preliminary test of the offsite facility was completed in fiscal 2006. The test has provided useful data to further strengthen the recovery plan and support a follow-up test in fiscal 2007.

During fiscal 2006, the Commission completed a project that assessed Commission-wide risks and existing mitigation strategies. Quarterly risk assessment reports are planned for fiscal 2007 to enable continued monitoring of risk mitigation. Areas deemed as high risk include *Securities Act* (Alberta) contraventions, inaccurate continuous disclosure filings by reporting issuers, a loss of public confidence in the Commission and crisis management. The Commission believes that existing business processes are well designed to minimize these risks and that these processes will be further strengthened following implementation of recommendations from a number of organizational reviews carried out during fiscal 2006. Furthermore, fiscal 2007 plans for periodic reporting on risk containment measures 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 Commission that outlines the ongoing roles, responsibilities and accountability relationships between the two parties. The MOU requires Ministerial approval of annual Commission budgets and any subsequent changes that materially modify the budget, possible inclusion of a contingency provision in the budget not to exceed 10% of expenses, and quarterly Commission reporting to the Minister of actual financial results and budget updates.

FISCAL 2007 OUTLOOK

Revenues > The Commission has budgeted fiscal 2007 revenues of $19,787,000 that include selective mid-year fee increases of 8% and continued 15% growth in fees from mutual fund and exempt security distributions in Alberta. The fees budget also includes $300,000 of receipts from administrative penalties and settlement cost recoveries that are less than the five-year historical average of approximately $400,000.

Expenses > Commission expenses are budgeted at $25,177,000, an increase of $5,034,000 from fiscal 2006 actual expenses of $20,143,000. The projected increase is primarily a result of:

- compensation adjustments averaging 4% or $550,000, a further $900,000 (including benefits) for nine additional staff primarily for enforcement and continuous disclosure processes, and a reduced average vacancy rate accounting for an additional $1,000,000;
- a contingency provision of $2,289,000; and
- $300,000 for professional services, administration and investor education costs that were not incurred in fiscal 2006 because certain projects were delayed.

Loss > An operating loss is forecast of $5,390,000 including full contingency expenditure of $2,289,000. Actual experience over the last three 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 security market professionals. In addition, the Commission may be required to increase staff 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 Commission operates primarily on a cash basis. Cash requirements for fiscal 2007 are estimated as $3,100,000. The cash requirement approximates the 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 fiscal 2007 are based on the Commission's experience and assessment of historical and future trends and the application of key assumptions relating to future events. Factors that could cause actual results to differ materially include:

- capital market volatility and the impact on distribution of securities fee revenues;
- the timing and magnitude of the Commission's fee restructuring plans that are subject to both industry consultation and government authorization;
- 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"). Financial information contained elsewhere in this Annual Report is consistent with the financial statements. Management designs and maintains internal control systems over financial reporting to provide reasonable assurance that the Commission's financial reporting is reliable and accurate and that the preparation of financial statements is in accordance with GAAP. During fiscal 2005, management documented financial reporting control systems, evaluated the design of financial reporting controls, reported to the Audit Committee and concluded that financial reporting controls are well designed. Management undertook financial control testing during fiscal 2006 that confirmed the existence and effective operation of selected key control processes over financial reporting. The Auditor General of Alberta has examined the financial statements. The Commission's Audit Committee meets with management and with the Auditor General to review issues relating to audit 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, 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 as at March 31, 2006 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 19, 2006

FCA
AUDITOR GENERAL

>> Financial Statements <<

March 31, 2006




Balance Sheet

Statement of Income and Retained Earnings

Statement of Cash Flows

Notes to Financial Statements

Schedule of Salaries and Benefits

Schedule of Investments in Fixed Income Securities

Schedule of Investments in Canadian Equities

Schedule of Investment Returns

Balance Sheet

As at March 31, 2006

($ Thousands)

