
ASC REPORTS FISCAL 2009 FIRST QUARTER RESULTS MANAGEMENT DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A), prepared as of July 14, 2008 for the three months ended June 30, 2008, 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, 2008 interim financial statements.

During the first quarter ended June 30, 2008, the Alberta Securities Commission (ASC) had net income of \$538,000 compared to net income of \$591,000 in the comparable prior year quarter. Revenues increased in the current quarter by \$281,000, primarily the result of 5% fee increases effective April 1, 2008. Expenses increased \$334,000 in the current period the result of annual compensation increases and the addition of five staff. Compensation cost increases were partially offset by reduced administration costs for travel and office operations.

Comparison to Budget - The first quarter income of \$538,000 exceeded the budgeted loss of \$2.5 million by \$3 million. Revenues, primarily for settlement payments and investment income, were \$1 million greater than budget. Expenses were \$2 million less than budget because of professional staff vacancies, variable timing of project related professional services costs, amortization reductions resulting from reduced capital expenditures and an unused budget contingency of \$800,000. Capital expenditures, originally budgeted for office expansion and renovation, were deferred, pending a future relocation decision.

The year-end loss is forecast to be approximately \$2.5 million. This is \$5.1 million less than the annual loss originally budgeted. The budget loss reductions are the result of first quarter incremental investment income and settlement and administrative penalty receipts totalling \$700,000. Expenses estimated to be less than budget include: staff compensation of \$500,000, the result of continuing professional staff vacancies; amortization and administration costs of \$700,000; and unused budget contingency of \$3.2 million.

Cash flow and Liquidity - The Commission's cash flow during the first nine months of the year is historically negative because 50% of annual fee revenues are received in the 4th quarter. Transfers from investments fund this period of cash flow deficiency and are planned in the second and third quarters for up to \$6 million.

Capital assets - Year to date capital additions of \$70,000 include information technology equipment and leasehold costs related to relocation planning. These additions were less than budget because planned leasehold renovations and space additions in existing premises were not undertaken, pending a decision on future relocation.

Fee increases - Fee increases averaging 5% on selected fees and totalling \$1.4 million are included in the current year's budget.

Copies of the unaudited interim financial statements for the period ended June 30, 2008 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)

| | <u>June 30</u> 2008 | <u>March 31</u> 2008 |
|--|------------------------|-------------------------|
| Assets | (unaudited) | |
| Current | | |
| Cash | \$3,460 | \$4,395 |
| Funds held for others (Note 3) | 9 | 148 |
| Accounts receivable | 59 | 78 |
| Prepaid expense | 37 | 39 |
| | <u>3,565</u> | <u>4,660</u> |
| Non-current | | |
| Restricted cash | 241 | 238 |
| Investments (Note 2) | 35,487 | 34,671 |
| Capital assets | 2,712 | 2,938 |
| Lease deposit and other | 161 | 161 |
| | <u>38,601</u> | <u>38,008</u> |
| Total assets | <u><u>\$42,166</u></u> | <u><u>\$42,668</u></u> |
| Liabilities and retained earnings | | |
| Current | | |
| Funds held for others | \$9 | \$148 |
| Accounts payable and accrued liabilities | 1,100 | 2,074 |
| Accrued vacation and benefit liabilities | 346 | 346 |
| Lease inducement | 93 | 124 |
| | <u>1,548</u> | <u>2,692</u> |
| Non-current | | |
| Lease Inducement | 247 | 247 |
| Accrued benefit liability | 2,992 | 2,888 |
| | <u>2,992</u> | <u>2,888</u> |
| Total liabilities | 4,787 | 5,827 |
| Retained earnings | <u>37,379</u> | <u>36,841</u> |
| Total liabilities and retained earnings | <u><u>\$42,166</u></u> | <u><u>\$42,668</u></u> |

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 June 30 | | |
|---|---|----------|----------|
| | 2008 | | 2007 |
| | Budget (Note 5) | Actual | Actual |
| Revenue | | | |
| Fees | \$5,358 | \$5,520 | \$5,408 |
| Investment income | 395 | 848 | 883 |
| Settlement payments and cost recoveries | -- | 451 | 308 |
| Conference fees and other | -- | 4 | 7 |
| Administrative penalties revenue | 75 | 71 | 7 |
| Total revenue | 5,828 | 6,894 | 6,613 |
| Expense | | | |
| Salaries and benefits | 4,818 | 4,512 | 4,047 |
| Administration | 911 | 571 | 758 |
| Professional services | 737 | 401 | 397 |
| Premises | 587 | 548 | 533 |
| Amortization | 475 | 294 | 244 |
| Investor education | 60 | 30 | 43 |
| Total expense | 7,588 | 6,356 | 6,022 |
| Budget contingency | 792 | | |
| Net income (loss) | (\$2,552) | 538 | 591 |
| Opening retained earnings | | 36,841 | 34,183 |
| Closing retained earnings | | \$37,379 | \$34,774 |

The accompanying notes are part of these financial statements.

