Alberta Energy Regulator
Financial Statements
For the Year Ended March 31, 2019

Independent Auditor's Report

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Auditor General
OF ALBERTA

Independent Auditor's Report

To the Board of Directors of the Alberta Energy Regulator

Report on the Financial Statements

Qualified opinion

I have audited the financial statements of the Alberta Energy Regulator (the AER), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, change in net debt, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the effects of the matter described in the Basis for qualified opinion section of my report, the accompanying financial statements present fairly, in all material respects, the financial position of the AER as at March 31, 2019, and the results of its operations, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for qualified opinion

The AER has not appropriately presented and disclosed the nature of its relationship and its transactions with ICORE Energy Services (ICORE NFP), an organization created by the AER and incorporated under the *Canada Not-for-profit Corporations Act*. I examined the nature of the relationship between the AER and ICORE NFP, and the related transactions, and determined that under Canadian public sector accounting standards the AER controlled ICORE NFP from May 2017 until December 2018, when the AER resigned its membership and control of ICORE NFP.

The AER concluded that ICORE NFP is not controlled and presented the relationship and transactions with ICORE NFP as a related party in schedule 4 - related party transactions. Because the AER controlled ICORE NFP, its financial results up to December 2018 should have been consolidated into the AER's financial statements. Had the AER consolidated ICORE NFP, the AER's statement of operations would have additional ICORE Energy Services (NFP) revenue of $l.0 million and additional ICORE Energy Services (NFP) expense of $0.7 million. Further, expenses reported on the AER's statement of operations classified as Energy Regulation should be $2.3 million lower and expenses classified as ICORE Energy Services (NFP) should be $2.3 million higher. In addition, Schedule 4 – related party transactions does not accurately reflect the nature of the relationship between the AER and ICORE NFP as a controlled entity.

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 financial statements section of my report. I am independent of the AER in accordance with the ethical requirements that are relevant to my audit of the 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 qualified opinion.

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

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the AER'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 AER's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the 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 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 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 AER'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 AER'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 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 AER to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Report on other legal and regulatory requirements

In accordance with the *Auditor General Act*, I report the AER's legislative non-compliance identified during my audit, as follows:

- Lack of necessary approvals for the creation of ICORE NFP as required by the *Financial Administration Act.*
- Collection and expenditure of third-party revenues beyond authority granted by the *Responsible Energy Development Act*.
- Awarding bonuses to senior executives not permitted by the *Reform of Agencies, Boards and Commissions Compensation Act.*
- Failure to properly calculate and assess taxable benefits for employer subsidized parking provided to employees as required by the *Income Tax Act.*

I also draw attention to my October 2019 report *An Examination of the International Centre of Regulatory Excellence (ICORE)* as well as the Energy Section of my November 2019 *Report of the Auditor General*. These reports detail key findings of the AER's involvement with ICORE and other findings relating to the legal and regulatory requirements items noted above.

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

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

November 4, 2019
Edmonton, Alberta

ALBERTA ENERGY REGULATOR
STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2019

	2019		2018
	Budget (Note 4, Schedule 3)	Actual	Actual
		(in thousands)	
Revenues			
Industry levies and assessments	$ 297,841	$ 298,528	$ 260,021
Information, services and fees	3,542	6,411	7,901
ICORE Energy Services (NFP) (Schedule 4)		3,134	-
Investment income	867	2,281	1,747
	302,250	310,354	269,669
Expenses (Note 2(a), Schedule 1)			
Energy regulation	253,250	257,903	251,667
Orphan well abandonment (Note 5)	45,500	45,959	15,796
ICORE Energy Services (NFP) (Schedule 4)		1,548	1,586
	298,750	305,410	269,049
Annual operating surplus	3,500	4,944	620
Accumulated surplus at beginning of year	61,573	61,573	60,953
Accumulated surplus at end of year	$ 65,073	$ 66,517	$ 61,573

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

ALBERTA ENERGY REGULATOR
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2019

