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

For the Six Months Ended September 30, 2018
(unaudited)

ASC Reports Fiscal 2019 (F2019) Second Quarter Results

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of December 12, 2018, for the six months ended September 30, 2018, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2018 annual report, as well as the September 30, 2018 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 both the three months ended September 30, 2018 (**Q2 F2019**) and September 30, 2017 (**Q2 F2018**), the ASC incurred an operating deficit of $3.3 million. The operating deficit for the six months ended September 30, 2018 (**YTD F2019**) was $1.8 million compared to a deficit of $1.9 million for the six months ended September 30, 2017 (**YTD F2018**).

Q2 F2019 total revenue was $388,000 (6.6 per cent) higher than the prior year, primarily due to higher annual financial statement filing fees, investment income and other enforcement receipts. YTD F2019 revenue was $743,000 (4.5 per cent) higher than the prior year primarily due to higher investment income, annual financial statement filing fees, distribution fees from mutual fund issuers and registration fees. This was partially offset by lower other enforcement receipts.

Q2 F2019 and YTD F2019 regulatory expenses increased by $330,000 (3.6 per cent) and $590,000 (3.2 per cent), respectively, compared to the prior year. This increase was primarily due to the reinstatement of property tax, and higher professional services and administration expenses than the prior year; partially offset by lower benefits expenses.

Comparison to budget – The operating deficit for Q2 F2019 was $3.3 million compared to a budgeted deficit of $5.3 million. The operating deficit for YTD F2019 was $1.8 million compared to a budgeted deficit of $6.0 million. Q2 F2019 revenue exceeded budget by $1.2 million (24.7 per cent), primarily due to higher investment income, distribution fees and annual financial statement filing fees. This was partially offset by lower other enforcement receipts and administrative penalties. YTD F2019 revenue exceeded budget by $2.6 million (17.7 per cent), primarily due to higher distribution fees from mutual fund issuers, investment income, annual financial statement filing fees and registration fees. This was partially offset by lower other enforcement receipts and administrative penalties.

Q2 F2019 and YTD F2019 regulatory expenses were $757,000 (7.3 per cent) and $1.6 million (7.7 per cent) lower than budget, respectively, partially due to a higher staff vacancy rate, and lower professional services and administrative expenses.

The ASC's fiscal 2019 year-end operating surplus is currently estimated to be $8.0 million, which is consistent with budget. From F2011 to F2016, the ASC operated at a structural deficit, at which time the investment balance was drawn down to the minimum sustainable balance, thereby forestalling a fee increase for as long as possible. An operating surplus from the new fee rule was expected and will be used to ensure that the ASC is appropriately funded to meet its existing and future capital and operating requirements; execute its strategic plan; protect investors through education and enforcement initiatives; and continue to have a strong presence to advocate effectively for Alberta's unique capital market in national initiatives.

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 significant annual financial statement filing fees received 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 operating cash flow in the fourth quarter. Consistent with this, there was a negative operating cash flow of $3.0 million during the six months ended September 30, 2018.

Capital assets – The fiscal 2019 capital budget is $860,000, including $650,000 for information technology (**IT**) with the remainder for furniture replacements and leasehold improvements. The ASC incurred capital additions of $344,000 during the six months ended September 30, 2018, primarily relating to IT purchases and furniture replacements.

The unaudited interim financial statements for the period ended September 30, 2018 follow.

STATEMENT OF FINANCIAL POSITION

thousands of dollars	At September 30, 2018 (unaudited)	At March 31, 2018
Financial Assets		
Cash	12,638	17,691
Accounts receivable	11	29
Restricted cash	1	-
Investments (Note 2)	46,137	45,273
	58,787	62,993
Liabilities		
Accounts payable and accrued liabilities	3,611	5,606
Lease inducements	1,675	1,792
Accrued pension liability	9,935	9,814
	15,221	17,212
Net Financial Assets	43,566	45,781
Non-Financial Assets		
Capital assets	5,177	5,410
Prepaid expenses	295	197
	5,472	5,607
Accumulated Surplus	49,038	51,388
Accumulated surplus is comprised of:		
Accumulated operating surplus	49,571	51,352
Accumulated remeasurement gains (losses)	(533)	36
	49,038	51,388

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		
	2018	2018	2017
	Budget (Note 4)	Actual	Actual
Operating Deficit	(5,996)	(1,781)	(1,934)
Acquisition of capital assets	(410)	(344)	(543)
Amortization of capital assets	560	577	522
Gains on sale of capital assets		-	(1)
Proceeds on sale of capital assets		-	1
Prepayment of expenses		(330)	(204)
Reduction of prepaid expenses		232	232
Net remeasurement losses		(569)	(888)
Decrease in net financial assets	(5,846)	(2,215)	(2,815)
Net financial assets, beginning of period	45,781	45,781	30,635
Net financial assets, end of period	39,935	43,566	27,820

