

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

For the Three Months Ended June 30, 2017
(unaudited)

Management's Discussion and Analysis

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ASC REPORTS FISCAL 2018 (F2018) FIRST QUARTER RESULTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of September 13, 2017, for the three months ended June 30, 2017, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2017 annual report, as well as the June 30, 2017 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 June 30, 2017 (**Q1 F2018**), the ASC incurred an operating surplus of \$1.4 million compared to a surplus of \$76,000 for the three months ended June 30, 2016 (**Q1 F2017**). On December 1, 2016, ASC Rule 13-501 Fees (**Fee Rule**) became effective. One of the more significant changes to fees resulting from the Fee Rule related to annual financial statement filing fees that changed from a fixed fee model to a participation fee model based on average market capitalization for certain reporting issuers. Q1 F2018 revenue was \$1.9 million (21.6 per cent) higher than the prior year primarily due to annual financial statement filing fees and registration fees as a result of the Fee Rule, partially offset by lower investment income and other enforcement receipts.

Q1 F2018 regulatory expenses increased by \$592,000 (6.7 per cent) compared to the prior year. This was primarily due to increased salaries and benefits expenses due to a lower staff vacancy rate of 6.3 per cent (Q1 F2017 – 7.0 per cent) and use of additional contractors than the prior year as well as other office operating costs.

Comparison to budget – The operating surplus for Q1 F2018 was \$1.4 million compared to a budgeted deficit of \$1.3 million. Q1 F2018 revenue exceeded budget by \$2.2 million (25.0 per cent) primarily due to higher distribution fees contributed by prospectus exempt distribution filings and strong performance in mutual fund sales, annual financial statement filing fees as a result of an increase in average market capitalization and the timing of the filings received, and other enforcement receipts.

Q1 F2018 regulatory expenses were \$505,000 (5.1 per cent) lower than the budgeted regulatory expenses of \$9.9 million, primarily due to a higher staff vacancy rate than the budgeted vacancy rate of 6.0 per cent and lower professional services and administration expenses.

The ASC's fiscal 2018 year-end operating surplus is currently estimated to be \$6.2 million, which is consistent with budget. The ASC operates on a cost recovery basis and has operated at a structural deficit from fiscal 2011 to 2016. An operating surplus resulting from the new fee rule was expected and necessary to ensure that the ASC continues to deliver quality results in accordance with its mandate and to meet its existing and future operational budgets.

Cash flow and liquidity – The majority of annual fee revenue is received in the fourth quarter of each fiscal year primarily due to annual registration renewals in January and annual financial statement filing fees from February to April, 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. Consistent with this, we had a negative operating cash flow of \$370,000 during the three months ended June 30, 2017.

Capital assets – The fiscal 2018 capital budget is \$1.0 million including \$650,000 for information technology (IT) with the remainder for furniture replacements and leasehold improvements. The ASC incurred capital additions of \$202,000 during the three months ended June 30, 2017, primarily relating to leasehold improvements and IT purchases.

The unaudited interim financial statements for the period ended June 30, 2017 follow.

STATEMENT OF FINANCIAL POSITION

<i>thousands of dollars</i>	At June 30, 2017 (unaudited)	At March 31, 2017
Financial Assets		
Cash	15,873	16,815
Accounts receivable	10	32
Restricted cash	541	535
Investments (Note 2)	29,348	29,198
	45,772	46,580
Liabilities		
Accounts payable and accrued liabilities	3,070	5,284
Lease inducements	1,843	1,898
Accrued pension liability	8,937	8,763
	13,850	15,945
Net Financial Assets	31,922	30,635
Non-Financial Assets		
Capital assets	5,375	5,429
Prepaid expenses	295	241
	5,670	5,670
Accumulated Surplus	37,592	36,305
Accumulated surplus is comprised of:		
Accumulated operating surplus	37,098	35,700
Accumulated remeasurement gains	494	605
	37,592	36,305