	2019	2018
	(in thousands)	
Financial assets		
Cash and cash equivalents (Note 6)	$ 19,740	$ 15,644
Accounts receivable (Note 7)	7,484	7,548
Pension assets (Note 13)	2,141	738
	29,365	23,930
Liabilities		
Accounts payable and accrued liabilities (Note 8)	20,505	17,023
Payable to Orphan Well Association	1,928	806
Deferred lease incentives (Note 11)	17,568	19,032
	40,001	36,861
Net debt	(10,636)	(12,931)
Non-financial assets		
Tangible capital assets (Note 14)	66,415	62,718
Prepaid expenses and other assets	10,738	11,786
	77,153	74,504
Net assets		
Accumulated surplus (Note 15)	$ 66,517	$ 61,573

Contingent liabilities (Note 16)
Contractual obligations (Note 17)

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

ALBERTA ENERGY REGULATOR
STATEMENT OF CHANGE IN NET DEBT
YEAR ENDED MARCH 31, 2019

	2019		2018
	Budget (Note 4, Schedule 3)	Actual	Actual
		(in thousands)	
Annual operating surplus	$ 3,500	$ 4,944	$ 620
Acquisition of tangible capital assets (Note 14)	(15,000)	(19,145)	(14,268)
Amortization of tangible capital assets (Note 14)	11,500	15,329	13,848
Loss on disposal and write-down of tangible capital assets		119	128
Decrease/(increase) in prepaid expenses and other assets		1,048	(664)
Decrease/(increase) in net debt	-	2,295	(336)
Net debt at beginning of year	(12,931)	(12,931)	(12,595)
Net debt at end of year	$ (12,931)	$ (10,636)	$ (12,931)

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

ALBERTA ENERGY REGULATOR
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2019

	2019	2018
	(in thousands)	
Operating transactions		
Annual operating surplus	$ 4,944	$ 620
Non-cash items included in annual operating surplus:		
Amortization of tangible capital assets (Note 14)	15,329	13,848
Loss on disposal and write-down of tangible capital assets	119	128
Change in pension assets	(1,403)	(228)
Amortization of deferred lease incentives (Note 11)	(1,631)	(1,616)
	17,358	12,752
Decrease in accounts receivable	64	434
Decrease/(increase) in prepaid expenses and other assets	1,048	(664)
Increase/(decrease) in accounts payable and accrued liabilities	3,482	(2,276)
Increase/(decrease) in payable to Orphan Well Association	1,122	(13,309)
Additions to deferred lease incentives (Note 11)	167	-
Cash provided by (applied to) operating transactions	23,241	(3,063)
Capital transactions		
Acquisition of tangible capital assets (Note 14)	(19,145)	(14,268)
Cash applied to capital transactions	(19,145)	(14,268)
Increase/(decrease) in cash and cash equivalents	4,096	(17,331)
Cash and cash equivalents at beginning of year	15,644	32,975
Cash and cash equivalents at end of year	$ 19,740	$ 15,644

The accompanying notes and schedules are part of these 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.

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

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

(a) Basis of financial reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which services have not been provided by year end is recognized as unearned revenue.

Investment Income

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 is 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.

Actuarial gains and losses are amortized over the average remaining service period of the active employees, which is 10.9 years (2018 - 10.9 years).

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

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.

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

(a) Basis of financial reporting (continued)

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
Accounts payable and accrued liabilities	Cost
Payable to the Orphan Well Association	Cost
Deferred lease incentives	Amortized cost

The AER has not designated any financial assets or liabilities in the fair value category, has no 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 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 are the AER's financial claims on external organizations and individuals at the year end.

Cash and cash equivalents

Cash comprises cash on hand 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.

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.

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. The liability is recognized net of any expected recoveries. A liability for remediation of contaminated sites normally results from an operation that is no longer in productive use and/or unexpected events, and is recognized when all of the following criteria are met:

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

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

(a) Basis of financial reporting (continued)

Non-financial assets

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

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

Non-financial assets of the AER are limited to tangible capital assets and prepaid expenses and other assets.

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 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 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. 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.

(b) Change in accounting policy

The AER has prospectively adopted PS 3430 Restructuring Transactions from April 1, 2018. The adoption of this standard did not affect the financial statements.

