# Alberta Energy Regulator
# Consolidated Financial Statements
# For the Year Ended March 31, 2021

# 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 financial statements are prepared in accordance with Canadian public sector accounting standards. The 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 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 13, 2021

Independent Auditor's Report

Auditor General OF ALBERTA

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, 2021, and the consolidated statements of operations, change in 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, 2021, 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 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 13, 2021
Edmonton, Alberta

**ALBERTA ENERGY REGULATOR**
**CONSOLIDATED STATEMENT OF OPERATIONS**
**YEAR ENDED MARCH 31, 2021**

| | 2021 | | 2020 |
|---|---|---|---|
| | **Budget (Note 4, Schedule 3)** | **Actual** | **Actual** |
| | | *(in thousands)* | |
| **Revenues** | | | |
| Administration fees | $ 226,450 | $ 114,240 | $ 233,393 |
| Government of Alberta grant | | 113,000 | - |
| Orphan fund levy and fees (Note 5) | 69,000 | 65,698 | 61,039 |
| Information, services and fees | 3,542 | 2,731 | 4,693 |
| Investment income | 867 | 359 | 555 |
| | 299,859 | 296,028 | 299,680 |
| **Expenses** | | | |
| Energy regulation (Schedule 1) | 215,859 | 203,753 | 264,248 |
| Orphan well abandonment (Note 5) | 69,000 | 65,698 | 61,039 |
| | 284,859 | 269,451 | 325,287 |
| **Annual operating surplus (deficit)** | 15,000 | 26,577 | (25,607) |
| **Accumulated surplus at beginning of year** | 40,910 | 40,910 | 66,517 |
| **Accumulated surplus at end of year** | $ 55,910 | $ 67,487 | $ 40,910 |

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

**ALBERTA ENERGY REGULATOR**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS AT MARCH 31, 2021**

| | 2021 | 2020 |
|---|---|---|
| | *(in thousands)* | |
| **Financial assets** | | |
| Cash and cash equivalents (Note 6) | $ 26,226 | $ - |
| Accounts receivable (Note 7) | 1,456 | 1,920 |
| Pension assets (Note 12) | 4,923 | 1,505 |
| | 32,605 | 3,425 |
| **Liabilities** | | |
| Bank indebtedness (Note 6) | - | 812 |
| Accounts payable and other accrued liabilities (Note 8) | 18,362 | 17,955 |
| Payable to Orphan Well Association | 1,942 | 609 |
| Deferred lease incentives (Note 10) | 14,332 | 15,949 |
| | 34,636 | 35,325 |
| **Net debt** | (2,031) | (31,900) |
| **Non-financial assets** | | |
| Tangible capital assets (Note 13) | 60,133 | 63,105 |
| Prepaid expenses and other assets | 9,385 | 9,705 |
| | 69,518 | 72,810 |
| **Net assets** | | |
| Accumulated surplus (Note 14) | $ 67,487 | $ 40,910 |

Contingent liabilities (Note 15)
Contractual obligations (Note 16)

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

**ALBERTA ENERGY REGULATOR**
**CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT**
**YEAR ENDED MARCH 31, 2021**

| | 2021 | | 2020 |
|---|---|---|---|
| | Budget (Note 4, Schedule 3) | Actual | Actual |
| | | *(in thousands)* | |
| **Annual operating surplus (deficit)** | $ 15,000 | $ 26,577 | $ (25,607) |
| Acquisition of tangible capital assets (Note 13) | (14,500) | (13,697) | (12,704) |
| Amortization of tangible capital assets (Note 13) | 16,000 | 15,686 | 15,947 |
| Loss on disposal and write-down of tangible capital assets | | 983 | 67 |
| Decrease in prepaid expenses and other assets | | 320 | 1,033 |
| **Decrease/(increase) in net debt** | 16,500 | 29,869 | (21,264) |
| **Net debt at beginning of year** | (31,900) | (31,900) | (10,636) |
| **Net debt at end of year** | $ (15,400) | $ (2,031) | $ (31,900) |

