
ASC REPORTS FISCAL 2008 FIRST QUARTER RESULTS MANAGEMENT DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A), prepared as of July 20, for the three months ended June 30, 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 June 30, 2007 interim financial statements.

During the first quarter ended June 30, 2007, the Alberta Securities Commission (ASC) had net income of \$591,000 compared to a net loss of \$526,000 in the prior year.

Comparison to prior period - The first quarter's net income exceeded the comparative prior quarter loss by \$1.1 million primarily because revenue increased \$1,725,000. The additional revenue arose from:

- the accelerated receipt of \$800,000 of mutual fund filing and distribution fees, (the timing of mutual filing fees is variable and the majority of this revenue was received earlier than in the prior year)
- \$614,000 of incremental investment income because of strong equity returns and investment balances that are 40% greater than the comparative period, and
- \$308,000 of incremental settlement payments. Settlements are not predictable and vary depending on the nature and timing of ongoing enforcement investigations.

The incremental revenue was partially offset by increased staff costs of \$220,000, the result of adding 16 staff and annual salary increases, offset by reduced severance costs. Other costs increased \$390,000, the result of additional office space, increased amortization for leasehold renovations required for the new space and additional information technology costs, primarily for enhanced disaster recovery processes including off site facilities and operations.

Comparison to Budget - The first quarter income of \$591,000 exceeded the Government of Alberta (GOA) approved budget loss of \$2,802,000. Fee revenues for Alberta securities distributions exceeded budget by approximately \$1.3 million, primarily the result of additional and accelerated mutual fund receipts of \$1.2 million. Investment income exceeded budget by \$460,000 because of stronger than anticipated equity markets. Expenses were less than budget, primarily the result of an average of 16 staff vacancies, variable timing of project related professional services costs and an unused budget contingency provision of \$636,000.

The year-end loss is forecast to be approximately \$2.4 million. This is \$4 million less than the annual budget loss, primarily because of fee revenues that will exceed budget by \$400,000, \$460,000 of incremental investment income, expense reductions from staff vacancies and other areas of \$450,000 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. As a result, there was a first quarter cash reduction of \$1.5 million. Transfers from investments fund this period of cash flow deficiency and may be required in the second quarter.

Capital assets - Year to date capital additions of \$293,000 include primarily office leasehold renovation 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 June 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)

	June 30 2007	March 31 2007
Assets	(unaudited)	
Current		
Cash	\$2,490	\$4,034
Funds held for others	245	135
Accounts receivable	28	32
Prepaid expense	60	74
	2,823	4,275
Non-current		
Restricted cash	583	576
Investments	33,000	32,146
Capital assets	3,324	3,275
Lease deposit and penalties	182	182
	37,089	36,179
Total assets	\$39,912	\$40,454
Liabilities and retained earnings		
Current		
Funds held for others	\$245	\$135
Accounts payable and accrued liabilities	1,399	2,710
Accrued vacation and benefit liabilities	468	468
Lease inducement	92	124
	2,204	3,437
Non-current		
Lease Inducement	370	370
Accrued benefit liability	2,564	2,464
	2,934	2,834
Total liabilities	5,138	6,271
Retained earnings	34,774	34,183
Total liabilities and retained earnings	\$39,912	\$40,454

The accompanying notes are part of these financial statements.

STATEMENT OF INCOME AND RETAINED EARNINGS
(Unaudited)
(\$ Thousands)

	For the Three Months ended June 30		
	2007		2006
	Budget (Note 5)	Actual	Actual
Revenue			
Fees	\$4,131	\$5,408	\$4,611
Investment income	422	883	269
Settlement payments and cost recoveries	--	308	--
Conference fees and other	--	7	--
Administrative penalties revenue	75	7	8
Total revenue	4,628	6,613	4,888
Expense			
Salaries and benefits	4,659	4,047	3,830
Administration	798	758	609
Professional services	552	397	386
Premises	481	533	406
Amortization	244	244	173
Investor education	60	43	10
Total expense	6,794	6,022	5,414
Budget contingency	636		
Net income (loss)	(\$2,802)	591	(526)
Opening retained earnings		34,183	24,073
Closing retained earnings		\$34,774	\$23,547

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

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Fees and other	\$5,372	\$4,677
Settlement payments and cost recoveries	308	--
Payments to and on behalf of employees	(4,747)	(3,888)
Payments to suppliers for goods and services	(2,232)	(1,550)
Investment income	883	269
Administrative penalties	9	8
Cash used in operating activities	<u>(407)</u>	<u>(484)</u>
Cash flows from capital activities		
Proceeds on disposal of capital assets	--	2
Cash used to acquire capital assets (1.)	(276)	(280)
Cash used in capital activities	<u>(276)</u>	<u>(278)</u>
Cash flows from investing activities		
Increase in restricted cash	(7)	(8)
Cash used for investments	(854)	(248)
Cash used in investing activities	<u>(861)</u>	<u>(256)</u>
Increase (decrease) in cash	(1,544)	(1,018)
Opening cash	4,034	2,542
Closing cash	<u>\$2,490</u>	<u>\$1,524</u>
1. Cash used for capital assets		
Additions to capital assets	(\$293)	(\$307)
Increases (decreases) in capital asset liabilities	17	27
	<u>(\$276)</u>	<u>(\$280)</u>

The accompanying notes are part of these financial statements.

ALBERTA SECURITIES COMMISSION
Notes to Interim Financial Statements
Three months ended June 30, 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 Commission's investments are independently managed by the Alberta Investment Manager of the Province of Alberta. 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. 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 contemplate a nominal amount of cash, 75% bonds, 25% equities and a +/- 5% rebalancing range.

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

	June 30, 2007			March 31, 2007		
	Cost	Fair Value	Fair Value %	Cost	Fair Value	Fair Value %
Cash deposit in the Consolidated Cash Investment Trust Fund (CCITF)	\$ 65	\$ 65	0.2	\$ 65	\$ 65	0.2
Bond Pool	24,600	23,638	72.9	24,340	24,092	74.5
Equity Pools	8,335	8,718	26.9	7,741	8,168	25.3
	<u>\$33,000</u>	<u>\$32,421</u>	<u>100 %</u>	<u>\$32,146</u>	<u>\$32,325</u>	<u>100 %</u>

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 \$245 in cash, net of expenses to date, for the participants. The Commission expenses contributions as project expenditures are incurred including \$30 in the current quarter.

The Ontario Securities Commission is holding approximately \$16.2 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 undertook a fee review to determine options for a fee increase. A fee increase was determined to be 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 ended 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 are discretionary receipts that are dependent on settlement negotiations and hearing outcomes and actual receipt timing is not predictable.

The fiscal 2008 budget includes a net contingency of \$2.54 million (net of \$0.19 vacancy reserve) for revenue deficiencies and unplanned expenditures. The Commission has not required any of this contingency to date.