Alberta Energy Regulator
Consolidated Financial Statements
For the Year Ended March 31, 2022

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

[Original signed by Martin Foy]

Acting President and Chief Executive Officer

[Original signed by Mike Dalton]

Vice-President Finance and Chief Financial

Officer

Date: May 19, 2022

Auditor General OF ALBERTA

Independent Auditor's Report

To the Board of Directors of the Alberta Energy Regulator

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of the Alberta Energy Regulator (the Group), which comprise the consolidated statement of financial position as at March 31, 2022, and the consolidated statements of operations, change in net financial assets (net debt), and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and the results of its operations, its change from net debt to net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

May 19, 2022
Edmonton, Alberta

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2022

	2022		2021
	Budget (Note 4, Schedule 3)	**Actual**	**Actual**
		(in thousands)	
Revenues			
Administration fees	$ 208,023	$ 207,921	$ 114,240
Orphan fund levies and transfers (Note 5)	74,000	77,824	66,952
Government of Alberta grants	28,065	16,988	113,000
Information, services and fees	1,642	2,247	2,731
Investment income	567	573	359
	312,297	305,553	297,282
Expenses			
Energy regulation (Schedule 1)	241,286	221,629	203,753
Orphan well abandonment (Note 5)	74,000	77,824	66,952
	315,286	299,453	270,705
Annual operating surplus (deficit)	(2,989)	6,100	26,577
Accumulated surplus at beginning of year	67,487	67,487	40,910
Accumulated surplus at end of year	$ 64,498	$ 73,587	$ 67,487

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

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2022

	2022	2021
	(in thousands)	
Financial assets		
Cash and cash equivalents (Note 6)	$ 52,566	$ 26,226
Accounts receivable (Note 7)	1,684	1,456
Pension assets (Note 14)	3,958	4,923
	58,208	32,605
Liabilities		
Accounts payable and other accrued liabilities (Note 8)	26,725	18,037
Payable to Orphan Well Association	1,064	1,942
Deferred revenue (Note 9)	11,362	325
Deferred lease incentives (Note 12)	11,315	14,332
	50,466	34,636
Net financial assets (net debt)	7,742	(2,031)
Non-financial assets		
Tangible capital assets (Note 15)	57,443	60,133
Prepaid expenses and other assets	8,642	9,385
	66,085	69,518
Net assets before spent deferred capital contributions	73,827	67,487
Spent deferred capital contributions (Note 9)	240	-
Net assets		
Accumulated surplus (Note 16)	$ 73,587	$ 67,487

Contractual rights (Note 17)
Contingent liabilities (Note 18)
Contractual obligations (Note 19)

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

[Original signed by Martin Foy]
Acting President and Chief Executive Officer

[Original signed by Mike Dalton]
Vice-President Finance and Chief Financial Officer

Date: May 19, 2022

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS (NET DEBT)
YEAR ENDED MARCH 31, 2022

	2022		2021
	Budget (Note 4, Schedule 3)	Actual	Actual
		(in thousands)	
Annual operating surplus (deficit)	$ (2,989)	$ 6,100	$ 26,577
Acquisition of tangible capital assets (Note 15)	(14,011)	(12,950)	(13,697)
Amortization of tangible capital assets (Note 15)	17,000	13,921	15,686
Write-off of leasehold improvements (Note 12)		1,056	-
Decrease in prepaid expenses and other assets		743	320
Net loss on disposal and write-down of tangible capital assets		663	983
Net increase in spent deferred capital contributions (Note 9)		240	-
Decrease in net debt	-	9,773	29,869
Net debt at beginning of year	(2,031)	(2,031)	(31,900)
Net financial assets (net debt) at end of year	$ (2,031)	$ 7,742	$ (2,031)

