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## **ASC REPORTS FISCAL 2010 FIRST QUARTER RESULTS MANAGEMENT DISCUSSION AND ANALYSIS**

Management's discussion and analysis (MD&A), prepared as of July 14, 2009 for the three months ended June 30, 2009, should be read in conjunction with annual MD&A and financial statements reported in the Commission's Annual Report, as well as the appended June 30, 2009 interim financial statements.

**During the first quarter ended June 30, 2009**, the Alberta Securities Commission (ASC) had a loss of \$378,000 compared to net income of \$538,000 in the comparable prior year quarter. Revenues decreased in the current quarter by \$555,000, primarily the result of reduced mutual fund sales and exempt distributions that was partially offset by incremental investment income of \$685,000. Expenses increased \$361,000 in the current period, the result of annual compensation increases, the addition of two staff and information technology professional services for a major systems replacement and enhancement project.

**Comparison to Budget** - The first quarter loss of \$378,000 was less than the budgeted loss of \$3.6 million. Fee revenues, primarily for distribution and financial statement filing fees, were \$173,000 less than budget. Investment income exceeded budget by \$1.15 million because of a significant recovery in the equity markets. Expenses were \$2.3 million less than budget because of professional staff vacancies, the variable timing of project related professional services costs and investor education programs, office operations and travel costs that reflect fewer staff than planned, amortization reductions resulting from reduced capital expenditures and an unused budget contingency of \$834,000.

The year-end loss is forecast to be approximately \$5.9 million. This is \$4.6 million less than the annual loss originally budgeted. Reductions in the forecast loss are the result of staff vacancies totalling \$1.3 million; amortization and administration costs of \$500,000; and unused budget contingency of \$3.3 million partially offset by fee revenue shortfalls of \$500,000. Year end results maybe better than forecast if investment income improvement continues.

**Cash flow and Liquidity** - The Commission's cash flow during the first nine months of the year is negative because 50% of annual fee revenues are received in the 4<sup>th</sup> quarter. Equity investments were sold in the first quarter generating \$1.94 million of cash to offset this negative cash flow.

**Capital assets** - Year to date capital additions of \$134,000 include information technology software development costs of \$122,000 and leasehold costs related to relocation planning.

Copies of the unaudited interim financial statements for the period ended June 30, 2009 follow.

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The Alberta Securities Commission (ASC) is the regulatory agency responsible for administering the province's securities laws. It is entrusted to foster a fair and efficient capital market in Alberta and to protect investors. As a member of the Canadian Securities Administrators, the ASC works to improve, coordinate and harmonize the regulation of Canada's capital markets

**ALBERTA SECURITIES COMMISSION**  
**BALANCE SHEET**  
(\$ Thousands)

|  | June 30<br>2009 | March 31<br>2009 |
|--|-----------------|------------------|
| <b>Assets</b>                            | (unaudited)     |                  |
| Current                                  |                 |                  |
| Cash                                     | \$7,319         | \$8,188          |
| Funds held for others                    |                 | 9                |
| Accounts receivable                      | 24              | 22               |
| Prepaid expense                          | 42              | 64               |
|  | 7,385           | 8,283            |
| Non-current                              |                 |                  |
| Restricted cash                          | 191             | 190              |
| Investments (Note 2)                     | 28,395          | 28,826           |
| Capital assets                           | 2,115           | 2,305            |
| Lease deposit and other                  | 153             | 153              |
|  | 30,854          | 31,474           |
| <br>                                     |                 |                  |
| Total assets                             | \$38,239        | \$39,757         |
| <br>                                     |                 |                  |
| <b>Liabilities and retained earnings</b> |                 |                  |
| Current                                  |                 |                  |
| Funds held for others                    |                 | \$9              |
| Accounts payable and accrued liabilities | 1,181           | 2,400            |
| Accrued vacation and benefit liabilities | 353             | 353              |
| Lease inducement                         | 93              | 124              |
|  | 1,627           | 2,886            |
| Non-current                              |                 |                  |
| Lease Inducement                         | 124             | 124              |
| Accrued benefit liability                | 3,435           | 3,316            |
|  | 3,559           | 3,440            |
| Total liabilities                        | 5,186           | 6,326            |
| Retained earnings                        | 33,053          | 33,431           |
| Total liabilities and retained earnings  | \$38,239        | \$39,757         |

The accompanying notes are part of these financial statements.

