

ASC REPORTS FISCAL 2010 SECOND QUARTER RESULTS MANAGEMENT DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A), prepared as of October 15, 2009 for the three and six months ended September 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 September 30, 2009 interim financial statements.

During the second quarter ended September 30, 2009, the Alberta Securities Commission (ASC) lost \$612,000 compared to a loss of \$2.9 million in the comparable prior year quarter. Revenues increased in the current quarter by \$2.8 million, primarily the result of investment income that exceeded last year's investment loss by \$1.9 million and incremental enforcement receipts of \$900,000, arising from significant settlements with two respondent companies and their related parties. Fees fell by \$160,000 because of reduced mutual fund sales and exempt distributions. Expenses increased \$353,000 in the current period, the result of annual compensation increases and the addition of four staff, increased information technology costs and additional member fees arising from an increased number of hearing days.

Comparison to Budget - The second quarter loss of \$612,000 was less than the budgeted loss of \$5.2 million. Enforcement receipts exceeded budget by \$1.1 million, primarily for settlements. Investment income exceeded budget by \$957,000 because of continued recovery in the equity markets. Expenses were \$2.5 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.

The year-end loss is now forecast to be approximately \$3 million. This is \$7.5 million less than the budgeted loss. Reductions in the budgeted loss are the result of investment income and enforcement receipts that currently exceed the annual budget by \$2.1 million and under expenditure for staff of \$1.8 million, amortization and administration savings of \$750,000, and unused budget contingency of \$3.3 million. These savings are partially offset by fee revenue shortfalls of \$500,000.

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 4th 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 \$292,000 include information technology software development costs of \$264,000 and leasehold costs related to relocation planning.

Copies of the unaudited interim financial statements for the period ended September 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)

	September 30 2009	March 31 2009
	(unaudited)	
Assets		
Current		
Cash	\$5,944	\$8,188
Funds held for others	--	9
Accounts receivable	22	22
Prepaid expense	45	64
	6,011	8,283
Non-current		
Restricted cash	191	190
Investments (Note 2)	29,710	28,826
Capital assets	1,949	2,305
Lease deposit and other	153	153
	32,003	31,474
Total assets	\$38,014	\$39,757
 Liabilities and retained earnings		
Current		
Funds held for others	--	\$9
Accounts payable and accrued liabilities	1,480	2,400
Accrued vacation and benefit liabilities	353	353
Lease inducement	62	124
	1,895	2,886
Non-current		
Lease Inducement	124	124
Accrued benefit liability	3,554	3,316
	5,573	6,326
Total liabilities	5,573	6,326
Retained earnings	32,441	33,431
Total liabilities and retained earnings	\$38,014	\$39,757

The accompanying notes are part of these financial statements.

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

	For the three months ended September 30			For the six months ended September 30		
	2009		2008	2009		2008
	Budget (Note 4)	Actual	Actual	Budget (Note 4)	Actual	Actual
Revenue						
Fees and other	\$3,392	\$3,409	\$3,570	\$8,281	\$8,049	\$9,094
Investment income	374	1,331	(589)	752	2,864	259
Settlements	125	1,085	273	250	1,242	724
Administrative penalties revenue	25	119	7	50	128	78
Total revenue	3,916	5,944	3,261	9,333	12,283	10,155
Expense						
Salaries and benefits	5,492	4,695	4,327	10,981	9,436	8,839
Administration	823	525	402	1,727	1,130	973
Professional services	805	388	570	1,588	870	971
Premises	587	561	541	1,175	1,117	1,089
Amortization	364	324	336	728	647	630
Investor education	180	63	27	240	73	57
Total expense	8,251	6,556	6,203	16,439	13,273	12,559
Budget contingency	835			1,669		
Income (loss) from operations	<u>(\$5,170)</u>	<u>(612)</u>	<u>(2,942)</u>	<u>(\$8,775)</u>	<u>(990)</u>	<u>(2,404)</u>
Opening retained earnings		33,053	37,379		33,431	36,841
Closing retained earnings		<u>\$32,441</u>	<u>\$34,437</u>		<u>\$32,441</u>	<u>\$34,437</u>

The accompanying notes are part of the financial statements.

ALBERTA SECURITIES COMMISSION
STATEMENT OF CASH FLOWS
(Unaudited)
(\$ Thousands)

	For the three months ended September 30		For the six months ended September 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Operating transactions				
Fees and other	\$3,423	\$3,561	\$8,060	\$9,048
Settlement payments and cost recoveries	1,084	273	1,241	724
Payments to and on behalf of employees	(4,204)	(3,943)	(9,719)	(9,247)
Payments to suppliers for goods and services	(1,656)	(1,629)	(3,486)	(3,275)
Investment income (loss)	1,331	(589)	2,864	259
Administrative penalties	122	16	133	102
Cash from (used in) operating transactions	<u>100</u>	<u>(2,311)</u>	<u>(907)</u>	<u>(2,389)</u>
Capital transactions				
Cash used to acquire capital assets	(160)	(46)	(452)	(84)
Investing transactions				
Increase in restricted cash	(1)	(2)	(2)	(5)
Cash from investments		612	1,940	(204)
Cash used for investments	(1,314)		(2,823)	
Cash (used in) from investing transactions	<u>(1,315)</u>	<u>610</u>	<u>(885)</u>	<u>(209)</u>
Increase (decrease) in cash	(1,375)	(1,747)	(2,244)	(2,682)
Opening cash	7,319	3,460	8,188	4,395
Closing cash	<u><u>\$5,944</u></u>	<u><u>\$1,713</u></u>	<u><u>\$5,944</u></u>	<u><u>\$1,713</u></u>

The accompanying notes are part of these financial statements.

ALBERTA SECURITIES COMMISSION
Notes to Interim Financial Statements
Six months ended September 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):

	September 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)	\$ 74	\$ 74	0.3	\$ 72	\$ 72	0.3
Bond Pool	21,822	21,447	73.0	21,246	20,006	73.2
Equity Pools	7,814	7,863	26.7	7,508	7,269	26.5
	\$29,710	\$29,384	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 \$35.281 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.