

ASC REPORTS FISCAL 2007 THIRD QUARTER RESULTS MANAGEMENT DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A), prepared as of January 25, 2007, for the nine and three months ended December 31, 2006, 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, 2006 interim financial statements. Results to date are consistent with the major revenue and expenditure trends and assumptions outlined in the fiscal 2006 annual MD&A, except as noted in the following commentary.

During the third quarter ended December 31, 2006, the Alberta Securities Commission (ASC) lost \$1,611,000 compared to a net loss of \$881,000 in the prior year. Year to date income was \$4,487,000 compared to a \$2,353,000 loss in the prior year.

Comparison to prior periods - The increased loss in the third quarter is primarily the result of additional expenses of \$1,317,000 offset by incremental investment income of \$476,000 and settlement receipts of \$93,000. Investment income results reflect strong equity and bond market performance in the quarter returns that exceeded budget by 10% and 3% respectively. Additional costs included; \$724,000 for 15 additional staff, a retirement allowance and compensation increases, member fee increases of \$154,000 reflecting higher compensation rates and increased member participation in hearing activity, and \$478,000 of additional professional services primarily for employee recruitment, enforcement business processes and information technology initiatives.

Year to date comparative results reflect an August 2006 settlement receipt of \$7.6 million, following an insider trading investigation.

Comparison to Budget - The third quarter loss of \$1,611,000 was less than the Provincial Government approved budget target loss of \$2,987,000. Fee revenues for Alberta securities distributions exceeded budget by approximately \$133,000, the result of continued resource sector financing strength and strong mutual fund sales. Investment income exceeded budget by \$578,000 because of a bond market recovery and stronger than anticipated equity markets. Expenses were consistent with budget. Staff vacancies that reduced compensation costs were offset by a third quarter retirement allowance.

Year to date expenses are less than budget because of reductions in planned litigation support, investor education timing variances and staff vacancies. Year to date revenues exceed budget because of distribution fee strength, higher investment returns and the settlement of \$7.6 million.

Year-end income is forecast to be at least \$6.9 million. This is \$12.3 million greater than the annual budget loss primarily because of the \$7.6 million settlement receipt, fee revenues that will exceed budget by \$1.3 million, \$0.9 million of incremental investment income, expense reductions from staff vacancies and other areas of \$0.4 million and an unused net contingency of \$2.1 million.

Cash flow and Liquidity - The Commission's cash flow during the first nine months of the year is negative because 25% of annual fee revenues are received in the 4th quarter. This fee timing variability results in negative working capital at quarter end of \$1.6 million. Generally transfers from investments fund this period of cash flow deficiency. However, an August 2006 settlement receipt of \$7.6 million funded a \$5 million increase in investments and cash requirements of \$2.5 million.

Capital assets - Year to date capital additions of \$1.1 million include Commission approved incremental capital budgets for office expansion and information technology of \$1,150 and \$355 respectively, resulting in a revised total capital budget of \$2,075 (originally \$570).

Fee increases - Fee increases averaging 8% on selected fees and totalling \$714,000 are included in the current year's budget. Fee increases commenced October 1, 2006 following public consultation. The Commission received Provincial Government Order in Council approval for the fee regulation revisions in August.

Copies of the unaudited interim financial statements for the period ended December 31, 2006 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 2006	March 31 2006
Assets	(unaudited)	
Current		
Cash	\$742	\$2,542
Funds held for others (Note 3)	133	4
Accounts and advances receivable	20	98
Prepaid expense	14	112
	909	2,756
Non-current		
Restricted cash	923	895
Investments (Note 2)	29,480	23,316
Capital assets	2,488	1,913
Lease deposit	132	132
	33,023	26,256
Total assets	\$33,932	\$29,012
Liabilities and retained earnings		
Current		
Funds held for others	\$133	\$4
Accounts payable and accrued liabilities	1,720	1,612
Accrued vacation and benefit liabilities	635	635
Lease inducement	31	124
	2,519	2,375
Non-current		
Lease Inducement	494	494
Accrued benefit liability	2,359	2,070
	2,853	2,564
Total liabilities	5,372	4,939
Retained earnings	28,560	24,073
Total liabilities and retained earnings	\$33,932	\$29,012

