Alberta Energy Regulator

2022/23

Annual Report

OUR MANDATE

To ensure the safe, efficient, orderly, and environmentally responsible development of oil, oil sands, natural gas, coal resources, geothermal, and brine-hosted mineral resources over their entire life cycle. This includes allocating and conserving water resources, managing public lands, and protecting the environment while providing economic benefits for all Albertans.

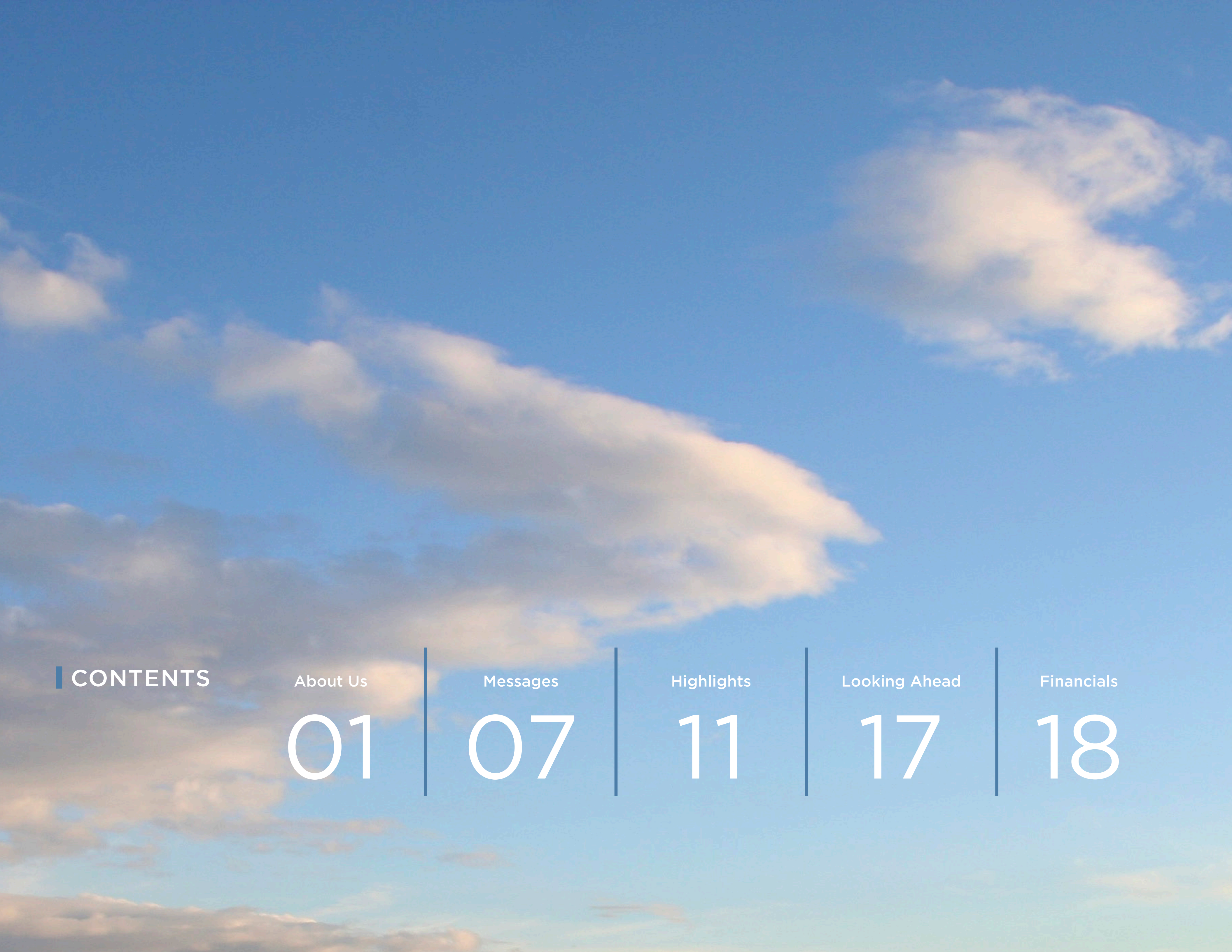
OUR VISION

The AER is a trusted regulator that delivers effective and efficient oversight of resource development.

AN ACKNOWLEDGEMENT

In the spirit of reconciliation, the AER acknowledges that our head office is located on the Treaty 7 traditional territory of the Blackfoot Confederacy (Kainai, Piikani, and Siksika Nations), the Tsuut'ina Nation, the Stoney Nakoda Nation, and the Métis Nation Region 3. We are situated on land where the Bow River meets the Elbow River, and the traditional name of this place is "Mohkinstsis," which we now call the City of Calgary.

We also have field centres on the traditional territories of Treaty 6 and Treaty 8, and all other regions of the Métis Nation of Alberta.



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WHAT WE REGULATE

over
440 000
kilometres of pipelines*

over
156 000
operating natural gas and oil wells

over
27 000
oil facilities

over
440
operating gas processing plants

over
18 000
gas facilities

over
210
operating oilfield waste management facilities

over
154
primary/enhanced recovery in situ projects

26
thermal recovery in situ projects

8
operating oil sands mines

5
operating bitumen upgraders

5
operating coal mines

4
decommissioning coal mines

1
decommissioning coal processing plant

geothermal

brine-hosted minerals

*Operating, permitted, abandoned, and discontinued. We also provide inspection and incident response support for 12 000 kilometres of pipelines regulated by the Alberta Utilities Commission.

WHAT WE DON'T

gasoline

pipelines that cross borders

electricity

regulated natural gas rate

April 2023

ABOUT US

Alberta's energy sector is vast and complex: it includes crude oil, natural gas, oil sands, coal resources, emerging resources like geothermal, and an extensive pipeline network that moves these resources to markets. Enter the AER, the primary regulator for energy resource development in Alberta. Few organizations anywhere are responsible for as large and varied a mix of energy resources.

We oversee extensive remaining established reserves:

- 1.7 billion barrels of conventional oil
- 159 billion barrels of bitumen
- 24.3 trillion cubic feet of natural gas
- 36 billion tons of coal

In 2022, the production value of Alberta's energy sector totalled $167 billion.

Our mandate officially expanded in 2022/23. And with that, new rules and requirements were released to support the life-cycle regulation of deep geothermal resource development and brine-hosted mineral resources (minerals, such as lithium, extracted through well infrastructure). In 2023, we began planning the next phase of regulation to support the development of mineable minerals known as hard-rock minerals (e.g., limestone).

To produce and move energy resources to market requires more than 156 000 natural gas and oil wells, over 444 000 kilometres of pipelines (about half of Canada's entire pipeline network), over 45 000 oil and gas facilities, five operating oil upgraders, and five operating coal mines. We are a full-life-cycle regulator, responsible for all stages of development – from exploration and production to closure and reclamation.

The Government of Alberta created the AER in 2013 when it proclaimed the *Responsible Energy Development Act*. We are accountable to the ministers of Alberta Energy and Alberta Environment and Protected Areas. We also work closely with other government departments on regulatory and policy issues, including Alberta Municipal Affairs, Alberta Indigenous Relations, and the Aboriginal Consultation Office.

While our statutory powers, mandate, and functions are governed under two ministries, we also have a collaborative relationship with the government. They establish policies that we implement, and we also assist them with policy development, providing analysis, advice, and technical expertise as required.

Through legislation, the Government of Alberta gives us the authority to ensure the province's energy resources are developed safely and in an environmentally responsible manner and without waste. We're involved at every stage of an energy resource development's life cycle.

Since 1938, Alberta has relied on strong regulation to ensure its energy resources are developed responsibly. Our regulatory decisions are always based on evidence and supported by science, and we strive to balance the needs of many Indigenous communities and stakeholders. The AER works to protect what matters to Albertans – public safety, the environment, orderly energy resource development, and providing economic benefit for Albertans and all Canadians.

AROUND THE PROVINCE

10
locations

1180
employees

ALBERTA ENERGY OUTLOOK IN 2022

CRUDE OIL

Total crude oil production
↑ 11%
(77.3 10^3 m^3/d)

Wells placed on production
↑ 96%
(3466)

WTI crude oil price
↑ 39%
(US $94.23/bbl)

NATURAL GAS

Marketable gas production
↑ 7%
(309.1 10^6 m^3/d)

Wells placed on production
↑ 18%
(950)

AECO-C natural gas price
↑ 51%
(Cdn $5.10/GJ)

CRUDE BITUMEN

Mineable production
↑ 2%
(257.1 10^3 m^3/d)

In situ production
↑ 2%
(270.0 10^3 m^3/d)

Number of operating mines
8

Number of operating thermal in situ schemes
26

NATURAL GAS LIQUIDS

Ethane
↑ 4%
(35.2 10^3 m^3/d)

Propane
↑ 4%
(37.7 10^3 m^3/d)

Butane
↑ 7%
(23.2 10^3 m^3/d)

Pentanes plus
↑ 6%
(58.3 10^3 m^3/d)

EMERGING RESOURCES

Hydrogen production
↑ 1%
(2.5 10^6 t)

Geothermal electricity generation
↑ 463%
(92.5 GWh)

Lithium production
0%
(0.0 10^3 t)

Helium production
↑ 46%
(2.1 10^3 m^3/d)