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

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2022

	2022	2021
	(in thousands)	
Operating transactions		
Annual operating surplus	$ 6,100	$ 26,577
Non-cash items included in annual operating surplus:		
Amortization of tangible capital assets (Note 15)	13,921	15,686
Write-off of leasehold improvements (Note 12)	1,056	-
Change in pension assets	965	(3,418)
Net loss on disposal and write-down of tangible capital assets	663	983
Bad debt expense (recovery)	(16)	(518)
Write-off of deferred lease incentives (Note 12)	(1,450)	-
Amortization of deferred lease incentives (Note 12)	(1,567)	(1,617)
	19,672	37,693
(Increase)/decrease in accounts receivable	(212)	982
Decrease in prepaid expenses and other assets	743	320
Increase in accounts payable and other accrued liabilities	8,688	808
(Decrease)/increase in payable to Orphan Well Association	(878)	1,333
Increase/(decrease) in deferred revenue	11,037	(401)
Cash provided by operating transactions	39,050	40,735
Capital transactions		
Acquisition of tangible capital assets (Note 15)	(12,950)	(13,697)
Cash applied to capital transactions	(12,950)	(13,697)
Financing transactions		
Increase in spent deferred capital contributions (Note 9)	240	-
Proceeds from line of credit	-	9,855
Debt repayment	-	(10,667)
Cash provided by (applied to) financing transactions	240	(812)
Increase in cash and cash equivalents	26,340	26,226
Cash and cash equivalents at beginning of year	26,226	-
Cash and cash equivalents at end of year	$ 52,566	$ 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 an Orphan Fund Levy and a Large Facility Program Orphan Levy, and transfers the funds to the Orphan Well Association through the Orphan Fund. The AER also transfers funds for first time licensee application fees, including regulator directed transfer fees, and forfeited security deposits through the Orphan Fund. The AER and the Orphan Fund are consolidated using the line-by-line method.

Basis of Financial Reporting

Revenues

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

Government of Alberta Grants

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

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

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 are expensed.

Employee future benefits

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

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

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

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

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

Basis of Financial Reporting (continued)

Employee future benefits (continued)

Actuarial gains and losses are amortized over the average remaining service period of the active employees, which is 11.2 years (2021 - 11.2 years).

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

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

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

Valuation of financial assets and liabilities

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

Financial Statement Component	Measurement
Cash and cash equivalents	Cost
Accounts receivable	Lower of cost or net recoverable value
Pension assets	Lower of cost or net recoverable value
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 consolidated statement of remeasurement gains and losses.

Financial assets

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

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

<u>Cash and cash equivalents</u>

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

<u>Accounts receivable</u>

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 (if any) 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 when all of the following criteria are met:

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

Contingent Liabilities

A contingent liability is recognized when:

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

Non-financial assets

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

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

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

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

Basis of Financial Reporting (continued)

Tangible capital assets

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

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

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

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

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

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

Prepaid expenses

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

Measurement uncertainty

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

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

Note 3 FUTURE CHANGES IN ACCOUNTING STANDARDS

During the fiscal year 2022-23, the AER will adopt the following new accounting standard of the Public Sector Accounting Board:

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. The AER plans to adopt this accounting standard on a modified retroactive basis, consistent with the transitional provisions in PS 3280, and information presented for comparative purposes will be restated. The impact of the adoption of this accounting standard on the consolidated financial statements is currently being analyzed.

Note 3 FUTURE CHANGES IN ACCOUNTING STANDARDS (continued)

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

PS 3400 Revenue (effective April 1, 2023)

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

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

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

The AER has not yet adopted these two standards. Management is currently assessing the impact of these standards on the consolidated 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 an Orphan Fund Levy and a Large Facility Program Orphan Levy, and transfers the funds to the Orphan Well Association through the Orphan Fund. The AER also transfers funds for first time licensee application fees, including regulator directed transfer fees, and forfeited security deposits through the Orphan Fund. During the year ended March 31, 2022, the AER collected and transferred $73,788 (2021 - $65,225) in levies, $436 (2021 - $473) in application fees and $3,600 (2021 - $1,254) in forfeited security deposits.