Note 3 FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board has approved the following accounting standards:

PS 3280 Asset Retirement Obligations (effective April 1, 2021)

This standard provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

PS 3400 Revenue (effective April 1, 2022)

This standard provides guidance on how to account for and report on revenue, and specifically, it addresses revenue arising from exchange transactions and unilateral transactions.

Management is currently assessing the impact of these standards on the financial statements.

Note 4 BUDGET

The budget for the year ended March 31, 2019 has been approved by the Government of Alberta.

Note 5 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 Alberta Oil and Gas Orphan Abandonment and Reclamation Association (Orphan Well Association). The AER transfers all of its orphan well revenues (levy and application fees) to the Orphan Well Association. During the year ended March 31, 2019, the AER collected $45,379 (2018 - $15,106) in levies and $580 (2018 - $690) in application fees.

Note 6 CASH AND CASH EQUIVALENTS

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, 2019, the AER earned interest at an annual average rate of 2.1% (2018 - 1.4%).

Note 7 ACCOUNTS RECEIVABLE

(in thousands)

Accounts receivable are unsecured and non-interest bearing.

	2019			2018
	Gross amount	Allowance for doubtful accounts	Net recoverable value	Net recoverable value
Accounts receivable - general	$ 9,517	$ (4,203)	$ 5,314	$ 7,548
Accounts receivable - ICORE Energy Services (NFP)	2,693	(523)	2,170	-
	$ 12,210	$ (4,726)	$ 7,484	$ 7,548

Note 8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands)

	2019	2018
Accounts payable	$ 3,823	$ 4,992
Accrued liabilities	14,719	10,191
Unearned revenue	1,963	1,840
	$ 20,505	$ 17,023

Note 9 FINANCIAL INSTRUMENTS

The AER has the following financial instruments: accounts receivable, accounts payable and 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 industry levies and assessments, which are used to fund operating expenses and capital expenditures. The AER does not consider liquidity risk to be a significant risk as the AER collects sufficient funding at the beginning of the year to meet all obligations that arise during the year. In addition, the available credit facility provides financial flexibility to allow the AER to meet its obligations if funding cannot be collected on a timely basis.

(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 includes 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 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 10 REVOLVING LINE OF CREDIT

(in thousands, unless otherwise noted)

The AER has an unsecured $50 million revolving line of credit. Amounts borrowed can only be applied to general corporate purposes and exclude the funding of operating deficits and/or capital expenditures. Bank advances on the line of credit are payable on demand and bear interest at a rate of prime less 0.5%. As at March 31, 2019, the outstanding balance for the revolving line of credit was $nil (2018 -$nil).

For the year ended March 31, 2019, interest expense on the revolving line of credit was $nil (2018 - $nil).

Note 11 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 included in deferred lease incentives in the Statement of Financial Position and are amortized on a straight-line basis over the term of the lease.

	2019			2018
	Leasehold improvement costs	Reduced rent benefits and rent-free periods	Total	Total
Balance at beginning of year	$ 15,395	$ 3,637	$ 19,032	$ 20,648
Additions	-	167	167	-
Amortization	(1,252)	(379)	(1,631)	(1,616)
Balance at end of year	$ 14,143	$ 3,425	$ 17,568	$ 19,032

Note 12 LIABILITY FOR CONTAMINATED SITES

(in thousands)

As at March 31, 2019, the AER is not responsible, nor has it accepted responsibility, for performing remediation work at contaminated sites. As at March 31, 2019, the AER's liability for contaminated sites was $nil (2018 - $nil).

Note 13 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, 2019, the expense for these pension plans is equal to the contribution of $16,598 (2018 - $17,540). 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, 2016. The accrued benefit obligation as at March 31, 2019 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, 2019.

Pension plan assets are valued at market values. During the year ended March 31, 2019, the weighted average actual return on plan assets was 3.7% (2018 - 4.8%).

