
ASC REPORTS FISCAL 2011 SECOND QUARTER RESULTS MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A), prepared as of October 15, 2010 for the six months ended September 30, 2010, 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, 2010 interim financial statements.

During the Second quarter ended September 30, 2010 the Alberta Securities Commission (ASC) lost \$3.1 million compared to a loss of \$612,000 for the second quarter of the prior year. Revenues in the current quarter were \$1.4 million less than the second quarter of last year. This was the result of investment income that was \$640,000 less than the second quarter of the prior year when a robust recovery in investment values was experienced and by the variable nature of enforcement receipts that were \$901,000 less in the current quarter. These revenue reductions were partially offset by fees that increased \$162,000 in the current quarter. Fee increases resulted from a greater number of new registrants, primarily because of exempt market registration requirements. Expenses increased \$1.1 million in the current period, the result of annual compensation increases, additional staff, increased costs for professional services and investor education programs.

Comparison to Budget - The Second quarter loss of \$3.1 million was less than the budgeted loss of \$4.7 million. Enforcement receipts exceeded budget by \$153,000, primarily for settlements. Fee revenue approximated budget as robust registration fees offset weakness in distribution fees for financings and mutual fund sales. Investment income exceeded the budget by \$366,000 because of quarterly gains in the equity markets. Expenses were \$1 million less than budget due to professional staff vacancies, the variable timing of projects and related professional services costs, reduced office operations and travel costs and an unused budget contingency.

The fiscal year-end loss is forecast to be approximately \$6.4 million, \$2.2 million less than the budgeted loss. Reductions in the budgeted loss are expected as the result of unused budget contingency of \$1.8 million and cost reductions of \$900,000 arising because of staff vacancies and reduced office operations and project costs, offset by possible distribution fee 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. A \$5 million cash transfer from investments is scheduled for the third quarter to fund operations and capital purchases. Capital costs arise from fiscal 2011 relocation leasehold, technology and furniture requirements.

Capital assets - Year to date capital additions of \$5.3 million include leasehold office construction costs of \$4.2 million for the new location, furniture for the new location of \$460,000 and information technology software development and new location technology costs of \$676,000.

Copies of the unaudited interim financial statements for the period ended September 30, 2010 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 SHEETS
(\$ Thousands)

	September 30 2010	March 31 2010
Assets	(unaudited)	
Current		
Cash	\$2,805	\$11,343
Accounts receivable	61	148
Prepaid expense	255	330
	3,121	11,821
Non-current		
Restricted cash	281	280
Investments (Note 2)	31,719	30,749
Capital assets	6,612	2,028
Lease deposit and other	17	17
	38,629	33,074
Total assets	\$41,750	\$44,895
Liabilities and retained earnings		
Current		
Accounts payable and accrued liabilities	\$4,230	\$2,824
Accrued vacation and benefit liabilities	393	393
Lease inducement	62	124
	4,685	3,341
Non-current		
Accrued benefit liability	4,051	3,782
	4,051	3,782
Total liabilities	8,736	7,123
Retained earnings	33,014	37,772
Total liabilities and retained earnings	\$41,750	\$44,895

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		
	2010		2009	2010		2009
	Budget (Note 4)	Actual	Actual	Budget (Note 4)	Actual	Actual
Revenue						
Fees and other	3,535	3,571	\$3,409	\$8,841	\$8,743	\$8,049
Investment income	325	691	1,331	707	1,004	2,864
Settlement payments and cost recoveries	125	205	1,085	250	580	1,242
Conference fees and other	--	2		--	15	
Administrative penalties revenue	25	98	119	50	119	128
Total revenue	4,010	4,567	5,944	9,848	10,461	12,283
Expense						
Salaries and benefits	5,670	5,547	4,695	11,338	10,775	9,436
Administration	760	561	525	1,618	1,277	1,130
Professional services	703	518	388	1,367	1,073	870
Premises	588	557	561	1,175	1,108	1,117
Amortization	364	388	324	728	775	647
Investor education	145	100	63	205	211	73
Total expense	8,230	7,671	6,556	16,431	15,219	13,273
Budget contingency	452			903		
Income (loss) from operations	<u>(\$4,672)</u>	<u>(3,104)</u>	<u>(612)</u>	<u>(\$7,486)</u>	<u>(4,758)</u>	<u>(990)</u>
Opening retained earnings		36,118	33,053		37,772	33,431
Closing retained earnings		<u>\$33,014</u>	<u>\$32,441</u>		<u>\$33,014</u>	<u>\$32,441</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	
	2010	2009	2010	2009
Operating transactions				
Fees and other	\$3,565	\$3,423	\$8,726	\$8,060
Settlement payments and cost recoveries	205	1,084	580	1,241
Payments to and on behalf of employees	(4,763)	(4,204)	(10,919)	(9,719)
Payments to suppliers for goods and services	(1,987)	(1,656)	(3,924)	(3,486)
Investment income	691	1,331	1,004	2,864
Administrative penalties	107	122	135	133
Cash (used in) received from operating transactions	<u>(2,182)</u>	<u>100</u>	<u>(4,398)</u>	<u>(907)</u>
Capital transactions				
Cash used to acquire capital assets	(2,051)	(160)	(3,169)	(452)
Investing transactions				
Increase in restricted cash	(1)	(1)	(2)	(2)
Increase in portfolio investments	(676)	(1,314)	(969)	(2,823)
Transfer from portfolio investments			0	1,940
Cash used in investing transactions	<u>(677)</u>	<u>(1,315)</u>	<u>(971)</u>	<u>(885)</u>
Decrease in cash	(4,910)	(1,375)	(8,538)	(2,244)
Opening cash	7,715	7,319	11,343	8,188
Closing cash	<u>\$2,805</u>	<u>\$5,944</u>	<u>\$2,805</u>	<u>\$5,944</u>

The accompanying notes are part of these financial statements.

ALBERTA SECURITIES COMMISSION
Notes to Interim Financial Statements
Six months ended September 30, 2010 (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, 2010. 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, 2010			March 31, 2010		
	Cost	Fair Value	Fair Value %	Cost	Fair Value	Fair Value %
Cash deposit in the Consolidated Cash Investment Trust Fund	\$ 75	\$ 75	0.2	\$ 74	\$ 74	0.2
Bond Pool	23,273	23,754	73.7	22,564	22,267	72.1
Equity Pools	8,371	8,961	26.1	8,111	8,539	27.7
	\$31,719	\$32,790	100 %	\$30,749	\$30,880	100 %

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

The Ontario Securities Commission was holding at September 30, 2010 approximately \$48.8 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. The CSA is beginning redevelopment of these systems and has committed approximately \$1 million to commence this process, with expenditure to date of \$638,000.

Note 4 Budget for the year ended March 31, 2011
Approved by the Commission January 13, 2010
(\$ Thousands)

Revenue

Fees and other	\$25,899
Investment income	1,355
Administrative penalty and settlement receipts	600
Total revenue	<u>27,854</u>

Expense

Salaries and benefits	22,695
Administration	3,472
Professional services	3,247
Premises	3,120
Amortization	1,549
Investor education	612
Total expense	<u>34,695</u>
Budget contingency	<u>1,805</u>
Loss	<u><u>(\$8,646)</u></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 2011 budget includes a contingency of \$1.8 million for revenue deficiencies and unplanned expenditures. The Commission has not used any of this contingency to date.