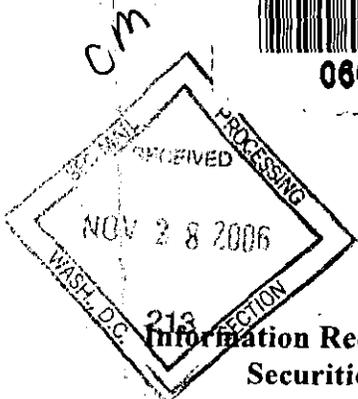


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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING October 1, 2005 AND ENDING September 30, 2006  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Tristone Capital (U.S.A) Inc.**

OFFICIAL USE ONLY  
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
**2020, 335 - 8th Avenue S.W**

(No. and Street)  
**Calgary** **Alberta, Canada** **T2P 1C9**  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
**Michael Kehler, Chief Financial Officer** **(403) 303-8653**  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**KPMG LLP**  
(Name - if individual, state last, first, middle name)  
**2700, 205 - 5th Avenue S.W.** **Calgary** **Alberta, Canada** **T2P 4B9**  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

**PROCESSED  
DEC 07 2006**

**FOR OFFICIAL USE ONLY**  
**THOMSON  
FINANCIAL**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

## OATH OR AFFIRMATION

I, \_\_\_\_\_, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of \_\_\_\_\_, as of \_\_\_\_\_, 19\_\_\_\_\_, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Signature

Title

Notary Public

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



Financial Position  
(Expressed in U.S. dollars)

**TRISTONE CAPITAL (U.S.A.) INC.**  
(A wholly owned subsidiary of Tristone Capital Advisors Inc.)

September 30, 2006



**KPMG LLP**  
**Chartered Accountants**  
2700 205 - 5th Avenue SW  
Calgary AB T2P 4B9

Telephone (403) 691-8000  
Fax (403) 691-8008  
Internet www.kpmg.ca

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Tristone Capital (U.S.A.) Inc.

We have audited the accompanying statement of financial condition of Tristone Capital (U.S.A.) Inc. as of September 30, 2006. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit of a statement of financial condition also includes examining, on a test basis, evidence supporting the amounts and disclosures in that statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Tristone Capital (U.S.A.) Inc. as of September 30, 2006, in conformity with U.S. generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Calgary, Canada  
November 22, 2006

# TRISTONE CAPITAL (U.S.A.) INC.

(A wholly owned subsidiary of Tristone Capital Advisors Inc.)

## Statement of Financial Condition

September 30, 2006

(Expressed in U.S. dollars)

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### Assets

Cash and cash equivalents	\$ 1,391,263
Receivable from broker dealers and clearing organizations (note 3)	3,490,511
Due from sister company (note 2)	23,184
Prepays	6,269
	<hr/>
	\$ 4,911,227

### Liabilities and Stockholder's Equity

#### Liabilities:

Accounts payable and accrued liabilities	\$ 36,053
Due to customers (note 4)	3,490,511
Income taxes payable	81,759
	<hr/>
	3,608,323

#### Stockholder's equity:

##### Capital stock:

##### Authorized:

80,000 common shares, \$0.01 par value

20,000 preferred shares, \$0.01 par value

##### Issued and outstanding:

27,100 common shares

Retained earnings	765,001
	537,903
	<hr/>
	1,302,904

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**\$ 4,911,227**

See accompanying notes to statement of financial condition.

# TRISTONE CAPITAL (U.S.A.) INC.

(A wholly owned subsidiary of Tristone Capital Advisors Inc.)

## Notes to Statement of Financial Condition

September 30, 2006

(Expressed in U.S. dollars)

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Tristone Capital (U.S.A.) Inc. (the "Company") was incorporated November 26, 2001 in the state of Delaware of the United States under the name Tristone Capital Advisors (U.S.) Inc. and subsequently changed its name on October 1, 2002 to Tristone Capital (U.S.A) Inc. On September 3, 2002 the Company registered as a broker-dealer in the United States with the Securities and Exchange Commission and became a member of The National Association of Securities Dealers Inc. ("NASD"). The Company is a wholly owned subsidiary of Tristone Capital Advisors Inc. (the "Parent"), a Canadian private corporation.

The Company's primary source of revenue is commission income for securities trade execution for U.S. resident institutional clients. Accordingly, the Company does not hold customer funds or safe keep customer securities pursuant to SEC Rule 15c3-3(k)(2)(i).

### 1. Significant accounting policies:

The statement of financial condition is prepared in accordance with U.S. generally accepted accounting principles. The significant accounting policies are as follows:

#### (a) Cash and cash equivalents:

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

#### (b) Securities transactions:

Customers' securities transactions are recorded on a settlement date basis with related commission income and expenses recorded on a trade basis.

#### (c) Translation of foreign currency:

Assets and liabilities denominated in foreign currencies are translated at year-end rates of exchange.

# TRISTONE CAPITAL (U.S.A.) INC.

(A wholly owned subsidiary of Tristone Capital Advisors Inc.)

Notes to Statement of Financial Condition, page 2

September 30, 2006  
(Expressed in U.S. dollars)

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## 1. Significant accounting policies (continued):

### (d) Income taxes:

Deferred income taxes are provided in recognition of temporary differences between the carrying amount of assets and liabilities and their respective tax bases, operating losses and tax credit carryforwards made for financial reporting and income tax purposes. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax expense or benefits are recognized in the financial statements for the changes in deferred tax assets or liabilities between years.

### (e) Use of estimates:

The preparation of the statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

### (f) Fair value of financial instruments:

The fair values of financial assets and liabilities approximate their carrying amounts due to their imminent maturity or short-term nature.

## 2. Related party transactions:

Under trading services and management agreements, Tristone Capital Inc. ("TCI"), a company under common control, provides the Company with extensive management services which encompasses all of the Company's operating activities except for certain direct expenses including regulatory fees, audit fees and trading systems in the United States. Commission revenue earned from securities transactions, net of direct trading expenses, are paid by TCI to the Company. Monthly fees are paid to TCI by the Company for management and administrative services as mutually agreed upon by both parties from time to time. As of September 30, 2006, the amount due from sister company includes receivable for commission from securities transactions net of management fee payable.

# TRISTONE CAPITAL (U.S.A.) INC.

(A wholly owned subsidiary of Tristone Capital Advisors Inc.)

Notes to Statement of Financial Condition, page 3

September 30, 2006  
(Expressed in U.S. dollars)

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### 3. Receivable from broker dealers and clearing organizations:

Amounts receivable from broker dealers and clearing organizations as of September 30, 2006, consist of the following:

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Securities failed to deliver	\$ 3,490,511
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### 4. Due to customers:

Amounts payable to customers as of September 30, 2006, consist of the following:

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Securities failed to deliver	\$ 3,490,511
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### 5. Clearing agreement:

Pursuant to a brokerage services agreement between the Company and TCI, the Service Agent, all securities transactions of the Company and its customers are introduced and cleared on a fully disclosed basis through the Service Agent. The Company is not responsible for compliance with Section 40 of Regulation T of the Board of Governors of the Federal Reserve System, as all customer accounts, as defined by such rules, are carried by Service Agent. Accordingly, the Company does not hold customer securities or perform custodial functions relating to customer accounts (see note 6).

### 6. Regulatory net capital requirement and other regulatory requirements:

The Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At September 30, 2006, the Company had net capital of \$787,533, which was \$546,979 in excess of its required net capital of \$240,554. The Company's ratio of aggregate indebtedness to net capital was 4.58 to 1.