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

**ALBERTA ENERGY REGULATOR**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**YEAR ENDED MARCH 31, 2021**

| | 2021 | 2020 |
|---|---|---|
| | *(in thousands)* | |
| **Operating transactions** | | |
| Annual operating surplus (deficit) | $ 26,577 | $ (25,607) |
| Non-cash items included in annual operating surplus (deficit): | | |
| Amortization of tangible capital assets (Note 13) | 15,686 | 15,947 |
| Loss on disposal and write-down of tangible capital assets | 983 | 67 |
| (Increase)/decrease in pension assets | (3,418) | 636 |
| Amortization of deferred lease incentives (Note 10) | (1,617) | (1,619) |
| | 38,211 | (10,576) |
| Decrease in accounts receivable | 464 | 5,564 |
| Decrease in prepaid expenses and other assets | 320 | 1,033 |
| Increase/(decrease) in accounts payable and other accrued liabilities | 407 | (2,550) |
| Increase/(decrease) in payable to Orphan Well Association | 1,333 | (1,319) |
| Cash provided by (applied to) operating transactions | 40,735 | (7,848) |
| **Capital transactions** | | |
| Acquisition of tangible capital assets (Note 13) | (13,697) | (12,704) |
| Cash applied to capital transactions | (13,697) | (12,704) |
| **Financing transactions** | | |
| Proceeds from line of credit | 9,855 | 64,587 |
| Debt repayment | (10,667) | (63,775) |
| Cash (applied to) provided by financing transactions | (812) | 812 |
| **Increase/(decrease) in cash and cash equivalents** | 26,226 | (19,740) |
| **Cash and cash equivalents at beginning of year** | - | 19,740 |
| **Cash and cash equivalents at end of year** | $ 26,226 | $ - |

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 the orphan fund levy and first time licensee application fees, and transfers the funds to the Orphan Well Association. 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. Cash received for which services have not been provided by year end is recognized as unearned revenue and recorded in accounts payable and other accrued liabilities.

Government of Alberta Grant

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).

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.

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

### Basis of Financial Reporting (continued)

Actuarial gains and losses are amortized over the average remaining service period of the active employees, which is 11.2 years (2020 - 10.9 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 |
| Bank indebtedness | Cost |
| Accounts payable and other 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, 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 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.

**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.

Bank indebtedness

Bank indebtedness comprises the amount outstanding for a revolving line of credit.

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 net of any expected recoveries, 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

*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:

- 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 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 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 FUTURE CHANGES IN ACCOUNTING STANDARDS

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

PS 3280 Asset Retirement Obligations (effective April 1, 2022)

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

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.

The AER has not yet adopted these standards. Management is currently assessing the impact of these standards on the financial statements.

## Note 4 BUDGET

The budget and budget adjustments reflected on Schedule 3 have 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 Orphan Well Association. The AER collects the orphan levy and first time licensee application fees through the Orphan Fund and transfers the funds to the Orphan Well Association. During the year ended March 31, 2021, the AER collected $65,225 (2020 - $60,345) in levies and $473 (2020 - $694) in application fees.

## Note 6 CASH AND CASH EQUIVALENTS AND BANK INDEBTEDNESS

*(in thousands, unless otherwise noted)*

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $ 26,226 | $ - |
| Bank indebtedness | - | (812) |
| | $ 26,226 | $ (812) |

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, 2021, the AER earned interest at an annual average rate of 0.7% (2020 - 2.1%).

The AER has an unsecured $75 million revolving line of credit. Amounts borrowed can only be applied to general corporate purposes and exclude the funding of capital expenditures.

Bank advances on the line of credit are payable on demand and bear interest at a rate of prime less 0.75%. For the year ended March 31, 2021, interest expense on the revolving line of credit was $4 (2020 - $143).

## Note 7 ACCOUNTS RECEIVABLE

*(in thousands)*

Accounts receivable are unsecured and non-interest bearing.

| | 2021 | | | 2020 |
|---|---|---|---|---|
| | Gross amount | Allowance for doubtful accounts | Net recoverable value | Net recoverable value |
| Accounts receivable | $ 3,127 | $ (1,671) | $ 1,456 | $ 1,920 |

## Note 8 ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

*(in thousands)*

| | 2021 | 2020 |
|---|---|---|
| Accrued liabilities | $ 15,722 | $ 14,177 |
| Accounts payable | 2,315 | 3,052 |
| Unearned revenue | 325 | 726 |
| | $ 18,362 | $ 17,955 |

## Note 9 FINANCIAL INSTRUMENTS

*(in thousands)*

The AER has the following financial instruments: cash and cash equivalents, accounts receivable, bank indebtedness, 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. As at March 31, 2021, the AER had bank indebtedness of $nil (2020 - $812).

