ALBERTA SECURITIES COMMISSION
Interim Financial Statements and Management's Discussion and Analysis

For the Six Months Ended September 30, 2016
(unaudited)

ASC Reports Fiscal 2017 (F2017) Second Quarter Results

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of December 14, 2016, for the six months ended September 30, 2016, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2016 annual report, as well as the September 30, 2016 interim financial statements.

The 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.

Comparison to prior year – For the three months ended September 30, 2016 (**Q2 F2017**) the ASC incurred an operating deficit of $4.4 million compared to a deficit of $4.3 million for the three months ended September 30, 2015 (**Q2 F2016**). The operating deficit for the six months ended September 30, 2016 (**YTD F2017**) was $4.3 million compared to a deficit of $5.5 million for the six months ended September 30, 2015 (**YTD F2016**). Q2 F2017 revenue was $309,000 lower than the prior year primarily due to timing of fee receipts between the first and second quarter. YTD F2017 revenue was $645,000 higher than the prior year. This was driven by higher other enforcement receipts, investment income, and administrative penalties partially offset by lower distribution fees from mutual fund issuers and annual filing fees.

Q2 F2017 and YTD F2017 regulatory expenses decreased by $204,000 and $536,000, respectively, compared to the prior year. This decrease was due to a higher staff vacancy rate than the prior year, cost control efforts on professional services and administrative expenses as well as a property tax adjustment on premises. However, this was partially offset by increased investor education expenses.

Comparison to budget – The operating deficit for Q2 F2017 was $4.4 million compared to a budgeted deficit of $5.5 million. The operating deficit for YTD F2017 was $3.7 million less than the budgeted YTD F2017 operating deficit of $8.0 million. Q2 F2017 revenue exceeded budget by $136,000 primarily due to higher administrative penalties and investment income. YTD F2017 revenue exceeded budget by $1.8 million due to higher distribution fees, investment income, other enforcement receipts and late filing fees. The F2017 budget for distribution fees was based on the last three years of actual results with F2016 results being significantly higher than the previous two years.

Q2 F2017 and YTD F2017 regulatory expenses were $8.8 million and $17.6 million, compared to the budget of $9.7 million and $19.5 million, respectively, partially due to a higher staff vacancy rate than budgeted and cost control efforts on salaries and benefits, professional services and administrative expenses. The premises expenses were also lower as a result of a property tax adjustment.

In May 2016, the ASC published ASC Rule 13-501 *Fees* (**Fee Rule**). This was subject to Ministerial approval. The ASC's current fiscal 2017 revenue budget did not incorporate changes resulting from higher fees under the Fee Rule. On October 17, 2016, the ASC received Ministerial approval and the Fee Rule became effective on December 1, 2016. We currently forecast that the ASC's fees and other revenue will increase by $10.0 million.

Cash flow and liquidity – Approximately 50% of annual fee revenues are received in the fourth quarter of each fiscal year, primarily due to annual registration renewals in January, while expenses are incurred relatively evenly over the fiscal year. This timing difference typically results in negative operating cash flow for the first three quarters and positive cash flow in the fourth quarter. The ASC used $4.5 million of operating cash flow during the six months ended September 30, 2016. In November, a cash transfer of $1.3 million from investments was required to provide funds for operations.

Capital assets – The fiscal 2017 capital budget is $665,000 including $560,000 for information technology (**IT**) with the remainder for furniture replacements and leasehold additions. During Q2 F2017 the ASC incurred capital additions of $228,000, primarily relating to IT purchases.

The unaudited interim financial statements for the period ended September 30, 2016 follow.

Statement of Financial Position

thousands of dollars	As at September 30, 2016	As at March 31, 2016
	(unaudited)	
Financial Assets		
Cash	4,478	10,013
Accounts receivable	8	402
Restricted cash	699	696
Investments (Note 2)	22,296	20,970
	27,481	32,081
Liabilities		
Accounts payable and accrued liabilities	3,183	4,613
Lease inducements	2,007	2,116
Accrued pension liability	8,402	8,000
	13,592	14,729
Net Financial Assets	13,889	17,352
Non-Financial Assets		
Capital assets	5,621	5,965
Prepaid expenses	264	261
	5,885	6,226
Accumulated Surplus	19,774	23,578
Accumulated surplus is comprised of:		
Accumulated operating surplus	18,820	23,135
Accumulated remeasurement gains	954	443
	19,774	23,578

The accompanying notes and schedule are part of these financial statements.