ALBERTA ENERGY OUTLOOK IN 2022

CAPITAL EXPENDITURES

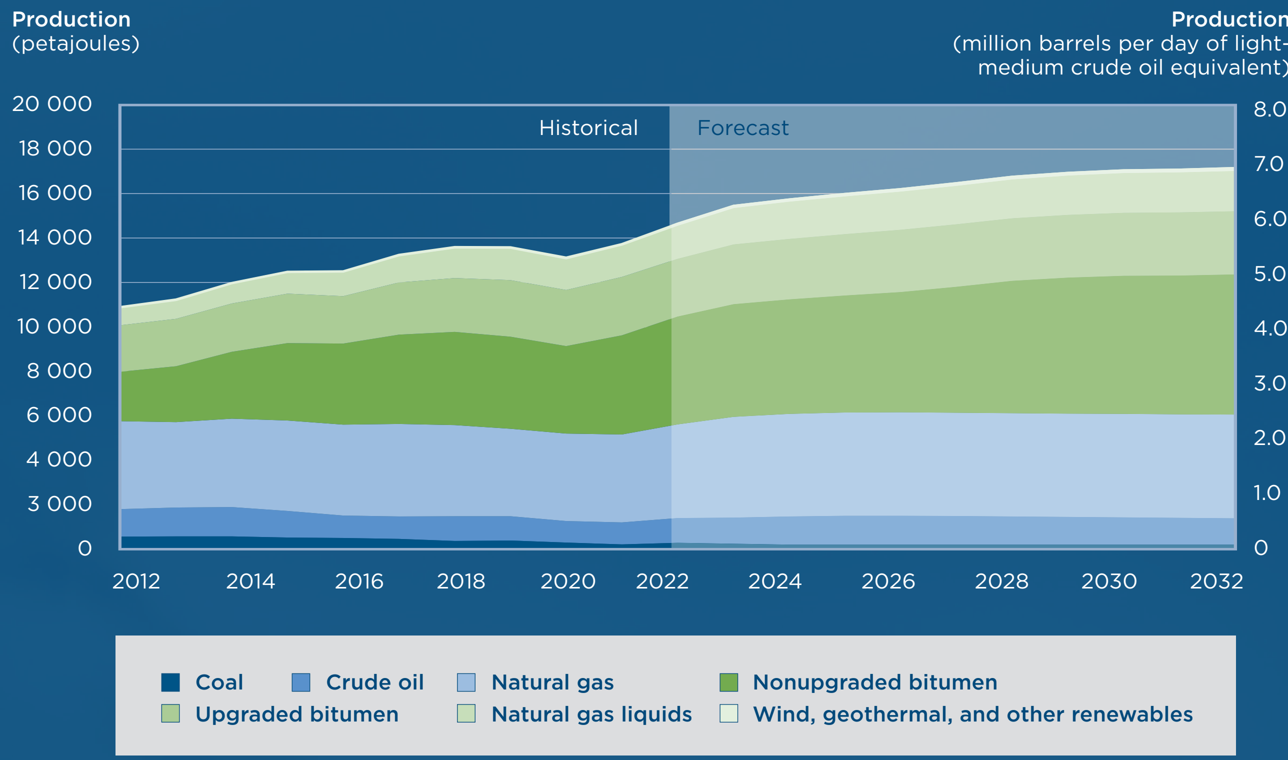
Oil sands investment
15%
(Cdn $10.0 billion)

Oil & gas investment
73%
(Cdn $16.0 billion)

Total investment
44%
(Cdn $26.6 billion)

Total value of production
54%
(Cdn $167 billion)

ENERGY PRODUCTION FORECAST

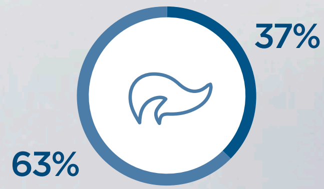


DELIVERIES

- Removals from Alberta
- Remains in Alberta

Total oil (including bitumen)

Gas



BOARD OF DIRECTORS

DAVID GOLDIE
BOARD CHAIR

David Goldie is a director and independent consultant with over 35 years of experience in the energy industry. He holds a B.Sc. in Geophysics from the University of Waterloo, a MBA from the University of Calgary, is a member of the Institute of Corporate Directors (ICD) and holds the designation of ICD, Director (ICD.D.).

CORRINA BRYSON
BOARD DIRECTOR

Corrina Bryson has over 25 years of experience in the energy industry and currently serves on the Boards of the Canada-Nova Scotia Offshore Petroleum Board and the Alberta Petroleum Marketing Commission.

JUDE DANIELS
BOARD DIRECTOR

Jude Daniels has extensive experience as an oil and gas lawyer, Aboriginal consultation advisor, and has worked in the oil and gas sector since 1998. Ms. Daniels has her own consulting company, which specializes in mediation, employment, and regulatory matters.

GEORGETTE HABIB
BOARD DIRECTOR

Georgette Habib has a long record of public service and brings over 30 years of experience in the regulation of the energy industry. Ms. Habib currently serves as an independent corporate director of the Alberta Electric System Operator.

GARY LEACH
BOARD DIRECTOR

Gary Leach has over 25 years of senior executive level experience in the oil and gas industry, including serving as president of The Explorers and Producers Association of Canada (EPAC). His background in law supports a deep understanding of regulatory issues affecting the energy industry.

TRACEY McCRIMMON
BOARD CHAIR

Tracey McCrimmon has over 25 years of experience working in the Alberta oil and gas industry. After obtaining her designation in Petroleum Land Management, Ms. McCrimmon's career began in the land industry, where she worked as a surface landman for several years. This led her into fields such as public consultation, aboriginal affairs, and stakeholder engagement.

KASHA PIQUETTE
BOARD DIRECTOR

Kasha Piquette serves as a Deputy Minister, Environment and Protected Areas for the Government of Alberta. She was entrusted with leading the work on Alberta Emission Reduction and Energy Development Plan alongside Alberta ESG Secretariat.

ALLISON RIPPIN ARMSTRONG
BOARD DIRECTOR

Allison Rippin Armstrong is a biologist and environmental scientist with over 25 years of experience in permitting, regulatory processes and environmental compliance, working with indigenous organizations, resource companies, regulatory agencies, indigenous, territorial, and federal governments.

EXECUTIVE LEADERSHIP TEAM

LAURIE PUSHOR
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Prior to joining the AER, Laurie Pushor served as Deputy Minister for the Saskatchewan Ministry of Energy and Resources, from 2018 until 2020. He served as the Deputy Minister for the former Ministry of the Economy from 2014 to 2018, and served four years as Chief of Staff for several government departments in Saskatchewan, including Social Services, Energy, and Health.

MARTIN FOY
CHIEF OPERATIONS OFFICER

In June 2020, Martin Foy became the AER's Chief Operations Officer, having previously served in this role on an interim basis since October 2019. He has 30 years' experience leading people and managing natural resources. The division is responsible for regulating the full life cycle of energy resource development, from issuing approvals to managing closure and liability.

SEAN SEXTON
EXECUTIVE VICE PRESIDENT, LAW BRANCH, AND AER COUNSEL GENERAL

In May 2022, Sean Sexton became the executive vice president of the Law Branch and general counsel of the AER. He was previously the vice president of the Law Branch, starting in 2018. He has extensive knowledge of the AER's legal and regulatory environment.

MIKE DALTON
VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Mike Dalton joined the AER in 2020, and is responsible for financial management, supply chain and real estate. Mike's former employers include ATCO, Raytheon Canada, Canadian Natural Resources and PricewaterhouseCoopers. Mike served 24 years with the Canadian Armed Forces.

ERIN KURCHINA
VICE PRESIDENT, PEOPLE, CULTURE AND LEARNING

Erin Kurchina joined the AER in 2020 as the Vice President, People, Culture and Learning. In this role, she is accountable for aligning business and people strategies, adding value, and fostering corporate performance. Through human-centric leadership and strategic partnership, she oversees the development of talent programs and creates a safe, inclusive, and empowering culture so that all employees can reach their full potential and contribute to AER's success.

MESSAGES

HELLO,

On behalf of the Board of Directors, I wish to acknowledge the progress made on several critical pieces of work that the AER has achieved this past year.

Once again, we released new and updated requirements to implement the Government of Alberta's liability management framework and to ensure the oil and gas industry meets its end-of-life obligations.

Among the new requirements, was an increase in the industry-wide closure spend for liabilities in 2023 from $422 to $700 million. We also released forecast targets through 2027, which we anticipate increasing by nine per cent annually. These new requirements contributed to a reduction of almost 16 000 from the inactive well population from 97 000 at the end of 2020 down to 81 000 today reversing historical growth we've seen in this area.

Although these were important steps for us to take concerning liability, we know we have more work to do. We take the March 2023 recommendations by the Office of the Auditor General seriously, and we'll continue to work to reduce inactive energy sites.

The AER's work to advance new regulations on emerging energy and mineral resources is another source of pride for the Board of Directors. Our role is pivotal as the Alberta government moves forward with its plan to diversify the economy and accelerate growth in these new and emerging sectors.

We've responded to concerns surrounding the Imperial Oil Kearl incidents with an approach that is true to our values of accountability, transparency, trust and respect, and collaboration. These values will anchor our decisions going forward, regardless of the issues or work that emerges for the AER. Recognizing that our response to the incidents did not meet public expectations, the Board of Directors commissioned an independent review of the AER's actions. The board will publicly share the review's findings once completed and we have considered the recommendations and follow-up actions.

As I look to the year ahead, I'm excited for what's to come for the AER. Our goal is to be a more collaborative, responsive regulator that Albertans, Indigenous communities, industry, and government, can trust, respect, and have confidence in—every single day.

We're up for the challenge.

DAVID GOLDIE
CHAIR, BOARD OF DIRECTORS

GREETINGS,

A special thank you to the AER team that has made many contributions over the past year. We have been on a multi-year path to establish a more efficient way of regulating while strengthening our culture, and meeting the expectations of Albertans, Indigenous communities, and our stakeholders.

It's an important learning journey for us.

This fiscal year ended in a challenging way with the Environmental Protection Order we filed against Imperial Oil's Kearl Lake project pertaining to two separate releases from tailings ponds. The concerns expressed about how the AER handled these issues, especially as it relates to when and how we communicated with Indigenous communities in the region, other levels of government, and Albertans are being thoroughly and independently reviewed. The AER is committed to learning and growing from any findings.

We continue to actively engage with Indigenous peoples and Albertans on a range of topics. Strengthening these important relationships through listening, conversation, and consultation has helped to inform our decisions and foster better understanding of our approach to responsible energy resource development.

Implementing our expanded mandate continues to be a key focus. This means working closely with government to develop new regulations, rules, and directives for emerging energy and mineral resources.

This past year, our geoscience experts analyzed data, provided information about Alberta's mineral potential with insight into areas of the province where exploration and development for various minerals may responsibly occur.

Internally, we've been focused on our culture and continuing to make the AER a respectful, safe, diverse, and inclusive place to work. Our culture is who we are, what we do, why we do it, and how we do it, and our values of accountability, transparency, collaboration, trust, and respect are foundational to delivering on our mandate. We've made progress in 2022/23 with a framework to infuse diversity, equity, and inclusion into all we do at the AER. We believe this will help support our team in our work, empower everyone to voice their opinions, and enable them to achieve their best.

Thank you for following our journey, and rest assured that we are committed to working every day to earn your confidence.

LAURIE PUSHOR
PRESIDENT & CEO

HIGHLIGHTS

To keep Albertans informed, we report on how well industry complies with our requirements, our management of liabilities and inventory reduction, and our application processing metrics.

Overseeing Industry Compliance

Inspections and Compliance Rate

We regularly monitor and inspect thousands of wells, production and processing facilities, pipelines, and coal and oil sands mines annually to ensure that companies follow our requirements and safely develop energy resources in a manner that protects the environment. We do this by visiting energy sites to inspect a company's activities and auditing the information they provide.

