

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

For the Three Months Ended June 30, 2022
(unaudited)

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ASC REPORTS FISCAL 2023 (F2023) FIRST QUARTER RESULTS

STATEMENT OF FINANCIAL POSITION

<i>thousands of dollars</i>	At June 30, 2022 (unaudited)	At March 31, 2022
Financial Assets		
Cash	13,063	31,983
Accounts receivable	257	112
Investments	113,112	101,713
	126,432	133,808
Liabilities		
Accounts payable and accrued liabilities	3,236	3,878
Lease inducements	848	911
Accrued pension liability	10,286	10,398
	14,370	15,187
Net Financial Assets	112,062	118,621
Non-Financial Assets		
Capital assets	3,063	3,330
Prepaid expenses	687	575
	3,750	3,905
Accumulated Surplus	115,812	122,526
Accumulated surplus is comprised of:		
Accumulated operating surplus	129,404	127,440
Accumulated remeasurement losses	(13,592)	(4,914)
	115,812	122,526

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

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
(unaudited)

<i>thousands of dollars</i>	For the three months ended June 30		
	2022	2022	2021
	Budget	Actual	Actual
Operating Surplus	491	1,964	4,622
Acquisition of capital assets	(133)	-	(27)
Amortization of capital assets	268	267	290
Prepayment of expenses		(437)	(361)
Reduction of prepaid expenses		325	240
Net remeasurement (losses) gains		(8,678)	996
(Decrease) Increase in net financial assets	626	(6,559)	5,760
Net financial assets, beginning of period	118,621	118,621	98,300
Net financial assets, end of period	119,247	112,062	104,060

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

STATEMENT OF OPERATIONS
(unaudited)

<i>thousands of dollars</i>	For the three months ended June 30		
	2022	2022	2021
	Budget	Actual	Actual
Revenue			
Fees and other	11,488	13,400	12,165
Investment (loss) income	963	(753)	2,429
Administrative penalties	29	27	36
Other enforcement receipts	403	2	15
	12,883	12,676	14,645
Regulatory Expenses			
Salaries and benefits	9,125	7,810	7,617
Premises	1,190	1,126	1,058
Administration	1,255	816	654
Professional services	401	448	257
Amortization of capital assets	268	267	290
Investment expense	95	142	98
Investor education	58	103	49
	12,392	10,712	10,023
Operating Surplus	491	1,964	4,622
Accumulated operating surplus, beginning of period	127,440	127,440	102,153
Accumulated operating surplus, end of period	127,931	129,404	106,775

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

STATEMENT OF REMEASUREMENT GAINS AND LOSSES
(unaudited)

<i>thousands of dollars</i>	For the three months ended June 30	
	2022	2021
Accumulated remeasurement (losses) gains beginning of period	(4,914)	478
Unrealized (losses) gains on investments during the period	(8,678)	996
Accumulated remeasurement (losses) gains, end of period	(13,592)	1,474

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	
	2022	2021
Operating Transactions		
Fees and other	13,366	12,092
Payments to and on behalf of employees	(8,234)	(7,730)
Payments to suppliers for goods and services	(3,083)	(2,514)
Investment income	27	6
Administrative penalties	27	15
Other enforcement receipts	2	36
Cash received in operating transactions	2,105	1,905
Capital Transactions		
Cash used to acquire capital assets	(25)	(46)
Cash used in capital transactions	(25)	(46)
Investing Transactions		
Purchases of investments	(21,000)	(15,000)
Cash used in investing transactions	(21,000)	(15,000)
Decrease in cash	(18,920)	(13,141)
Cash, beginning of period	31,983	27,657
Cash, end of period	13,063	14,516

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, 2022. 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 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					June 30, 2022			March 31, 2022		
Investments	Cost	Remeasurement Gains (Losses)	Fair Value	%	Cost	Fair Value	%			
Fixed-income securities	90,523	(10,726)	79,797	70.6	74,095	68,491	67.3			
Global equities	27,313	(2,113)	25,200	22.3	23,760	24,266	23.9			
Canadian equities	8,251	(754)	7,497	6.6	8,259	8,443	8.3			
CCITF deposit	617	1	618	0.5	513	513	0.5			
	126,704	(13,592)	113,112	100.0	106,627	101,713	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 include the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the 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. Though not expected to occur, as one of the agreement signatories, the ASC commits to pay 25.0 per cent of any shortfall from approved system operating costs that exceeds revenue. 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, 2022, the accumulated operating surplus totalled \$197.6 million (\$199.5 million at March 31, 2022). This was primarily made up of \$120.7 million of investments comprised of a notice account earning Bank of Canada overnight rate plus 0.5 per cent, guaranteed investment certificates ranging from two to three years earning from 1.65 to 2.7 per cent; \$71.5 million in intangible assets; and \$14.8 million in cash held by the Ontario Securities Commission (the Designated Principal Administrator) earning Prime rate less 1.9 per cent. In management's judgment, this arrangement is not an interest in a partnership, and the ASC does not control or have significant influence over how the net assets are managed.