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		
	2006	2005		2006	2005	
	Budget (Note 5)	Actual	Actual	Budget (Note 5)	Actual	Actual
Revenue						
Fees	\$2,986	\$3,119	\$3,101	\$9,588	\$11,045	\$9,742
Investment income	250	828	352	750	1,734	1,856
Settlements	--	106	13	--	7,685	47
Conference fees and other	--	22	--	--	22	82
Revenue before administrative penalties	3,236	4,075	3,466	10,338	20,486	11,727
Administrative penalties revenue	62	34	56	195	52	414
Total revenue	3,298	4,109	3,522	10,533	20,538	12,141
Expense						
Salaries and benefits	3,832	3,821	3,097	11,532	11,100	9,355
Professional services	552	635	157	1,504	1,295	987
Administration	548	617	448	1,637	1,744	1,204
Premises	431	429	356	1,294	1,250	1,070
Amortization	169	184	145	507	532	458
Investor education	220	34	21	310	130	223
Special investigations			179			1,197
Total expense	5,752	5,720	4,403	16,784	16,051	14,494
Budget contingency	533			1,600		
Income (loss) from operations	<u><u>(\$2,987)</u></u>	<u><u>(1,611)</u></u>	<u><u>(881)</u></u>	<u><u>(\$7,851)</u></u>	4,487	<u><u>(2,353)</u></u>
Opening retained earnings		30,171	20,389		24,073	21,861
Closing retained earnings		<u><u>\$28,560</u></u>	<u><u>\$19,508</u></u>		<u><u>\$28,560</u></u>	<u><u>\$19,508</u></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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities				
Fees and other	\$3,138	\$3,113	\$11,099	\$9,724
Settlements	106	13	7,685	47
Payments to and on behalf of employees	(3,507)	(2,839)	(10,753)	(9,237)
Payments to suppliers for goods and services	(1,513)	(1,341)	(4,531)	(3,762)
Payments for special investigations	--	(170)	0	(1,249)
Investment income	828	352	1,734	1,855
Administrative penalties	34	56	52	427
	<u>(915)</u>	<u>(816)</u>	<u>5,286</u>	<u>(2,195)</u>
Cash flows from (used in) operating activities				
Cash flows from investing activities				
Lease inducement received	--	--	--	198
Increase in restricted cash	(10)	(6)	(28)	(17)
Purchase of capital assets (1)	(506)	(4)	(893)	(277)
Investment income used for investments	(815)	(342)	(1,665)	(1,817)
Transfers from (to) investments	1,000		(4,500)	1,600
Reserved for MICA project (Note 3)	--		--	(8)
	<u>(331)</u>	<u>(352)</u>	<u>(7,086)</u>	<u>(321)</u>
Cash (used in) from investing activities				
Increase (decrease) in cash	(1,245)	(1,168)	(1,800)	(2,516)
Opening cash	1,987	1,837	2,542	3,185
Closing cash	<u>\$742</u>	<u>\$669</u>	<u>\$742</u>	<u>\$669</u>
Supplemental cash flow information				
(1) Additions to capital assets	(\$715)	(\$21)	(\$1,110)	(\$162)
Proceeds on disposal		\$2	\$2	\$3
(Increases) decreases in capital asset liabilities	(209)	15	(215)	(118)
	<u>(\$506)</u>	<u>(\$4)</u>	<u>(\$893)</u>	<u>(\$277)</u>

The accompanying notes are part of these financial statements.

ALBERTA SECURITIES COMMISSION
Notes to Interim Financial Statements
Nine months ended December 31, 2006 (unaudited)
(\$ Thousands)

Note 1. Significant Accounting Policies

These interim financial statements have been prepared in accordance with generally accepted accounting principles, consistent with the presentation and disclosure in the most recent annual audited financial statements dated March 31, 2006. 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 annual income 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):

	December 31, 2006			March 31, 2006		
	Cost	Fair Value	Fair Value %	Cost	Fair Value	Fair Value %
Cash deposit in the Consolidated Cash Investment Trust Fund (CCITF)	\$ 64	\$ 64	0.2%	\$ 60	\$ 60	0.3%
Bond Pool	22,322	22,184	74.6	17,697	17,441	74.0
Equity Pools	7,094	7,494	25.2	5,559	6,060	25.7
	\$29,480	\$29,742	100 %	\$23,316	\$23,561	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 \$133 in cash, net of expenses to date, for the participants. The Commission expenses contributions as project expenditures are incurred. The Commission has no further obligations at December 31.

The Ontario Securities Commission is holding approximately \$12.74 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 SEDAR revenues, develop or enhance the SEDAR and SEDI systems and reduce SEDAR fees.

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's current budget includes graduated fee increases of 8% effective October 1, 2006, 7% effective April 1, 2007, and 5% effective April 1, 2008. The fee increases received Provincial Government Order in Council authorization in August 2006, following a period of public consultation. The fee increases commenced on October 1, 2006.

ALBERTA SECURITIES COMMISSION
Budget for the year ended March 31, 2007
Approved by the Commission January 18, 2006
(\$ Thousands)

Revenue

Fees	\$18,487
Investment income	1,000
Administrative penalty and settlement receipts	300
Total revenue	<u>19,787</u>

Expense

Salaries and benefits	15,496
Professional services	2,172
Administration	2,373
Premises	1,726
Amortization	676
Investor education	<u>600</u>
Total expense	<u>23,043</u>
Budget contingency	2,134
Net loss	<u>(\$5,390)</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 2007 budget includes a net contingency of \$2.1 million (net of \$0.155 vacancy reserve) for revenue deficiencies and unplanned expenditures. The Commission has not required any of this contingency to date.

Note 6 Comparative Figures

Certain of the prior period comparative figures have been restated to conform to the presentation adopted for the current period.