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

For the three months ended
June 30

| | 2008 | 2007 |
|--|-------------|-------------|
| Cash flows from operating activities | | |
| Fees and other | \$5,487 | \$5,372 |
| Settlement payments and cost recoveries | 451 | 308 |
| Payments to and on behalf of employees | (5,304) | (4,747) |
| Payments to suppliers for goods and services | (1,646) | (2,232) |
| Investment income | 848 | 883 |
| Administrative penalties | 86 | 9 |
| Cash used in operating activities | (78) | (407) |
| Cash flows from capital activities | | |
| Proceeds on disposal of capital assets | -- | -- |
| Cash used to acquire capital assets (1.) | (38) | (276) |
| Cash used in capital activities | (38) | (276) |
| Cash flows from investing activities | | |
| Increase in restricted cash | (3) | (7) |
| Cash used for investments | (816) | (854) |
| Cash used in investing activities | (819) | (861) |
| Decrease in cash | (935) | (1,544) |
| Opening cash | 4,395 | 4,034 |
| Closing cash | \$3,460 | \$2,490 |
| 1. Cash used for capital assets | | |
| Additions to capital assets | (\$69) | (\$293) |
| Increases (decreases) in capital asset liabilities | 31 | 17 |
| | (\$38) | (\$276) |

The accompanying notes are part of these financial statements.

ALBERTA SECURITIES COMMISSION
Notes to Interim Financial Statements
Three months ended June 30, 2008 (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, 2008. 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 ASC's investment policy provides guidance relevant to the governance, purpose, size, access, management and asset allocation of the Investment Fund. Principle features include:

- (1) Size - The Investment Fund is recommended to be between 50% and 100% of the Commission's average of forecast expenses for the current and subsequent year.
- (2) Asset Allocation - Investment allocation targets include a nominal amount of cash, 75% bonds, 25% equities and a +/- 5% rebalancing range.

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

| | June 30, 2008 | | | March 31, 2008 | | |
|---|-----------------|-----------------|--------------|-----------------|-----------------|--------------|
| | Cost | Fair Value | Fair Value % | Cost | Fair Value | Fair Value % |
| Cash deposit in the Consolidated Cash Investment Trust Fund (CCITF) | \$ 70 | \$ 70 | 0.2 | \$ 69 | \$ 69 | 0.2 |
| Bond Pool | 26,544 | 25,328 | 74.2 | 26,278 | 25,646 | 76.0 |
| Equity Pools | 8,873 | 8,726 | 25.6 | 8,324 | 8,025 | 23.8 |
| | <u>\$35,487</u> | <u>\$34,124</u> | <u>100 %</u> | <u>\$34,671</u> | <u>\$33,740</u> | <u>100 %</u> |

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

The ASC is acting as accountant for MICA, a national systems enhancement project, and is holding \$9 million in cash, net of expenses to date, for the participants. The ASC expenses contributions as project expenditures are incurred. The current project is complete and future projects, if any, have not been defined.

The Ontario Securities Commission is holding approximately \$24.1 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. Fee Increases

The ASC received Provincial Government Order in Council authorization in August 2006, following a period of public consultation, for graduated fee increases of 8% effective October 1, 2006, 7% effective April 1, 2007, and 5% effective April 1, 2008.

Note 5 Fiscal 2009 Budget

ALBERTA SECURITIES COMMISSION
Budget for the year ended March 31, 2009
Approved by the Commission January 16, 2008
(\$ Thousands)

Revenue

| | |
|--|---------------|
| Fees | \$24,982 |
| Investment income | 1,580 |
| Administrative penalty and settlement receipts | <u>300</u> |
| Total revenue | <u>26,862</u> |

Expense

| | |
|-----------------------|-------------------------|
| Salaries and benefits | 19,259 |
| Administration | 3,456 |
| Professional services | 3,212 |
| Premises | 2,350 |
| Amortization | 1,900 |
| Investor education | <u>1,125</u> |
| Total expense | <u>31,302</u> |
| Budget contingency | <u>3,170</u> |
| Loss | <u><u>(\$7,610)</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 and hearing outcomes and actual receipt quantum and timing is not predictable.

The fiscal 2009 budget includes a contingency of \$3.2 million for revenue deficiencies and unplanned expenditures. The Commission has not used any of this contingency to date.