Note 4 Budget for the year ending March 31, 2023

The Commission approved the budget on December 14, 2021.

thousands of dollars

Revenue	
Fees and other	61,157
Investment income	2,600
Administrative penalties and other enforcement receipts	710
Total revenue	64,467
Regulatory Expenses	
Salaries and benefits	36,499
Premises	4,760
Administration	4,901
Professional services	2,126
Amortization of capital assets	1,072
Investor education	993
Investment expense	380
Total regulatory expenses	50,731
Operating Surplus	13,736

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 with time-specific forecasts, such as IIROC registration fees and investor education expenses.

Note 5 Subsequent Events

Effective July 4, 2022, the Consolidated Liquidity Solution (CLS) replaces the Consolidated Cash Investment Trust Fund (CCITF) as the Province's cash pooling structure. Under the CCITF, money was pooled to make investments (i.e. purchasing financial securities), whereas, under the CLS, money will be pooled to reduce the amount of government debt outstanding. CLS participants will receive interest in the new cash pooling structure.

According to Ministerial Order No. 19/2022, ASC is required to participate in the Province's cash pooling structure. As a result, the Province may use the ASC's surplus cash for any purpose, and the ASC will no longer have the ability to invest its surplus with AIMCo in the future beyond that invested as of June 30, 2022. ASC's access to their cash and bank accounts will remain unchanged.

The ASC's management is assessing the financial effect these events will have on the ASC's financial statements and operations and is expecting to finalize the assessment by the end of the second quarter of fiscal 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (**MD&A**), prepared as of August 10, 2022, for the three months ended June 30, 2022, should be read in conjunction with the annual MD&A and financial statements reported in the Alberta Securities Commission's (**ASC**) March 31, 2022, annual report, as well as the June 30, 2022, 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.

Effective April 11, 2022, the ASC has introduced a hybrid work environment model allowing employees to work from home and the office on a flexible schedule. The ASC continues to monitor the COVID-19 development as the pandemic transitions to an endemic. The safety and well-being of the public and ASC employees continue to be a priority by following all health and safety protocols.

Comparison to the prior year – For the three months ended June 30, 2022 (**Q1 F2023**), the ASC reported an operating surplus of \$2.0 million compared to an operating surplus of \$4.6 million for the three months ended June 30, 2021 (**Q1 F2022**). Q1 F2023 revenue was \$2.0 million (13.4 per cent) lower than the prior year, primarily due to a decrease in investment income. This decrease was partially offset by higher annual financial statements filing fees, fees from distribution of securities sold in Alberta and registration revenue.

Q1 F2023 regulatory expenses increased by \$689,000 (6.9 per cent) compared to the prior year, primarily due to higher salaries and benefits expenses, higher professional services and administration costs as a result of the COVID-19 restrictions being lifted and ASC staff returning to the office on a hybrid working model.

Comparison to budget – The operating surplus for Q1 F2023 was \$2.0 million compared to a budgeted surplus of \$491,000 primarily due to lower than budgeted regulatory expenses. Q1 F2023 revenue was lower than budget by \$207,000 (1.6 per cent), primarily due to lower investment income and other enforcement receipts revenue. This decrease was partially offset by higher annual financial statements filing fees, fees from distribution of securities sold in Alberta and registration revenue.

Q1 F2023 regulatory expenses were \$1.7 million (13.6 per cent) lower than the budgeted regulatory expenses of \$12.4 million. This variance was primarily attributable to lower salaries and benefits on account of a higher employee vacancy rate, the Government of Alberta salary freeze extension, and lower administration expenses. The timing of information technology (**IT**) expenditures, reduced travel and other office expenditures resulting from a hybrid work model, were the primary factors for the lower administration expenditures.

Cash flow and liquidity – Most 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 for the fourth quarter. There was a positive operating cash flow of \$2.1 million for the three months ended June 30, 2022 (\$1.9 million – Q1 F2022), primarily due to higher fee revenue.

Capital assets – The fiscal 2023 capital budget is \$530,000, including \$350,000 for IT, with the remainder for furniture replacements and leasehold improvements. The ASC did not incur any capital additions during the three months ended June 30, 2022.