

ALBERTA SECURITIES COMMISSION

Interim Financial Statements and Management's Discussion & Analysis

For the Six Months Ended September 30, 2011
(unaudited)

Management's Discussion and Analysis

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ASC REPORTS FISCAL 2012 SECOND QUARTER RESULTS MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A), prepared as of October 14, 2012 for the six months ended September 30, 2011 should be read in conjunction with annual MD&A and financial statements reported in the Commission's Annual Report, as well as the appended September 30, 2011 interim financial statements.

During the second quarter ended September 30, 2011 the Alberta Securities Commission (ASC) lost \$3.5 million compared to a loss of \$3.1 million in the second quarter of the prior year. Revenues in the current quarter were \$731,000 less than the second quarter of last year. Investment income decreased \$806,000, the result of equity market selloffs, while fee revenue increased marginally by \$37,000. Revenues were also impacted by the variable nature of enforcement receipts for settlements and administrative penalties that were \$40,000 greater in the current quarter. Expenses decreased \$337,000 in the current period, the result of higher costs in the prior year quarter for information technology projects, professional services that vary because of project timing and compensation costs arising from a retirement.

Comparison to Budget - The second quarter loss of \$3.5 million was less than the budgeted loss of \$4.8 million. Revenues were less than budget by \$446,000, primarily because of investment losses in the equity markets that were partially offset by fee strength. Expenses were \$1.76 million less than budget due to professional staff vacancies, the variable timing of projects and related professional services costs, the timing of investor education expenditures and an unused budget contingency.

The fiscal year-end loss is forecast to be approximately \$2.8 million less than the \$7.8 million budget loss, primarily because of unused budget contingency and staff vacancies.

Cash flow and Liquidity - The Commission's cash flow during the first nine months is negative because 50% of annual fee revenues are received in the 4th quarter. A cash transfer from investments of approximately \$1 million may be required in the third quarter to provide funds for operations.

Capital assets - Capital additions planned for F2012 of approximately \$550,000 are primarily for information technology development and final furniture, fixtures and technology enhancements arising from the December 2010 office relocation. Costs incurred to date include fixtures of \$72,000 and new location technology enhancements of \$34,000.

Copies of the unaudited interim financial statements for the period ended September 30, 2011 follow.

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The Alberta Securities Commission (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.

Statement of Financial Position

(\$ thousands)

	September 30 2011	March 31 2011
	(unaudited)	
Assets		
Cash	\$ 4,150	\$ 9,114
Accounts receivable	42	140
Prepaid expenses	83	112
Investments (Note 2)	28,642	28,238
Capital assets	9,294	9,991
	\$ 42,211	\$ 47,595
Liabilities		
Accounts payable and accrued liabilities	\$ 3,033	\$ 4,084
Accrued vacation and benefit liabilities	501	501
Lease inducement	3,103	3,213
Accrued benefit liability	4,623	4,351
	11,260	12,149
Net assets		
Net assets, beginning of period	35,446	37,772
Net operating results	(4,495)	(2,326)
Net assets, end of period	30,951	35,446
	\$ 42,211	\$ 47,595

The accompanying notes are part of these financial statements.

Statement of Operations

	(\$ thousands)			(\$ thousands)		
	For the three months ended			For the six months ended		
	September 30			September 30		
	2011		2010	2011		2010
	Budget	Actual	Actual	Budget	Actual	Actual
	(Note 4)			(Note 4)		
Revenue						
Fees	\$ 3,502	\$ 3,608	\$ 3,571	\$ 8,899	\$ 9,662	\$ 8,743
Investment (loss) Income	429	(115)	691	858	447	1,004
Settlement payments and cost recoveries	-	274	205	-	346	580
Conference fees and other	-	0	2	-	2	15
Administrative penalties	330	69	98	660	76	119
	4,261	3,836	4,567	10,417	10,533	10,461
Expense						
Salaries and benefits	5,921	\$ 5,307	5,547	11,840	10,711	10,775
Administration	788	640	561	1,685	1,371	1,277
Professional services	789	302	518	1,565	745	1,073
Premises	632	629	557	1,264	1,339	1,108
Amortization	322	401	388	643	803	775
Investor education	145	55	100	205	59	211
	8,597	7,334	7,671	17,202	15,028	15,219
Budget contingency	497			994		
Net operating results	\$ (4,833)	\$ (3,498)	\$ (3,104)	\$ (7,779)	\$ (4,495)	\$ (4,758)