Note 6 CASH AND CASH EQUIVALENTS

(in thousands, unless otherwise noted)

Cash and cash equivalents are held in an account with a Canadian chartered bank and earn interest calculated based on the average monthly cash balance. The funds are available to be withdrawn upon request. During the year ended March 31, 2022, the AER earned interest at an annual average rate of 0.8% (2021 - 0.7%).

Cash and cash equivalents includes restricted funds of $10,837 (2021 - $nil), as reflected in deferred revenue (discussed in Note 9), which is to be used primarily for future expenditures related to the Government of Alberta's Minerals Strategy - Public Geoscience program.

Note 7 ACCOUNTS RECEIVABLE

(in thousands)

Accounts receivable are unsecured and non-interest bearing.

	2022			2021
	Gross amount	Allowance for doubtful accounts	Net recoverable value	Net recoverable value
Accounts receivable	$ 2,416	$ (732)	$ 1,684	$ 1,456

Note 8 ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

(in thousands)

	2022	2021
Trade and other accrued liabilities	$ 9,991	$ 8,518
Lease termination payable	7,376	-
Accrued salaries and benefits	6,868	7,204
Trade accounts payable	2,490	2,315
	$ 26,725	$ 18,037

Note 9 DEFERRED REVENUE

(in thousands)

Deferred revenue consists of the following:

	Year ended March 31, 2022		As at March 31, 2022	As at March 31, 2021
	Total Revenue Received	Actual Revenue Recognized	Deferred Revenue	
Program				
Public Geoscience[1]	$ 24,760	$ 14,013	$ 10,747	$ -
Mineral Regulatory Framework	2,000	1,910	90	-
Geothermal Regulatory Framework	1,065	1,065	-	-
Total Grant Revenue	27,825	16,988	10,837	-
Other	538	338	525	325
	$ 28,363	$ 17,326	$ 11,362	$ 325
Spent deferred capital contributions[1]	$ 240	$ -	$ 240	$ -

(1) During 2022, the AER purchased capital assets of $240 with funds from the Public Geoscience grant. Revenue has not been recognized for these funds as amortization has not been recorded for these capital assets at March 31, 2022.

Note 10 FINANCIAL INSTRUMENTS

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

Financial Risk Management

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

(a) Liquidity risk

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

Note 10 FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

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

Note 11 REVOLVING LINE OF CREDIT

(in thousands, unless otherwise noted)

The AER has an unsecured $50 million (2021 - $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, 2022, interest expense on the revolving line of credit was $nil (2021 - $4).

Note 12 DEFERRED LEASE INCENTIVES

(in thousands)

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

	2022			2021
	Leasehold improvement costs	Reduced rent benefits and rent-free periods	Total	Total
Balance at beginning of year	$ 11,639	$ 2,693	$ 14,332	$ 15,949
Write-off of lease incentives[(1)]	(1,056)	(394)	(1,450)	-
Amortization	(1,213)	(354)	(1,567)	(1,617)
Balance at end of year	$ 9,370	$ 1,945	$ 11,315	$ 14,332

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

Note 13 ENVIRONMENTAL LIABILITIES

(in thousands, unless otherwise noted)

The AER has a mandate to protect public safety and the environment. As at March 31, 2022, the AER is not responsible, nor has it accepted responsibility, for performing remediation and reclamation work at contaminated sites. The AER has $nil (2021 - $nil) environmental liabilities recorded.

As at March 31, 2022, the AER is administering 29 (2021 – 28) legacy sites. Of these sites, during the year ended March 31, 2022, the AER identified two (2021 – five) 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, 2022, the AER incurred $9 (2021 - $906) in costs to mitigate immediate public safety and environmental risks. Costs to mitigate immediate public safety or environmental risks are costs where the AER has completed protective or remediation work at legacy sites. Costs for ongoing assessment and monitoring are included.