In 2022/23, we conducted 8128 inspections, of which 73% resulted in a satisfactory compliance finding. In addition, we audit all aspects of energy resource development to confirm that the industry follows specific operational and reporting requirements. In 2022/23, we performed 6535 audits and issued 1038 notices of noncompliance.

Investigations and Enforcement

If we find a company is not following our requirements, we'll apply one or more of our compliance and enforcement tools to educate the company and correct the noncompliance. These tools range from notices of noncompliance to orders. Orders are important tools to prevent, stop, or minimize environmental effects or risks to public safety. During 2022/23, we issued 209 orders.

Major investigations are formal evidence collection processes that must follow established legal procedures to ensure the integrity of the investigation. Investigations can take anywhere from three months to two years to complete. When noncompliance is deemed serious, it is triaged for investigation. When an investigation is completed and if there is a finding of noncompliance, an appropriate enforcement action is selected. Enforcement tools range from warning letters to prosecution. The tools we use vary depending on the significance of the noncompliance.

In 2022/23, fines from creative sentences and penalties totalled $307 200.

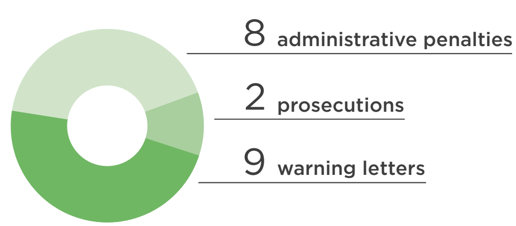
Regardless of the compliance and enforcement action we take, our goal is to work with companies to bring them back into compliance. We publicly report on energy incidents and enforcement actions through our Compliance Dashboard on aer.ca.

Emergency Management

We maintain a 24-hours, 7-days-a-week, 365 days-a-year on-call schedule to support incident response. We rank emergencies as an alert or level 1, 2, or 3 based on the risk level to members of the public or the environment. In 2022/23, 93 energy-related incidents were reported to the AER: 66 alerts, 16 level 1, 10 level 2, and 1 level 3. Emergency response staff are deployed to some level 1 emergencies but to all level 2 and 3 emergencies. Emergency response staff were deployed to 19 emergencies in 2022/23.

Also, in 2022/23, we evaluated 38 emergency response plan exercises and completed 66 emergency response plan audits, resulting in 34 notices of noncompliance.

INVESTIGATION RESULTS 2022/23
Of the 38 investigations, 19 enforcement actions were taken.



Methane Emission Reduction

We introduced requirements in 2020 to help reduce methane emissions in the upstream oil and gas industry.

We use industry-reported information and emission estimates to evaluate the reductions achieved, and our modelling predicts Alberta is on track to meet the Government of Alberta's 45% reduction policy target by 2025. Reported and estimated emissions from 2021 show a 44% reduction in methane emissions from 2014 levels.

In 2022/23, we achieved the following:

- Conducted aerial surveillance of 1200 facilities. (That makes a total of 6300 facilities surveyed since the start of the aerial surveillance program.)
- Inspected 1161 facilities, of which 70% were compliant.
- Conducted 890 methane audits, of which 91% were compliant.

Managing Energy Liabilities

Energy companies in Alberta are responsible for ensuring their infrastructure and sites are safely closed and cleaned up. The closure work required to meet end-of-life obligations and the costs associated with it are called "liability."

We continue to implement the Government of Alberta's liability management framework and update its requirements to ensure the oil and gas industry meets its end-of-life

In addition, the AER referred three files to the Alberta Crown Prosecution Service and managed four creative sentencing projects.

3 to the Alberta Crown Prosecution Service

4 creative sentencing projects

obligations. This includes the following:

- *Directive 067: Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals* includes financial requirements that allow us to assess the capabilities of oil and gas operators to meet their regulatory and liability obligations throughout the energy resource development life cycle.
- *Directive 088: Licensee Life-Cycle Management* introduced the licensee management program, the inventory reduction program, and the holistic licensee assessment, including the licensee capability assessment that considers more than 40 different factors, including the company's financial and liability risk; the company's administrative, operational, and closure performance; and the remaining lifespan of the resource.
- *Manual 023: Licensee Life-Cycle Management* was developed alongside Directive 088 to provide details and clarity around the new programs.
- *Manual 024: A Guide to the Mine Financial Security Program* was released in May 2022 with explanations on how to comply with security and reporting requirements.

Throughout 2022/23, we actively engaged with key stakeholders to educate them on the liability management framework, related directives, and manuals. We also updated processes and tools and provided preapplication meetings and guidance to licensees to help them navigate the changes. These efforts were critical to implementing the framework into our day-to-day business, especially licence transfer applications and security refund requests.

Reducing Inactive Inventory

In 2022, we introduced a minimum mandatory closure spend for all oil and gas companies with inactive liability as part of *Directive 088* and the inventory reduction program to facilitate the closure of inactive wells, pipelines, and facilities. This program increases the amount of closure work occurring in Alberta, reduces liability, and ensures more timely land restoration to original or alternative uses.

All licensees with inactive inventory must meet an annual minimum mandatory closure spend. The minimum closure spend specifies the minimum amount of money that licensees are required to spend on oil and gas closure work each year. Companies are encouraged to collaborate using an area-based closure approach to increase the efficiency of development closure and complete more closure work.

The industry-wide minimum mandatory closure spend for 2023 is $700 million, up from $422 million in 2022.

Closure Activities

Completing closure activities is the primary method of reducing liability from inactive infrastructure and involves decommissioning infrastructure and site remediation and reclamation. Wells, pipelines, and facilities are plugged and decommissioned or abandoned when companies stop using them for oil and gas production.
There has been a significant increase in decommissioning activity during the past two years. In 2021, 11 885 wells were decommissioned and 10 986 in 2022. Compared with an average of 5000 to 6000 decommissioned wells in previous years, this is a significant increase in activity. The increased closure activity is partly attributable to the new AER minimum mandatory closure spend, the Government of Alberta's site rehabilitation program, and AER changes to allow some routine abandonment of commingled wells. Other notable closure activities in 2022/23 include:

- The largest reclamation certificate we've ever issued for the Whitewood coal mine in northern Alberta.
- Approved the first dam cessation project to abandon and reclaim the Swan Hills dam and reservoir.

Orphaning and Insolvency

A company is insolvent when it cannot meet its obligations or its liabilities exceed the value of its assets, including oil and gas infrastructure. Our primary focus when a company enters insolvency is to protect the public and the environment.

In 2022, we were involved in 18 insolvency-related files. By the end of 2022, 5321 assets (3013 wells, 242 facilities, and 2066 pipeline segments) were associated with licensees in active insolvency proceedings. This is a significant decrease from 2021, which saw the AER involved in 26 insolvency-related files representing about 12 720 total assets.

Processing Applications

We have established application processing targets to ensure we review applications in a timely and diligent manner. We review over 90 different types of applications, where each type receives a target that reflects the complexity of the application process. Of the 36 464 applications processed in 2022/23, 28 094 were classified routine and 8370 nonroutine (high risk or more complex). We met our processing targets for 99% of routine applications and almost 97% of nonroutine applications.

In 2022/23, we received nearly 2600 applications related to the subsurface requirements specified in the *Oil and Gas Conservation Act* and the *Oil Sands Conservation Act*. We met our application timelines even though volumes increased by relying on process improvements, collaborative support, and enhanced data usage.

ACTIVITY BREAKDOWN BY APPLICATION TYPE IN 2022/23

Received 7661 RoSC submissions. Of these, 1934 required a review.

Reviewed 6100 public land applications.

Inspected 8 coal mines.

Issued 1 geothermal public land disposition (the AER's first).

Conducted 62 waste management and storage audits.

Reviewed 122 waste management and storage applications (achieved 100% target timelines for routine and 95% for nonroutine).

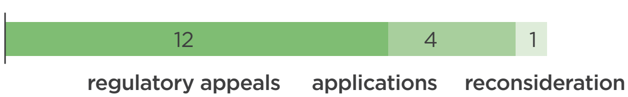
Responded to over 300 requests to the Helpline within the 72-hour deadline.

Reviewed over 250 *Oil Sands Conservation Act* and *Environment Protection and Enhancement Act* applications.

Over 500 manual *Public Lands Act* applications completed.

2022–2023 HEARING FILES

The hearing commissioners' office may hold public hearings on applications, regulatory appeals of AER decisions, and reconsiderations of previous AER decisions.



Our regulatory oversight includes ensuring contaminated sites are adequately understood and that remedial measures are satisfactory. We received 7661 record of site condition (RoSC) submissions in 2022/23. The RoSC enables effective delivery of risk-based oversight, with 1934 (25%) of submissions requiring additional review (75% only required a baseline review). We made process enhancements to improve intake efficiency, data quality, and baseline responses through OneStop.

We also enhanced our regulatory framework for carbon capture, utilization, and storage (CCUS), including *Directive 065* application requirement updates. All CCUS projects must meet our regulatory requirements before being allowed to inject CO_2 into the deep subsurface.

Municipal Property Taxes

Near the end of our fiscal year on March 20, 2023, the Minister of Energy directed the AER to receive evidence from energy companies that confirms that they have paid any outstanding municipal property taxes above a set threshold amount prior to us approving applications for new well licences or well transfers. The AER developed and implemented a process to meet that direction by April 30, 2023.

Hearings

We may refer files to the Hearing Commissioners' Office to decide on disputed energy resource activities. The Hearing Commissioners' Office includes nine commissioners, acting as independent decision makers operating at arms-length from the AER. Commissioners come from many backgrounds and are appointed by Orders in Council by the Lieutenant Governor of Alberta. In 2022/23, the Hearing Commissioners' Office welcomed three new commissioners now actively working on hearing and alternative dispute resolution (ADR) files. The Hearing Services team supports commissioners as they perform their work.

The Hearing Commissioners' Office may hold public hearings on applications, regulatory appeals of AER decisions, and reconsiderations of previous AER decisions. A hearing is quasi-judicial and can feel like a formal court proceeding. It involves hearing evidence and legal arguments for and against proposed and approved energy resource activities, and disputed AER enforcement actions. But not all disputed activities or regulatory appeals require a hearing. Hearing commissioners can also use ADR processes to help parties resolve disputes.

A hearing may be cancelled if the participants withdraw their statement of concern or request for regulatory appeal or the proponent withdraws its application. The Hearing Commissioners' Office may also issue a costs order requiring a company to pay for some expenses incurred by hearing participants.

In 2022/23, ten new files were referred to the Hearing Commissioners' Office, while seven proceedings continued from previous years. Two hearings were held, and three were cancelled. Hearing commissioners issued two hearing decisions and one costs order. As of March 31, 2023, eight proceedings were ongoing, and four were adjourned. One ADR file was completed, and four remain active.

