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

For the Six Months Ended September 30, 2017
(unaudited)

ASC Reports Fiscal 2018 (F2018) Second Quarter Results

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of November 22, 2017, for the six months ended September 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 September 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 September 30, 2017 (**Q2 F2018**) the ASC incurred an operating deficit of $3.3 million compared to a deficit of $4.4 million for the three months ended September 30, 2016 (**Q2 F2017**). The operating deficit for the six months ended September 30, 2017 (**YTD F2018**) was $1.9 million compared to a deficit of $4.3 million for the six months ended September 30, 2016 (**YTD F2017**).

On December 1, 2016, ASC Rule 13-501 *Fees* **(Fee Rule)** became effective. One of the 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 non-investment fund reporting issuers. Q2 F2018 total revenue was $1.5 million (33.4 per cent) higher than the prior year, primarily due to higher distribution fees from mutual fund issuers, annual financial statement filing fees and investment income. This was partially offset by lower administrative penalties. YTD F2018 revenue was $3.4 million (25.5 per cent) higher than the prior year, primarily due to annual financial statement filing and registration fees as a result of the Fee Rule. In addition, there were higher distribution fees from mutual fund issuers and investment income; however, this was partially offset by lower administrative penalties and other enforcement receipts.

Q2 F2018 and YTD F2018 regulatory expenses increased by $415,000 (4.7 per cent) and $1.0 million (5.7 per cent), respectively, compared to the prior year. This increase was primarily due to a lower YTD F2018 staff vacancy rate of 6.7 per cent (YTD F2017 – 7.4 per cent) and use of additional contractors as well as other office operating costs.

Comparison to budget – The operating deficit for Q2 F2018 was $3.3 million compared to a budgeted deficit of $5.4 million. The operating deficit for YTD F2018 was $1.9 million compared to a budgeted deficit of $6.6 million. Q2 F2018 revenue exceeded budget by $1.6 million (36.6 per cent), primarily due to higher distribution fees, investment income and registration fees. YTD F2018 revenue exceeded budget by $3.7 million (28.9 per cent), primarily due to higher distribution fees, annual financial statement filing fees, investment income and registration fees.

Q2 F2018 and YTD F2018 regulatory expenses were $446,000 (4.6 per cent) and $951,000 (4.9 per cent) lower than budget, respectively, partially due to a higher staff vacancy rate of 6.7 per cent than the budgeted vacancy rate of 6.0 per cent, and lower administrative and professional services expenses.

Based on year-to-date results, we currently forecast that the ASC's revenue will increase by $3.5 million compared to the fiscal 2018 budget. This is primarily due to higher distribution and annual financial statement filing fees, and investment income. We also forecast that the ASC's expenses will increase by $200,000 due to a change in legislation which will require the ASC to resume paying property taxes on January 1, 2018.The ASC operates on a cost recovery basis and operated at a structural deficit from fiscal 2011 to 2016. An operating surplus resulting from the Fee Rule was expected and necessary to ensure that the ASC continues to meet its existing and future operational goals and budgets.

Cash flow and liquidity – The majority of annual fee revenue is received in the fourth quarter of each fiscal year, primarily from annual registration renewals in January and annual financial statement filing fees recognized from February to April, while expenses are incurred relatively evenly over the fiscal year. This difference in the receipt of revenue and expenses incurred results in negative operating cash flow for the first three quarters and positive operating cash flow in the fourth quarter. Consistent with this, there was a negative operating cash flow of $2.6 million during the six months ended September 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 $543,000 during the six months ended September 30, 2017, primarily relating to leasehold improvements and furniture as the ASC leased additional office space. Based on year-to-date results, we currently forecast that the ASC's capital expenditures will be $90,000 higher than budgeted due to renovation costs related to the capital additions described above.

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

STATEMENT OF FINANCIAL POSITION

thousands of dollars	At September 30, 2017 (unaudited)	At March 31, 2017
Financial Assets		
Cash	12,445	16,815
Accounts receivable	134	32
Restricted cash	543	535
Investments	29,312	29,198
	42,434	46,580
Liabilities		
Accounts payable and accrued liabilities	3,589	5,284
Lease inducements	1,908	1,898
Accrued pension liability	9,117	8,763
	14,614	15,945
Net Financial Assets	27,820	30,635
Non-Financial Assets		
Capital assets	5,450	5,429
Prepaid expenses	213	241
	5,663	5,670
Accumulated Surplus	33,483	36,305
Accumulated surplus is comprised of:		
Accumulated operating surplus	33,766	35,700
Accumulated remeasurement gains (losses)	(283)	605
	33,483	36,305