Note 13 EMPLOYEE FUTURE BENEFITS (continued)

(in thousands, unless otherwise noted)

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

Accrued benefit obligations	2019	2018
Discount rate	5.1%	5.0%
Rate of compensation increase	0% until Sep 30, 2019, 3.5% thereafter	0% until Sep 30, 2019, 3.5% thereafter
Long-term inflation rate	2.0%	2.0%

Pension benefit costs for the year	2019	2018
Discount rate	5.0%	4.6%
Expected rate of return on plan assets	5.0%	4.6%
Rate of compensation increase	0% until Sep 30, 2019, 3.5% thereafter	0% until Mar 31, 2018, 3.5% thereafter

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

	2019	2018
Market value of plan assets	$ 67,789	$ 61,932
Accrued benefit obligations	(63,836)	(58,919)
Plan surplus	3,953	3,013
Unamortized actuarial gains	(1,812)	(2,275)
Pension assets	$ 2,141	$ 738

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

	2019	2018
Current period benefit cost	$ 4,123	$ 4,267
Interest cost	3,097	2,824
Expected return on plan assets	(3,252)	(2,711)
Amortization of actuarial losses	279	560
	$ 4,247	$ 4,940

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

	2019	2018
AER contributions	$ 5,649	$ 5,169
Employees' contributions	898	875
Benefits paid	3,028	3,544

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

	2019	2018
Equity securities	45.8%	44.3%
Debt securities	22.8%	23.3%
Alternatives	18.0%	18.7%
Other	13.4%	13.7%
	100.0%	100.0%

Note 14 TANGIBLE CAPITAL ASSETS

(in thousands)

	2019					2018
	Land	Leasehold improvements	Furniture and equipment	Computer hardware and software	Total	Total
Estimated useful life	Indefinite	Term of the lease	5-12 years	4-5 years		
Historical cost[1]						
Beginning of year	$ 282	$ 39,835	$ 14,230	$ 132,487	$ 186,834	$ 178,880
Additions	-	5,889	56	13,200	19,145	14,268
Disposals, including write-downs	-	-	(671)	(8,434)	(9,105)	(6,314)
	282	45,724	13,615	137,253	196,874	186,834
Accumulated amortization						
Beginning of year	$ -	$ 14,920	$ 8,490	$ 100,706	$ 124,116	$ 116,454
Amortization expense	-	2,524	1,099	11,706	15,329	13,848
Effect of disposals, including write-downs	-	-	(656)	(8,330)	(8,986)	(6,186)
	-	17,444	8,933	104,082	130,459	124,116
Net book value at March 31, 2019	$ 282	$ 28,280	$ 4,682	$ 33,171	$ 66,415	
Net book value at March 31, 2018	$ 282	$ 24,915	$ 5,740	$ 31,781		$ 62,718

[1] Historical cost includes work-in-progress at March 31, 2019 totalling $5,726 (March 31, 2018 - $6,650) comprising computer hardware and software $5,726 (March 31, 2018 - $6,646), and leasehold improvements $nil (March 31, 2018 - $4).

Note 15 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:

	2019			2018
	Investments in tangible capital assets[a]	Unrestricted net assets	Total	Total
Balance at beginning of year	$ 47,323	$ 14,250	$ 61,573	$ 60,953
Annual operating surplus	-	4,944	4,944	620
Net investment in capital assets[a]	4,949	(4,949)	-	-
Balance at end of year	$ 52,272	$ 14,245	$ 66,517	$ 61,573

[a] Excludes leasehold improvement costs received by the AER as a lease incentive and related amortization.

Note 16 CONTINGENT LIABILITIES

The AER, in the conduct of its normal activities, is a defendant in a number of legal proceedings. While the ultimate outcome and liability of these proceedings cannot be reasonably determined at this time, the AER believes that any settlement will not have a material adverse effect on the financial position or the results of operations of the AER. Accruals based on reasonable estimates have been recorded where it is likely that losses will be incurred. The accrual amounts are not material to the AER's financial statements.

Note 17 CONTRACTUAL OBLIGATIONS

(in thousands)

As at March 31, 2019, the AER had contractual obligations totalling $194,921 (2018 - $183,751).