More information on hearings, the hearing process, decisions, and the ADR process is available on aer.ca.

BUILDING RELATIONSHIPS

We are seeking new opportunities to improve our engagement with First Nations and Métis communities and consider their values, interests, and concerns. One of our foundational approaches is the *Voices of Understanding*, a book coauthored in 2017 by the AER and an Indigenous elder. We use it to guide our understanding of Indigenous worldviews, how they intersect with Western worldviews, and how we initiate and engage in respectful decision-making processes.

We are influenced by an elders circle advisory group comprising representatives from Indigenous communities committed to building understanding and better relationships. Our resident elder guides us with and demonstrates how oral and written systems could work together.

While we recognize that we must do more to earn trust from First Nation and Métis communities, drawing on what we learned in 2022, we have taken the following actions:

- Launched Indigenous cultural competencies to complement organizational values, attributes, and behaviours for all employees.
- Deepened our employee's understandings and approaches to engagement and communications with Indigenous leaders, First Nations, and Métis communities.
- Increased engagement of our leaders with Indigenous leaders, First Nations and Métis communities, and Indigenous organizations.
- Created a reconciliation subcommittee within our diversity, equity, and inclusion advisory group to support employee learning and understanding.
- Developed a new learning program to advance progress on the Truth and Reconciliation Commission's, Call to Action 57.
- Ensured ninety-eight per cent of employees completed foundational training course in First Nations and Métis worldviews within Western worldviews from an Indigenous lens.
- Created opportunities for increased participation of First Nations and Métis peoples to participate in joint inspections of energy developments.
- Created new processes and regulatory data collection tools to incorporate Indigenous knowledge and traditional land use analysis to help us decide on energy applications.
- Implemented recommendations to enhance recording and reporting of Indigenous interests and concerns to strengthen understanding and inform regulatory decision making.

In 2022/23, we created an Indigenous Relations Plan to guide our efforts through 2026. This plan provides context, scope, and an approach for enterprise-wide collaboration. It also aligns with our Strategic Plan and core values of accountability, transparency, collaboration, trust, and respect. The plan celebrates what we learned and acknowledges where we need to improve.

We will continue to build on what we learned to support informed decision making, demonstrate our approach to responsible energy resource development, and help strengthen relationships and understanding with First Nations and the Métis within their interaction with energy resource development.

As we renew our relationship with First Nations and Metis communities, we will also approach things differently. We will take every opportunity to learn and grow from the two incidents that led to the February 2023 filing of an Environmental Protection Order against Imperial Oil pertaining to its Kearl Lake tailings ponds. The AER board is conducting an independent review of our handling of these events. The results of that review will be made public, and we will work to incorporate any necessary changes to our approach and processes based on any findings.

A Modern Regulator

As Alberta's energy regulator, we contribute to Alberta's competitiveness by ensuring our system is modern and efficient while working to protect the environment and keep Albertans safe. Our work to modernize the regulatory system involves ensuring our systems, tools, and requirements are current with today's technology. It also involves removing duplication, making our processes more efficient, and contributing to the Government of Alberta's red tape reduction initiative.

Updating our Requirements

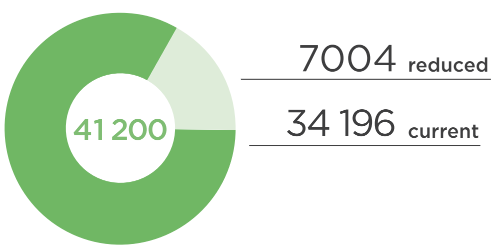
Our red tape reduction initiative was formed in May 2019 in response to the Government of Alberta's *Red Tape Reduction Act*. The government set a goal to reduce regulatory requirements by one-third, cut costs and inefficient processes, and speed up approvals.

During 2022/23, we reduced regulatory requirements and revised more regulatory instruments, such as directives, forms, and manuals, than in any previous year. At the same time, we have upheld our environmental and public safety mandate and conducted Indigenous, stakeholder, and public engagement where appropriate.

When the red tape initiative launched, we had about 41 200 requirements across 219 regulatory instruments. In 2022/23, we updated 62 regulatory instruments and reduced the total number of requirements by 1442, which helps Indigenous communities, energy companies, and stakeholders understand our requirements and more easily navigate our regulatory instruments.

REGULATORY REQUIREMENT REDUCTION

Since 2019, we have reduced requirements by 17%, while maintaining oversight.



Emerging Resources

In 2020, the Government of Alberta announced the opportunity to develop emerging energy and mineral resources in Alberta. This work was part of the government's economic recovery effort to relaunch and diversify Alberta's economy. Since then, the government has provided grants and developed legislation to establish the AER as the primary regulator for these emerging resources.

Our mandate officially expanded in 2022/23. And with that, new rules and requirements were released to support the life-cycle regulation of deep geothermal resource development and brine-hosted mineral resources (minerals, such as lithium, extracted through well infrastructure). In 2023, we began planning the next phase of regulation to support the development of mineable minerals known as hard-rock minerals (e.g., limestone).

We are now accepting applications for deep geothermal resource development and brine-hosted mineral resources. We expect to accept hard-rock mineral resource applications in 2024 once the final portion of the *Minerals Resources Development Act* is proclaimed.

Mineral Mapping

To help us understand Alberta's mineral potential, the Alberta Geological Survey (AGS), AER, and the Government of Alberta have partnered on one of the largest mineral-mapping programs in Alberta's history.

This data collaboration is part of a multiyear mapping program to provide critical information on mineral characterization and potential throughout the province. This data will inform future regulatory decisions regarding mineral applications; and unlock critical information to inform industry operations.

Additionally, this data will support information sharing with non-industry stakeholders on areas where minerals are present in Alberta. It will also inform discussions on where future mineral development may occur. In March 2023, the AGS initiated the release of the first data sets from this extensive collection.

Mineral resource development is part of the Government of Alberta's strategy to diversify the energy and resource sector. The Government of Alberta supported this work with a $25-million grant.

Alberta Geological Survey

Groundwater Inventory

The AGS's groundwater team provided key information about groundwater quality, quantity, and availability at local and regional scales in strategic locations across the province, including 14 formation maps highlighting water quality and groundwater flow.

Seismic Monitoring

The AGS continues to expand and maintain its seismic monitoring network and added one station to its inventory in 2022 (a total of 61 stations, 24 of which it owns). Our experts observe and characterize earthquakes throughout the province with the goal of earthquake forensics, mitigation, and industry compliance.

MINERAL DEVELOPMENT DATA

The AGS has collected data related to:

- groundwater inventory
- seismic (earthquake) monitoring

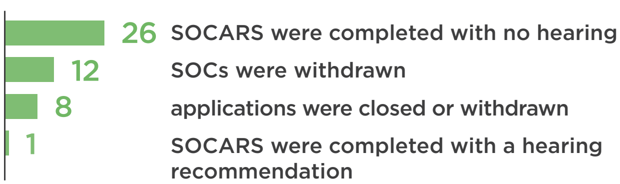
Socioeconomics

In 2022, we provided a standard and consistent economic and socioeconomic approach when reviewing regulatory applications and statements of concern. We developed and rolled out a socioeconomic impact assessment to complement our existing regulatory impact assessment, enabling us to make more informed decisions and consider all Albertans when reviewing proposed projects.

Statements of Concern

Anyone who believes they may be directly or adversely affected by a proposed energy development project – be it a well on their land or a pipeline running through their community – may file a Statement of Concern (SOC). SOCs help the AER understand the concerns of Albertans and Indigenous communities potentially impacted by energy development, and where possible, provide an opportunity for the AER to mitigate those concerns. SOC filers can submit the form and supporting documents online through aer.ca, by email, or regular mail. The AER also offers dispute resolution services at any time over the energy development life cycle to support relationship building between involved parties and assist in resolving concerns outside of the SOC process.

STATEMENT OF CONCERN APPLICATION REVIEW FILES COMPLETED IN 2022/23



Disclosure

In 2022/23, we did not receive any disclosures of wrong-doing under our *Whistleblower Protection Policy*.

Cloud Migration

We recognize the critical role that technology plays in improving processes and data. During 2022/23, we continued to migrate our technology infrastructure to cloud technologies, enabling us to share data more effectively across our organization and accelerate innovative solutions, such as OneStop.

Technical Solutions in Integrated Decision Approach and OneStop

We introduced the Integrated Decision Approach and the OneStop technology platform in 2014. Since then, our audit, inspection, and application review processes have become more efficient, ensuring the public and environment remain protected. OneStop uses a complex set of rules to automate routine (low risk) applications and forward nonroutine (high risk or more complex) applications to technical experts for review.

VALUE

Cloud migration led to cost avoidance and savings of $800 000 along with improved operational efficiency in 2022/23.

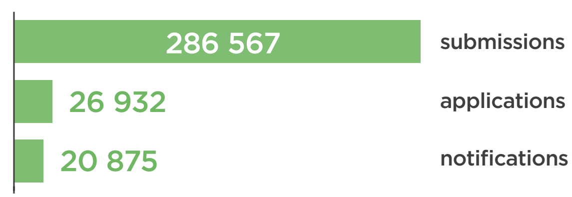
We continue to add new functionality to OneStop. In 2022/23, the platform was updated to provide information on hyperspectral data for mineral exploration. We also updated liability management, the Land Use Reservation Program, public lands objections and cancellations, and geothermal and brine-hosted mineral wells.

Data Transparency

To improve access to our data, we developed a central access point to key metrics about Alberta's upstream oil and gas industry and our work to oversee resource development. The Data Hub is always accessible to Albertans for up-to-date information. The online platform is one way we are working to increase and simplify access to our data. We will continue to add to the Data Hub over time.

In addition, we have increased the amount of data available from OneStop to improve transparency. In 2022/23, we responded to 300 requests for data or reports through the AER's Products and Services Catalogue.

ONESTOP TECHNOLOGY PLATFORM
Through OneStop, we received:



LOOKING AHEAD

We are well-positioned for the challenges and opportunities in the constantly evolving energy industry.

Our path forward is anchored in our 2023/26 Strategic Plan, a blueprint to guide our work in the years ahead in four key focus areas:

- Taking care of people
- Enabling our operational effectiveness and innovation
- Enhancing our regulatory framework
- Strengthening our credibility and trust.

Over the coming year (2023/24), we will continue to prioritize these focus areas to establish a more efficient way of regulating, strengthening a safe and inclusive culture, and ensuring we meet the expectations of Albertans, Indigenous communities, and stakeholders.

