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

For the Nine Months Ended December 31, 2016
(unaudited)

ASC Reports Fiscal 2017 (F2017) Third Quarter Results

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of February 15, 2017, for the nine months ended December 31, 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 December 31, 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 December 31, 2016 (**Q3 F2017**) the ASC incurred an operating deficit of $3.7 million compared to a deficit of $3.8 million for the three months ended December 31, 2015 (**Q3 F2016**). The operating deficit for the nine months ended December 31, 2016 (**YTD F2017**) was $8.0 million compared to a deficit of $9.3 million for the nine months ended December 31, 2015 (**YTD F2016**).

On December 1, 2016, the ASC Rule 13-501 *Fees* (**Fee Rule**) became effective. One of the primary changes related to annual financial statements filing fees. The ASC moved from a fixed fee model to a participation fee model for reporting issuers based on market capitalization. Q3 F2017 revenue was $393,000 higher than the prior year primarily due to annual financial statements filing fees as a result of the Fee Rule and higher investment income, partially offset by lower other enforcement receipts. YTD F2017 revenue was $1.0 million higher than the prior year. This was driven by higher investment income, annual financial statements filing fees, and administrative penalties, partially offset by lower prospectus exempt distribution late filing fees.

Q3 F2017 regulatory expenses increased by $318,000 compared to the prior year. This was primarily due to increases in salaries and benefits expenses due to a lower staff vacancy rate than the prior year. YTD F2017 regulatory expenses were $218,000 lower than the prior year. This decrease was due to a property tax adjustment on premises and lower amortization expense.

Comparison to budget – The operating deficit for Q3 F2017 was $3.7 million compared to a budgeted deficit of $5.5 million. The operating deficit for YTD F2017 was $8.0 million which was $5.5 million less than the budgeted YTD F2017 operating deficit of $13.5 million. Q3 F2017 revenue exceeded budget by $1.2 million primarily due to higher distribution fees, annual financial statements filing fees and investment income. YTD F2017 revenue exceeded budget by $3.0 million due to higher distribution fees, investment income, annual financial statements filing fees and other enforcement receipts. 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.

Q3 F2017 and YTD F2017 regulatory expenses were $9.4 million and $26.9 million, compared to the budget of $9.9 million and $29.4 million, respectively, partially due to a higher staff vacancy rate than budgeted and cost control efforts on salaries and benefits, professional services and administration expenses. The premises expenses were also lower as a result of property tax adjustment.

The ASC's current fiscal 2017 revenue budget did not incorporate changes resulting from higher fees under the Fee Rule. We currently forecast that the ASC's fees and other revenue will increase by approximately $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 $6.8 million of operating cash flow during the nine months ended December 31, 2016 resulting in a cash balance of $3.1 million at quarter end. In January 2017, the ASC received over $11.8 million from annual registration renewal fees.

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. The ASC incurred capital additions of $306,000 during the nine months ended December 31, 2016, primarily relating to IT purchases.

The unaudited interim financial statements for the period ended December 31, 2016 follow.

Statement of Financial Position

thousands of dollars	As at December 31, 2016	As at March 31, 2016
	(unaudited)	
Financial Assets		
Cash	3,092	10,013
Accounts receivable	8	402
Restricted cash	701	696
Investments (Note 2)	20,740	20,970
	24,541	32,081
Liabilities		
Accounts payable and accrued liabilities	4,246	4,613
Lease inducements	1,952	2,116
Accrued pension liability	8,602	8,000
	14,800	14,729
Net Financial Assets	9,741	17,352
Non-Financial Assets		
Capital assets	5,422	5,965
Prepaid expenses	301	261
	5,723	6,226
Accumulated Surplus	15,464	23,578
Accumulated surplus is comprised of:		
Accumulated operating surplus	15,110	23,135
Accumulated remeasurement gains	354	443
	15,464	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 nine months ended December 31		
	2016	2016	2015
	Budget (Note 4)	**Actual**	Actual
Operating deficit	(13,506)	(8,025)	(9,281)
Acquisition of capital assets	(502)	(306)	(289)
Amortization of capital assets	983	849	937
Gains on sale of capital assets		(1)	-
Proceeds on sale of capital assets		1	1
Net capital assets	481	543	649
Prepayment of expenses		(376)	(357)
Reduction of prepaid expenses		336	313
Net prepaid expenses		(40)	(44)
Net remeasurement losses		(89)	(1,321)
Decrease in net financial assets	(13,025)	(7,611)	(9,997)
Net financial assets, beginning of period	17,352	17,352	19,093
Net financial assets, end of period	4,327	9,741	9,096

