

Alberta Energy Regulator
Consolidated Financial Statements
For the Year Ended March 31, 2024

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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 16, 2024

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, 2024, and the consolidated statements of operations, change in net financial assets, 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, 2024, 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 16, 2024
Edmonton, Alberta

**ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2024**

	<u>2024</u>		<u>2023</u>
	<u>Budget</u>		<u>Actual</u>
	<u>(Note 5, Schedule 3)</u>	<u>Actual</u>	
		<i>(in thousands)</i>	
Revenues			
Administration fees	\$ 217,419	\$ 218,234	\$ 201,429
Orphan fund levies and transfers (Note 6)	135,000	150,241	80,294
Government of Alberta grants	12,356	14,185	16,754
Information, services and fees	1,299	2,701	2,576
Investment income	2,700	7,223	4,085
	<u>368,774</u>	<u>392,584</u>	<u>305,138</u>
Expenses			
Energy regulation (Schedule 1)	231,274	237,132	223,496
Orphan well abandonment (Note 6)	135,000	150,241	80,294
	<u>366,274</u>	<u>387,373</u>	<u>303,790</u>
Annual operating surplus	2,500	5,211	1,348
Accumulated surplus at beginning of year	74,935	74,935	73,587
Accumulated surplus at end of year	<u>\$ 77,435</u>	<u>\$ 80,146</u>	<u>\$ 74,935</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, 2024

	<u>2024</u>	<u>2023</u>
	<i>(in thousands)</i>	
Financial assets		
Cash and cash equivalents (Note 7)	\$ 19,142	\$ 43,171
Accounts receivable (Note 8)	2,641	2,927
Portfolio investments (Note 9)	19,902	-
Pension assets (Note 16)	13,737	9,903
	<u>55,422</u>	<u>56,001</u>
Liabilities		
Accounts payable and other accrued liabilities (Note 10)	25,317	26,017
Payable to Orphan Well Association	1,459	2,419
Deferred revenue (Note 11)	6,588	7,657
Deferred lease incentives (Note 13)	8,387	9,849
	<u>41,751</u>	<u>45,942</u>
Net financial assets	<u>13,671</u>	<u>10,059</u>
Non-financial assets		
Tangible capital assets (Note 17)	57,723	56,672
Prepaid expenses and other assets	8,752	8,204
	<u>66,475</u>	<u>64,876</u>
Net assets		
Accumulated surplus (Note 18)	<u>\$ 80,146</u>	<u>\$ 74,935</u>

Asset Retirement Obligation (Note 15)
Contractual rights (Note 19)
Contingent liabilities (Note 20)
Contractual obligations (Note 21)

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

ALBERTA ENERGY REGULATOR
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
YEAR ENDED MARCH 31, 2024

	2024		2023
	Budget	Actual	Actual
	(Note 5, Schedule 3)		
		<i>(in thousands)</i>	
Annual operating surplus	\$ 2,500	\$ 5,211	\$ 1,348
Acquisition of tangible capital assets (Note 17)	(14,500)	(14,114)	(12,808)
Amortization of tangible capital assets (Note 17)	12,000	12,903	13,114
Net loss on disposal and write-down of tangible capital assets		148	418
Proceeds on disposal of tangible capital assets		12	47
(Increase)/decrease in prepaid expenses and other assets		(548)	438
Decrease in spent deferred capital contributions (Note 11)		-	(240)
Increase in net financial assets	-	3,612	2,317
Net financial assets at beginning of year	10,059	10,059	7,742
Net financial assets at end of year	<u>\$ 10,059</u>	<u>\$ 13,671</u>	<u>\$ 10,059</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, 2024

	<u>2024</u>	<u>2023</u>
	<i>(in thousands)</i>	
Operating transactions		
Annual operating surplus	\$ 5,211	\$ 1,348
Non-cash items included in annual operating surplus:		
Amortization of tangible capital assets (Note 17)	12,903	13,114
Change in pension assets	(3,834)	(5,945)
Net loss on disposal and write-down of tangible capital assets (Note 17)	148	418
Bad debt expense	1,325	34
Amortization of deferred lease incentives (Note 13)	(1,462)	(1,466)
	<u>14,291</u>	<u>7,503</u>
Increase in accounts receivable	(1,039)	(1,277)
(Increase)/decrease in prepaid expenses and other assets	(548)	438
Decrease in accounts payable and other accrued liabilities	(700)	(708)
(Decrease)/increase in payable to Orphan Well Association	(960)	1,355
Decrease in deferred revenue	(1,069)	(3,705)
Cash provided by operating transactions	<u>9,975</u>	<u>3,606</u>
Capital transactions		
Acquisition of tangible capital assets (Note 17)	(14,114)	(12,808)
Proceeds on disposal of tangible capital assets	12	47
Cash applied to capital transactions	<u>(14,102)</u>	<u>(12,761)</u>
Investing transactions		
Purchase of portfolio investments (Note 9)	(19,902)	-
Cash applied to investing transactions	<u>(19,902)</u>	<u>-</u>
Financing transactions		
Decrease in spent deferred capital contributions (Note 11)	-	(240)
Cash applied to financing transactions	<u>-</u>	<u>(240)</u>
Decrease in cash and cash equivalents	(24,029)	(9,395)
Cash and cash equivalents at beginning of year	43,171	52,566
Cash and cash equivalents at end of year	<u>\$ 19,142</u>	<u>\$ 43,171</u>