Note 14 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, 2022, the expense for these pension plans is equal to the contributions of $12,253 (2021 - $12,539) 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, 2022 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. The actuarial funding valuation for December 31, 2021 is expected to be completed in the first half of 2022.

Pension plan assets are valued at market values. During the year ended March 31, 2022, the weighted average actual return on plan assets was 5.2% (2021 - 14.7%).

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

Accrued benefit obligations	2022	2021
Discount rate	4.5%	4.4%
Rate of compensation increase	4.0% until March 31, 2023, 3.0% thereafter	0% until March 31, 2022, 3.0% thereafter
Long-term inflation rate	2.0%	2.0%

Pension benefit costs for the year	2022	2021
Discount rate	4.4%	4.8%
Expected rate of return on plan assets	4.4%	4.8%
Rate of compensation increase	0% until March 31, 2022, 3.0% thereafter	0% until March 31, 2021, 3.5% thereafter

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

	2022	2021
Market value of plan assets	$ 76,893	$ 74,119
Accrued benefit obligations	(70,739)	(70,954)
Plan surplus	6,154	3,165
Unamortized actuarial (gains)/losses	(2,196)	1,758
Pension assets	$ 3,958	$ 4,923

Note 14 EMPLOYEE FUTURE BENEFITS (continued)

(in thousands, unless otherwise noted)

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

	2022	2021
Current period benefit cost	$ 4,045	$ 3,976
Interest cost	3,197	3,442
Expected return on plan assets	(3,227)	(3,039)
Amortization of actuarial losses	251	804
	$ 4,266	$ 5,183

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

	2022	2021
Benefits paid	$ 4,636	$ 10,171
AER contributions	3,163	8,600
Employees' contributions	663	683

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

	2022	2021
Equity securities	44.1%	48.2%
Debt securities	23.4%	22.2%
Alternatives	20.0%	17.3%
Other	12.5%	12.3%
	100.0%	100.0%

Note 15 TANGIBLE CAPITAL ASSETS

(in thousands)

	2022					2021
	Land	Leasehold improvements	Furniture and equipment [1]	Computer hardware and software	Total	Total
Estimated useful life	Indefinite	Term of the lease	5-12 years	4-5 years		
Historical cost [2]						
Beginning of year	$ 282	$ 46,500	$ 13,060	$ 148,562	$ 208,404	$ 202,549
Additions	-	2,168	580	10,202	12,950	13,697
Disposals, including write-downs[3]	-	(2,302)	(1,240)	(20,426)	(23,968)	(7,842)
	282	46,366	12,400	138,338	197,386	208,404
Accumulated amortization						
Beginning of year	$ -	$ 22,913	$ 9,906	$ 115,452	$ 148,271	$ 139,444
Amortization expense	-	2,717	823	10,381	13,921	15,686
Effect of disposals, including write-downs[3]	-	(1,246)	(1,200)	(19,803)	(22,249)	(6,859)
	-	24,384	9,529	106,030	139,943	148,271
Net book value at March 31, 2022	$ 282	$ 21,982	$ 2,871	$ 32,308	$ 57,443	
Net book value at March 31, 2021	$ 282	$ 23,587	$ 3,154	$ 33,110		$ 60,133

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

(2) As at March 31, 2022, historical cost of computer hardware and software includes work-in-progress totalling $2,297 (2021 - $6,630).

(3) In October 2021, the AER exited a portion of the lease for its Calgary Head Office, resulting in a reduction of $2,302 in leasehold improvements and $1,246 in accumulated amortization. No loss was recognized as the write-off of the leasehold improvements was offset by the write-off of the related lease incentive.