Assets		**2006**		2005
Current				
Cash (Note 4)	$	2,542	$	3,185
Funds held for others (Note 9)		4		9
Accounts and advances receivable		98		77
Lease inducement receivable		_		389
Prepaid expense		112		102
		2,756		3,762
Non-current				
Restricted cash (Note 3)		895		829
Investments (Note 4)		23,316		19,790
Capital assets (Note 6)		1,913		2,124
Lease deposit		132		132
		26,256		22,875
Total assets	**$**	**29,012**	**$**	**26,637**

Liabilities and retained earnings				
Current				
Funds held for others (Note 9)	$	4	$	9
Accounts payable and accrued liabilities		1,612		1,649
Accrued vacation and benefit liabilities		635		667
Lease inducement (Note 7)		124		167
	$	2,375	$	2,492
Non-current				
Lease inducement (Note 7)		494		618
Accrued benefit liability (Note 8)		2,070		1,666
Total liabilities		4,939		4,776
Retained earnings (Note 3)		24,073		21,861
Total liabilities and retained earnings	**$**	**29,012**	**$**	**26,637**

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

Approved by the Members

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

Dennis A. Anderson, FCA, Member

Statement of Income and Retained Earnings

For the year ended March 31, 2006

($ Thousands)

	2006		2005
	Budget (Note 12)	Actual	Actual
Revenue			
Fees (Note 10)	$ 16,495	$ 19,285	$ 18,887
Investment income (Note 5)	893	2,486	1,568
Settlement cost recoveries (Note 10)	–	50	187
Conference fees	–	85	72
Revenue before administrative penalties	17,388	21,906	20,714
Administrative penalties revenue (Note 3)	–	449	249
Total revenue	**$ 17,388**	**$ 22,355**	**$ 20,963**
Expense			
Salaries and benefits	13,935	12,821	12,191
Professional services	1,893	1,761	1,586
Administration	2,255	1,840	1,619
Premises	1,422	1,435	1,347
Amortization	588	622	541
Investor education (Note 3)	600	396	360
Special investigations (Note 13)	–	1,268	296
Total expense	**20,693**	**20,143**	**17,940**
Budget contingency	2,070	–	–
Net income (loss)	**$ (5,375)**	2,212	3,023
Opening retained earnings		21,861	18,838
Closing retained earnings (Note 3)		**$ 24,073**	**$ 21,861**

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

Statement of Cash Flows

For the year ended March 31, 2006

($ Thousands)

Cash flows from operating activities		**2006**		2005
Cash receipts from fees and other	$	19,383	$	18,959
Cash receipts from settlement cost recoveries		50		187
Cash paid to and on behalf of employees		(12,356)		(11,753)
Cash paid to suppliers for goods and services		(5,476)		(5,043)
Special investigations (Note 13)		(1,476)		(71)
Investment income		2,486		1,568
Cash advanced to MICA project (Note 9)		(8)		(53)
Administrative penalties		449		249
Cash flows from operating activities		**3,052**		**4,043**
Cash flows from investing activities				
Lease inducement received		389		199
(Increase) decrease in restricted cash		(66)		103
Cash used in capital assets [1]		(492)		(348)
Cash used for investments		(3,526)		(2,532)
Cash returned from CSA for NRD funding		–		121
Cash used in investing activities		(3,695)		(2,457)
(Decrease) increase in cash		(643)		1,586
Opening cash		3,185		1,599
Closing cash	**$**	**2,542**	**$**	**3,185**

Supplemental cash flow information

[1] Additions to capital assets	$	(414)	$	(450)
Proceeds on disposal		3		3
(Decreases) increases in capital asset liabilities		(81)		99
	$	**(492)**	**$**	**(348)**

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

Notes to the Financial Statements

March 31, 2006

($ Thousands)

Note 1 > Nature of Operations

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

The Commission's investments are independently managed by the Alberta Investment Manager of the Province of Alberta. The Commission does not participate in capital market investment decisions or transactions.