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

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 efficient, safe, orderly and environmentally responsible development of energy and mineral resources in Alberta through regulatory activities. 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 transactions with no performance obligations, such as administration fees and orphan fund levies, at their realizable value. Revenue from transactions with performance obligations, including information, services and fees, is recognized when the AER provides the promised goods and/or service to a payor.

Cash received for goods and/or services not yet provided before year end is recognized as deferred revenue and recorded in accounts payable and other accrued liabilities.

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 and realized gains and losses on the sale of portfolio investments. Once realized, these gains or losses are recognized in the Consolidated Statement of Operations.

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.

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

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

Basis of Financial Reporting (continued)

Employee future benefits (continued)

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

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

Actuarial gains and losses are amortized over the average remaining service period of the active employees, which is 11.1 years (2023 - 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
Portfolio investments	Amortized cost
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, 2024

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

Basis of Financial Reporting (continued)

Portfolio investments

Portfolio investments are recognized at amortized cost. Investment premiums and discounts are amortized proportionately over the term of the respective investments using an effective interest method. Any declines in market value below costs are considered to be temporary and therefore no write-downs have been recorded.

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, 2024

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	3 - 10 years
Vehicle	Straight line	5 - 15 years
Computer hardware	Straight line	3 - 10 years
Computer software - purchased	Straight line	3 - 10 years
Computer software - developed	Straight line	3 - 10 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, 2023, the AER adopted the new accounting standard PS 3400 Revenue. There were no changes to the measurement of revenues on adoption of the new standard.

At the beginning of the same fiscal reporting period, the AER also adopted the PSG-8 Purchased Intangibles Guideline. There was no impact on the Consolidated Financial Statements as a result of adoption of the new guideline.

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

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, 2026:

The Conceptual Framework for Financial Reporting in the Public Sector

The Conceptual Framework is the foundation for public sector financial reporting standard setting. It replaces the conceptual aspects of Section PS 1000 Financial Statement Concepts and Section PS 1100 Financial Statement Objectives. The conceptual framework highlights considerations fundamental for the consistent application of accounting issues in the absence of specific standards.

PS 1202 Financial Statement Presentation

Section PS 1202 sets out general and specific requirements for the presentation of information in general purpose financial statements. The financial statement presentation principles are based on the concepts within the Conceptual Framework.

Management is currently assessing the impact of the conceptual framework and the standard on the 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, 2024, the AER invoiced \$135,516 (2023 - \$78,090) in levies and penalties. Additionally, the AER collected and transferred \$14,260 (2023 - \$1,535) in forfeited security deposits and \$465 (2023 - \$669) in application fees.

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, 2024, the AER earned interest at an annual average rate of 5.5% (2023 - 3.5%).

Cash and cash equivalents includes restricted funds of \$6,411 (2023 - \$7,447), as reflected in deferred revenue (discussed in Note 11).

Note 8 ACCOUNTS RECEIVABLE

(in thousands)

Accounts receivable are unsecured and non-interest bearing.

	2024		2023	
	Gross amount	Allowance for doubtful accounts	Net recoverable value	Net recoverable value
Accounts receivable	\$ 4,091	\$ (1,450)	\$ 2,641	\$ 2,927

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Note 9 PORTFOLIO INVESTMENTS

(in thousands)

	2024		2023	
	Book value	Fair value	Book value	Fair value
Bonds	\$ 19,869	\$ 19,621	-	-
Other	33	33	-	-
	<u>\$ 19,902</u>	<u>\$ 19,654</u>	<u>\$ -</u>	<u>\$ -</u>

The bonds are intended to be held long term with interest rates from 2.0% to 6.2% and maturity dates between 2026 and 2034. Any declines in market value below costs are considered to be temporary and therefore no write-downs have been recorded.