**ALBERTA SECURITIES COMMISSION**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
(Unaudited)  
(\$ Thousands)

|   | <b>For the Three Months ended June 30</b> |                 |                 |
|---|---|-----------------|-----------------|
|   | <u>2009</u>                               |                 | <u>2008</u>     |
|   | <u>Budget</u><br>(Note 4)                 | <u>Actual</u>   | <u>Actual</u>   |
| <b>Revenue</b>                          |   |                 |                 |
| Fees                                    | \$4,889                                   | \$4,639         | \$5,520         |
| Investment income                       | 378                                       | 1,533           | 848             |
| Settlement payments and cost recoveries | 125                                       | 157             | 451             |
| Conference fees and other               | 1   | 1               | 4               |
| Administrative penalties revenue        | 25  | 9               | 71              |
| Total revenue                           | <u>5,418</u>                              | <u>6,339</u>    | <u>6,894</u>    |
| <b>Expense</b>                          |   |                 |                 |
| Salaries and benefits                   | 5,489                                     | 4,741           | 4,512           |
| Administration                          | 904                                       | 605             | 571             |
| Professional services                   | 783                                       | 482             | 401             |
| Premises                                | 588                                       | 556             | 548             |
| Amortization                            | 364                                       | 323             | 294             |
| Investor education                      | 60  | 10              | 30              |
| Total expense                           | <u>8,188</u>                              | <u>6,717</u>    | <u>6,356</u>    |
| Budget contingency                      | 834                                       |                 |                 |
| Net (loss) income                       | <u>(\$3,604)</u>                          | (378)           | 538             |
| Opening retained earnings               |   | <u>33,431</u>   | <u>34,183</u>   |
| Closing retained earnings               |   | <u>\$33,053</u> | <u>\$34,721</u> |

The accompanying notes are part of these financial statements.

**ALBERTA SECURITIES COMMISSION**  
**STATEMENT OF CASH FLOWS**  
(Unaudited)  
(Thousands)

|   | <b>For the three months ended<br/>June 30</b> |                       |
|---|---|-----------------------|
|   | <b>2009</b>                                   | <b>2008</b>           |
| <b>Operating transactions</b>                       |   |                       |
| Fees and other                                      | \$4,637                                       | \$5,487               |
| Settlement payments and cost recoveries             | 157   | 451                   |
| Payments to and on behalf of employees              | (5,515)                                       | (5,304)               |
| Payments to suppliers for goods and services        | (1,830)                                       | (1,646)               |
| Investment income                                   | 1,533   | 848                   |
| Administrative penalties                            | 11  | 86                    |
| Cash (used in) operating transactions               | <u>(1,007)</u>                                | <u>(78)</u>           |
| <b>Capital transactions</b>                         |   |                       |
| Proceeds on disposal of capital assets              | --  | --                    |
| Cash used to acquire capital assets                 | <u>(292)</u>                                  | <u>(38)</u>           |
| Cash (used in) capital transactions                 | <u>(292)</u>                                  | <u>(38)</u>           |
| <b>Investing transactions</b>                       |   |                       |
| Increase in restricted cash                         | (1)   | (3)                   |
| Cash from investments                               | 1,940   |                       |
| Cash used for investments                           | <u>(1,509)</u>                                | <u>(816)</u>          |
| Cash received from (used in) investing transactions | <u>430</u>                                    | <u>(819)</u>          |
| Decrease in cash                                    | (869)   | (935)                 |
| Opening cash  | 8,188   | 4,034                 |
| Closing cash  | <u><u>\$7,319</u></u>                         | <u><u>\$3,099</u></u> |

The accompanying notes are part of these financial statements.