**(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 is 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 10 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.

| | 2021 | | | 2020 |
|---|---|---|---|---|
| | Leasehold improvement costs | Reduced rent benefits and rent-free periods | Total | Total |
| Balance at beginning of year | $ 12,891 | $ 3,058 | $ 15,949 | $ 17,568 |
| Amortization | (1,252) | (365) | (1,617) | (1,619) |
| Balance at end of year | $ 11,639 | $ 2,693 | $ 14,332 | $ 15,949 |

## Note 11 ENVIRONMENTAL LIABILITIES

*(in thousands, unless otherwise noted)*

The AER has a mandate to protect public safety and the environment. As at March 31, 2021, the AER is not responsible, nor has it accepted responsibility, for performing remediation and reclamation work at contaminated sites. The AER has $nil (2020 - $nil) environmental liabilities recorded.

As at March 31, 2021, the AER is administering 28 (2020 – 28) legacy sites. Of these sites, the AER identified 5 (2020 – 3) sites 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, 2021, the AER incurred $906 (2020 - $460) 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 not reported.

## Note 12 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, 2021, the expense for these pension plans is equal to the contributions of $12,539 (2020 - $15,533) 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, 2018. The accrued benefit obligation as at March 31, 2021, 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, 2021.

Pension plan assets are valued at market values. During the year ended March 31, 2021, the weighted average actual return on plan assets was 14.7% (-3.7% in 2020).

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

| Accrued benefit obligations | 2021 | 2020 |
|---|---|---|
| Discount rate | 4.4% | 4.8% |
| Rate of compensation increase | 0% until March 31, 2022, 3.0% thereafter | 0% until March 31, 2021, 3.5% thereafter |
| Long-term inflation rate | 2.0% | 2.0% |

| Pension benefit costs for the year | 2021 | 2020 |
|---|---|---|
| Discount rate | 4.8% | 5.1% |
| Expected rate of return on plan assets | 4.8% | 5.1% |
| Rate of compensation increase | 0% until March 31, 2021, 3.5% thereafter | 0% until Sep 30, 2019, 3.5% thereafter |

**Note 12 EMPLOYEE FUTURE BENEFITS (continued)**

*(in thousands, unless otherwise noted)*

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

| | 2021 | 2020 |
|---|---|---|
| Market value of plan assets | $ 74,119 | $ 65,442 |
| Accrued benefit obligations | (70,954) | (72,461) |
| Plan surplus (deficit) | 3,165 | (7,019) |
| Unamortized actuarial losses | 1,758 | 8,524 |
| Pension assets | $ 4,923 | $ 1,505 |

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

| | 2021 | 2020 |
|---|---|---|
| Current period benefit cost | $ 3,976 | $ 4,326 |
| Interest cost | 3,442 | 3,382 |
| Expected return on plan assets | (3,039) | (3,574) |
| Amortization of actuarial losses (gains) | 804 | (53) |
| Loss on curtailments [a] | - | 1,342 |
| Unamortized gains recognized in curtailments | - | (172) |
| | $ 5,183 | $ 5,251 |

[a] For the year ended March 31, 2020, the AER underwent a re-organization and decreased the number of employees. This resulted in a curtailment due to a reduced number of active employees in the AER's defined benefit pension plans. The curtailment impact was a $1,342 increase in the accrued benefit obligations recognized through pension expense for the year ended March 31, 2020.

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

| | 2021 | 2020 |
|---|---|---|
| Benefits paid | $ 10,171 | $ 5,325 |
| AER contributions | 8,600 | 4,616 |
| Employees' contributions | 683 | 839 |

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

| | 2021 | 2020 |
|---|---|---|
| Equity securities | 48.2% | 42.3% |
| Debt securities | 22.2% | 24.7% |
| Alternatives | 17.3% | 19.6% |
| Other | 12.3% | 13.4% |
| | 100.0% | 100.0% |

## Note 13 TANGIBLE CAPITAL ASSETS

*(in thousands)*

| | 2021 | | | | | 2020 |
|---|---|---|---|---|---|---|
| | **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 | $ 45,735 | $ 13,112 | $ 143,420 | $ 202,549 | $ 196,874 |
| Additions | - | 765 | 396 | 12,536 | 13,697 | 12,704 |
| Disposals, including write-downs | - | - | (448) | (7,394) | (7,842) | (7,029) |
| | 282 | 46,500 | 13,060 | 148,562 | 208,404 | 202,549 |
| **Accumulated amortization** | | | | | | |
| Beginning of year | $ - | $ 20,179 | $ 9,427 | $ 109,838 | $ 139,444 | $ 130,459 |
| Amortization expense | - | 2,734 | 905 | 12,047 | 15,686 | 15,947 |
| Effect of disposals, including write-downs | - | - | (426) | (6,433) | (6,859) | (6,962) |
| | - | 22,913 | 9,906 | 115,452 | 148,271 | 139,444 |
| Net book value at March 31, 2021 | $ 282 | $ 23,587 | $ 3,154 | $ 33,110 | $ 60,133 | |
| Net book value at March 31, 2020 | $ 282 | $ 25,556 | $ 3,685 | $ 33,582 | | $ 63,105 |

(1) As at March 31, 2021, historical cost of computer hardware and software includes work-in-progress totalling $6,630 (2020 - $76).