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

Note 2 > Significant Accounting Policies

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

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

(a) Portfolio investments

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

Investments are recorded as of the trade date.

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

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

(b) Investment income

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

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

Income and expense from derivative contracts are included in investment income. Certain derivative contracts, which are primarily interest rate swaps and cross-currency interest rate swaps, are designated as hedges of market risks for the purposes of hedge accounting. Hedge accounting recognizes gains and losses from derivatives in the statement of income in the same period as the gains and losses of the security being hedged. As a result, income and expense from derivative contracts designated as hedges are recognized in income on an accrual basis with gains and losses recognized in income to the extent realized.

Where a hedge relationship is designated, the hedge is documented at inception. The documentation identifies the specific asset being hedged, the risk that is being hedged, the type of derivative used and the matching of critical terms of both the hedged security and the hedging derivative for the purpose of measuring effectiveness. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Derivative contracts not designated as hedges for purposes of hedge accounting, which are primarily bond index swaps, equity index swaps, equity index futures, forward foreign exchange contracts and credit default swap contracts, are recorded at fair value.

(c) Valuation of financial assets and liabilities

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

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

Fair values of investments held either directly by the Commission or by pooled investment funds are determined as follows:

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

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

Derivative contracts include equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts and equity index futures contracts. The value of derivative contracts is included in the fair value of the Commission's investment in the Canadian Dollar Public Bond Pool and Domestic Passive Equity Pooled Fund (see Note 4). The fair value of derivative contracts at the reporting date is determined by the following methods:

(i) Equity and bonds index swaps are valued based on changes in the appropriate market-based index net of accrued floating rate interest.

(ii) Interest rate swaps and cross-currency swaps are valued based on discounted cash flows using current market yields and exchange rates.

(iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

(iv) Forward foreign exchange contracts and equity index futures contracts are valued based on quoted market prices.

(d) Capital assets

Capital assets are recorded at cost.

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

Computer equipment and software	3 years
Furniture and equipment	10 years
Leasehold improvements	remaining lease term to March 2011

(e) Fees, administrative penalty and settlement cost recovery recognition

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

Administrative penalty and settlement cost recoveries are recognized when the decision is issued or agreement reached and the amounts are determined to be collectible.

(f) Employee future benefits

The Commission participates in the Public Service Pension Plan, a multi-employer defined benefit pension plan, with other government entities. This plan is accounted for as a defined contribution plan as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan. Pension costs included in these financial statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for the service relating to prior years.

The Commission maintains a Supplemental Pension Plan (the "Plan") for certain designated executives of the Commission. The cost of the pension is actuarially determined using the projected benefit method pro-rated on services and management's best estimate of economic assumptions. Past service costs and actuarial losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the plan. Gains and losses arising from employee changes are recognized in the year of change. The average remaining service period of active employees of the Plan is six years.

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

(g) Lease inducement

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

(h) Use of estimates

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

(i) Restricted cash

The *Securities Act* (Alberta) restricts the use of revenues received by the Commission from administrative penalties to certain operating expenditures that educate investors and enhance the knowledge of the securities market operation.

Note 3 > Restricted Cash and Retained Earnings

Retained earnings include $895 ($829 in fiscal 2005) of restricted cash, as described in Note 2(i).

Changes in restricted cash include:

($ Thousands)

Restricted cash increase (decrease)	**2006**	2005
Administrative penalties	$ 620	$ 251
Less: uncollectible amounts	(195)	(25)
Net realizable value	425	226
Interest income and other	24	23
	449	249
Plus: Accountant's conference income	13	8
Less: Eligible education expenses	(396)	(360)
Restricted cash increase (decrease)	**$ 66**	**$ (103)**

