



Alberta Securities Commission

ASC REPORTS FISCAL 2008 THIRD QUARTER RESULTS MANAGEMENT DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A), prepared as of January 16, for the three and nine months ended December 31, 2007, should be read in conjunction with annual MD&A and financial statements reported in the Commission's Annual Report, as well as the appended December 31, 2007 interim financial statements.

During the third quarter ended December 31, 2007, the Alberta Securities Commission (Commission) had a net loss of \$2.6 million compared to a net loss of \$1.6 million in the comparable prior year quarter. The year to date loss of \$3.3 million compares to a prior year income of \$4.5 million. The year to date difference is primarily the result of a nonrecurring record settlement receipt of \$7.6 million in August 2006. The current quarter loss increased because of a \$660,000 reduction in investment income and \$500,000 of additional investor education expenses. A decline in the market value of investments reduced investment income, while a new fraud awareness program added costs for investor education

Comparison to prior period - The third quarter's loss exceeded the comparative prior year quarter's loss by \$1 million because revenue decreased \$0.3 million and expenses rose \$0.7 million. The revenue reduction was the result of:

- an investment income reduction of \$660,000, the result of equity valuation losses and reduced bond income, that were partially off set by;
 - \$160,000 of additional mutual fund distribution and registrant fees, and
 - \$240,000 of incremental settlement and administrative penalty receipts.

Expenses rose because of increased staff costs of \$250,000, resulting from seven additional staff and annual salary increases. Other costs increased \$450,000, the result of additional office space and related office operations and maintenance costs, increased amortization for new space renovations, information technology operation and a new investor education program. Professional fees were less in the current period because of reduced recruitment and project costs.

Comparison to Budget - The third quarter loss of \$2.6 million was less than the budgeted loss of \$3.6 million. Expenses were \$1 million less than budget, primarily the result of an average of 13 staff vacancies, variable timing of project related professional services costs and an unused budget contingency of \$636,000.

The year-end loss is forecast to be approximately \$1 million. This is \$5.4 million less than the budgeted annual loss, primarily because of fee revenues that will exceed budget by \$1.3 million, \$200,000 of incremental investment income, settlement and administrative penalty receipts that currently exceed budget by \$550,000, expense reductions primarily from staff vacancies of \$650,000, and an unused contingency of \$2.7 million.

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. Transfers from

investments fund the cash flow deficiency during this period. A transfer of \$3 million in September funded the third quarter cash reduction of \$2.3 million resulting from the cost of operations, capital asset acquisitions and investing.

Capital assets - Year to date capital additions costing \$539,000 include, primarily, leasehold renovations and related office furnishings.

Fee increases - Fee increases averaging 7% on selected fees and totalling \$2,014,000 are included in the current year's budget. This is the second year of three graduated fee increases averaging 8, 7 and 5 % annually on selected fees.

Copies of the unaudited interim financial statements for the period ended September 30, 2007 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)

	December 31 2007	March 31 2007
Assets	(unaudited)	
Current		
Cash	\$1,406	\$4,034
Funds held for others	147	135
Accounts receivable	56	32
Prepaid expense	41	74
	1,650	4,275
Non-current		
Restricted cash	597	576
Investments	30,946	32,146
Capital assets	3,015	3,275
Lease deposit and penalties	168	182
	34,726	36,179
Total assets	\$36,376	\$40,454
Liabilities and retained earnings		
Current		
Funds held for others	\$147	\$135
Accounts payable and accrued liabilities	1,693	2,710
Accrued vacation and benefit liabilities	468	468
Lease inducement	31	124
	2,339	3,437
Non-current		
Lease Inducement	370	370
Accrued benefit liability	2,761	2,464
	3,131	2,834
Total liabilities	5,470	6,271
Retained earnings	30,906	34,183
Total liabilities and retained earnings	\$36,376	\$40,454

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 December 31			For the nine months ended December 31		
	2007		2006	2007		2006
	Budget (Note 5)	Actual	Actual	Budget (Note 5)	Actual	Actual
Revenue						
Fees	\$3,236	\$3,286	\$3,119	\$10,724	\$12,391	\$11,045
Investment income	421	162	828	1,264	1,882	1,734
Settlements	--	71	106	--	502	7,685
Conference fees and other	--	19	22	--	27	22
Administrative penalties revenue	62	311	34	195	358	52
Total revenue	3,719	3,849	4,109	12,183	15,160	20,538
Expense						
Salaries and benefits	4,650	4,071	3,821	13,971	12,157	11,100
Administration	717	676	617	2,252	2,048	1,744
Professional services	532	328	635	1,526	1,074	1,295
Premises	481	514	429	1,442	1,561	1,250
Amortization	244	268	184	732	795	532
Investor education	140	564	34	420	802	130
Total expense	6,764	6,421	5,720	20,343	18,437	16,051
Budget contingency	636			1,908		
Income (loss) from operations	<u>(\$3,681)</u>	<u>(2,572)</u>	<u>(1,611)</u>	<u>(\$10,068)</u>	<u>(3,277)</u>	4,487
Opening retained earnings		33,478	30,171		34,183	24,073
Closing retained earnings		<u>\$30,906</u>	<u>\$28,560</u>		<u>\$30,906</u>	<u>\$28,560</u>

The accompanying notes are part of the financial statements.