Note 10 ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

(in thousands)

	2024	2023
Trade and other accrued liabilities	\$ 11,839	\$ 9,743
Lease termination payable	3,716	5,820
Accrued salaries and benefits	9,762	10,454
	<u>\$ 25,317</u>	<u>\$ 26,017</u>

Note 11 DEFERRED REVENUE

(in thousands)

Deferred revenue consists of the following:

	2024	2023
Deferred contributions ⁽¹⁾	\$ 6,411	\$ 7,447
Unearned revenue	177	210
	<u>\$ 6,588</u>	<u>\$ 7,657</u>

(1) Deferred contributions

	2024			2023	
	Government of Alberta	Other	Total	Total	
Balance at beginning of year	\$ 7,134	\$ 313	\$ 7,447	\$ 11,159	
Cash contributions received/receivable during year	12,928	627	13,555	13,158	
Less: amounts recognized as revenue	(14,185)	(311)	(14,496)	(16,870)	
Less: unused amounts returned	(95)	-	(95)	-	
Balance at end of year	<u>\$ 5,782</u>	<u>\$ 629</u>	<u>\$ 6,411</u>	<u>\$ 7,447</u>	

Note 12 FINANCIAL INSTRUMENTS

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

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Note 12 FINANCIAL INSTRUMENTS (continued)

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.

(b) Credit risk

The AER is exposed to credit risk from potential non-payment of accounts receivable and from the failure of a counterparty to fully honour its financial obligations with the AER. 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.

The AER is exposed to credit risk associated with the underlying debt securities held in investment funds managed by the Canadian Imperial Bank of Commerce (CIBC). All of the AER's investments in bonds are with counterparties considered to be investment grade (AAA to BBB-) at March 31, 2024.

(c) Interest Rate Risk

The AER is exposed to interest rate associated with the underlying interest-bearing securities held in the investment funds. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the AER would be approximately 6.4% of total investments.

The following table summarizes the terms to maturity of interest-bearing securities held in bond investments at March 31, 2024.

Class	< 1 year	1-5 years	Over 5 years	Average effective market
Bonds	-	4	5	5.4%

Note 13 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.

	2024		2023	
	Leasehold improvement costs	Reduced rent benefits and rent-free periods	Total	Total
Balance at beginning of year	\$ 8,234	\$ 1,615	\$ 9,849	\$ 11,315
Amortization	(1,133)	(329)	(1,462)	(1,466)
Balance at end of year	\$ 7,101	\$ 1,286	\$ 8,387	\$ 9,849

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Note 14 ENVIRONMENTAL LIABILITIES

(in thousands, unless otherwise noted)

The AER has a mandate to protect public safety and the environment. As at March 31, 2024, the AER is administering 30 (2023 – 29) legacy sites on behalf of the Government of Alberta. Of these sites, during the year ended March 31, 2024, the AER identified one (2023 – one) 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, 2024, the AER incurred \$4 (2023 - \$3) 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.

As at March 31, 2024, the AER is not responsible, nor has it accepted responsibility, for performing remediation and reclamation work at contaminated sites. The AER has \$nil (2023 - \$nil) environmental liabilities recorded.

Note 15 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, 2024, the estimate of the liability is insignificant and therefore no liability was recognized. During the year ended March 31, 2024, the AER incurred \$nil (2023 - \$nil) in costs to settle the obligation.

Note 16 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, 2024, the expense for these pension plans is equal to the contributions of \$12,357 (2023 - \$12,207) 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, 2024 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, 2024, the weighted average actual return on plan assets was 6.6% (-1.9% in 2023).

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>2024</u>	<u>2023</u>
Discount rate	5.3%	5.4%
Rate of compensation increase	6.0% until March 31, 2024, 3.0% thereafter	4.0% until March 31, 2023, 6.0% until March 31, 2024, 3.0% thereafter
Long-term inflation rate	2.0%	2.0%
<u>Pension benefit costs for the year</u>	<u>2024</u>	<u>2023</u>
Discount rate	5.4%	4.5%
Expected rate of return on plan assets	5.4%	4.5%
Rate of compensation increase	6.0% until March 31, 2024, 3.0% thereafter	4.0% until March 31, 2023, 3.0% thereafter

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Note 16 EMPLOYEE FUTURE BENEFITS (continued)

(in thousands, unless otherwise noted)

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

	2024	2023
Market value of plan assets	\$ 90,265	\$ 81,577
Accrued benefit obligations	(72,374)	(67,126)
Plan surplus	17,891	14,451
Unamortized actuarial gains	(4,154)	(4,548)
Pension assets	<u>\$ 13,737</u>	<u>\$ 9,903</u>