Note 4 > Cash and Investments

(a) Summary	**2006**			2005		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	$ 2,542	$ 2,542		$ 3,185	$ 3,185	
Investments						
Deposit in the CCITF	$ 60	$ 60	0.3	$ 56	$ 56	0.3
Fixed-income securities (Schedule B)	17,697	17,441	74.0	14,757	14,709	72.8
Canadian equities (Schedule C)	5,559	6,060	25.7	4,977	5,433	26.9
	$23,316	**$23,561**	**100.0**	**$ 19,790**	**$20,198**	**100.0**

Cash consists of demand deposits in the Consolidated Cash Investment Trust Fund ("CCITF"). The CCITF is administered by the Ministry of Finance with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio comprises high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2006, securities held by the CCITF have an average effective market yield of 3.96% per annum (2005: 2.79% per annum).

($ Thousands)

The Commission's investments are held in pooled investment funds established and managed by the Ministry of Finance. Investment funds have a market based unit value that is used to allocate income to participants and to value purchases and sales of pool units. As at March 31, 2006, the Commission's percentage ownership, at market, in pooled investment funds is 0.18% or less as follows:

	% Ownership	
	2006	2005
Internally managed investment pools		
Canadian Dollar Public Bond Pool	0.18	0.17
Canadian Pooled Equity Fund	0.15	0.17
Domestic Passive Equity Pooled Fund	0.12	0.13
Externally managed investment pools		
Canadian Large Cap Equity Pool	0.05	0.03

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

(ii) The Domestic Passive Equity Pooled Fund ("Pool") is managed using a passive approach with the objective of providing investment returns comparable to the Standard and Poors/Toronto Stock Exchange ("S&P/TSX") Index. The portfolio comprises publicly traded equities in Canadian corporations similar in weights to the S&P/TSX Index. To enhance investment returns with no substantial increase in risks, the pool uses structured investments such as domestic equity index swaps. The Pool's investments in units of the Floating Rate Note Pool ("FRNP") are used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in foreign equities, domestic equities and bonds. Through the use of interest rate swaps, FRNP provides investment opportunities in high-quality floating-rate instruments with remaining term-to-maturity of five years or less.

(iii) The Canadian Pooled Equity Fund is managed with the objective of providing competitive returns comparable to the total return of the S&P/TSX Index. The portfolio comprises publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(iv) The Canadian Large Cap Equity Pool consists of multiple portfolios of publicly traded Canadian equities. An external manager actively manages each portfolio with expertise in the Canadian large cap equity market. The performance objective is to provide returns higher than the total return of the TSX index over a four-year period. Return volatility is reduced through multiple manager investment style and market capitalization focus.

(b) Investment risk management

Income and financial returns of the Commission are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk comprises interest rate risk and market risk. Interest rate risk relates to the possibility that the investments will change in value due to fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn an optimal financial return at an acceptable level of risk, management of the Commission has established an investment policy, which is reviewed annually. Risk is reduced through asset class diversification, diversification within each asset class, and quality and duration constraints on fixed-income instruments. Controls are in place respecting the use of derivatives (see Note 4 (c)).

(c) Derivative contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Ministry of Finance uses derivative contracts held within pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

A swap is a contractual agreement between two counter-parties to exchange a series of cash flows based on a notional amount.

An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index.

For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount.

Cross-currency interest rate swaps are contractual obligations in which the principal amounts of Canadian fixed-income securities denominated in foreign currency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counter-parties exchange fixed to fixed and fixed to floating interest rate cash flows in the swapped currencies.

A credit default swap allows counter-parties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counter-party to a second counter-party in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Equity index futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of the specified equity index.

There are underlying securities supporting all swaps. Leveraging is not allowed.