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

	For the three months ended December 31		For the nine months ended December 31	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Cash flows from operating activities				
Fees and other	\$3,299	\$3,138	\$12,330	\$11,099
Settlement payments and cost recoveries	70	106	502	7,685
Payments to and on behalf of employees	(3,759)	(3,507)	(12,175)	(10,753)
Payments to suppliers for goods and services	(2,136)	(1,513)	(5,935)	(4,531)
Investment income	162	828	1,882	1,734
Administrative penalties	297	34	347	52
Cash flows from (used in) operating activities	<u>(2,067)</u>	<u>(915)</u>	<u>(3,049)</u>	<u>5,286</u>
Cash flows from capital transactions				
Cash used to acquire capital assets (1)	(97)	(506)	(757)	(893)
Cash flows from investing activities				
Increase in restricted cash	(7)	(10)	(21)	(28)
Investment income used for investments	(132)	(815)	(1,801)	(1,665)
Transfers from (to) investments	--	1,000	3,000	(4,500)
Cash (used in) from investing activities	<u>(139)</u>	<u>176</u>	<u>1,178</u>	<u>(6,193)</u>
Increase (decrease) in cash	(2,303)	(1,245)	(2,628)	(1,800)
Opening cash	3,709	1,987	4,034	2,542
Closing cash	<u>\$1,406</u>	<u>\$742</u>	<u>\$1,406</u>	<u>\$742</u>
Supplemental cash flow information				
(1) Additions to capital assets	(\$65)	(\$715)	(\$539)	(\$1,110)
Proceeds on disposal	\$3		\$4	\$2
(Increases) decreases in capital asset liabilities	35	(209)	222	(215)
	<u>(\$97)</u>	<u>(\$506)</u>	<u>(\$757)</u>	<u>(\$893)</u>

The accompanying notes are part of these financial statements.

ALBERTA SECURITIES COMMISSION
Notes to Interim Financial Statements
Nine months ended December 31, 2007 (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, 2007. 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 Investment Manager of the Province of Alberta independently manages the Commission's investments. The Commission does not participate in capital market investment decisions or transactions.

The Commission's investment policy provides guidance relevant to the governance, purpose, size, access, management and asset allocation of the Investment Fund. Principal 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 Commission's investments (\$ 000's):

	December 31, 2007			March 31, 2007		
	Cost	Fair Value	Fair Value %	Cost	Fair Value	Fair Value %
Cash deposit in the Consolidated Cash Investment Trust Fund (CCITF)	\$ 67	\$ 67	0.2	\$ 65	\$ 65	0.2
Bond Pool	23,518	22,699	75.5	24,340	24,092	74.5
Equity Pools	7,361	7,316	24.3	7,741	8,168	25.3
	\$30,946	\$30,082	100 %	\$32,146	\$32,325	100 %

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

The ASC is acting as accountant for MICA, a national systems enhancement project, and is holding \$147 in cash, net of expenses to date, for the participants. The Commission expenses contributions as project expenditures are incurred.

The Ontario Securities Commission is holding approximately \$20.5 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, develop or enhance the systems and reduce fees charged to users.

Note 4. Fee Restructuring Project

During fiscal 2004, the Commission determined that a fee increase was necessary to ensure that the Commission is adequately financed to fulfill its mandate. The Commission 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 2008 Budget

**ALBERTA SECURITIES COMMISSION
Budget for the year ending March 31, 2008
Approved by the Commission January 17, 2007
(\$ Thousands)**

Revenue

Fees	\$21,632
Investment income	1,685
Administrative penalty and settlement receipts	300
Total revenue	<u>23,617</u>

Expense

Salaries and benefits	18,468
Administration	2,950
Professional services	2,325
Premises	1,923
Amortization	976
Investor education	665
Total expense	<u>27,307</u>
Budget contingency	2,731
Net loss	<u>(\$6,421)</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 \$4.6 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 2008 budget includes a contingency of \$2.7 million for revenue deficiencies and unplanned expenditures. The Commission has not used any of this contingency to date.