>> 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.

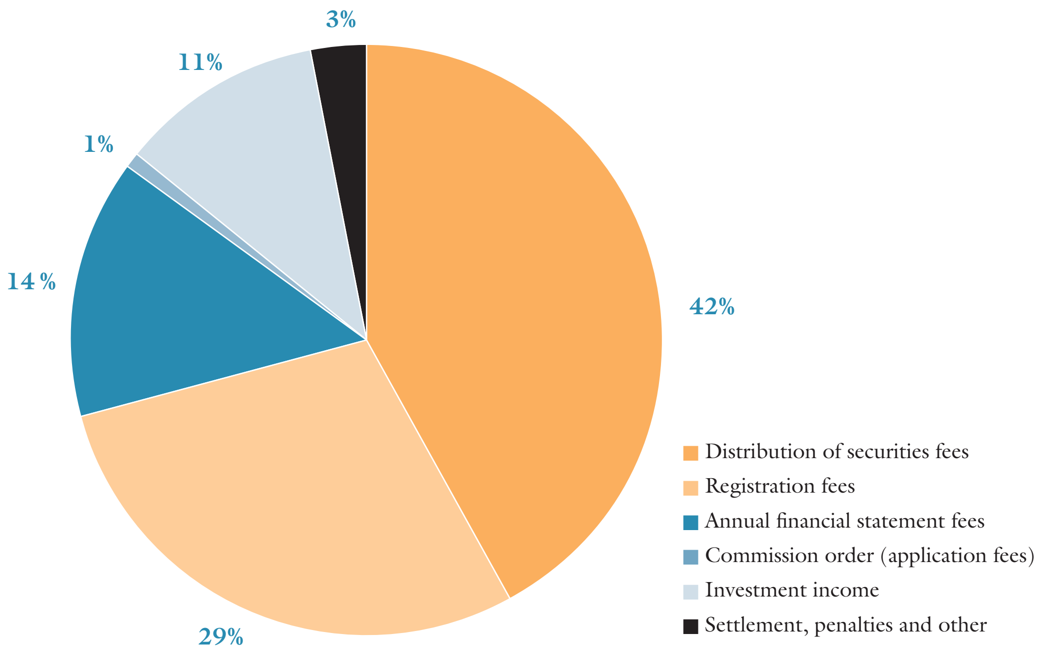
Other revenue sources are:

- **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



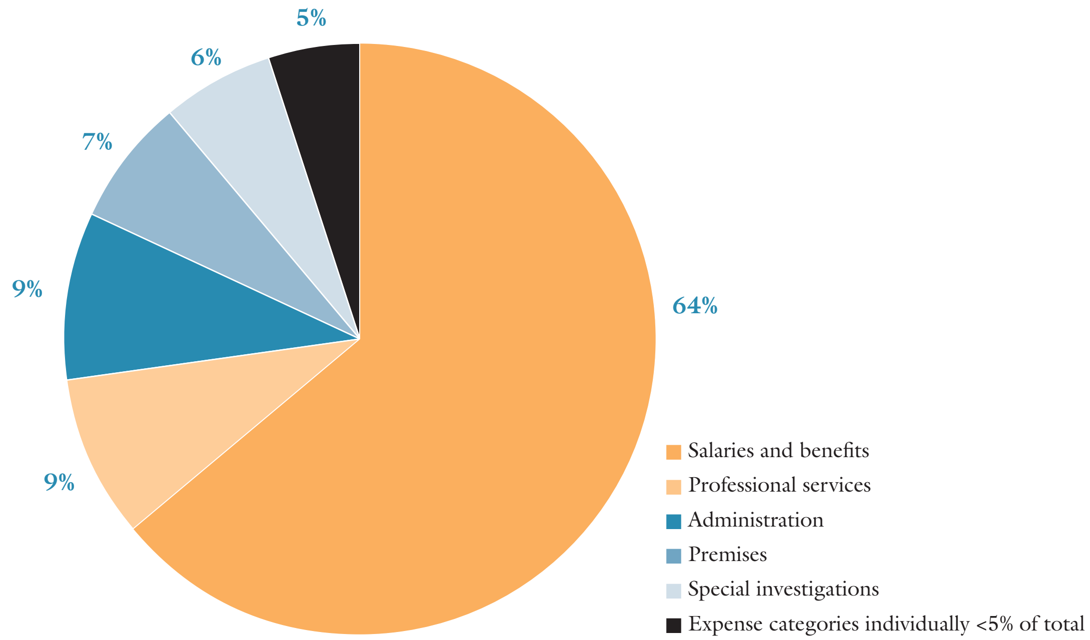
Fee revenue sensitivity > During fiscal 2006, approximately 32% or $6,100,000 (fiscal 2005 – 28% or $5,225,000) of total revenue from fees was derived from fees paid on completion of a distribution. This is 10% higher than average because of significant activity within the Alberta capital markets and 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.

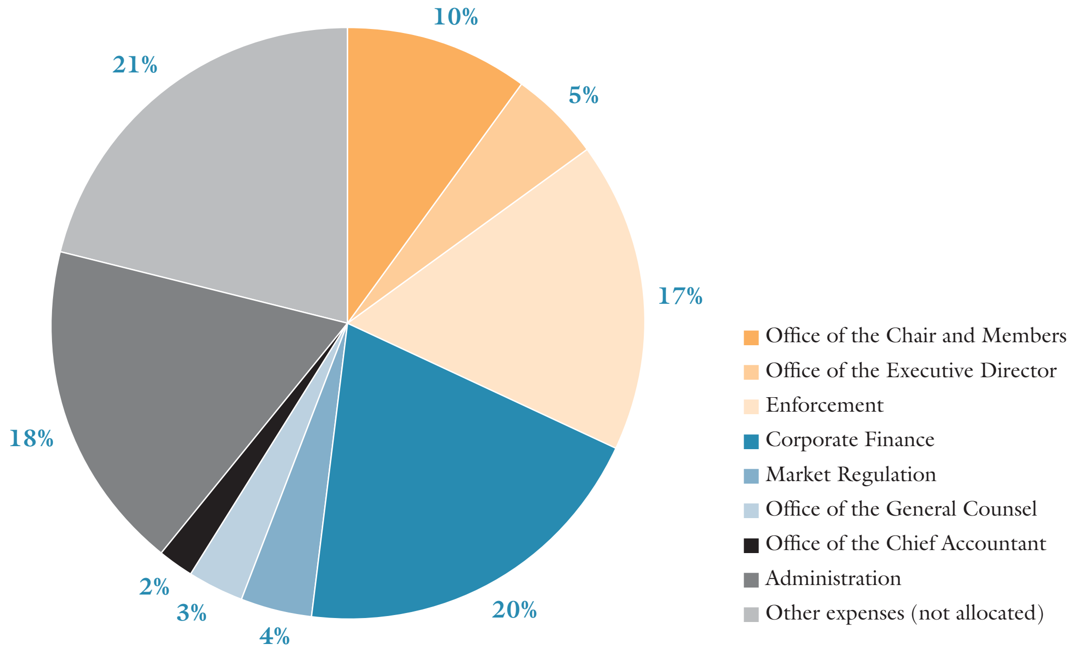
DEPARTMENT EXPENSES

($ Thousands)	**F2006** Budget	**F2006** Actual	F2005 Actual	F2004 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.

FCA
AUDITOR GENERAL

Edmonton, Alberta
May 19, 2006