## Note 14 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:

| | 2021 | | | 2020 |
|---|---|---|---|---|
| | **Investments in tangible capital assets** [(a)] | **Unrestricted net assets (debt)** | **Total** | **Total** |
| Balance at beginning of year | $ 50,214 | $ (9,304) | $ 40,910 | $ 66,517 |
| Annual operating surplus (deficit) | - | 26,577 | 26,577 | (25,607) |
| Net investment in capital assets [(a)] | (1,720) | 1,720 | - | - |
| Balance at end of year | $ 48,494 | $ 18,993 | $ 67,487 | $ 40,910 |

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

## Note 15 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, 2021, accruals totalling $125 (2020 - $630) have been recognized as a liability.

The AER has identified various sites where contamination exists and the level of contamination is either known or unknown at this time. As at March 31, 2021, 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 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 16 CONTRACTUAL OBLIGATIONS

*(in thousands)*

As at March 31, 2021, the AER had contractual obligations totalling $162,248 (2020 - $171,894).

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, 2021, estimated payment requirements for obligations under operating leases and contracts for each of the next five years and thereafter are as follows:

| | |
|---|---|
| 2021-22 | $ 43,059 |
| 2022-23 | 29,634 |
| 2023-24 | 17,497 |
| 2024-25 | 11,662 |
| 2025-26 | 10,464 |
| Thereafter | 49,932 |
| | $ 162,248 |

## Note 17 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.

As at March 31, 2021, assets under administration included the following types of security deposits:

| | 2021 | 2020 | 2021 | 2020 |
|---|---|---|---|---|
| | Cash | Cash | Letters of credit | Letters of credit |
| Liability Management Rating programs and landfills | $ 90,431 | $ 98,812 | $ 225,418 | $ 220,667 |
| Mine Financial Security program | 39,342 | 39,146 | 1,447,447 | 1,434,643 |
| Other programs | 10,446 | 6,834 | 7,714 | 7,778 |
| | $ 140,219 | $ 144,792 | $ 1,680,579 | $ 1,663,088 |

## Note 18 COVID-19 IMPACT

On March 11, 2020, the World Health Organization declared the COVID-19 disease to be a global pandemic and on March 17, 2020, the Government of Alberta declared a state of public health emergency. These declarations have impacted the AER in the following ways:

**Revenues**

On March 20, 2020, the Government of Alberta committed to provide relief for the energy sector by funding the AER's administration fees for the first six months of fiscal 2020-21. The AER received the grant in six monthly installments between April and September 2020 for a total of $113 million.

**Operations**

The AER maintained core regulatory functions as most staff transitioned to working remotely during the COVID-19 pandemic. The AER's operations were not significantly impacted by COVID-19.

## Note 19 COMPARATIVE FIGURES

Certain 2020 figures have been reclassified, where necessary, to conform to the 2021 presentation.

## Note 20 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the AER Board of Directors on May 13, 2021.

**ALBERTA ENERGY REGULATOR** **Schedule 1**

**ENERGY REGULATION EXPENSES - DETAILED BY OBJECT**

**YEAR ENDED MARCH 31, 2021**

| | 2021 | 2020 |
|---|---|---|
| | *(in thousands)* | |
| Salaries, wages and employee benefits | $ 131,598 | $ 192,271 |
| Buildings | 20,354 | 20,577 |
| Computer services | 17,112 | 17,238 |
| Amortization of tangible capital assets | 15,686 | 15,947 |
| Consulting services | 14,634 | 12,429 |
| Travel and transportation | 1,382 | 1,815 |
| Loss on disposal and write-down of tangible capital assets | 983 | 67 |
| Administrative | 915 | 3,492 |
| Abandonment and enforcement | 766 | - |
| Equipment rent and maintenance | 323 | 412 |
| | $ 203,753 | $ 264,248 |

