

**ASC REPORTS FISCAL 2009 SECOND QUARTER RESULTS  
 MANAGEMENT DISCUSSION AND ANALYSIS**

Management’s discussion and analysis (MD&A), prepared as of October 15, 2008 for the three months ended September 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 September 30, 2008 interim financial statements.

**During the second quarter ended September 30, 2008**, the Alberta Securities Commission (ASC) had a net loss of \$2.9 million compared to a net loss of \$1.3 million in the prior year quarter. Revenues decreased in the current quarter, primarily the result of equity and bond market losses and a resultant decline in investment income of \$1.4 million. Expenses increased in the current period, the result of annual compensation increases, the addition of staff and professional fees for litigation support. Cost increases were partially offset by reduced administrative costs for travel, member fees and office operations and the postponement of an investor education fall program.

**Comparison to Budget** - The second quarter loss of \$2.9 million was less than the budgeted loss of \$4.3 million. Revenues were \$848,000 less than budget, primarily the result of equity and bond investment losses and application fee reductions, the result of fee changes implemented under the Passport system in March 2008. These revenue shortfalls were partially offset by increased settlement payments and administrative penalty receipts. Expenses were \$2.2 million less than budget because of professional staff vacancies, the variable timing of project related professional services, administrative cost reductions for travel, office operation and member fees, amortization reductions resulting from reduced capital expenditures and an unused budget contingency of \$800,000.

The year-end loss is forecast to be approximately \$3.8 million, 50% less than the annual budgeted loss of \$7.6 million. Forecast expenditure reductions of \$4.7 million include \$500,000 for staff compensation, the result of professional staff vacancies, \$550,000 for amortization, the result of capital additions that are less than budget, \$500,000 of administration costs for travel, member fees and office operation and \$3.2 million for unused budget contingency. Forecast revenue reductions will result from investment income reduction of \$1 million, the result of future market loss recognitions, and exemption application fee reductions of \$350,000, arising from reductions in Passport fees. Revenue reductions are partially offset by \$500,000 of incremental settlement and administrative penalty receipts.

**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. Investments fund this period of cash flow deficiency and are planned in the third quarter for up to \$3 million.

**Capital assets** - Year to date capital additions of \$121,000 include information technology equipment and leasehold costs related to relocation planning. These additions were less than budget. Original capital budgets were adjusted following a decision to relocate in late 2010.

**Fee increases** – The budget includes fee increases averaging 5% and totalling \$1.4 million.

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

	September 30 2008	March 31 2008
<b>Assets</b>	(unaudited)	
Current		
Cash	\$1,713	\$4,395
Funds held for others	9	148
Accounts receivable	45	78
Prepaid expense	35	39
	1,802	4,660
Non-current		
Restricted cash	242	238
Investments	34,874	34,671
Capital assets	2,429	2,938
Lease deposit and other	161	161
	37,706	38,008
Total assets	\$39,508	\$42,668
<b>Liabilities and retained earnings</b>		
Current		
Funds held for others	\$9	\$148
Accounts payable and accrued liabilities	1,311	2,074
Accrued vacation and benefit liabilities	346	346
Lease inducement	62	124
	1,728	2,692
Non-current		
Lease Inducement	247	247
Accrued benefit liability	3,096	2,888
	3,343	3,135
Total liabilities	5,071	5,827
Retained earnings	34,437	36,841
Total liabilities and retained earnings	\$39,508	\$42,668