Note 16 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:

	2022			2021
	Investments in tangible capital assets [a]	Unrestricted net assets	Total	Total
Balance at beginning of year	$ 48,494	$ 18,993	$ 67,487	$ 40,910
Annual operating surplus	-	6,100	6,100	26,577
Net investment in tangible capital assets [a]	(421)	421	-	-
Balance at end of year	$ 48,073	$ 25,514	$ 73,587	$ 67,487

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

Note 17 CONTRACTUAL RIGHTS

(in thousands)

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

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

	2022	2021
Contractual rights from operating subleases	$ 316	$ 110

As at March 31, 2022, estimated amounts that will be received or receivable for each of the next five years are as follows:

2022-23	$ 555
2023-24	565
2024-25	433
2025-26	440
2026-27	182
	$ 2,175

Note 18 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, 2022, accruals totalling $1,359 (2021 - $125) have been recognized as a liability.

The AER has identified various sites where contamination may exist and the level of contamination is unknown at this time. As at March 31, 2022, no liability has been recognized for these sites as further testing and evaluation is required to determine the extent of immediate actions necessary. No liability for remediation on other sites has been recognized as the AER becoming responsible for these sites is not determinable; the AER does not expect to give up any future economic benefits; no reasonable estimate of the amount can be made; or a combination of these factors. The AER's ongoing efforts to assess contaminated sites may result in environmental remediation liabilities related to newly identified sites, or change in the assessment or intended use of existing sites. Any change to the environmental liabilities will be accrued in the year in which they are assessed as likely and measurable.

Note 19 CONTRACTUAL OBLIGATIONS

(in thousands)

As at March 31, 2022, the AER had contractual obligations totalling $146,445 (2021 - $162,248).

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, 2022, estimated payment requirements for obligations under operating leases and contracts for each of the next five years and thereafter are as follows:

2022-23	$ 48,943
2023-24	30,071
2024-25	11,577
2025-26	10,059
2026-27	9,443
Thereafter	36,352
	$ 146,445

Note 20 ASSETS UNDER ADMINISTRATION

(in thousands)

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

As at March 31, 2022, assets under administration included the following types of security deposits:

	2022	2021	2022	2021
	Cash	Cash	Letters of credit	Letters of credit
Liability Management Rating programs and landfills	$ 89,277	$ 90,431	$ 278,826	$ 225,418
Mine Financial Security program	41,064	39,342	1,479,452	1,447,447
Other programs	10,629	10,446	10,505	7,714
	$ 140,970	$ 140,219	$ 1,768,783	$ 1,680,579

Note 21 COMPARATIVE FIGURES

Certain 2021 figures have been reclassified, where necessary, to conform to the 2022 presentation.

Note 22 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the AER Board of Directors on May 19, 2022.

ALBERTA ENERGY REGULATOR **Schedule 1**

ENERGY REGULATION EXPENSES - DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2022

	2022	2021
	(in thousands)	
Salaries, wages and employee benefits	$ 132,712	$ 131,598
Buildings	27,305	20,354
Consulting services	26,539	14,634
Computer services	17,710	17,112
Amortization of tangible capital assets	13,921	15,686
Travel and transportation	1,292	1,382
Administrative	1,274	915
Loss on disposal and write-down of tangible capital assets	663	983
Equipment rent and maintenance	205	323
Abandonment and enforcement	8	766
	$ 221,629	$ 203,753

ALBERTA ENERGY REGULATOR **Schedule 2**

SALARY AND BENEFITS DISCLOSURE

YEAR ENDED MARCH 31, 2022

	2022				2021
	Base salary [a]	Other cash benefits [b]	Other non-cash benefits [c]	Total	Total
			(in thousands)		
Position					
Board of Directors					
Chair [d]	$ 130	$ -	$ 15	$ 145	$ 138
Members [e]	306	-	17	323	354
Executives					
President and Chief Executive Officer [f]	334	39	91	464	422
Chief Hearing Commissioner	218	30	48	296	289
Chief Operations Officer [g]	264	21	62	347	340
Executive Vice-President, Law and General Counsel	276	8	62	346	343
Vice-President of Finance and Chief Financial Officer [h,k]	233	9	85	327	191
Former President and Chief Executive Officer [i]	-	-	-	-	23
Former Executive Vice-President, Corporate Services [j,k]	-	-	-	-	504

(a) Base salary includes retainers and per diems for Board Directors and regular base salary for Executives.