We will also take every opportunity to learn from the Imperial Kearl incidents that led to us issuing an environmental protection order earlier this year. We acknowledge that we fell short of public expectations and will work to reestablish trust. A robust investigation is underway, and our organization will share all findings from the independent review of our internal processes. We will engage consistently with Indigenous peoples, seek counsel from our resident elder, and continue to show how we're doing and what we're doing to improve.

We will also focus on several important pieces of work:

- **Technology enablement.** Our data management strategies will support improved access to information and seamlessly share information with our Government of Alberta partners through cloud-based technologies.
- **Advancing our culture.** We will continue to develop and empower our people with a framework that helps us retain engaged, diverse, and contributing employees who align with our values and culture and feel comfortable voicing their opinions.
- **Long-term reductions in the liabilities of AER-regulated assets.** We will continue to implement the liability management framework and *Directive 088: Licensee Life-Cycle Management* to hold the industry accountable for end-of-life closure activities, such as reclamation and remediation and address the recommendations provided in the Office of the Auditor General's "Liability Management of (Non-Oil Sands) Oil and Gas Infrastructure" report.
- **Emerging resources.** We will advance new regulations on emerging energy and mineral resources. We are also in partnership with the Government of Alberta and the Alberta Geological Survey on one of the largest mineral-mapping programs in the province's history.

Above all, as we look ahead to the coming year, we remain focused on what matters most: protecting the public and the environment while ensuring responsible resource development.

CONSOLIDATED FINANCIAL HIGHLIGHTS

CONSOLIDATED SUMMARY OF ANNUAL HIGHLIGHTS	2023				2022
	Budget	Adjustments	Adjusted budget	Actual	Actual
			(in thousands)		
Revenues					
Administration fees	$ 200 730	$ 640	$ 201 370	$ 201 429	$ 207 921
Orphan fund levies and transfers	78 500	-	78 500	80 294	77 824
Government of Alberta grant	12 811	10 800	23 611	16 754	16 988
Other revenue	1 974	3 380	5 354	6 661	2 820
	294 015	14 820	308 835	305 138	305 553
Expenses					
Energy regulation	219 015	15 320	234 335	223 496	221 629
Orphan well abandonment	78 500	-	78 500	80 294	77 824
	297 515	15 320	312 835	303 790	299 453
Operating surplus (deficit)	(3 500)	(500)	(4 000)	1 348	6 100
Capital					
Capital investment	14 500	(5 500)	9 000	12 808	12 950
Less: Amortization of tangible capital assets	(18 000)	5 000	(13 000)	(13 114)	(13 921)
Net loss on disposal and write-down of tangible capital assets				(418)	(663)
Proceeds on disposal of tangible capital assets				(47)	-
Net capital investment	(3 500)	(500)	(4 000)	(771)	(1 634)
Surplus	$ -	$ -	$ -	$ 2 119	$ 7 734

All amounts are expressed in thousands of Canadian dollars.

All amounts are expressed in thousands of Canadian dollars.

We are an industry-funded regulator accountable to the Government of Alberta. Our operating expenses and capital investment are from the following revenue sources: administration fees (referred to as the administrative levy), government grants, and other revenue (e.g., the sale of products). We collect orphan fund levies for transfer of the Orphan Well Association (OWA).

The previous table summarizes the results of our operations and net capital investment for the fiscal year ended March 31, 2023.

Administration fees

Alberta's *Responsible Energy Development Act* authorizes the AER to levy an administration fee on the following regulated sectors—the province's oil and gas, oil sands, coal, pipeline sectors and facilities. The funds collected from administration fees are used to fulfil the AER's mandate to ensure the safe, efficient, orderly, and environmentally responsible development of hydrocarbon resources over their entire life cycle. For the year ended March 31, 2023, administration fees decreased by $6492 or 3.1% due to the completion of Government approved deficit recovery in 2022. In 2023, the AER collected 70.8% (2022 – 72.1%) of industry levies from oil and gas, 22.4% (2022 – 24.5%) from oil sands, 4.3% (2022 – 3.4%) from coal operations, 1.7% (2022 – nil) from pipelines, and 0.8% (2022 – nil) from facilities in the form of administration fees. Administration fees for the 2023 fiscal year include $54 (2022 – $134) collected in late payment penalties.

Government of Alberta grant

The AER received $12 811 in grant funding to support the AER's mandate expansion work related to mineral resource regulation. The Grant revenue is recognized as expenses pertaining to the agreement are incurred, and unspent funds are carried over from year to year and expensed in accordance with accounting standards. For the year ended March 31, 2023, the AER recognized $16 754, of which $10 982 was related to carryover work related to the Public Geoscience Mineral Mapping; $7039 will be carried over into 2024 to support the continued development and operationalization of the various mandate expansion workstreams.

Orphan fund levy and transfers

Under Part 11 of the *Oil and Gas Conservation Act*, the AER is required to prescribe an orphan fund levy. This levy is based on the revenue requirements identified by the OWA board and approved by the Government of Alberta. In 2023, the AER issued and collected an orphan fund levy of $72 000, an increase of $2000 compared to 2022. This increase was required to address the increasing volume of orphan wells. The AER also issued a Large Facility Program orphan levy to active large facility licensees in the amount of $6000, which is $2500 more than 2022. Active large facility licensees are collectively responsible for covering closure costs of insolvent large facility licensees, as outlined in *Directive 024*. Additionally, AER collected $669 (2022 – $436) in first-time licensee and application fees, $90 (2022 – $288) in penalties, and transferred $1535 (2022 – $3600) of forfeited security deposits. All amounts collected were transferred to the OWA.

Other revenue

Other revenue consists of data subscriptions, enforcement revenue, electronic data and publications sales, revenue from projects performed on a cost-recovery basis, and investment income. In 2023, other revenue increased by $3841 or 136.2%, primarily driven by higher investment income due to rising interest rates.

Energy regulation

Expenses increased slightly by $1867 or 0.8% in 2023 due to the AER's continued mandate expansion initiatives on Geothermal Regulatory Frameworks, Mineral Regulatory Frameworks, and Public Geoscience Mineral Mapping initiatives ($16 514); increased salary costs and inflationary pressures, offset by reduced building expenses due to an early termination fee of partial office space in 2022. Overall, the AER continues to exercise financial prudence and seeks opportunities to reduce costs where possible.

Capital Investment

Developing and acquiring tangible capital assets, predominately investments in information technology, is critical in helping the AER achieve its mandate at the lowest possible cost. Investments in information technology ensures that the AER remains relevant and responsive.

In 2023, the AER made capital investments of $12 808. Capital investment projects in 2023 focused on continued IT infrastructure improvement, safety-related building improvements at the Core Research Centre, and OneStop, the AER's Integrated Decision Approach (IDA) technology. OneStop provides an efficient and streamlined process for companies to submit one integrated application that covers activities over the life of the development and to receive decisions in a single approval document.

Budget Management

In 2023, the AER planned for a balanced budget, and throughout the year, despite being challenged with non-discretionary pressures, continued to forecast a balanced position. Non-discretionary pressures were more than offset by increased investment revenue and effective cost management, including prioritizing funding initiatives and focusing on savings opportunities. Consequently, the AER completed the year with a surplus of $2119 (2021 – $7734), 0.7% of total revenues.

Alberta Energy Regulator
Consolidated Financial Statements
For the Year Ended March 31, 2023

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of the Alberta Energy Regulator and all other information relating to the AER contained in this annual report have been prepared and presented by management, who is responsible for the integrity and fair presentation of the information.

These consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. The consolidated financial statements necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management is responsible for maintaining an effective system of internal controls designed to provide reasonable assurance that financial information is reliable, transactions are properly authorized, assets are safeguarded and liabilities are recognized.

The Auditor General of Alberta, the AER’s external auditor appointed under the *Auditor General Act*, performed an independent external audit of these consolidated financial statements in accordance with Canadian generally accepted auditing standards, and has expressed his opinion in the accompanying Independent Auditor’s Report.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility through the Audit and Finance Committee, composed of Directors who are not employees of the regulator. The Audit and Finance Committee meets with the internal auditors and the external auditors-both in the presence and in the absence of management to discuss their audit, including any findings as to the integrity of financial reporting processes and the adequacy of our systems of internal controls. The internal and external auditors have full and unrestricted access to the Audit and Finance Committee.

[Original signed by Laurie Pushor]

President and Chief Executive Officer

[Original signed by Mike Dalton]

Vice-President, Finance and Chief Financial Officer

Date: May 18, 2023

Auditor General OF ALBERTA

Independent Auditor’s Report

To the Board of Directors of the Alberta Energy Regulator

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of the Alberta Energy Regulator (the Group), which comprise the consolidated statement of financial position as at March 31, 2023, and the consolidated statements of operations, change in net financial assets (net debt), and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and the results of its operations, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of my report. I am independent of the Group in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the consolidated financial statements and my auditor’s report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor’s report.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.-
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General

May 18, 2023
Edmonton, Alberta

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2023

	2023		2022
	Budget (Note 5, Schedule 3)	Actual	Actual
		(in thousands)	
Revenues			
Administration fees	$ 200,730	$ 201,429	$ 207,921
Orphan fund levies and transfers (Note 6)	78,500	80,294	77,824
Government of Alberta grants	12,811	16,754	16,988
Information, services and fees	1,299	2,576	2,247
Investment income	675	4,085	573
	294,015	305,138	305,553
Expenses			
Energy regulation (Schedule 1)	219,015	223,496	221,629
Orphan well abandonment (Note 6)	78,500	80,294	77,824
	297,515	303,790	299,453
Annual operating surplus (deficit)	(3,500)	1,348	6,100
Accumulated surplus at beginning of year	73,587	73,587	67,487
Accumulated surplus at end of year	$ 70,087	$ 74,935	$ 73,587

The accompanying notes and schedules are part of these consolidated financial statements.

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2023

	2023	2022
	(in thousands)	
Financial assets		
Cash and cash equivalents (Note 7)	$ 43,171	$ 52,566
Accounts receivable (Note 8)	2,927	1,684
Pension assets (Note 15)	9,903	3,958
	56,001	58,208
Liabilities		
Accounts payable and other accrued liabilities (Note 9)	26,017	26,725
Payable to Orphan Well Association	2,419	1,064
Deferred revenue (Note 10)	7,657	11,362
Deferred lease incentives (Note 12)	9,849	11,315
	45,942	50,466
Net financial assets	10,059	7,742
Non-financial assets		
Tangible capital assets (Note 16)	56,672	57,443
Prepaid expenses and other assets	8,204	8,642
	64,876	66,085
Net assets before spent deferred capital contributions	74,935	73,827
Spent deferred capital contributions (Note 10)	-	240
Net assets		
Accumulated surplus (Note 17)	$ 74,935	$ 73,587

Asset Retirement Obligation (Note 14)
Contractual rights (Note 18)
Contingent liabilities (Note 19)
Contractual obligations (Note 20)

The accompanying notes and schedules are part of these consolidated financial statements.