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

Statement of Cash Flows

(unaudited)

(\$ thousands)

	For the three months ended September 30		For the six months ended September 30	
	2011	2010	2011	2010
Operating transactions				
Fees and other	\$ 3,618	\$ 3,565	\$ 9,656	\$ 8,726
Settlement payments and cost recoveries	273	205	346	580
Payments to and on behalf of employees	(4,871)	(4,763)	(11,004)	(10,919)
Payments to suppliers for goods and services	(1,432)	(1,987)	(3,213)	(3,924)
Investment (loss) income	(115)	691	447	1,004
Administrative penalties	71	107	79	135
Cash used in operating transactions	(2,456)	(2,182)	(3,689)	(4,398)
Capital transactions				
Cash used to acquire capital assets	(42)	(2,051)	(871)	(3,169)
Cash used in capital transactions	(42)	(2,051)	(871)	(3,169)
Investing transactions				
(Increase) decrease in restricted cash	(1)	(1)	(1)	(2)
Decrease (Increase) in portfolio investments	134	(676)	(404)	(969)
Cash not required for (retained in) investments	133	(677)	(405)	(971)
Decrease in cash	(2,365)	(4,910)	(4,964)	(8,538)
Opening cash	6,515	7,715	9,114	11,343
Closing cash	\$ 4,150	\$ 2,805	\$ 4,150	\$ 2,805

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

Notes to the Interim Financial Statements

(\$ thousands)

Note 1 Significant Accounting Policies

These interim financial statements have been prepared in accordance with Canadian public sector accounting standards and include certain financial statement line item presentation and disclosure changes from the most recent annual audited financial statements dated March 31, 2011. These interim financial statements do not contain all the disclosures required for annual financial statements and should, accordingly, be read together with the most recent annual audited financial statements.

Note 2 Investments

The Alberta Securities Commission (ASC) investments are independently managed by The Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance and Enterprise. The ASC does not participate in capital market investment decisions or transactions.

The following summarizes the ASC's investments:

	September 30,			March 31, 2011		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	\$ 4,150	\$ 4,150		\$ 9,114	\$ 9,114	
Investments						
Deposit in the CCITF	\$ 76	\$ 76	0.3	\$ 75	\$ 75	0.2
Fixed-income securities	21,528	22,145	76.1	21,041	20,823	71.9
Equities	7,038	6,874	23.6	7,122	8,080	27.9
	\$ 28,642	\$29,095	100.0	\$ 28,238	\$28,978	100.0

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

Note 3 Funds held for others, Market Integrity Computer Analysis (MICA) and Canadian Securities Administrators (CSA)

The Ontario Securities Commission was holding at September 30, 2011 approximately \$65 million in trust for the principal CSA administrators who administer CSA operated national systems. These funds represent fees paid by users of CSA national systems that exceed costs of system operation. The principal CSA administrators, including the ASC, have agreed that these surplus amounts can only be used to offset any shortfall in revenues, to develop or enhance the systems and to reduce fees charged to users. The CSA is remediating these systems and has spent, to date, funds held in trust of approximately \$1.5 million.

Note 4 Budget for the year ended March 31, 2012
Approved by the Commission January 12, 2011

(\$ thousands)

Revenue

Fees and other	\$26,499
Investment income	1,714
Administrative penalty and settlement receipts	1,300
Total revenue	<u>29,513</u>

Expense

Salaries and benefits	23,664
Administration	3,516
Professional services	3,704
Premises	2,528
Amortization	1,286
Investor education	615
Total expense	<u>35,313</u>
Budget contingency	<u>1,987</u>
Loss	<u><u>(\$7,787)</u></u>

Quarterly budget allocations are determined as follows:

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

Expenses are amortized on a straight-line basis over 12 months except for certain expenses aggregating \$4.7 million that have time specific forecasts.

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

Budgets for administrative penalty and settlement receipts are based on historical annual averages and allocated on a monthly straight-line basis. These receipts are the result of settlement negotiations, hearing outcomes and cost recovery assessments. Actual receipt quantum and timing is not predictable.

The fiscal 2012 budget includes a contingency of \$2.0 million. The Commission has not used any of this contingency to date.