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

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

(d) 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.

(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 April 1, 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.

(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 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.

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

(j) 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.

(k) 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 years ended March 31, 2021 and 2022, and participated in the SEPP and SRP maintained by the AER. The SEPP and SRP provide retirement benefits to compensate senior staff who do not participate in the Government of Alberta's management pension plans.

	2022			2021
Position	**Current service cost**	**Prior service and other costs**	**Total**	**Total**
Vice-President of Finance and Chief Financial Officer	$ 39	$ -	$ 39	$ 23
Former Executive Vice-President, Corporate Services	-	-	-	34

The SEPP and SRP accrued obligation for each executive employed by the AER during the years ended March 31, 2021 and 2022 is outlined in the following table:

Position	Accrued obligation April 1, 2021	Changes in accrued obligation	Accrued obligation March 31, 2022	Accrued obligation March 31, 2021
Vice-President of Finance and Chief Financial Officer	$ 25	$ 32	$ 57	$ 25
Former Executive Vice-President, Corporate Services	187	(187)	-	187

ALBERTA ENERGY REGULATOR **Schedule 3**
CONSOLIDATED ACTUAL RESULTS COMPARED WITH BUDGET
YEAR ENDED MARCH 31, 2022

	Budget (Note 4)	Adjustments [(a)]	Adjusted budget	Actual
		(in thousands)		
Revenues				
Administration fees	$ 206,592	$ 1,431	$ 208,023	$ 207,921
Orphan fund levies and transfers	74,000	-	74,000	77,824
Government of Alberta grants	3,065	25,000	28,065	16,988
Information, services and fees	1,745	(103)	1,642	2,247
Investment income	867	(300)	567	573
	286,269	26,028	312,297	305,553
Expenses				
Energy regulation	208,269	33,017	241,286	221,629
Orphan well abandonment	74,000	-	74,000	77,824
	282,269	33,017	315,286	299,453
	4,000	(6,989)	(2,989)	6,100
Capital				
Capital investment	14,500	(489)	14,011	12,950
Less: Amortization of tangible capital assets	(17,000)	-	(17,000)	(13,921)
Loss on disposal and write-down of tangible capital assets				(663)
Net capital investment	(2,500)	(489)	(2,989)	(1,634)
Surplus (deficit)	$ 6,500	$ (6,500)	$ -	$ 7,734

(a) Adjustments reflect changes to the original budget submitted by the AER during the fiscal year. Budget and adjustments were approved by the Treasury Board of the Government of Alberta, and were mainly due to provincial grants announced for its Minerals Strategy, and related expenditures, as well as expenses recognized by the AER as a result of exiting a portion of its Calgary Head Office lease.

ALBERTA ENERGY REGULATOR **Schedule 4**
RELATED PARTY TRANSACTIONS
YEAR ENDED MARCH 31, 2022

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 2022, 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	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Revenues				
Government of Alberta grants	$ 16,988	$ 113,000	$ -	$ -
Information, services and fees	334	366	485	361
	$ 17,322	$ 113,366	$ 485	$ 361

	Entities in the Ministry of Energy		Other entities	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Expenses				
Computer services	$ 386	$ 418	$ 3,573	$ 2,975
Buildings	-	-	400	528
Administrative	-	-	370	396
Consulting services	-	-	187	310
	$ 386	$ 418	$ 4,530	$ 4,209
Receivable from	$ 137	$ 108	$ 6	$ 33
Prepaid expenses and other assets	$ -	$ -	$ 36	$ 36
Payable to	$ -	$ 209	$ 1,307	$ 641
Deferred revenue	$ 10,837	$ 1	$ 259	$ -
Contractual obligations [a]	$ -	$ -	$ 4,850	$ 7,069

[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.