($ Thousands)

The following is a summary of the Commission's proportionate share of the notional amount and fair value of swap contracts issued by pooled funds as at March 31, 2006:

	Maturity			**2006**		2005	
	Under 1 year	1 to 3 years	Over 3 years	Notional Amount	Net Fair value(a)	Notional amount	Net Fair value(a)
Equity index swap contracts	77%	23%	—	$ 2,823	$ 60	$ 2,067	$ 52
Cross-currency interest rate swaps	14%	22%	64%	1,342	74	1,651	(46)
Interest rate swap contracts	51%	45%	4%	2,986	(6)	868	(24)
Bond index swap contracts	100%	—	—	695	25	286	2
Credit default swap contracts	1%	1%	98%	5,412	11	260	3
Forward foreign exchange contracts	100%	—	—	134	(1)	91	7
Equity index futures contracts	100%	—	—	612	11	—	—
				$14,004	**$ 174**	**$ 5,223**	**$ (6)**

(a) Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value).

(b) The method of determining the fair value of derivative contracts is described in Note 2(c).

Note 5 > Net Investment Income

	2006	2005
Net realized gain on investments including derivative income	$ 1,448	$ 754
Interest	983	766
Dividends	60	53
Other	(5)	(5)
	$ 2,486	**$ 1,568**

Note 6 > Capital Assets

	2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Computer equipment and software	$ 2,129	$ 1,642	$ 487	$ 555
Furniture and equipment	545	304	241	259
Leasehold improvements	2,481	1,296	1,185	1,310
	$ 5,155	**$ 3,242**	**$ 1,913**	**$ 2,124**

($ Thousands)

Note 7 > Lease Inducement

Lease	Term	Current inducement	Future inducement
Calgary	8 years, ending March 2011	**$ 124**	**$ 494**

Note 8 > Accrued Benefit Liability and Pension Expense

The accrued benefit liability includes:

	2006	2005
Retirement Plan	$ 198	$ 190
Supplemental Pension Plan	1,923	1,523
Less: current portion	(51)	(47)
	$ 2,070	**$ 1,666**

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

	2006	2005
Public Service Pension Plan	$ 325	$ 277
Registered Retirement Savings Plan	274	287
Retirement Plan	29	29
Supplemental Pension Plan	426	438
	$ 1,054	**$ 1,031**

(a) Public Service Pension Plan

The Commission participates in the Public Service Pension Plan (the "PSPP"). At December 31, 2005, the PSPP reported a deficiency of $187,704 and in 2004 a deficiency of $450,068.

(b) Registered Retirement Savings Plan

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

(c) Retirement Plan

The Commission has a retirement plan for an executive who is now retired. The provisions of the retirement plan were established pursuant to a written agreement. The retirement plan provides pension benefits based on a fixed schedule of payments over a 15-year period ending in August 2017. Accrued benefits are payable on death. The retirement plan is not pre-funded and the benefits are paid ($21 in fiscal 2006, $21 in fiscal 2005) from the assets of the Commission as they come due.

(d) Supplemental Pension Plan

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

($ Thousands)

The Plan provides pension benefits to the designated executives that are defined by reference to earnings in excess of the limit ($105 effective January 1, 2006, and $100 effective January 1, 2005) imposed by the *Income Tax Act* on registered pension arrangements.

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

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

Actuarial valuations of the Plan are undertaken every three years. At April 1, 2006, an independent actuary performed a Plan valuation. The next valuation is scheduled for April 1, 2009. The results of the actuarial valuation and management's cost estimates as they apply to the Plan are summarized below:

Balance sheet at March 31	**2006**	2005
Market value of assets	$ —	$ —
Accrued benefit obligation	2,152	1,895
Unfunded obligation	2,152	1,895
Unamortized transitional obligation	(151)	(176)
Unamortized actuarial loss	(78)	(320)
Employee change liability estimate	—	124
Accrued benefit liability	**$ 1,923**	**$ 1,523**

Accrued benefit obligation		
Accrued benefit obligation at beginning of the year	$ 1,895	$ 1,391
Service cost	192	205
Interest cost	120	97
Assumption changes	85	—
Net actuarial loss (gain) plus benefits paid of $26 ($33 in fiscal 2005)	(140)	202
Accrued benefit obligation at end of the year	**$ 2,152**	**$ 1,895**