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		
	2008		2007	2008		2007
	Budget (Note 5)	Actual	Actual	Budget (Note 5)	Actual	Actual
<b>Revenue</b>						
Fees	\$3,656	\$3,569	\$3,697	\$9,014	\$9,089	\$9,105
Investment income	395	(589)	837	790	259	1,720
Settlements	--	273	123	--	724	431
Conference fees and other	--	1	1	--	5	8
Administrative penalties revenue	58	7	40	133	78	47
<b>Total revenue</b>	<b>4,109</b>	<b>3,261</b>	<b>4,698</b>	<b>9,937</b>	<b>10,155</b>	<b>11,311</b>
<b>Expense</b>						
Salaries and benefits	4,820	4,327	4,039	9,638	8,839	8,086
Administration	857	402	614	1,768	973	1,372
Professional services	653	570	349	1,390	971	746
Premises	588	541	514	1,175	1,089	1,047
Amortization	475	336	283	950	630	527
Investor education	230	27	195	290	57	238
<b>Total expense</b>	<b>7,623</b>	<b>6,203</b>	<b>5,994</b>	<b>15,211</b>	<b>12,559</b>	<b>12,016</b>
Budget contingency	793			1,585		
<b>Income (loss) from operations</b>	<b><u>(\$4,307)</u></b>	<b><u>(2,942)</u></b>	<b><u>(1,296)</u></b>	<b><u>(\$6,859)</u></b>	<b><u>(2,404)</u></b>	<b><u>(705)</u></b>
Opening retained earnings		37,379	34,774		36,841	34,183
<b>Closing retained earnings</b>		<b><u>\$34,437</u></b>	<b><u>\$33,478</u></b>		<b><u>\$34,437</u></b>	<b><u>\$33,478</u></b>

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	
	2008	2007	2008	2007
<b>Operating activities</b>				
Fees and other	\$3,561	\$3,659	\$9,048	\$9,031
Settlement payments and cost recoveries	273	124	724	432
Payments to and on behalf of employees	(3,943)	(3,669)	(9,247)	(8,416)
Payments to suppliers for goods and services	(1,629)	(1,567)	(3,275)	(3,799)
Investment income	(589)	837	259	1,720
Administrative penalties	16	41	102	50
Cash (used in) from operating activities	<u>(2,311)</u>	<u>(575)</u>	<u>(2,389)</u>	<u>(982)</u>
<b>Capital transactions</b>				
Cash used to acquire capital assets (1)	(46)	(384)	(84)	(660)
<b>Investing activities</b>				
Increase in restricted cash	(2)	(7)	(5)	(14)
Decrease (increase) in investments	612	(815)	(204)	(1,669)
Transfers from (to) investments		3,000		3,000
Cash (used in ) from investing activities	<u>610</u>	<u>2,178</u>	<u>(209)</u>	<u>1,317</u>
Increase (decrease) in cash	(1,747)	1,219	(2,682)	(325)
Opening cash	3,460	2,490	4,395	4,034
Closing cash	<u>\$1,713</u>	<u>\$3,709</u>	<u>\$1,713</u>	<u>\$3,709</u>
<b>1. Cash used for capital assets</b>				
Additions to capital assets	\$52	\$181	\$121	\$474
( Increases) decreases in capital asset liabilities	(6)	203	(37)	186
	<u>\$46</u>	<u>\$384</u>	<u>\$84</u>	<u>\$660</u>

The accompanying notes are part of these financial statements.

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

	September 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)	\$ 71	\$ 71	0.2	\$ 69	\$ 69	0.2
Bond Pool	26,502	24,826	74.2	26,278	25,646	76.0
Equity Pools	8,301	7,208	25.6	8,324	8,025	23.8
	\$34,874	\$32,105	100 %	\$34,671	\$33,740	100 %

**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 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 \$24.3 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 fee increases of 5% effective April 1, 2008.

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

**SEPTEMBER 30/08**  
**FORECAST UPDATE**

<b>Revenue</b>			BUDGET	REVISED
			NOTE REVISION	BUDGET
Fees	\$24,982	1.	(\$350)	\$24,632
Investment income	1,580	2.	(1,000)	580
Administrative penalty and settlement receipts	300	3.	500	800
<b>Total revenue</b>	<u>26,862</u>			<u>26,012</u>
<b>Expense</b>				
Salaries and benefits	19,259	4.	(500)	18,759
Administration	3,456	5.	(500)	2,956
Professional services	3,212			3,212
Premises	2,350			2,350
Amortization	1,900	6.	(550)	1,350
Investor education	1,125			1,125
<b>Total expense</b>	<u>31,302</u>			<u>29,752</u>
Budget contingency	3,170	7.	(3,170)	0
<b>Loss</b>	<u>(\$7,610)</u>			<u>(\$3,740)</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.