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

Statement of Operations
(unaudited)

thousands of dollars	For the three months ended December 31			For the nine months ended December 31		
	2016	**2016**	2015	**2016**	**2016**	2015
	Budget (Note 4)	**Actual**	Actual	**Budget** (Note 4)	**Actual**	Actual
Revenue						
Fees and other	**3,973**	**5,077**	4,682	**14,618**	**16,702**	16,441
Investment income	**252**	**353**	199	**756**	**1,199**	784
Other enforcement receipts	**125**	**135**	322	**374**	**692**	538
Administrative penalties	**63**	**64**	33	**189**	**320**	112
	4,413	**5,629**	5,236	**15,937**	**18,913**	17,875
Regulatory Expenses						
Salaries and benefits	**7,131**	**6,859**	6,592	**21,393**	**20,520**	20,549
Premises	**1,035**	**862**	900	**3,105**	**2,510**	2,618
Administration	**835**	**833**	746	**2,428**	**2,068**	2,006
Amortization of capital assets	**328**	**277**	316	**983**	**849**	937
Professional services	**412**	**366**	300	**1,227**	**745**	789
Investor education	**203**	**142**	167	**307**	**246**	257
	9,944	**9,339**	9,021	**29,443**	**26,938**	27,156
Operating deficit	**(5,531)**	**(3,710)**	(3,785)	**(13,506)**	**(8,025)**	(9,281)
Accumulated operating surplus, beginning of period	**15,160**	**18,820**	18,951	**23,135**	**23,135**	24,447
Accumulated operating surplus, end of period	**9,629**	**15,110**	15,166	**9,629**	**15,110**	15,166

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 December 31		For the nine months ended December 31	
	2016	2015	**2016**	2015
Accumulated remeasurement gains, beginning of period	**954**	500	**443**	1,724
Unrealized losses on investments during the period	**(556)**	(83)	**(45)**	(1,138)
Less: Amounts reclassified during the period of the Statement of Operations	**(44)**	(14)	**(44)**	(183)
Net remeasurement losses for the period	**(600)**	(97)	**(89)**	(1,321)
Accumulated remeasurement gains, end of period	**354**	403	**354**	403

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

Statement of Cash Flows

(unaudited)

thousands of dollars	For the three months ended December 31		For the nine months ended December 31	
	2016	2015	**2016**	2015
Operating transactions				
Fees and other	**5,239**	4,732	**16,854**	16,459
Payments to and on behalf of employees	**(5,961)**	(5,966)	**(20,373)**	(21,049)
Payments to suppliers for goods and services	**(2,123)**	(2,301)	**(5,463)**	(6,470)
Investment income	**353**	199	**1,199**	784
Other enforcement receipts	**135**	399	**692**	538
Administrative penalties (repayments)	**64**	(204)	**320**	112
Cash used in operating transactions	**(2,293)**	(3,141)	**(6,771)**	(9,626)
Capital transactions				
Cash used to acquire capital assets	**(48)**	(55)	**(288)**	(301)
Proceeds on disposal of capital assets	**1**	-	**1**	1
Cash used in capital transactions	**(47)**	(55)	**(287)**	(300)
Investing transactions				
Purchases of investments	**(344)**	(193)	**(1,158)**	(761)
Decrease (Increase) in restricted cash	**(2)**	281	**(5)**	276
Transfer from investments	**1,300**	1,000	**1,300**	5,000
Cash from investing transactions	**954**	1,088	**137**	4,515
Decrease in cash and cash equivalents	**(1,386)**	(2,108)	**(6,921)**	(5,411)
Cash, beginning of period	**4,478**	3,761	**10,013**	7,064
Cash, end of period	**3,092**	1,653	**3,092**	1,653

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.

	December 31, 2016				March 31, 2016			
	Cost	Remeasure-ment Gain	Fair Value	%	Cost	Remeasure-ment Gain	Fair Value	%
Investments								
CCITF deposit	81	-	81	0.4	80	-	80	0.4
Fixed-income securities	15,261	(149)	15,112	72.9	15,366	259	15,625	74.5
Canadian equities	5,044	503	5,547	26.7	5,081	184	5,265	25.1
	20,386	354	20,740	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 December 31, 2016, the accumulated operating surplus totalled $136.1 million (March 31, 2016 - $139.9 million), primarily made up of $11.2 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 December 1, 2016, the ASC Rule 13-501 Fees (Fee Rule) became effective. As a result of the Fee Rule, the ASC's fees and other revenue are forecast to increase by approximately $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.