Pension expense		
The pension expense for the Plan is as follows:		
Service cost	$ 192	$ 205
Interest cost	120	97
Amortization of transitional obligation	26	26
Recognized actuarial losses during year	88	110
Pension expense	**$ 426**	**$ 438**

($ Thousands)

Actuarial assumptions for actuarial valuation of the Plan

The assumptions used in the 2006 actuarial valuation of the Plan are summarized below. The 2005 assumptions are based on the 2005 extrapolation of the Plan. The discount rate was established in accordance with the yield on long-term corporate bonds and applies to both the accrued benefit obligation and benefit costs. Other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on best estimate of the future experience of the plans.

	2006	2005
Discount rate, year-end obligation	5.4%	5.8%
Discount rate, net benefit cost prior year	5.8%	6.1%
Rate of inflation	2.50%	2.65%
Salary increases	4.00%	3.65%
Remaining service life ("EARSL")	6 years	5 years

Note 9 > Funds Held for Others

The Commission holds, in a separate bank account, $4 ($9 in fiscal 2005) in cash for participants in the Market Integrity Computer Analysis ("MICA") system upgrade project. The Commission has recorded a total project expense of $14 ($164 in fiscal 2005). Funds are disbursed as payments are made for approved expenditures. Expenditures, if any, in excess of the amounts held for others and the Commission's contribution, require further participant approval and contribution. The current phase of the MICA project will assist participants in the analysis of trading activities and was completed in 2006. A decision on future system development is pending.

Note 10 > Fees and Settlement Cost Recoveries

		2006		2005
Distribution of securities	$	9,372	$	9,178
Registrations		6,497		6,109
Annual financial statements		3,125		3,300
Orders (Applications)		291		300
Total fees	**$**	**19,285**	**$**	**18,887**
Settlement cost recoveries	$	82	$	212
Less: uncollectible amounts		(32)		(25)
Net realizable value	**$**	**50**	**$**	**187**

Note 11 > Commitments and Contingencies

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

($ Thousands)

(a) Commitments

Premises lease and equipment rental > Commitments arising from contractual obligations associated primarily with the eight-year lease of premises and three-year average rental of office equipment at March 31, 2006, amounted to $8,278 ($10,450 in fiscal 2005). These commitments become expenses of the Commission when the terms of the contracts are met.

2006-07	$	1,646
2007-08		1,675
2008-09		1,660
2009-10		1,650
2010-11		1,647
Thereafter		—
Total	**$**	**8,278**

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

SEDAR operations agreement > CDS INC. ("CDS") operates the SEDAR electronic filing and payment system on behalf of the CSA under an August 1, 2004, agreement. The Commission, as one of the agreement signatories, commits to pay CDS 11.7% of any shortfall from SEDAR system operating costs that exceed revenues. Alternatively, CDS must pay to CSA SEDAR revenues in excess of system operating costs ("surplus"). The surplus is not divisible; the CSA owns it as a group. CDS payments received from SEDAR surpluses to October 31, 2005, and interest earned totals $8,865 at March 31, 2006. This amount is held in trust by the Ontario Securities Commission. The principal CSA administrators, including the ASC, have agreed that SEDAR surplus amounts can only be used to offset any shortfall in SEDAR revenues, develop or enhance the SEDAR and SEDI systems, and reduce SEDAR fees.

(b) Legal actions

The Commission is involved in various legal proceedings arising from its operations and regulatory activities, including a contingent liability with respect to a claim concerning the methodology used to calculate pension benefit payments under the PSPP. The claim has been filed jointly and severally against the Province of Alberta and the employers participating in the PSPP. Management considers the likelihood of liability under these proceedings not to be determinable and, accordingly, an estimate of any contingent loss cannot be made.

