

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

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

[Original signed by Laurie Pushor]

President and Chief Executive Officer

[Original signed by Mike Dalton]

Vice-President, Finance and Chief Financial Officer

Date: May 18, 2023

Independent Auditor's Report

To the Board of Directors of the Alberta Energy Regulator

Report on the Consolidated Financial Statements

Opinion

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

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

Basis for opinion

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

Other information

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

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

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

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

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

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

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

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

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

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

May 18, 2023
Edmonton, Alberta

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

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

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

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

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

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

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

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

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

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

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

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

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

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.

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

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

Basis of Financial Reporting (continued)

Employee future benefits (continued)

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

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

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

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

Valuation of financial assets and liabilities

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

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

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

Financial assets

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

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

Cash and cash equivalents

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

Accounts receivable

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

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

Basis of Financial Reporting (continued)

Liabilities

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

Deferred lease incentives

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

Environmental Liabilities

Liability for Contaminated Sites:

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

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

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

Contingent Liabilities

A contingent liability is recognized when:

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

Non-financial assets

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

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

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

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

Basis of Financial Reporting (continued)

Tangible capital assets

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

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

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

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

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

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

Prepaid expenses

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

Measurement uncertainty

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

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

Note 3 CHANGE IN ACCOUNTING STANDARDS

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

Note 4 FUTURE CHANGES IN ACCOUNTING STANDARDS

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

PS 3400 Revenue (effective April 1, 2023)

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

PS 3160 Public Private Partnerships (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.

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

Note 5 BUDGET

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

Note 6 ORPHAN WELL ABANDONMENT

(in thousands)

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

Note 7 CASH AND CASH EQUIVALENTS

(in thousands, unless otherwise noted)

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

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

Note 8 ACCOUNTS RECEIVABLE

(in thousands)

Accounts receivable are unsecured and non-interest bearing.

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

Note 9 ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

(in thousands)

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

Note 10 DEFERRED REVENUE

(in thousands)

Deferred revenue consists of the following:

	2023	2022
Deferred contributions ⁽¹⁾	\$ 7,447	\$ 11,159
Unearned revenue	210	203
	<u>\$ 7,657</u>	<u>\$ 11,362</u>
Spent deferred capital contributions	-	240
	<u>\$ 7,657</u>	<u>\$ 11,602</u>

(1) Deferred contributions

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

Note 11 FINANCIAL INSTRUMENTS

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

Financial Risk Management

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

(a) Liquidity risk

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

Note 11 FINANCIAL INSTRUMENTS (continued)

(b) Credit risk

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

Note 12 DEFERRED LEASE INCENTIVES

(in thousands)

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

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

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

Note 13 ENVIRONMENTAL LIABILITIES

(in thousands, unless otherwise noted)

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

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

Note 14 ASSET RETIREMENT OBLIGATION

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

Note 15 EMPLOYEE FUTURE BENEFITS

(in thousands, unless otherwise noted)

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

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

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

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

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

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

<u>Accrued benefit obligations</u>	<u>2023</u>	<u>2022</u>
Discount rate	5.4%	4.5%
Rate of compensation increase	4.0% until March 31, 2023, 6.0% until March 31, 2024, 3.0% thereafter	4.0% until March 31, 2023, 3.0% thereafter
Long-term inflation rate	2.0%	2.0%
<u>Pension benefit costs for the year</u>	<u>2023</u>	<u>2022</u>
Discount rate	4.5%	4.4%
Expected rate of return on plan assets	4.5%	4.4%
Rate of compensation increase	4.0% until March 31, 2023, 3.0% thereafter	0% until March 31, 2022, 3.0% thereafter

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

Note 15 EMPLOYEE FUTURE BENEFITS (continued)

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

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

(in thousands, unless otherwise noted)

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

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

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

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

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

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

Note 16 TANGIBLE CAPITAL ASSETS

(in thousands)

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

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

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

Note 17 ACCUMULATED SURPLUS

(in thousands)

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

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

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

Note 18 CONTRACTUAL RIGHTS

(in thousands)

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

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

	2023	2022
Contractual rights from operating subleases	<u>\$ 543</u>	<u>\$ 316</u>

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

2023-24	550
2024-25	433
2025-26	439
2026-27	182
2027-28	-
	<u>\$ 1,604</u>

Note 19 CONTINGENT LIABILITIES

(in thousands)

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

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

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2023

Note 20 CONTRACTUAL OBLIGATIONS

(in thousands)

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

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

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

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

Note 21 ASSETS UNDER ADMINISTRATION

(in thousands)

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

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

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

Note 22 COMPARATIVE FIGURES

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

Note 23 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

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

ALBERTA ENERGY REGULATOR
ENERGY REGULATION EXPENSES - DETAILED BY OBJECT
YEAR ENDED MARCH 31, 2023

Schedule 1

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

ALBERTA ENERGY REGULATOR
SALARY AND BENEFITS DISCLOSURE
YEAR ENDED MARCH 31, 2023

Schedule 2

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

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

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

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

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

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

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

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

SEPP AND SRP RETIREMENT BENEFITS

(in thousands)

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

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

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

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

ALBERTA ENERGY REGULATOR
CONSOLIDATED ACTUAL RESULTS COMPARED WITH BUDGET
YEAR ENDED MARCH 31, 2023

Schedule 3

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

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

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

Schedule 4

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

Related Party Transactions with Government of Alberta Entities

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

	Entities in the Ministry of Energy		Other entities	
	2023	2022	2023	2022
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Revenues				
Government of Alberta grants	\$ 16,754	\$ 16,988	\$ -	\$ -
Information, services and fees	333	334	671	485
	<u>\$ 17,087</u>	<u>\$ 17,322</u>	<u>\$ 671</u>	<u>\$ 485</u>
	Entities in the Ministry of Energy		Other entities	
	2023	2022	2023	2022
	<i>(in thousands)</i>		<i>(in thousands)</i>	
Expenses				
Computer services	\$ 341	\$ 386	\$ 3,441	\$ 3,573
Buildings	-	-	433	400
Administrative	-	-	515	370
Consulting services	-	-	174	187
	<u>\$ 341</u>	<u>\$ 386</u>	<u>\$ 4,563</u>	<u>\$ 4,530</u>
Receivable from	\$ 130	\$ 137	\$ 13	\$ 6
Prepaid expenses and other assets	\$ -	\$ -	\$ 36	\$ 36
Payable to	\$ -	\$ -	\$ 1,987	\$ 1,307
Deferred revenue	\$ 7,134	\$ 10,837	\$ 200	\$ 259
Contractual obligations ^(a)	\$ -	\$ -	\$ 3,869	\$ 4,850

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