

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

Management’s discussion and analysis (MD&A), prepared as of January 15, 2009 for the three months ended December 31, 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 December 31, 2008 interim financial statements.

During the third quarter ended December 31, 2008, the Alberta Securities Commission (ASC) had a net loss of \$5.2 million compared to a net loss of \$2.6 million in the prior year quarter. Revenues decreased in the current quarter, primarily the result of equity and bond market losses, a decline in investment income and a reduction in fees received on the distribution of securities. Expenses decreased in the current period. Increased costs for staff additions and professional fees for litigation support were offset by reduced administrative costs for travel, Commission Member hearing fees and office operations, reduced amortization and postponement of an investor education fall program.

Comparison to Budget - The third quarter loss of \$5.2 million was greater than the budgeted loss of \$4.6 million. Revenues were \$3 million less than budget; primarily the result of equity and bond investment losses, reduced application fees under the Passport system implemented in March 2008 and reduced distribution fees. Expenses were \$2.4 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 Commission Member hearing 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 \$4.7 million, 40% less than the annual budgeted loss of \$7.6 million. Forecast expenditure reductions of \$6.3 million include \$1.2 million for staff compensation, the result of professional staff vacancies, \$750,000 for amortization, the result of capital additions that are less than budget, \$1.2 million of administration costs for travel, Commission Member hearing fees and office operation and \$3.2 million for unused budget contingency. Forecast revenue reductions are attributable to an investment income reduction of \$3.5 million, the result of continuing market loss recognitions, exemption application fee reductions of \$400,000, arising from reductions in Passport fees, and distribution fee reductions of \$200,000. Revenue reductions are partially offset by \$730,000 of increased 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 4th quarter. Investments fund this period of cash flow deficiency with actual third quarter withdrawals of \$2.5 million.

Capital assets - Year to date capital additions of \$194,000 include information technology equipment and leasehold costs related to relocation planning and office construction. 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 December 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)

	December 31 2008	March 31 2008
Assets	(unaudited)	
Current		
Cash	\$1,607	\$4,395
Funds held for others (Note 3)	9	148
Accounts receivable	58	78
Prepaid expense	49	39
	1,723	4,660
Non-current		
Restricted cash	245	238
Investments (Note 2)	30,209	34,671
Capital assets	2,310	2,938
Lease deposit and other	161	161
	32,925	38,008
Total assets	\$34,648	\$42,668
Liabilities and retained earnings		
Current		
Funds held for others	\$9	\$148
Accounts payable and accrued liabilities	1,618	2,074
Accrued vacation and benefit liabilities	346	346
Lease inducement	31	124
	2,004	2,692
Non-current		
Lease Inducement	247	247
Accrued benefit liability	3,201	2,888
	3,448	3,135
Total liabilities	5,452	5,827
Retained earnings	29,196	36,841
Total liabilities and retained earnings	\$34,648	\$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 December 31			For the nine months ended December 31		
	2008	2007	2007	2008	2007	2007
	Budget (Note 5)	Actual	Actual	Budget (Note 5)	Actual	Actual
Revenue						
Fees	\$3,648	\$2,936	\$3,286	\$12,662	\$12,025	\$12,391
Investment (loss) income	395	(2,146)	162	1,185	(1,887)	1,882
Settlements	--	155	71	--	879	502
Conference fees and other	--	11	19	--	16	27
Administrative penalties revenue	62	76	311	195	154	358
Total revenue	4,105	1,032	3,849	14,042	11,187	15,160
Expense						
Salaries and benefits	4,813	4,298	4,071	14,451	13,137	12,157
Administration	831	598	676	2,599	1,571	2,048
Professional services	636	576	328	2,026	1,547	1,074
Premises	587	547	514	1,762	1,636	1,561
Amortization	475	193	268	1,425	823	795
Investor education	520	61	564	810	118	802
Total expense	7,862	6,273	6,421	23,073	18,832	18,437
Budget contingency	793			2,378		
Income (loss) from operations	(\$4,550)	(5,241)	(2,572)	(\$11,409)	(7,645)	(3,277)
Opening retained earnings		34,437	33,478		36,841	34,183
Closing retained earnings		\$29,196	\$30,906		\$29,196	\$30,906

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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Operating activities				
Fees and other	\$2,969	\$3,299	\$12,017	\$12,330
Settlement payments and cost recoveries	155	70	879	502
Payments to and on behalf of employees	(3,915)	(3,759)	(13,162)	(12,175)
Payments to suppliers for goods and services	(1,830)	(2,136)	(5,105)	(5,935)
Investment (loss) income	(2,146)	162	(1,887)	1,882
Administrative penalties	63	297	165	347
Cash flows from (used in) operating activities	<u>(4,704)</u>	<u>(2,067)</u>	<u>(7,093)</u>	<u>(3,049)</u>
Capital transactions				
Cash used to acquire capital assets (1)	(64)	(97)	(148)	(757)
Investing activities				
Increase in restricted cash	(2)	(7)	(7)	(21)
Decrease (increase) in investments	2,164	(132)	1,960	(1,801)
Transfers from (to) investments	2,500	--	2,500	3,000
Cash (used in) from investing activities	<u>4,662</u>	<u>(139)</u>	<u>4,453</u>	<u>1,178</u>
Increase (decrease) in cash	(106)	(2,303)	(2,788)	(2,628)
Opening cash	1,713	3,709	4,395	4,034
Closing cash	<u>\$1,607</u>	<u>\$1,406</u>	<u>\$1,607</u>	<u>\$1,406</u>
1. Cash used for capital assets				
Additions to capital assets	(\$74)	(\$65)	(\$194)	(\$539)
Proceeds on disposal	--	\$3	--	\$4
(Increases) decreases in capital asset liabilities	(10)	35	46	222
	<u>(\$64)</u>	<u>(\$97)</u>	<u>(\$148)</u>	<u>(\$757)</u>

The accompanying notes are part of these financial statements.

ALBERTA SECURITIES COMMISSION
Notes to Interim Financial Statements
Nine months ended December 31, 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):

	December 31, 2008			March 31, 2008		
	Cost	Fair Value	Fair Value %	Cost	Fair Value	Fair Value %
Cash deposit in the Consolidated Cash Investment Trust Fund (CCITF)	\$ 72	\$ 72	0.2	\$ 69	\$ 69	0.2
Bond Pool	21,544	20,090	74.2	26,278	25,646	76.0
Equity Pools	8,593	7,448	25.6	8,324	8,025	23.8
	<u>\$30,209</u>	<u>\$27,610</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 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 \$32.7 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.

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.