Statement of Changes in Net Financial Assets
(unaudited)

thousands of dollars	For the six months ended September 30		
	2016	2016	2015
	Budget (Note 4)	**Actual**	Actual
Operating deficit	(7,975)	(4,315)	(5,496)
Acquisition of capital assets	(333)	(228)	(218)
Amortization of capital assets	655	572	621
Losses on sale of tangible capital assets			1
Net capital assets	322	344	404
Prepayment of expenses		(218)	(239)
Reduction of prepaid expenses		215	200
Net prepaid expenses		(3)	(39)
Net remeasurement gains (losses)		511	(1,224)
Decrease in net financial assets	(7,653)	(3,463)	(6,355)
Net financial assets, beginning of period	17,352	17,352	19,093
Net financial assets, end of period	9,699	13,889	12,738

The accompanying notes and schedule are part of these financial statements.

Statement of Operations

(unaudited)

thousands of dollars	For the three months ended September 30			For the six months ended September 30		
	2016	**2016**	2015	**2016**	**2016**	2015
	Budget (Note 4)	**Actual**	Actual	**Budget** (Note 4)	**Actual**	Actual
Revenue						
Fees and other	**3,833**	**3,732**	4,354	**10,645**	**11,625**	11,759
Investment income	**252**	**400**	146	**504**	**846**	585
Other enforcement receipts	**125**	**52**	201	**249**	**557**	216
Administrative penalties	**63**	**225**	17	**126**	**256**	79
	4,273	**4,409**	4,718	**11,524**	**13,284**	12,639
Regulatory Expenses						
Salaries and benefits	**7,131**	**6,824**	6,981	**14,262**	**13,661**	13,957
Premises	**1,035**	**832**	834	**2,070**	**1,648**	1,718
Administration	**773**	**627**	549	**1,593**	**1,235**	1,260
Amortization of capital assets	**328**	**284**	316	**655**	**572**	621
Professional services	**408**	**200**	264	**815**	**379**	489
Investor education	**63**	**33**	60	**104**	**104**	90
	9,738	**8,800**	9,004	**19,499**	**17,599**	18,135
Operating deficit	**(5,465)**	**(4,391)**	(4,286)	**(7,975)**	**(4,315)**	(5,496)
Accumulated operating surplus, beginning of period	**20,625**	**23,211**	23,237	**23,135**	**23,135**	24,447
Accumulated operating surplus, end of period	**15,160**	**18,820**	18,951	**15,160**	**18,820**	18,951

The accompanying notes and schedule are part of these financial statements.

Statement of Remeasurement Gains and Losses

(unaudited)

thousands of dollars	For the three months ended September 30		For the six months ended September 30	
	2016	2015	**2016**	2015
Accumulated remeasurement gains, beginning of period	**765**	949	**443**	1,724
Unrealized gains (losses) on investments during the period	**189**	(280)	**511**	(1,055)
Less: Amounts reclassified during the period of the Statement of Operations	**-**	(169)	**-**	(169)
Net remeasurement gains (losses) for the period	**189**	(449)	**511**	(1,224)
Accumulated remeasurement gains, end of period	**954**	500	**954**	500

The accompanying notes and schedule are part of these financial statements.

Statement of Cash Flows

(unaudited)

thousands of dollars	For the three months ended September 30		For the six months ended September 30	
	2016	2015	**2016**	2015
Operating transactions				
Fees and other	**3,718**	4,345	**11,615**	11,727
Payments to and on behalf of employees	**(6,107)**	(6,270)	**(14,412)**	(15,083)
Payments to suppliers for goods and services	**(1,696)**	(1,795)	**(3,340)**	(4,169)
Investment income	**400**	146	**846**	585
Administrative penalties	**225**	254	**256**	316
Other enforcement receipts	**52**	124	**557**	139
Cash used in operating transactions	**(3,408)**	(3,196)	**(4,478)**	(6,485)
Capital transactions				
Cash used to acquire capital assets	**(215)**	(174)	**(240)**	(246)
Proceeds on disposal of capital assets		1	**-**	1
Cash used in capital transactions	**(215)**	(173)	**(240)**	(245)
Investing transactions				
Purchases of investments	**(385)**	(139)	**(814)**	(568)
Increase in restricted cash	**(1)**	(3)	**(3)**	(5)
Transfer from investment	**-**	4,000	**-**	4,000
Cash from investing transactions	**(386)**	3,858	**(817)**	3,427
Increase (Decrease) in cash and cash equivalents	**(4,009)**	489	**(5,535)**	(3,303)
Cash, beginning of period	**8,487**	3,272	**10,013**	7,064
Cash, end of period	**4,478**	3,761	**4,478**	3,761

The accompanying notes and schedule are part of these financial statements.

