

ASC REPORTS FISCAL 2008 SECOND QUARTER RESULTS MANAGEMENT DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A), prepared as of October 26, for the three and six months ended September 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 September 30, 2007 interim financial statements.

During the second quarter ended September 30, 2007, the Alberta Securities Commission (ASC) had a net loss of \$1.3 million compared to net income of \$6.6 million in the comparable prior year quarter. The year to date loss of \$705,000 compares to a prior year income of \$6.1 million. The differences are primarily the result of a nonrecurring record settlement receipt of \$7.6 million in August 2006.

Comparison to prior period - The second quarter's loss exceeded the comparative prior year quarter income by \$7.9 million primarily because revenue decreased \$6.8 million and expenses rose \$1.1 million. Revenue reductions were the result of:

- a non recurring record settlement receipt of \$7.6 million in the prior year quarter, partially offset in the current period by:
 - \$380,000 of additional mutual fund distribution and registrant fees,
 - incremental investment income of \$200,000, the result of strong equity returns, and
 - settlement and administrative penalty receipts that exceed budget by \$160,000.

Expenses rose because of increased staff costs of \$600,000, the result of adding 11 staff and annual salary increases. Other costs increased \$500,000, the result of additional office space, increased amortization for leasehold renovations required for the new space, additional information technology costs for enhanced disaster recovery processes including off site facilities and operations, and website enhancement and a new investor education program.

Comparison to Budget - The second quarter loss of \$1.3 million was less than the budgeted loss of \$3.6 million. Fee revenues for Alberta securities distributions exceeded budget by approximately \$300,000, primarily the result of additional and accelerated mutual fund receipts. Investment income exceeded budget by \$410,000 because of stronger than anticipated equity markets. Expenses were less than budget, primarily the result of an average of 14 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 \$1.4 million. This is \$5 million less than the budgeted annual loss, primarily because of fee revenues that will exceed budget by \$1 million, \$480,000 of incremental investment income, settlement and administrative penalty receipts that currently exceed budget by \$180,000, expense reductions from staff vacancies and other areas of \$600,000 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 second quarter cash reduction of \$1.8 million from operations, capital asset acquisitions and investing. Transfers from investments are used to fund this period of cash flow deficiency. A transfer of \$3 million in September, resulted in a net cash increase of \$1.2 million during the quarter.

Capital assets - Year to date capital additions of \$474,000 include, primarily, office 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)

	September 30 2007	March 31 2007
Assets	(unaudited)	
Current		
Cash	\$3,709	\$4,034
Funds held for others	248	135
Accounts receivable	30	32
Prepaid expense	49	74
	4,036	4,275
Non-current		
Restricted cash	590	576
Investments	30,815	32,146
Capital assets	3,221	3,275
Lease deposit and penalties	182	182
	34,808	36,179
Total assets	\$38,844	\$40,454
Liabilities and retained earnings		
Current		
Funds held for others	\$248	\$135
Accounts payable and accrued liabilities	1,556	2,710
Accrued vacation and benefit liabilities	468	468
Lease inducement	62	124
	2,334	3,437
Non-current		
Lease Inducement	370	370
Accrued benefit liability	2,662	2,464
	3,032	2,834
Total liabilities	5,366	6,271
Retained earnings	33,478	34,183
Total liabilities and retained earnings	\$38,844	\$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 September 30			For the six months ended September 30		
	<u>2007</u>		<u>2006</u>	<u>2007</u>		<u>2006</u>
	Budget (Note 5)	Actual	Actual	Budget (Note 5)	Actual	Actual
Revenue						
Fees	\$3,357	\$3,697	\$3,315	\$7,488	\$9,105	\$7,926
Investment income	421	837	637	843	1,720	906
Settlements	--	123	7,579	--	431	7,579
Conference fees and other	--	1	--	--	8	--
Administrative penalties revenue	58	40	10	133	47	18
Total revenue	<u>3,836</u>	<u>4,698</u>	<u>11,541</u>	<u>8,464</u>	<u>11,311</u>	<u>16,429</u>
Expense						
Salaries and benefits	4,662	4,039	3,449	9,321	8,086	7,279
Administration	737	614	518	1,535	1,372	1,127
Professional services	442	349	274	994	746	660
Premises	480	514	415	961	1,047	821
Amortization	244	283	175	488	527	348
Investor education	220	195	86	280	238	96
Total expense	<u>6,785</u>	<u>5,994</u>	<u>4,917</u>	<u>13,579</u>	<u>12,016</u>	<u>10,331</u>
Budget contingency	636			1,272		
Income (loss) from operations	<u><u>(\$3,585)</u></u>	<u>(1,296)</u>	6,624	<u><u>(\$6,387)</u></u>	<u>(705)</u>	6,098
Opening retained earnings		34,774	23,547		34,183	24,073
Closing retained earnings		<u><u>\$33,478</u></u>	<u>\$30,171</u>		<u><u>\$33,478</u></u>	<u>\$30,171</u>

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	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Cash flows from operating activities				
Fees and other	\$3,659	\$3,284	\$9,031	\$7,961
Settlement payments and cost recoveries	124	7,579	432	7,579
Payments to and on behalf of employees	(3,669)	(3,358)	(8,416)	(7,246)
Payments to suppliers for goods and services	(1,567)	(1,468)	(3,799)	(3,018)
Investment income	837	637	1,720	906
Administrative penalties	41	10	50	18
Cash (used in) from operating activities	<u>(575)</u>	<u>6,684</u>	<u>(982)</u>	<u>6,200</u>
Cash flows from capital transactions				
Cash used to acquire capital assets (1)	(384)	(109)	(660)	(387)
Cash flows from investing activities				
Increase in restricted cash	(7)	(10)	(14)	(18)
Investment income used for investments	(815)	(602)	(1,669)	(850)
Transfers from (to) investments	3,000	(5,500)	3,000	(5,500)
Cash (used in) from investing activities	<u>2,178</u>	<u>(6,112)</u>	<u>1,317</u>	<u>(6,368)</u>
Increase (decrease) in cash	1,219	463	(325)	(555)
Opening cash	2,490	1,524	4,034	2,542
Closing cash	<u>\$3,709</u>	<u>\$1,987</u>	<u>\$3,709</u>	<u>\$1,987</u>
Supplemental cash flow information				
(1) Additions to capital assets	\$181	\$87	\$474	\$394
(Increases) decreases in capital asset liabilities	203	22	186	(7)
	<u>\$384</u>	<u>\$109</u>	<u>\$660</u>	<u>\$387</u>

The accompanying notes are part of these financial statements.

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

	September 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)	\$ 66	\$ 66	0.2	\$ 65	\$ 65	0.2
Bond Pool	23,282	22,347	74.7	24,340	24,092	74.5
Equity Pools	7,467	7,501	25.1	7,741	8,168	25.3
	<u>\$30,815</u>	<u>\$29,914</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 \$248 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 \$16.5 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	<u>665</u>
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 net contingency of \$2.54 million (net of \$0.19 vacancy reserve) for revenue deficiencies and unplanned expenditures. The Commission has not used any of this contingency to date.