Note 12 > Budget

The Commission's budget was approved on January 19, 2005, and includes a contingency expense provision of $2,070 less a vacancy reserve of $140. A budget contingency provision of up to 10% of budget expenditures for unplanned expenses and revenue shortfalls is provided for in the Memorandum of Understanding between the Minister and the Commission. Commission members must approve any expenditure that is applied to the budget contingency.

Note 13 > Special Investigations

Special investigation costs resulted from an investigation undertaken by the Independent Commission Members at the direction of the Minister of Finance and subsequent related projects. These non-recurring costs included: $468 ($38 in fiscal 2005) of fees for independent professional reviews of enforcement, personnel management and information technology business processes; $424 ($70 in fiscal 2005) of legal fees advising Members on Commission document confidentiality, wrongful dismissal and business process findings; $233 ($170 in fiscal 2005) of legal cost indemnification for Commission officers; and $143 ($18 in fiscal 2005) of incremental Member fees and expenses for managing these processes.

Note 14 > Related Party Transactions

The Commission is related through common ownership to all provincial government ministries, agencies, boards, commissions and crown corporations. The Commission conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $71 ($60 in fiscal 2005).

Note 15 > Comparatives

Certain comparative figures have been reclassified to conform to their 2006 presentation.

SCHEDULE A

Schedule of salaries and benefits
For the year ended March 31, 2006

	Base Salary (1)	Cash Benefits (2)	Non-cash Benefits (3)	2006 Total	2005 Total
Chair, Securities Commission (4)	$ 433,614	$ 56,297	$ 111,002	$ 600,913	$ 698,386
Vice Chair, Securities Commission (4)	218,400	25,000	77,953	321,353	300,888
Vice Chair, Securities Commission (4)	218,400	30,000	51,040	299,440	253,519
Members (Independent)	466,735	—	—	466,735	367,848
Executives					
Executive Director	243,225	41,000	86,953	371,178	339,711
Director, Market Regulation (5)	150,360	37,805	48,838	237,003	242,797
Director, Corporate Finance (6)	51,484	22,082	60,020	133,586	229,978
Director, Enforcement	186,500	20,000	45,161	251,661	246,004
Director, Corporate Resources (7)	140,921	24,232	61,042	226,195	197,793
Chief Accountant	180,765	35,000	23,947	239,712	207,108
General Counsel (8)	182,734	38,774	29,230	250,738	227,082
Controller (9)	78,750	14,500	12,833	106,083	—

(1) Base salary includes regular base pay and Member compensation arising from meeting attendance and hearing and application panel participation. Member compensation includes $140,000 ($18,000 in fiscal 2005) recorded as special investigation costs.

(2) Cash benefits include bonuses, payments in lieu of vacation and Chair and Executive Director's automobile allowance.

(3) Employer's share of all employee benefits including pensions, registered retirement savings plan contributions, health and dental plans, group life insurance, employee and family assistance plan, disability plans, professional memberships, tuition, club memberships, worker's compensation and Supplemental Pension Plan.

(4) The Chair (three incumbents in fiscal 2006, one in fiscal 2005) and Vice Chairs are full time Commission Members. The Chair's compensation includes $88,000 ($195,000 in fiscal 2005) of accrued and unpaid Supplemental Pension Plan expense.

(5) The Director, Market Regulation was appointed in January 2006 and replaced the Director, Legal/Policy following reorganization. Amounts include a payment in lieu of vacation and Acting Director salary.

(6) The Director, Corporate Finance was appointed in March 2006 and replaced the Director, Capital Markets following reorganization. Amounts include a payment in lieu of vacation and three months of base salary.

(7) The Director, Corporate Resources replaced the Director, Administrative Services in September 2005. Amounts include a payment in lieu of vacation and Acting Director salary.

(8) Includes payment in lieu of vacation.

(9) The Controller was appointed to the Senior Management group effective September 1, 2005.