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		
	2018	2018	2017	2018	2018	2017
	Budget (Note 4)	Actual	Actual	Budget (Note 4)	Actual	Actual
Revenue						
Fees and other	4,408	5,260	5,020	13,559	15,613	15,112
Investment income	375	858	777	750	1,558	1,069
Other enforcement receipts	181	123	66	362	197	452
Administrative penalties	63	30	20	125	47	39
	5,027	6,271	5,883	14,796	17,415	16,672
Regulatory Expenses						
Salaries and benefits	7,491	7,068	7,127	15,101	14,239	14,352
Premises	1,125	1,106	871	2,250	2,193	1,702
Administration	832	677	577	1,708	1,394	1,314
Professional services	506	346	313	1,023	693	597
Amortization of capital assets	290	292	266	560	577	521
Investor education	58	56	61	150	100	120
	10,302	9,545	9,215	20,792	19,196	18,606
Operating Deficit	(5,275)	(3,274)	(3,332)	(5,996)	(1,781)	(1,934)
Accumulated operating surplus, beginning of period	50,631	52,845	37,098	51,352	51,352	35,700
Accumulated operating surplus, end of period	45,356	49,571	33,766	45,356	49,571	33,766

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	
	2018	2017	2018	2017
Accumulated remeasurement gains, beginning of period	202	494	36	605
Unrealized losses on investments during the period	(735)	(512)	(569)	(623)
Less: Amounts reclassified during the period to the Statement of Operations	-	(265)	-	(265)
Net remeasurement losses for the period	(735)	(777)	(569)	(888)
Accumulated remeasurement losses, end of period	(533)	(283)	(533)	(283)

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	
	2018	2017	**2018**	2017
Operating Transactions				
Fees and other	**5,343**	5,038	**15,559**	15,110
Payments to and on behalf of employees	**(6,624)**	(6,363)	**(15,411)**	(15,147)
Payments to suppliers for goods and services	**(2,249)**	(1,781)	**(4,920)**	(4,136)
Investment income	**858**	777	**1,558**	1,069
Other enforcement receipts	**123**	66	**197**	452
Administrative penalties	**30**	20	**47**	39
Cash used in operating transactions	**(2,519)**	(2,243)	**(2,970)**	(2,613)
Capital Transactions				
Cash used to acquire capital assets	**(222)**	(442)	**(650)**	(749)
Proceeds on sale of capital assets	**-**	-	**-**	1
Cash used in capital transactions	**(222)**	(442)	**(650)**	(748)
Investing Transactions				
Purchases of investments	**(795)**	(741)	**(1,432)**	(1,001)
Increase in restricted cash	**-**	(2)	**(1)**	(8)
Cash used in investing transactions	**(795)**	(743)	**(1,433)**	(1,009)
Decrease in cash	**(3,536)**	(3,428)	**(5,053)**	(4,370)
Cash, beginning of period	**16,174**	15,873	**17,691**	16,815
Cash, end of period	**12,638**	12,445	**12,638**	12,445

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, 2018. 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.

thousands of dollars	September 30, 2018				March 31, 2018		
Investments	Cost	Remeasurement Gains (Losses)	Fair Value	%	Cost	Fair Value	%
Fixed-income securities	32,395	(760)	31,635	68.5	31,885	31,587	69.8
Global Equities	10,856	114	10,970	23.8	10,150	10,331	22.8
Canadian equities	3,189	113	3,302	7.2	2,974	3,127	6.9
CCITF deposit	230	–	230	0.5	228	228	0.5
	46,670	(533)	46,137	100.0	45,237	45,273	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, 2018, the accumulated operating surplus totalled $160.6 million ($162.9 million at March 31, 2018), This was primarily made up of $115.7 million of marketable securities held in one-year and 15-month term deposits earning 1.8 per cent to 2.4 per cent and an investment account which pays interest at Bank of Canada overnight prime rate plus 0.5 per cent, $20.4 million in intangible assets and $19.0 million cash held by the Ontario Securities Commission earning interest at 1.85 per cent below the prime rate. In management's judgment, this arrangement is not a government partnership and the ASC does not control or have significant influence over how the net assets are managed.

Note 4 Budget for the year ended March 31, 2019

The budget was originally approved on December 13, 2017; subsequently amended and approved on June 6, 2018.

Revenue	
Fees and other	$49,186
Investment income	1,500
Administrative penalties and other enforcement receipts	975
Total revenue	51,661
Regulatory Expenses	
Salaries and benefits	30,568
Premises	4,500
Administration	3,478
Professional services	3,113
Amortization of capital assets	1,200
Investor education	835
Total regulatory expenses	43,694
Operating surplus	7,967

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.