Notes to the Interim Financial Statements

(in thousands of dollars unless otherwise noted)

Note 1 Significant Accounting Policies

These interim financial statements have been prepared in accordance with Canadian public sector accounting standards. The accounting policies and methods of application adopted are consistent with those disclosed in note 2 of the Alberta Securities Commission's (**ASC**) annual audited financial statements for the year ended March 31, 2016. These interim financial statements do not contain all the disclosures required for annual financial statements and should be read in conjunction with the most recent annual audited financial statements.

Note 2 Investments

The ASC's investments are independently managed by the Alberta Investment Management Corporation (**AIMCo**). AIMCo is a provincial corporation responsible to the Minister of Finance. AIMCo invests the ASC's assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. The ASC does not participate in specific capital market investment decisions or transactions.

The following summarizes the ASC's investments.

	September 30, 2016				March 31, 2016			
	Cost	Remeasure-ment Gain	Fair Value	%	Cost	Remeasure-ment Gain	Fair Value	%
Investments								
CCITF deposit	80	-	80	0.4	80	-	80	0.4
Fixed-income securities	15,913	505	16,418	73.6	15,366	259	15,625	74.5
Canadian equities	5,349	449	5,798	26.0	5,081	184	5,265	25.1
	21,342	954	22,296	100.0	20,527	443	20,970	100.0

CCITF (Consolidated Cash Investment Trust Fund) is an AIMCo managed demand deposit cash and cash equivalents withdrawal account.

Note 3 Canadian Securities Administrators (CSA) National Systems

The CSA National Systems are comprised of the following: System for Electronic Document Analysis and Retrieval (SEDAR), National Registration Database (NRD) and System for Electronic Disclosure by Insiders (SEDI). These systems are administered under a CSA National Systems operations management and governance agreement (the Agreement). The Agreement empowers the ASC, jointly with three other CSA members, to manage the systems and to engage an external service provider to operate the systems. The ASC, as one of the agreement signatories, commits to pay 25 per cent of any shortfall from approved system operating costs that exceeds revenue. Alternatively, any revenue in excess of system operating costs (surplus) is accumulated for future systems operations including possible revenue shortfalls, fee adjustments and system enhancements. The surplus is not divisible; the CSA owns it as a group. As at September 30, 2016, the accumulated operating surplus totalled $137.3 million (March 31, 2016 - $139.9 million), primarily made up of $16.4 million cash held by the Ontario Securities Commission earning interest at 1.85 per cent below the prime rate and $115 million marketable securities held in one to two year term deposits earning 1.10 per cent to 1.70 per cent expiring in April and November 2017.

Note 4 Budget for the year ended March 31, 2017

Originally approved on January 13, 2016; subsequently amended and approved on April 13, 2016.

Revenue	
Fees and other	$30,305
Investment income	1,000
Administrative penalties and other enforcement receipts	750
Total revenue	32,055
Regulatory Expenses	
Salaries and benefits	28,524
Premises	4,135
Administration	3,207
Professional services	2,408
Amortization of capital assets	1,310
Investor education	520
Total regulatory expenses	40,104
Operating deficit	($8,049)

Budget Forecast

On October 17, 2016, the ASC received Ministerial approval in respect of ASC Rule 13-501 *Fees* (**Fee Rule**). As a result of the Fee Rule, we currently forecast that the ASC's fees and other revenue will increase by $10,000 to $40,305.

Quarterly budget allocations are determined as follows:

Revenues are prorated based on historical monthly cash receipt experience and anticipated changes in these patterns.

Enforcement receipts result from settlements and monetary orders (cost recoveries, disgorgements and administrative penalties). The budget amount reflects an estimate of cash receipts based on a historical average of annual enforcement receipts.

Expenses are generally amortized on a straight-line basis over twelve months except for certain expenses that have time specific forecasts such as IIROC registration fees and investor education expenses.

The timing variability of contract expenditures results in non-salary expenditure variances.