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, 2019, estimated payment requirements for obligations under operating leases and contracts for each of the next five years and thereafter are as follows:

2019-20	$ 42,973
2020-21	29,719
2021-22	19,333
2022-23	17,065
2023-24	13,736
Thereafter	72,095
	$ 194,921

Note 18 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 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.

As at March 31, 2019, assets under administration included the following types of security deposits:

	2019	2018	2019	2018
	Cash	Cash	Letters of credit	Letters of credit
Liability Management Rating programs and landfills	$ 103,518	$ 86,574	$ 223,847	$ 189,910
Mine Financial Security program	35,230	41,567	1,426,714	1,351,072
Other programs	6,958	7,189	7,689	5,414
	$ 145,706	$ 135,330	$ 1,658,250	$ 1,546,396

Note 19 COMPARATIVE FIGURES

Certain 2018 figures have been reclassified to conform to the 2019 presentation.

Note 20 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the AER Board of Directors on October 25, 2019.

ALBERTA ENERGY REGULATOR
EXPENSES - DETAILED BY OBJECT
YEAR ENDED MARCH 31, 2019

Schedule 1

	2019	2018
	(in thousands)	
Salaries, wages and employee benefits	$ 179,731	$ 178,362
Orphan well abandonment	45,959	15,796
Buildings	21,219	18,479
Computer services	20,128	18,094
Amortization of tangible capital assets	15,329	13,848
Consulting services	13,715	14,463
Administrative	4,424	4,582
Travel and transportation	3,978	4,471
Equipment rent and maintenance	753	815
Loss on disposal and write-down of tangible capital assets	119	128
Abandonment and enforcement	55	11
	$ 305,410	$ 269,049

ALBERTA ENERGY REGULATOR
SALARY AND BENEFITS DISCLOSURE
YEAR ENDED MARCH 31, 2019

Schedule 2

	2019				2018
	Base salary [a]	Other cash benefits [b]	Other non-cash benefits [c]	Total	Total
			(in thousands)		
Position					
Board of Directors					
Chair [d]	$ 162	$ -	$ 6	$ 168	$ 43
Former Chair [e]	-	-	-	-	220
Board Director	97	-	4	101	95
Board Director [f]	95	-	4	99	48
Board Director	87	-	4	91	89
Board Director [g]	62	-	2	64	44
Board Director [h]	13	-	1	14	-
Board Director [i]	-	-	-	-	95
Board Director [j]	-	-	-	-	46
Executives					
Former President and Chief Executive Officer [k]	442	18	131	591	733
President and Chief Executive Officer [l]	130	47	6	183	-
Chief Hearing Commissioner	214	39	56	309	284
Executive Vice-President, Corporate Services [m]	273	456	94	823	434
Former Executive Vice-President, Stakeholder & Government Engagement [n]	230	422	80	732	444
Executive Vice-President, Stakeholder & Government Engagement [o,u]	189	17	69	275	-
Former Executive Vice-President, Strategy & Regulatory [p]	-	-	-	-	95
Executive Vice-President, Strategy & Regulatory [q,u]	273	67	94	434	396
Former Executive Vice-President, Operations [r]	-	-	-	-	88
Executive Vice-President, Operations [q,u]	273	45	66	384	366
Former Executive Vice-President and General Counsel [s,u]	210	73	75	358	455
Executive Vice-President and General Counsel [t]	158	18	42	218	-

(a) Includes retainers and per diems for Board Directors. Members of the Board of Directors do not participate in the AER's pension plans. Includes pensionable base pay for Executives.

(b) Includes payments in lieu of vacation, pension and health benefits, as well as severance, vehicle allowances, short-term incentive payments for Executive Vice-Presidents and other cash reimbursements.

(c) Includes contributions to all benefits as applicable, including employer's share of Employment Insurance, Canada Pension Plan, Government of Alberta and AER pension plans, health benefits, and payments made for professional memberships, tuition fees, fair market value of parking and other taxable benefits.

(d) The incumbent held the position of Board Director effective October 18, 2017. On April 1, 2018, the incumbent was appointed to the position of Chair.