SCHEDULE B

Schedule of investments in fixed income securities
March 31, 2006
($ Thousands)

	Commission's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Deposit in the Consolidated Cash Investment Trust Fund	$ 108	$ 108	$ 90	$ 90
Public fixed-income securities				
Government of Canada direct and guaranteed	4,838	4,728	4,417	4,350
Provincial:				
Alberta, direct and guaranteed	107	103	8	9
Other, direct and guaranteed	2,963	3,094	3,259	3,419
Municipal	84	88	181	186
Corporate	7,957	7,779	5,323	5,196
Private fixed-income securities				
Corporate	1,405	1,306	1,373	1,353
	17,462	**17,206**	**14,651**	**14,603**
Accounts receivable and accrued investment income	374	374	175	175
Accounts payable and accrued liabilities	(139)	(139)	(69)	(69)
	235	235	106	106
	$ 17,697	**$ 17,441**	**$ 14,757**	**$ 14,709**

(a) Fixed income securities held as at March 31, 2006, have an average effective market yield of 4.7% per annum (fiscal 2005: 4.34% per annum) and the following term structure based on principal amounts:

	2006	2005
	%	%
under 1 year	2	3
1 to 5 years	34	38
5 to 10 years	33	31
10 to 20 years	12	12
over 20 years	19	16
	100	100

SCHEDULE C

Schedule of investments in Canadian equities

March 31, 2006

($ Thousands)

	Commission's share			
	2006		2005	
	Cost	Fair Value	Cost	Fair Value
Deposit and short-term securities	$ 36	$ 36	$ 38	$ 38
Public equities (a)(b)				
Financials	1,685	1,850	1,588	1,741
Energy	1,449	1,693	907	1,117
Materials	784	902	725	780
Industrials	334	370	260	287
Consumer discretionary	350	319	387	374
Telecommunication services	270	293	343	356
Information technology	288	262	321	314
Consumer staples	186	178	203	230
Health care	85	68	98	82
Utilities	52	49	72	79
	5,483	5,984	4,904	5,360
Receivable from sale of investments and accrued investment income	127	127	71	71
Accounts payable and accrued liabilities	(87)	(87)	(36)	(36)
	40	40	35	35
	$ 5,559	**$ 6,060**	**$ 4,977**	**$ 5,433**

(a) The Commission's effective net investment in Canadian public equities includes the fair value of deposits and floating rate notes, totalling $2,221,000 (fiscal 2005: $2,067,000), which are used as underlying securities to support the notional amount of Canadian equity index swap contracts.

(b) The industrial classification are those used by the Toronto Stock Exchange indices.

SCHEDULE D

Schedule of investment returns

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

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

Investment returns percentages for the Commission are as follows:

	One Year Return (loss)					Five-Year Compound Annualized Return
	2006	2005	2004	2003	2002	
Time-weighted rates of return						
Short-term fixed income	**4.2**	**3.7**	**4.2**	**2.9**	**4.0**	**3.8**
Scotia Capital 91-day T-Bill Index	*2.8*	*2.2*	*3.0*	*2.7*	*3.7*	*2.9*
Long-term fixed income	**5.5**	**5.4**	**11.7**	**9.5**	**5.7**	**7.5**
Scotia Capital Universe Bonded Index	*4.9*	*5.0*	*10.8*	*9.2*	*5.1*	*7.0*
Canadian equities	**29.4**	**15.0**	**36.6**	**(17.5)**	**n/a**	**n/a**
S&P/TSX Composite Index	*28.4*	*13.9*	*37.7*	*(17.6)*	*n/a*	*n/a*
Overall	**11.3**	**7.8**	**17.8**	**2.3**	**4.3**	**8.6**

> A BIG THANK YOU <

To all ASC employees who allowed their photographs to be used for this annual report.

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With a responsive, highly specialized staff, the ASC applies Alberta's securities laws to ensure investors have access to timely, accurate disclosure on which to base their investment decisions.

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