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

**STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
(unaudited)**

	For the three months ended June 30		
	2017	2017	2016
	Budget (Note 4)	Actual	Actual
<i>thousands of dollars</i>			
Operating Surplus (Deficit)	(1,266)	1,398	76
Acquisition of capital assets	(253)	(202)	12
Amortization of capital assets	312	256	288
Gains on sale of capital assets		(1)	-
Proceeds on sale of capital assets		1	-
Prepayment of expenses		(164)	(168)
Reduction of prepaid expenses		110	98
Net remeasurement gains (losses)		(111)	322
Increase (Decrease) in net financial assets	(1,207)	1,287	628
Net financial assets, beginning of period	30,635	30,635	17,352
Net financial assets, end of period	29,428	31,922	17,980

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

**STATEMENT OF OPERATIONS
(unaudited)***thousands of dollars***For the three months ended June 30**

	2017	2017	2016
	Budget (Note 4)	Actual	Actual
Revenue			
Fees and other	8,193	10,092	7,893
Other enforcement receipts	125	386	505
Investment income	249	292	446
Administrative penalties	63	19	31
	8,630	10,789	8,875
Regulatory Expenses			
Salaries and benefits	7,405	7,225	6,837
Premises	850	831	816
Administration	827	737	608
Professional services	442	284	179
Amortization of capital assets	312	255	288
Investor education	60	59	71
	9,896	9,391	8,799
Operating Surplus (Deficit)	(1,266)	1,398	76
Accumulated operating surplus, beginning of period	35,700	35,700	23,135
Accumulated operating surplus, end of period	34,434	37,098	23,211

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 June 30**

	2017	2016
Accumulated remeasurement gains, beginning of period	605	443
Unrealized gains (losses) on investments during the period	(111)	322
Net remeasurement gains (losses) for the period	(111)	322
Accumulated remeasurement gains, end of period	494	765

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

**STATEMENT OF CASH FLOWS
(unaudited)**

<i>thousands of dollars</i>	For the three months ended June 30	
	2017	2016
Operating Transactions		
Fees and other	10,072	7,897
Payments to and on behalf of employees	(8,784)	(8,305)
Payments to suppliers for goods and services	(2,355)	(1,644)
Other enforcement receipts	386	505
Investment income	292	446
Administrative penalties	19	31
Cash used in operating transactions	(370)	(1,070)
Capital Transactions		
Cash used to acquire capital assets	(307)	(25)
Proceeds on sale of capital assets	1	-
Cash used in capital transactions	(306)	(25)
Investing Transactions		
Increase in restricted cash	(6)	(2)
Purchases of investments	(260)	(429)
Cash used in investing transactions	(266)	(431)
Decrease in cash	(942)	(1,526)
Cash, beginning of period	16,815	10,013
Cash, end of period	15,873	8,487

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, 2017. 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.

<i>thousands of dollars</i>							
		June 30, 2017			March 31, 2017		
Investments	Cost	Remeasurement Gains (Losses)	Fair Value	%	Cost	Fair Value	%
CCITF deposit	81	–	81	0.3	81	81	0.3
Fixed-income securities	22,108	(72)	22,036	75.1	21,870	21,785	74.6
Canadian equities	6,665	566	7,231	24.6	6,642	7,332	25.1
	28,854	494	29,348	100.0	28,593	29,198	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 25.0 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 June 30, 2017, the accumulated operating surplus totalled \$152.0 million (March 31, 2017 - \$151.7 million), primarily made up of \$29.7 million cash held by the Ontario Securities Commission earning interest at 1.85 per cent below the prime rate and \$105.0 million marketable securities held in one to two year term deposits earning 1.5 per cent to 1.7 per cent.

Note 4 Budget for the year ended March 31, 2018

The budget was approved on December 14, 2016.

Revenue	
Fees and other	\$45,473
Investment income	1,000
Administrative penalties and other enforcement receipts	750
Total revenue	<u>47,223</u>
Regulatory Expenses	
Salaries and benefits	29,530
Premises	3,400
Administration	3,287
Professional services	2,809
Amortization of capital assets	1,250
Investor education	735
Total regulatory expenses	<u>41,011</u>
Operating surplus	<u>6,212</u>

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.