(e) The incumbent left the position effective March 30, 2018.

(f) The incumbent held the position effective October 18, 2017.

(g) The incumbent held the position effective October 18, 2017. On December 3, 2018, the incumbent was appointed to the position of President and Chief Executive Officer. On December 11, 2018, the incumbent's Board Director appointment was rescinded.

(h) The incumbent held the position effective February 12, 2019.

(i) The incumbent left the position effective February 19, 2018.

(j) The incumbent left the position effective September 30, 2017.

(k) The incumbent left the position effective November 30, 2018 and retired effective January 31, 2019. An automobile was provided to the incumbent, but no dollar amount was included in other non-cash benefits for 2019 or 2018. The 2018 figure has been restated by $5 to include travel benefits to conform to the 2019 presentation.

(l) The incumbent held the position effective December 3, 2018.

(m) The incumbent held the position until April 1, 2019, at which time the incumbent was terminated. Other cash benefits include $334 of severance pay. The severance was expensed in the current year.

(n) On June 1, 2018, the incumbent was appointed to the position of Executive Lead for the International Centre of Regulatory Excellence development project, continuing to report directly to the President and Chief Executive Officer. The incumbent was terminated effective January 31, 2019. Other cash benefits include $335 of severance pay.

(o) The incumbent held the position effective July 23, 2018.

(p) The incumbent left the position effective July 4, 2017.

(q) The incumbent held the position effective May 8, 2017.

(r) The incumbent left the position effective June 2, 2017.

(s) The incumbent left the position effective September 2, 2018, at which time the incumbent was appointed to the position of Executive Counsel, continuing to report directly to the President and Chief Executive Officer. The incumbent left the position of Executive Counsel effective January 4, 2019.

(t) The incumbent held the position effective September 3, 2018.

(u) Under the terms of the AER's defined benefit SEPP and two supplementary retirement plans (SRP), employees may receive supplemental retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The SEPP and SRP provide future pension benefits to participants based on years of service and remuneration. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on service, a market interest rate and management's best estimate of expected costs and the period of benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the actuarial present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

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 year ended March 31, 2019 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 management pension plans.

	2019			2018
Position	Current service cost	Prior service and other costs	Total	Total
Executive Vice-President, Stakeholder & Government Engagement [o]	$ 39	$ 1	$ 40	$ -
Executive Vice-President, Strategy & Regulatory[q]	22	1	23	28
Executive Vice-President, Operations[q]	11	-	11	13
Former Executive Vice-President and General Counsel [s,v]	31	1	32	43

The SEPP and SRP accrued obligation for each executive employed by the AER during the year ended March 31, 2019 is outlined in the following table:

Position	Accrued obligation April 1, 2018	Changes in accrued obligation	Accrued obligation March 31, 2019	Accrued obligation March 31, 2018
Executive Vice-President, Stakeholder & Government Engagement [o]	$ -	$ 40	$ 40	$ -
Executive Vice-President, Strategy & Regulatory[q]	418	48	466	418
Executive Vice-President, Operations[q]	42	13	55	42
Former Executive Vice-President and General Counsel [s,v]	572	102	674	572

(v) Includes service to January 4, 2019.

ALBERTA ENERGY REGULATOR
ACTUAL RESULTS COMPARED WITH BUDGET
YEAR ENDED MARCH 31, 2019

	Budget (Note 4)	Actual
	(in thousands)	
Revenues		
Industry levies and assessments	$ 297,841	$ 298,528
Information, services and fees	3,542	6,411
ICORE Energy Services (NFP)		3,134
Investment income	867	2,281
	302,250	310,354
Expenses		
Energy regulation	253,250	257,903
Orphan well abandonment	45,500	45,959
ICORE Energy Services (NFP)		1,548
	298,750	305,410
	3,500	4,944
Capital		
Capital investment	15,000	19,145
Less: Amortization of tangible capital assets	(11,500)	(15,329)
Loss on disposal and write-down of tangible capital assets		(119)
Net capital investment	3,500	3,697
Surplus	$ -	$ 1,247