**ALBERTA SECURITIES COMMISSION**  
**Notes to Interim Financial Statements**  
**Three months ended June 30, 2009 (unaudited)**  
**(\$ Thousands)**

**Note 1. Significant Accounting Policies**

These interim financial statements have been prepared in accordance with generally accepted accounting principles for the public sector, consistent with the presentation and disclosure in the most recent annual audited financial statements dated March 31, 2009. These interim financial statements do not contain all the disclosures required by generally accepted accounting principles for annual financial statements and should, accordingly, be read together with the most recent annual audited financial statements.

**Note 2. Investments**

The Alberta Securities Commission (ASC) investments are independently managed by The Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance and Enterprise. The ASC does not participate in capital market investment decisions or transactions.

The following summarizes the ASC's investments (\$ 000's):

|   | June 30, 2009 |            |              | March 31, 2009 |            |              |
|---|---------------|------------|--------------|----------------|------------|--------------|
|   | Cost          | Fair Value | Fair Value % | Cost           | Fair Value | Fair Value % |
| Cash deposit in the Consolidated Cash Investment Trust Fund (CCITF) | \$ 73         | \$ 73      | 0.3          | \$ 72          | \$ 72      | 0.3          |
| Bond Pool   | 21,534        | 20,532     | 74.3         | 21,246         | 20,006     | 73.2         |
| Equity Pools  | 6,788         | 7,011      | 25.4         | 7,508          | 7,269      | 26.5         |
|   | \$28,395      | \$27,616   | 100 %        | \$28,826       | \$27,347   | 100 %        |

**Note 3. Funds held for others, Market Integrity Computer Analysis (MICA) and Canadian Securities Administrators (CSA)**

The Ontario Securities Commission is holding approximately \$35.237 million in trust for the principal CSA administrators who administer CSA operated national systems. These funds represent fees paid by users of CSA national systems that exceed costs of system operation. The principal CSA administrators, including the ASC, have agreed that these surplus amounts can only be used to offset any shortfall in revenues, to develop or enhance the systems and to reduce fees charged to users.

**Note 4      Fiscal 2010 Budget**

**ALBERTA SECURITIES COMMISSION  
Budget for the year ended March 31, 2010  
Approved by the Commission January 14, 2009  
(\$ Thousands)**

**Revenue**

|  |               |
|--|---------------|
| Fees and other                                 | \$24,086      |
| Investment income                              | 1,500         |
| Administrative penalty and settlement receipts | 600           |
| Total revenue                                  | <u>26,186</u> |

**Expense**

|                       |                   |
|-----------------------|-------------------|
| Salaries and benefits | 21,948            |
| Administration        | 3,460             |
| Professional services | 3,501             |
| Premises              | 2,350             |
| Amortization          | 1,456             |
| Investor education    | 667               |
| Total expense         | <u>33,382</u>     |
| Budget contingency    | <u>3,338</u>      |
| Loss                  | <u>(\$10,534)</u> |

Quarterly budget allocations are determined as follows:

Revenues are prorated based on historical monthly cash receipt experience and anticipated changes in these patterns.

Expenses are amortized on a straight-line basis over 12 months except for certain expenses aggregating \$5.4 million that have time specific forecasts.

The timing variability of contract expenditures results in non-salary expenditure variances.

Budgets for administrative penalty and settlement receipts are based on historical annual averages and allocated on a monthly straight-line basis. These receipts are the result of settlement negotiations, hearing outcomes and cost recovery assessments. Actual receipt quantum and timing is not predictable.

The fiscal 2010 budget includes a contingency of \$3.3 million for revenue deficiencies and unplanned expenditures. The Commission has not used any of this contingency to date.