**ALBERTA ENERGY REGULATOR** **Schedule 2**
**SALARY AND BENEFITS DISCLOSURE**
**YEAR ENDED MARCH 31, 2021**

| | 2021 | | | | 2020 |
|---|---|---|---|---|---|
| | Base salary [(a)] | Other cash benefits [(b)] | Other non-cash benefits [(c)] | Total | Total |
| | | | (in thousands) | | |
| **Position** | | | | | |
| **Board of Directors** | | | | | |
| Chair [(d)] | $ 131 | $ - | $ 7 | 138 | $ 78 |
| Members [(e)] | 334 | - | 20 | 354 | 332 |
| **Executives** | | | | | |
| President and Chief Executive Officer [(f)] | 319 | 30 | 73 | 422 | - |
| Chief Hearing Commissioner | 218 | 24 | 47 | 289 | 296 |
| Chief Operations Officer [(g)] | 259 | 17 | 64 | 340 | 148 |
| Executive Vice-President, Law and General Counsel | 274 | 9 | 60 | 343 | 363 |
| Executive Vice-President, Corporate Services [(h,n)] | 231 | 196 | 77 | 504 | 157 |
| Vice-President of Finance and Chief Financial Officer [(i,n)] | 130 | 7 | 54 | 191 | - |
| Former President and Chief Executive Officer [(j)] | 17 | 6 | - | 23 | 511 |
| Former Executive Vice-President, Operations [(k,n)] | - | - | - | - | 394 |
| Executive Vice-President, Strategy & Regulatory [(l,n)] | - | - | - | - | 686 |
| Executive Vice-President, Stakeholder & Government Engagement [(m,n)] | - | - | - | - | 407 |

(a) Includes retainers and per diems for Board Directors and regular salary and acting pay for Executives.

(b) Includes payments in lieu of vacation, pension and health benefits, as well as severance, vehicle allowances and other cash reimbursements. There were no bonuses paid in 2021.

(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) Two individuals occupied the position of Chair during 2021. The current Chair was appointed on April 15, 2020, and is remunerated with a monthly honorarium as per rates prescribed in the Orders in Council. Prior to the current Chair's appointment, the previous Chair's remuneration was set at $nil while this individual occupied the position from September 6, 2019 until April 15, 2020. Prior to the previous Chair, a former Chair occupied the position until September 6, 2019, at which time the individual's appointment was rescinded; the amount in 2020 reflects remuneration paid to the individual until September 6, 2019.

(e) The incumbent Board of Directors consists of six members. Five Board members are remunerated with monthly honoraria as per rates prescribed in the Orders in Council. Remuneration for one Board member is set at $nil. As at March 31, 2020, the Board of Directors consisted of four members. On April 15, 2020, one member resigned and four new members were appointed. On June 5, 2020, one member was rescinded. The 2020 amount reflects four members until April 28, 2019 and three members from April 28, 2019 until September 6, 2019. For the remainder of the 2020 fiscal year, the Board of Directors consisted of four members.

(f) The incumbent held the position effective April 15, 2020.

(g) The incumbent held the position of Executive Vice- President, Operations until February 24, 2021, at which time the incumbent was appointed to the position of Chief Operations Officer.

(h) The incumbent held the position until February 24, 2021, at which time the position was eliminated and the incumbent was terminated. Other cash benefits include $170 of severance pay.

(i) The incumbent held the position effective September 8, 2020, at this time the position became a voting member of the Executive Leadership Team. Prior to this appointment, the position was a non-voting member of the Executive Leadership Team.

(j) The incumbent held the position until April 15, 2020, at which time the incumbent's contract ended.

(k) The incumbent held the position until October 23, 2019, at which time the incumbent was terminated. Severance pay of $171 was expensed in 2020.

(l) The incumbent held the position until October 23, 2019, at which time the incumbent was terminated. The position was eliminated effective October 28, 2019. Severance pay of $449 was expensed in 2020.

(m) The incumbent held the position until October 23, 2019, at which time the incumbent was terminated. The position was eliminated effective October 28, 2019. Severance pay of $168 was expensed in 2020.