ALBERTA ENERGY REGULATOR
RELATED PARTY TRANSACTIONS
YEAR ENDED MARCH 31, 2019

Schedule 4

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 2019, there were no outstanding 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 Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry of Energy		Other entities	
	2019	2018	2019	2018
	(in thousands)		*(in thousands)*	
Revenues				
Information, services and fees	$ 54	$ 67	$ 1,397	$ 1,365

	Entities in the Ministry of Energy		Other entities	
	2019	2018	2019	2018
	(in thousands)		*(in thousands)*	
Expenses				
Computer services	$ 2,050	$ 2,353	$ 2,896	$ 2,531
Administrative	-	-	714	836
Consulting services	-	-	625	1,537
Buildings	-	-	612	602
	$ 2,050	$ 2,353	$ 4,847	$ 5,506
Receivable from	$ 69	$ 17	$ 113	$ 922
Payable to	$ 373	$ 588	$ 2,277	$ 1,501
Contractual obligations [(a)]	$ -	$ 2,353	$ 7,326	$ 5,867

(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.

ICORE Energy Services (NFP)
(in thousands)

The AER was the operating and governing member of a not-for-profit (NFP) corporation, ICORE Energy Services (NFP), from May 17, 2017 to December 19, 2018, when the AER resigned its membership. ICORE Energy Services (NFP) was incorporated under the *Canada Not-for-profit Corporations Act* . The former President and Chief Executive Officer of the AER was also the President and Director of ICORE Energy Services (NFP) from May 17, 2017 to November 30, 2018, when he resigned his directorship.

ICORE Energy Services (NFP) was established to provide training, innovation and advisory services to regulatory and international organizations in Canada and internationally. During its membership, the AER, through a Memorandum of Understanding and Training Course Licence Agreement, provided the following services to ICORE Energy Services (NFP):

- assisted with the creation of training curriculum and materials; and
- provided resources and technical expertise to assist ICORE Energy Services (NFP) in its training and advisory services.

The AER was a related party with ICORE Energy Services (NFP) from May 17, 2017 to November 30, 2018. During this time, the AER incurred in-kind costs for salaries of AER employees and third-party costs for travel and consulting expenses to provide services to ICORE Energy Services (NFP). During the year ended March 31, 2019, the AER invoiced ICORE Energy Services (NFP) for costs incurred on a cost-recovery basis.

During the year ended March 31, 2019, the Statement of Operations included $3,134 (2018 - $nil) in revenues for amounts invoiced to ICORE Energy Services (NFP) and $1,548 (2018 - $1,586) in expenses. These expenses included in-kind costs of $1,103 (2018 - $1,148) and third-party costs of $445 (2018 - $438).

At March 31, 2019, accounts receivable in the Statement of Financial Position included $2,693 due from ICORE Energy Services (NFP) (March 31, 2018 - $nil). A receivable of $1,586 was not recorded at March 31, 2018 to recoup the expenditures from ICORE Energy Services (NFP). Of the $2,693 referred to above, $523 was provided for in the allowance for doubtful accounts. In June 2019, the AER received $2,681 from ICORE Energy Services (NFP) for these accounts receivable.

The AER concluded that it did not exercise control over ICORE Energy Services (NFP) as this control was exercised by the Directors and officers of ICORE Energy Services (NFP) in their personal capacity. These individuals directed ICORE Energy Services (NFP) and undertook its activities without the required authorization of the AER, its Board, or the Government of Alberta, in particular the incorporation of ICORE Energy Services (NFP) and causing the AER to become a member of ICORE Energy Services (NFP) in contravention of the *Financial Administration Act* . As a result, ICORE Energy Services (NFP) financial results were not consolidated into the AER's financial statements for the year ended March 31, 2019. This conclusion is also supported by other facts and relevant guidance under the Public Sector Accounting Standards, including the fact that ICORE Energy Services (NFP) was not carrying out AER operations, functions, or mandate, and that despite temporary reliance on AER resources, ICORE Energy Services (NFP) was intended to operate outside and independently of the AER.