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (NET DEBT)
YEAR ENDED MARCH 31, 2023

	2023		2022
	Budget (Note 5, Schedule 3)	Actual	Actual
		(in thousands)	
Annual operating surplus (deficit)	$ (3,500)	$ 1,348	$ 6,100
Acquisition of tangible capital assets (Note 16)	(14,500)	(12,808)	(12,950)
Amortization of tangible capital assets (Note 16)	18,000	13,114	13,921
Net loss on disposal and write-down of tangible capital assets		418	663
Proceeds on disposal of tangible capital assets		47	-
Write-off of leasehold improvements (Note 12)		-	1,056
Decrease in prepaid expenses and other assets		438	743
Net (decrease)/increase in spent deferred capital contributions (Note 10)		(240)	240
Decrease in net debt	-	2,317	9,773
Net financial assets (net debt) at beginning of year	7,742	7,742	(2,031)
Net financial assets at end of year	$ 7,742	$ 10,059	$ 7,742

The accompanying notes and schedules are part of these consolidated financial statements.

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2023

	2023	2022
	(in thousands)	
Operating transactions		
Annual operating surplus	$ 1,348	$ 6,100
Non-cash items included in annual operating surplus:		
Amortization of tangible capital assets (Note 16)	13,114	13,921
Write-off of leasehold improvements (Note 12)	-	1,056
Change in pension assets	(5,945)	965
Net loss on disposal and write-down of tangible capital assets (Note 16)	418	663
Bad debt expense (recovery)	34	(16)
Write-off of deferred lease incentives (Note 12)	-	(1,450)
Amortization of deferred lease incentives (Note 12)	(1,466)	(1,567)
	7,503	19,672
Increase in accounts receivable	(1,277)	(212)
Decrease in prepaid expenses and other assets	438	743
(Decrease)/increase in accounts payable and other accrued liabilities	(708)	8,688
Increase/(decrease) in payable to Orphan Well Association	1,355	(878)
(Decrease)/increase in deferred revenue	(3,705)	11,037
Cash provided by operating transactions	3,606	39,050
Capital transactions		
Acquisition of tangible capital assets (Note 16)	(12,808)	(12,950)
Proceeds on disposal of tangible capital assets	47	-
Cash applied to capital transactions	(12,761)	(12,950)
Financing transactions		
(Decrease)/Increase in spent deferred capital contributions (Note 10)	(240)	240
Cash (applied to) provided by financing transactions	(240)	240
(Decrease)/increase in cash and cash equivalents	(9,395)	26,340
Cash and cash equivalents at beginning of year	52,566	26,226
Cash and cash equivalents at end of year	$ 43,171	$ 52,566

The accompanying notes and schedules are part of these consolidated financial statements.

Note 1 AUTHORITY

The Alberta Energy Regulator (AER) is an independent and quasi-judicial organization of the Government of Alberta. The AER operates under the *Responsible Energy Development Act.* The AER's mandate provides for the safe, efficient, orderly and environmentally responsible development of hydrocarbon resources over their entire life cycle. This includes allocating and conserving water resources, managing public lands, and protecting the environment while providing economic benefits for all Albertans. The AER is exempt from income taxes under the *Income Tax Act.*

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

Reporting Entity and Method of Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the AER, which is composed of all components controlled by the AER. The Orphan Fund is a fund retained and administered by the AER. The AER collects an Orphan Fund Levy and a Large Facility Program Orphan Levy, and transfers the funds to the Orphan Well Association through the Orphan Fund. The AER also transfers funds for first time licensee application fees, including regulator directed transfer fees, and forfeited security deposits through the Orphan Fund. The AER and the Orphan Fund are consolidated using the line-by-line method.

Basis of Financial Reporting

Revenues

All revenues are reported on the accrual basis of accounting. The AER recognizes revenue from administration fees at their realizable value. Cash received for which services have not been provided by year end is recognized as deferred revenue.

<u>Government of Alberta Grants</u>

Transfers from the Government of Alberta are referred to as provincial grants.

Provincial grants without stipulations for the use of the transfer are recognized as revenue when the transfer is authorized and the AER meets the eligibility criteria (if any). Provincial grants with stipulations for the use of the transfer are recognized as deferred revenue and subsequently recognized when the AER meets the stipulations.

<u>Investment Income</u>

Investment income includes interest income.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Employee future benefits

The AER maintains its own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

Pension assets represent the sum of the accumulated cash contributions less the sum of the current and prior years' pension expense.

Accrued benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels and retirement age of employees.

Accrued benefit obligations and pension benefit costs for the year are calculated using the expected rate of return on plan assets as the discount rate, which is determined using market values of plan assets.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

Basis of Financial Reporting (continued)

Employee future benefits (continued)

Actuarial gains and losses are amortized over the average remaining service period of the active employees, which is 11.2 years (2022 - 11.2 years).

Past service cost arising from plan amendments is accounted for in the period of the plan amendments.

Gains and losses determined upon a plan curtailment are accounted for in the period of curtailment.

The AER participates in the Government of Alberta's multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. Defined contribution plan accounting is applied to these plans as the AER has insufficient information to apply defined benefit plan accounting. Accordingly, pension expense comprises employer contributions to the plans that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plans' future benefits.

Valuation of financial assets and liabilities

The AER's financial assets and liabilities are generally measured as follows:

Financial Statement Component	Measurement
Cash and cash equivalents	Cost
Accounts receivable	Lower of cost or net recoverable value
Pension assets	Lower of cost or net recoverable value
Accounts payable and other accrued liabilities	Cost
Payable to the Orphan Well Association	Cost
Environmental Liabilities	Cost
Deferred lease incentives	Amortized cost

The AER has not designated any financial assets or liabilities in the fair value category, does not have any significant foreign currency transactions and does not hold any derivative contracts. The AER has no significant remeasurement gains or losses and consequently has not presented a consolidated statement of remeasurement gains and losses.

Financial assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets include cash and the AER's financial claims on external organizations and individuals at year end.

Cash and cash equivalents

Cash comprises cash on hand, externally restricted cash and demand deposits.

Accounts receivable

Accounts receivable are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

Basis of Financial Reporting (continued)

Liabilities

Liabilities are present obligations of the AER to external organizations and individuals arising from past transactions or events occurring before the year end, the settlement of which is expected to result in the future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amounts. Liabilities include all financial claims payable by the AER at fiscal year end.

Deferred lease incentives

Deferred lease incentives, consisting of leasehold improvement costs, reduced rent benefits and rent-free periods, are amortized on a straight-line basis over the term of the leases.

Environmental Liabilities

Liability for Contaminated Sites:

Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment.

A liability for remediation of a contaminated site may arise from an operation that is either in productive use or no longer in productive use and may also arise from an unexpected event resulting in contamination. The resulting liability is recognized when all of the following criteria are met:

- i. an environmental standard exists;
- ii. contamination exceeds the environmental standard;
- iii. the AER is directly responsible or accepts responsibility;
- iv. it is expected that future economic benefits will be given up; and
- v. a reasonable estimate of the amount can be made.

Contingent Liabilities

A contingent liability is recognized when:

- i. there is an existing condition or situation;
- ii. there is an expected future event that will resolve the uncertainty as to whether a present obligation to sacrifice economic benefits exists;
- iii. it is likely that a future event will confirm that a liability has been incurred at the date of the financial statements; and
- iv. a reasonable estimate of the amount can be made.

Non-financial assets

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

- (a) are normally employed to deliver AER services;
- (b) may be consumed in the normal course of operations; and
- (c) are not for sale in the normal course of operations.

Non-financial assets of the AER include tangible capital assets, prepaid expenses and other assets.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

Basis of Financial Reporting (continued)

Tangible capital assets

Tangible capital assets are recognized at cost less accumulated amortization, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development of the asset.

The cost, less residual value, of the tangible capital assets, excluding land, is amortized over their estimated useful lives as follows:

Leasehold improvements	Straight line	Term of the lease
Furniture and equipment	Straight line	5 - 12 years
Computer hardware	Straight line	4 years
Computer software - purchased	Straight line	4 years
Computer software - developed	Declining balance	5 years

Amortization is only expensed when the tangible capital asset is put into service.

Work-in-progress, which may include developed computer software and leasehold improvements, is not amortized until a project is complete and the asset is put into service.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the AER's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets is less than their net book value. The net write-downs are accounted for as an expense in the Consolidated Statement of Operations.

Prepaid expenses

Prepaid expenses are recognized at cost and amortized based on the terms of the agreements.

Measurement uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount, whenever estimates are used. The amounts recognized for amortization of tangible capital assets are based on estimates of the useful life of the related assets. Accrued defined benefit obligations are subject to measurement uncertainty due to the use of actuarial assumptions. The resulting estimates are within reasonable limits of materiality and are in accordance with the AER's significant accounting policies.

Estimates of contingent liabilities for contaminated sites are subject to measurement uncertainty because the existence and extent of contamination, the responsibility for clean-up, and the timing and costs of remediation cannot be reasonably estimated in all circumstances. The degree of measurement uncertainty cannot be reasonably determined.

Note 3 CHANGE IN ACCOUNTING STANDARDS

Effective April 1, 2022, the AER adopted the new accounting standards PS 3280 Asset Retirement Obligations. There was no material impact on the AER’s consolidated financial statements, as discussed in Note 14.

Note 4 FUTURE CHANGES IN ACCOUNTING STANDARDS

The Public Sector Accounting Board has approved the following accounting standards, which are effective for fiscal years starting on or after April 1, 2023:

PS 3400 Revenue (effective April 1, 2023)

This standard provides guidance on how to account for and report on revenue, and specifically, it differentiates between revenue arising from exchange and non-exchange transactions.

PS 3160 Public Private Partnerships (effecitve April 1, 2023)

This standard provides guidance on how to account for public private partnerships between public and private sector entities, where the public sector entity procures infrastructure using a private sector partner.

Management is currently assessing the impact of these standards on the consolidated financial statements. These standards are not expected to have a significant impact on the AER's consolidated financial statements.

Note 5 BUDGET

The budget and budget adjustments reflected on Schedule 3 have been approved by the Government of Alberta.