(n) 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 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, 2021 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.

| | **2021** | | | **2020** |
|---|---|---|---|---|
| **Position** | **Current service cost** | **Prior service and other costs** | **Total** | **Total** |
| Executive Vice-President, Corporate Services | $ 32 | $ 2 | $ 34 | $ 33 |
| Vice-President of Finance and Chief Financial Officer | 23 | - | 23 | - |
| Former Executive Vice-President, Operations (o) | - | - | - | 7 |
| Executive Vice-President, Strategy & Regulatory | - | - | - | 15 |
| Executive Vice-President, Stakeholder & Government Engagement | - | - | - | 28 |

The SEPP and SRP accrued obligation for each executive employed by the AER during the year ended March 31, 2021 is outlined in the following table:

| **Position** | **Accrued obligation April 1, 2020** | **Changes in accrued obligation** | **Accrued obligation March 31, 2021** | **Accrued obligation March 31, 2020** |
|---|---|---|---|---|
| Executive Vice-President, Corporate Services | $ 128 | $ 59 | $ 187 | $ 128 |
| Vice-President of Finance and Chief Financial Officer | - | 25 | 25 | - |
| Executive Vice-President, Strategy & Regulatory | 718 | 1 | 719 | 718 |
| Executive Vice-President, Stakeholder & Government Engagement | 16 | 1 | 17 | 16 |

(o) The pension obligation for the former Executive Vice-President, Operations was paid out during the year ended March 31, 2020.

**ALBERTA ENERGY REGULATOR** **Schedule 3**

**CONSOLIDATED ACTUAL RESULTS COMPARED WITH BUDGET**

**YEAR ENDED MARCH 31, 2021**

| | Budget (Note 4) | Adjustments [a] | Adjusted budget | Actual |
|---|---|---|---|---|
| | | *(in thousands)* | | |
| **Revenues** | | | | |
| Administration fees | $ 226,450 | $ (113,000) | $ 113,450 | $ 114,240 |
| Government of Alberta grant | | 113,000 | 113,000 | 113,000 |
| Orphan fund levy and fees | 69,000 | (3,500) | 65,500 | 65,698 |
| Information, services and fees | 3,542 | (1,703) | 1,839 | 2,731 |
| Investment income | 867 | - | 867 | 359 |
| | 299,859 | (5,203) | 294,656 | 296,028 |
| **Expenses** | | | | |
| Energy regulation | 215,859 | (1,703) | 214,156 | 203,753 |
| Orphan well abandonment | 69,000 | (3,500) | 65,500 | 65,698 |
| | 284,859 | (5,203) | 279,656 | 269,451 |
| | 15,000 | - | 15,000 | 26,577 |
| **Capital** | | | | |
| Capital investment | 14,500 | - | 14,500 | 13,697 |
| Less: Amortization of tangible capital assets | (16,000) | - | (16,000) | (15,686) |
| Loss on disposal and write-down of tangible capital assets | | - | | (983) |
| Net capital investment | (1,500) | - | (1,500) | (2,972) |
| **Surplus** | $ 16,500 | $ - | $ 16,500 | $ 29,549 |

(a) Adjustments reflect a provincial grant announced by the Government of Alberta (GoA), a decrease in revenues collected from information sales, a GoA-mandated in-year savings request, and a GoA request to delay issuing the large facility levy. Adjustments are related to the economic impacts of COVID-19 and low commodity prices.

**ALBERTA ENERGY REGULATOR** **Schedule 4**

**RELATED PARTY TRANSACTIONS**

**YEAR ENDED MARCH 31, 2021**

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 2021, 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 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | *(in thousands)* | | *(in thousands)* | |
| Revenues | | | | |
| Government of Alberta grant | $ 113,000 | $ - | $ - | $ - |
| Information, services and fees | 366 | 96 | 361 | 618 |
| | $ 113,366 | $ 96 | $ 361 | $ 618 |

| | Entities in the Ministry of Energy | | Other entities | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** [(a)] |
| | *(in thousands)* | | *(in thousands)* | |
| Expenses | | | | |
| Computer services | $ 418 | $ 454 | $ 2,975 | $ 4,270 |
| Buildings | - | - | 528 | 509 |
| Administrative | - | - | 396 | 430 |
| Consulting services | - | - | 310 | 573 |
| | $ 418 | $ 454 | $ 4,209 | $ 5,782 |
| Receivable from | $ 108 | $ 119 | $ 33 | $ 4 |
| Prepaid expenses and other assets | $ - | $ - | $ 36 | $ 40 |
| Payable to | $ 209 | $ 94 | $ 641 | $ 724 |
| Unearned revenue | $ 1 | $ - | $ - | $ - |
| Contractual obligations [(a)] | $ - | $ - | $ 7,069 | $ 10,390 |

(a) Certain 2020 amounts have been restated to ensure completeness of 2020 related party transactions.

(b) 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.