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

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
(unaudited)

thousands of dollars	For the six months ended September 30		
	2017	2017	2016
	Budget	Actual	Actual
Operating Deficit	(6,621)	(1,934)	(4,315)
Acquisition of capital assets	(505)	(543)	(228)
Amortization of capital assets	625	522	572
Gains on sale of capital assets		(1)	-
Proceeds on sale of capital assets		1	-
Prepayment of expenses		(204)	(218)
Reduction of prepaid expenses		232	215
Net remeasurement gains (losses)		(888)	511
Decrease in net financial assets	(6,501)	(2,815)	(3,463)
Net financial assets, beginning of period	30,635	30,635	17,352
Net financial assets, end of period	24,134	27,820	13,889

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		
	2017	2017	2016	2017	2017	2016
	Budget	Actual	Actual	Budget	Actual	Actual
Revenue						
Fees and other	3,870	5,020	3,732	12,063	15,112	11,625
Investment income	249	777	400	498	1,069	846
Other enforcement receipts	124	66	52	249	452	557
Administrative penalties	63	20	225	126	39	256
	4,306	5,883	4,409	12,936	16,672	13,284
Regulatory Expenses						
Salaries and benefits	7,227	7,127	6,824	14,632	14,352	13,661
Premises	850	871	832	1,700	1,702	1,648
Administration	780	577	627	1,607	1,314	1,235
Professional services	441	313	200	883	597	379
Amortization of capital assets	313	266	284	625	521	572
Investor education	50	61	33	110	120	104
	9,661	9,215	8,800	19,557	18,606	17,599
Operating Deficit	(5,355)	(3,332)	(4,391)	(6,621)	(1,934)	(4,315)
Accumulated operating surplus, beginning of period	34,434	37,098	23,211	35,700	35,700	23,135
Accumulated operating surplus, end of period	29,079	33,766	18,820	29,079	33,766	18,820

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	
	2017	2016	2017	2016
Accumulated remeasurement gains, beginning of period	494	765	605	443
Unrealized gains (losses) on investments during the period	(512)	189	(623)	511
Amounts reclassified during the period to the Statement of Operations	(265)	-	(265)	-
Net remeasurement gains (losses) for the period	(777)	189	(888)	511
Accumulated remeasurement gains (losses), end of period	(283)	954	(283)	954

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	
	2017	2016	**2017**	2016
Operating Transactions				
Fees and other	**5,038**	3,718	**15,110**	11,615
Payments to and on behalf of employees	**(6,363)**	(6,107)	**(15,147)**	(14,412)
Payments to suppliers for goods and services	**(1,781)**	(1,696)	**(4,136)**	(3,340)
Investment income	**777**	400	**1,069**	846
Other enforcement receipts	**66**	52	**452**	557
Administrative penalties	**20**	225	**39**	256
Cash used in operating transactions	**(2,243)**	(3,408)	**(2,613)**	(4,478)
Capital Transactions				
Cash used to acquire capital assets	**(442)**	(215)	**(749)**	(240)
Proceeds on sale of capital assets	**-**	-	**1**	-
Cash used in capital transactions	**(442)**	(215)	**(748)**	(240)
Investing Transactions				
Purchases of investments	**(741)**	(385)	**(1,001)**	(814)
Increase in restricted cash	**(2)**	(1)	**(8)**	(3)
Cash used in investing transactions	**(743)**	(386)	**(1,009)**	(817)
Decrease in cash and cash equivalents	**(3,428)**	(4,009)	**(4,370)**	(5,535)
Cash, beginning of period	**15,873**	8,487	**16,815**	10,013
Cash, end of period	**12,445**	4,478	**12,445**	4,478

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. On August 1, the ASC implemented a new investment policy and acquired investments in the Global Equities Master Pool. 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.

thousands of dollars	September 30, 2017				March 31, 2017		
Investments	Cost	Remeasurement Gains (Losses)	Fair Value	%	Cost	Fair Value	%
Fixed-income securities	20,612	(586)	20,026	68.3	21,870	21,785	74.6
Global Equities	6,807	157	6,964	23.8	-	-	-
Canadian equities	2,053	146	2,199	7.5	6,642	7,332	25.1
CCITF deposit	123	–	123	0.4	81	81	0.3
	29,595	(283)	29,312	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 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, 2017, the accumulated operating surplus totalled $150.4 million (March 31, 2017 - $151.7 million), primarily made up of $24.6 million cash held by the Ontario Securities Commission earning interest at 1.85 per cent below the prime rate and $105 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	47,223
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	41,011
Operating surplus	$6,212

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.