Note 6 ORPHAN WELL ABANDONMENT

(in thousands)

The Government of Alberta has delegated the authority to manage the abandonment and reclamation of wells, facilities, and pipelines that are licensed to defunct licensees to the Orphan Well Association. The AER collects an Orphan Fund Levy and a Large Facility Program Orphan Levy, and transfers the funds to the Orphan Well Association through the Orphan Fund. The AER also transfers funds for first time licensee application fees, including regulator directed transfer fees, and forfeited security deposits through the Orphan Fund. During the year ended March 31, 2023, the AER collected and transferred $78,090 (2022 - $73,788) in levies, $669 (2022 - $436) in application fees and $1,535 (2022 - $3,600) in forfeited security deposits.

Note 7 CASH AND CASH EQUIVALENTS

(in thousands, unless otherwise noted)

Cash and cash equivalents are held in an account with a Canadian chartered bank and earn interest calculated based on the average monthly cash balance. The funds are available to be withdrawn upon request. During the year ended March 31, 2023, the AER earned interest at an annual average rate of 3.5% (2022 - 0.8%).

Cash and cash equivalents includes restricted funds of $7,447 (2022 - $11,159), as reflected in deferred revenue (discussed in Note 10).

Note 8 ACCOUNTS RECEIVABLE

(in thousands)

Accounts receivable are unsecured and non-interest bearing.

	2023			2022
	Gross amount	Allowance for doubtful accounts	Net recoverable value	Net recoverable value
Accounts receivable	$ 3,187	$ (260)	$ 2,927	$ 1,684

Note 9 ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

(in thousands)

	2023	2022
Trade and other accrued liabilities	$ 9,743	$ 12,481
Lease termination payable	5,820	7,376
Accrued salaries and benefits	10,454	6,868
	$ 26,017	$ 26,725

Note 10 DEFERRED REVENUE

(in thousands)

Deferred revenue consists of the following:

	2023	2022
Deferred contributions[(1)]	$ 7,447	$ 11,159
Unearned revenue	210	203
	$ 7,657	$ 11,362
Spent deferred capital contributions	-	240
	$ 7,657	$ 11,602

(1) Deferred contributions

	2023			2022
	Government of Alberta	**Other**	**Total**	**Total**
Balance at beginning of year	$ 10,837	$ 322	$ 11,159	$ 143
Cash contributions received/receivable during year	12,811	347	13,158	28,369
Less: amounts recognized as revenue	(16,514)	(356)	(16,870)	(17,113)
Transferred to spent deferred capital contributions	-	-	-	(240)
Balance at end of year	$ 7,134	$ 313	$ 7,447	$ 11,159

Note 11 FINANCIAL INSTRUMENTS

The AER has the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities, and payable to the Orphan Well Association.

Financial Risk Management

The AER has exposure to the following risks from its use of financial instruments:

(a) Liquidity risk

Liquidity risk is the risk that the AER will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the AER are met primarily through the collection of funding at the beginning of the year to fund operating expenses and capital expenditures throughout the year. The AER manages liquidity risk by having established budget processes and regularly monitoring cash flows to ensure the necessary funds are on hand to fulfill upcoming obligations. In addition, the AER maintains a revolving line of credit which provides financial flexibility to allow the AER to meet its obligations if funding cannot be collected on a timely basis.

Note 11 FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

The AER is exposed to credit risk from potential non-payment of accounts receivable. A substantial portion of the AER's accounts receivable include balances due from operators in the oil and gas industry, and are subject to normal industry credit risk. The AER regularly monitors the financial status of operators and assesses the collectability of accounts receivable. The AER's maximum exposure to credit risk is limited to the carrying amount of accounts receivable presented in the Consolidated Statement of Financial Position at the reporting date. The AER established a valuation allowance that corresponds to the specific credit risk of operators, historical trends and economic circumstances.

Note 12 DEFERRED LEASE INCENTIVES

(in thousands)

The AER has entered into various lease agreements which provide for lease incentives comprising reduced rent benefits, rent-free periods and leasehold improvement costs. These amounts are amortized on a straight-line basis over the term of the lease.

	2023			2022
	Leasehold improvement costs	Reduced rent benefits and rent-free periods	Total	Total
Balance at beginning of year	$ 9,370	$ 1,945	$ 11,315	$ 14,332
Write-off of lease incentives[(1)]	-	-	-	(1,450)
Amortization	(1,136)	(330)	(1,466)	(1,567)
Balance at end of year	$ 8,234	$ 1,615	$ 9,849	$ 11,315

(1) In 2022, the AER exited a portion of the lease for its Calgary Head Office. As a result, the AER wrote off the related leasehold improvements and lease incentives pertaining to this office space.

Note 13 ENVIRONMENTAL LIABILITIES

(in thousands, unless otherwise noted)

The AER has a mandate to protect public safety and the environment. As at March 31, 2023, the AER is not responsible, nor has it accepted responsibility, for performing remediation and reclamation work at contaminated sites. The AER has $nil (2022 - $nil) environmental liabilities recorded.

As at March 31, 2023, the AER is administering 29 (2022 – 29) legacy sites. Of these sites, during the year ended March 31, 2023, the AER identified one (2022 – two) site as having immediate public safety and environmental risk, and the AER needed to take appropriate action to mitigate these risks. During the year ended March 31, 2023, the AER incurred $3 (2022 - $9) in costs to mitigate immediate public safety and environmental risks. Costs to mitigate immediate public safety or environmental risks are costs where the AER has completed protective or remediation work at legacy sites. Costs for ongoing assessment and monitoring are included.

Note 14 ASSET RETIREMENT OBLIGATION

Tangible capital assets are assessed for asset retirement obligations annually. Asset retirement obligations are initially measured as of the date the legal obligation was incurred, based on management's best estimate of the amount required to retire tangible capital assets and subsequently re-measured taking into account any new information and the appropriateness of assumptions used. At March 31, 2023, the estimate of the liability is insignificant and therefore no liability was recognized. During the year ended March 31, 2023, the AER incurred $nil (2022 - $nil) in costs to settle the obligation.

Note 15 EMPLOYEE FUTURE BENEFITS

(in thousands, unless otherwise noted)

The AER participates in the Government of Alberta's multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. For the year ended March 31, 2023, the expense for these pension plans is equal to the contributions of $12,207 (2022 - $12,253) and is included in salaries, wages and employee benefits on Schedule 1. The AER is not responsible for future funding of the plan deficit other than through contribution increases.

In addition, the AER maintains its own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

All the information presented in the note below is related to the AER's defined benefit pension plans.

The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2021. The accrued benefit obligation as at March 31, 2023 is based on the extrapolation of the results of this valuation. The effective date of the next required funding valuation for SEPP is December 31, 2024.

Pension plan assets are valued at market values. During the year ended March 31, 2023, the weighted average actual return on plan assets was -1.9% (5.2% in 2022).

Significant weighted average actuarial and economic assumptions used to value accrued benefit obligations and pension benefit costs were as follows:

Accrued benefit obligations	**2023**	**2022**
Discount rate	5.4%	4.5%
Rate of compensation increase	4.0% until March 31, 2023, 6.0% until March 31, 2024, 3.0% thereafter	4.0% until March 31, 2023, 3.0% thereafter
Long-term inflation rate	2.0%	2.0%

Pension benefit costs for the year	**2023**	**2022**
Discount rate	4.5%	4.4%
Expected rate of return on plan assets	4.5%	4.4%
Rate of compensation increase	4.0% until March 31, 2023, 3.0% thereafter	0% until March 31, 2022, 3.0% thereafter

Note 15 EMPLOYEE FUTURE BENEFITS (continued)

The funded status and amounts recognized in the Consolidated Statement of Financial Position were as follows:

	2023	2022
Market value of plan assets	$ 81,577	$ 76,893
Accrued benefit obligations	(67,126)	(70,739)
Plan surplus	14,451	6,154
Unamortized actuarial gains	(4,548)	(2,196)
Pension assets	$ 9,903	$ 3,958

(in thousands, unless otherwise noted)

The pension benefit costs for the year included the following components:

	2023	2022
Current period benefit cost	$ 3,921	$ 4,045
Interest cost	3,277	3,197
Expected return on plan assets	(3,462)	(3,227)
Amortization of actuarial (gains)/losses	(67)	251
	$ 3,669	$ 4,266

Additional information about the defined benefit pension plans is as follows:

	2023	2022
Benefits paid	$ 4,189	$ 5,009
AER contributions	9,615	3,298
Employees' contributions	751	684

The asset allocation of the defined benefit pension plans' investments was as follows:

	2023	2022
Equity securities	45.4%	44.1%
Debt securities	24.3%	23.4%
Alternatives	18.5%	20.0%
Other	11.8%	12.5%
	100.0%	100.0%

Note 16 TANGIBLE CAPITAL ASSETS

(in thousands)

	2023					2022
	Land	**Leasehold improvements**	**Furniture and equipment** (1)	**Computer hardware and software**	**Total**	**Total**
Estimated useful life	Indefinite	Term of the lease	5-12 years	4-5 years		
Historical cost (2)						
Beginning of year	$ 282	$ 46,366	$ 12,400	$ 138,338	$ 197,386	$ 208,404
Additions	-	1,398	803	10,607	12,808	12,950
Disposals, including write-downs	-	(141)	(301)	(8,689)	(9,131)	(23,968)
	282	47,623	12,902	140,256	201,063	197,386
Accumulated amortization						
Beginning of year	$ -	$ 24,384	$ 9,529	$ 106,030	$ 139,943	$ 148,271
Amortization expense	-	2,737	770	9,607	13,114	13,921
Effect of disposals, including write-downs	-	(132)	(270)	(8,264)	(8,666)	(22,249)
	-	26,989	10,029	107,373	144,391	139,943
Net book value at March 31, 2023	$ 282	$ 20,634	$ 2,873	$ 32,883	$ 56,672	
Net book value at March 31, 2022	$ 282	$ 21,982	$ 2,871	$ 32,308		$ 57,443

(1) Furniture and equipment includes organization-owned vehicles, office equipment, furniture and other equipment.

(2) Historical costs includes work-in-progress at March 31, 2023 totalling $6,381 (2022 -$2,297) comprised of: computer hardware and software includes work-in-progress totalling $6,369 (2022 - $2,297) and leasehold improvements $12 (2022 - $nil).

Note 17 ACCUMULATED SURPLUS

(in thousands)

The accumulated surplus of the AER is calculated as the sum of the AER's net debt and its non-financial assets. The accumulated surplus represents the net assets of the AER and comprises the following:

	2023			2022
	Investments in tangible capital assets (1)	**Unrestricted net assets**	**Total**	**Total**
Balance at beginning of year	$ 48,073	$ 25,514	$ 73,587	$ 67,487
Annual operating surplus	-	1,348	1,348	6,100
Net investment in tangible capital assets (1)	365	(365)	-	-
Balance at end of year	$ 48,438	$ 26,497	$ 74,935	$ 73,587

(1) Excludes leasehold improvement costs received by the AER as a lease incentive and related amortization.

Note 18 CONTRACTUAL RIGHTS

(in thousands)

Contractual rights are rights of the AER to economic resources arising from contracts or agreements that will result in both assets and revenues in the future when the terms of those contracts or agreements are met.

During the year ended March 31, the AER collected the following amounts for its contractual rights under operating subleases:

	2023	2022
Contractual rights from operating subleases	$ 543	$ 316

As at March 31, 2023, estimated amounts that will be received or receivable for each of the next five years are as follows:

2023-24	550
2024-25	433
2025-26	439
2026-27	182
2027-28	-
	$ 1,604

Note 19 CONTINGENT LIABILITIES

(in thousands)

The AER is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate. As at March 31, 2023, accruals totalling $1,312 (2022 - $1,359) have been recognized as a liability.

The AER has identified various sites where contamination may exist and the level of contamination is unknown at this time. As at March 31, 2023, no liability has been recognized for these sites as further testing and evaluation is required to determine the extent of immediate actions necessary. No liability for remediation on other sites has been recognized as the AER becoming responsible for these sites is not determinable; the AER does not expect to give up any future economic benefits; no reasonable estimate of the amount can be made; or a combination of these factors. The AER’s ongoing efforts to assess contaminated sites may result in environmental remediation liabilities related to newly identified sites, or change in the assessment or intended use of existing sites. Any change to the environmental liabilities will be accrued in the year in which they are assessed as likely and measurable.

Note 20 CONTRACTUAL OBLIGATIONS

(in thousands)

As at March 31, 2023, the AER had contractual obligations totalling $125,189 (2022 - $146,445).

Contractual obligations are obligations of the AER to others that will become liabilities in the future when the terms of those contracts or agreements are met.

As at March 31, 2023, estimated payment requirements for obligations under operating leases and contracts for each of the next five years and thereafter are as follows:

2023-24	$ 50,733
2024-25	16,824
2025-26	10,891
2026-27	10,116
2027-28	9,675
Thereafter	26,950
	$ 125,189

Note 21 ASSETS UNDER ADMINISTRATION

(in thousands)

The AER administers security deposits in accordance with specified acts and regulations. Security deposits are held on behalf of depositors with no power of appropriation and therefore are not reported in these consolidated financial statements. The AER does not have any financial risk associated with security collected. Security, along with any interest earned, will be returned to the depositors upon meeting specified refund criteria. Security may be forfeited and transferred to the Orphan Well Association for the cost of suspension, abandonment, site decontamination and surface land reclamation.

As at March 31, 2023, assets under administration included the following types of security deposits:

	2023				2022
	Cash	Letters of credit	Surety Bond	Total	Total
Liability Management Rating programs and landfills	$ 102,539	$ 281,789	$ -	$ 384,328	$ 368,103
Mine Financial Security program	67,079	1,245,343	247,312	1,559,734	1,520,516
Other programs	11,061	10,923	-	21,984	21,134
	$ 180,679	$ 1,538,055	$ 247,312	$ 1,966,046	$ 1,909,753

Note 22 COMPARATIVE FIGURES

Certain 2022 figures have been reclassified, where necessary, to conform to the 2023 presentation.

Note 23 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the AER Board of Directors on May 18, 2023.

ALBERTA ENERGY REGULATOR **Schedule 1**

ENERGY REGULATION EXPENSES - DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2023

	2023	2022
	(in thousands)	
Salaries, wages and employee benefits	$ 147,068	$ 132,712
Consulting services	22,608	26,539
Buildings	18,848	27,305
Computer services	17,801	17,710
Amortization of tangible capital assets	13,114	13,921
Administrative	1,703	1,274
Travel and transportation	1,640	1,292
Loss on disposal and write-down of tangible capital assets	418	663
Equipment rent and maintenance	296	205
Abandonment and enforcement	-	8
	$ 223,496	$ 221,629

ALBERTA ENERGY REGULATOR **Schedule 2**

SALARY AND BENEFITS DISCLOSURE

YEAR ENDED MARCH 31, 2023

	2023				2022 Restated (4)
	Base salary	Other cash benefits (1)	Other non-cash benefits (2)	Total	Total
			(in thousands)		
Position					
Board Members (3)	$ 460	$ -	$ 38	$ 498	$ 468
President and Chief Executive Officer	342	40	83	465	464
Chief Hearing Commissioner (4)	224	11	59	294	276
Chief Operations Officer	271	15	84	370	347
Executive Vice-President, Law and General Counsel (5)	230	11	84	325	-
Vice-President of Finance and Chief Financial Officer	239	9	87	335	327
Vice-President of People, Culture and Learning (6)	225	14	74	313	-
Former Executive Vice-President, Law and General Counsel (7)	41	19	12	72	346

(1) Other cash benefits include payments in lieu of vacation, pension and health benefits, as well as vehicle allowances and other cash reimbursements.

(2) Other non-cash benefits include contributions to all benefits as applicable, including employer's share of all employee benefits and contributions or payments made on behalf of employees, including pension, supplementary retirement plans, health care and payments made for professional memberships, tuition fees, parking and other taxable benefits.

(3) The incumbent Board of Directors consists of eight members. Seven Board Members are remunerated with monthly honoraria as per rates prescribed in the Orders in Council, one Board Member is unpaid. Two new Board Members were appopointed on August 22, 2022 and March 14, 2023, and one member was rescinded on October 24, 2022.

(4) The 2022 figures have been restated to include the two individuals who occupied this position during 2022. In October 2021, an incumbent was appointed as acting Chief Hearing Commissioner and held the position until April 14, 2022.

(5) The incumbent held the position effective May 23, 2022.

(6) Effective April 6, 2022 the position became a voting member of the Executive Leadership Team.

(7) The incumbent retired on May 24, 2022.

SEPP AND SRP RETIREMENT BENEFITS

(in thousands)

The costs detailed below are only for those employees, included in Schedule 2, who were employed during the years ended March 31, 2022 and 2023, and participated in the SEPP and SRP maintained by the AER. The SEPP and SRP provide retirement benefits to compensate senior staff who do not participate in the Government of Alberta's management pension plans.

	2023			2022
Position	**Current service cost**	**Prior service and other costs**	**Total**	**Total**
Executive Vice-President, Law and General Counsel[5]	$ 24	$ (1)	$ 23	$ -
Vice-President of Finance and Chief Financial Officer	33	(1)	32	39
Vice-President of People, Culture and Learning[6]	28	-	28	-

The SEPP and SRP accrued obligation for each executive employed by the AER during the years ended March 31, 2022 and 2023 is outlined in the following table:

Position	Accrued obligation April 1, 2022	Changes in accrued obligation	Accrued obligation March 31, 2023	Accrued obligation March 31, 2022
Executive Vice-President, Law and General Counsel[5]	$ 185	$ 13	$ 198	$ 185
Vice-President of Finance and Chief Financial Officer	57	36	93	57
Vice-President of People, Culture and Learning[6]	46	24	70	46

ALBERTA ENERGY REGULATOR **Schedule 3**

CONSOLIDATED ACTUAL RESULTS COMPARED WITH BUDGET

YEAR ENDED MARCH 31, 2023

	Budget (Note 5)	Adjustments [1]	Adjusted budget	Actual
		(in thousands)		
Revenues				
Administration fees	$ 200,730	$ 640	$ 201,370	$ 201,429
Orphan fund levies and transfers	78,500	-	78,500	80,294
Government of Alberta grants	12,811	10,800	23,611	16,754
Information, services and fees	1,299	203	1,502	2,576
Investment income	675	3,177	3,852	4,085
	294,015	14,820	308,835	305,138
Expenses				
Energy regulation	219,015	15,320	234,335	223,496
Orphan well abandonment	78,500	-	78,500	80,294
	297,515	15,320	312,835	303,790
	(3,500)	(500)	(4,000)	1,348
Capital				
Capital investment	14,500	(5,500)	9,000	12,808
Less: Amortization of tangible capital assets	(18,000)	5,000	(13,000)	(13,114)
Net loss on disposal and write-down of tangible capital				(418)
Proceeds on disposal of tangible capital assets				(47)
Net capital investment	(3,500)	(500)	(4,000)	(771)
Surplus	$ -	$ -	$ -	$ 2,119

(1) Adjustments reflect changes to the original budget approved by the Treasury Board. These adjustments reflect an extension of grant funding to accommodate work completed in 2023 for the Public Geoscience grant received in 2022, higher investment income, a reduction to amortization expense and capital spending, and higher energy regulation expenses to address inflationary increases for certain expenditures.

ALBERTA ENERGY REGULATOR **Schedule 4**
RELATED PARTY TRANSACTIONS
YEAR ENDED MARCH 31, 2023

The AER, in the normal course of business, entered into various transactions with entities consolidated or accounted for on the modified equity basis in the Government of Alberta's Consolidated Financial Statements. These entities are considered to be related parties of the AER. Related parties also include key management personnel and close family members of those individuals in the AER. In 2023, there were no amounts or transactions, other than compensation, between the AER and its key management personnel. Key management personnel compensation is disclosed in Schedule 2.

Related Party Transactions with Government of Alberta Entities

The AER recognized the following transactions with Government of Alberta entities in the Consolidated Statement of Operations and the Consolidated Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry of Energy		Other entities	
	2023	**2022**	**2023**	**2022**
	(in thousands)		*(in thousands)*	
Revenues				
Government of Alberta grants	$ 16,754	$ 16,988	$ -	$ -
Information, services and fees	333	334	671	485
	$ 17,087	$ 17,322	$ 671	$ 485

	Entities in the Ministry of Energy		Other entities	
	2023	**2022**	**2023**	**2022**
	(in thousands)		*(in thousands)*	
Expenses				
Computer services	$ 341	$ 386	$ 3,441	$ 3,573
Buildings	-	-	433	400
Administrative	-	-	515	370
Consulting services	-	-	174	187
	$ 341	$ 386	$ 4,563	$ 4,530
Receivable from	$ 130	$ 137	$ 13	$ 6
Prepaid expenses and other assets	$ -	$ -	$ 36	$ 36
Payable to	$ -	$ -	$ 1,987	$ 1,307
Deferred revenue	$ 7,134	$ 10,837	$ 200	$ 259
Contractual obligations [a]	$ -	$ -	$ 3,869	$ 4,850

[a] Contractual obligations are obligations of the AER to related parties that will become liabilities in the future when the terms of those contracts or agreements are met.

LET'S CONNECT

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