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

	2024	2023
Current period benefit cost	\$ 2,421	\$ 3,921
Interest cost	3,705	3,277
Expected return on plan assets	(4,549)	(3,462)
Amortization of actuarial gains	(280)	(67)
	<u>\$ 1,297</u>	<u>\$ 3,669</u>

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

	2024	2023
Benefits paid	\$ 2,756	\$ 4,189
AER contributions	5,134	9,615
Employees' contributions	850	751

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

	2024	2023
Equity securities	44.9%	45.4%
Debt securities	24.6%	24.3%
Alternatives	19.7%	18.5%
Other	10.8%	11.8%
	<u>100.0%</u>	<u>100.0%</u>

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Note 17 TANGIBLE CAPITAL ASSETS
(in thousands)

	2024					2023	
	Land	Leasehold improvements	Furniture and equipment	Vehicle ⁽¹⁾	Computer hardware and software	Total	Total
Estimated useful life	Indefinite	Term of the lease	3-10 years ⁽²⁾	5-15 years	3-10 years ⁽²⁾		
Historical cost ⁽³⁾							
Beginning of year	\$ 282	\$ 47,623	\$ 12,902	\$ -	\$ 140,256	\$ 201,063	\$ 197,386
Additions	-	1,477	257	584	11,796	14,114	12,808
Disposals, including write-downs	-	-	(660)	-	(4,275)	(4,935)	(9,131)
	<u>282</u>	<u>49,100</u>	<u>12,499</u>	<u>584</u>	<u>147,777</u>	<u>210,242</u>	<u>201,063</u>
Accumulated amortization							
Beginning of year	\$ -	\$ 26,989	\$ 10,029	\$ -	\$ 107,373	\$ 144,391	\$ 139,943
Amortization expense	-	2,646	941	74	8,287	\$ 11,948	13,114
Effect of disposals, including write-downs	-	-	(590)	-	(4,185)	\$ (4,775)	(8,666)
Transfers and adjustments ⁽⁴⁾	-	-	576	-	379	\$ 955	-
	<u>-</u>	<u>29,635</u>	<u>10,956</u>	<u>74</u>	<u>111,854</u>	<u>152,519</u>	<u>144,391</u>
Net book value at March 31, 2024	<u>\$ 282</u>	<u>\$ 19,465</u>	<u>\$ 1,543</u>	<u>\$ 510</u>	<u>\$ 35,923</u>	<u>\$ 57,723</u>	
Net book value at March 31, 2023	<u>\$ 282</u>	<u>\$ 20,634</u>	<u>\$ 2,873</u>	<u>\$ -</u>	<u>\$ 32,883</u>		<u>\$ 56,672</u>

(1) A new tangible capital asset class has been added effective April 1, 2023 prospectively for purchased vehicles.

(2) The estimated useful lives for furniture and equipment, and computer hardware and software have changed to 3-10 years following a policy review. These changes in accounting estimate have been accounted for prospectively, effective April 1, 2023.

(3) Historical costs include work-in-progress at March 31, 2024 totalling \$12,055 (2023 - \$6,381) comprised of: computer hardware and software of \$10,896 (2023 - \$6,369) and leasehold improvements of \$1,159 (2023 - \$12).

(4) Transfers and adjustments solely relate to accounting policy alignments and reclassifications between capital asset categories.

Note 18 ACCUMULATED SURPLUS
(in thousands)

Accumulated surplus is comprised of the following:

	2024			2023
	Investments in tangible capital assets ⁽¹⁾	Unrestricted net assets	Total	Total
Balance at beginning of year	\$ 48,438	\$ 26,497	\$ 74,935	\$ 73,587
Annual operating surplus	-	5,211	5,211	1,348
Net investment in tangible capital assets ⁽¹⁾	2,184	(2,184)	-	-
Balance at end of year	<u>\$ 50,622</u>	<u>\$ 29,524</u>	<u>\$ 80,146</u>	<u>\$ 74,935</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, 2024

Note 19 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:

	<u>2024</u>	<u>2023</u>
Contractual rights from operating subleases	\$ 592	\$ 543

As at March 31, 2024, estimated amounts that will be received or receivable for each of the next five years are as follows:

2024-25	433
2025-26	439
2026-27	182
2027-28	-
2028-29	-
	<u>\$ 1,054</u>

Note 20 CONTINGENT LIABILITIES

(in thousands, unless otherwise noted)

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, 2024, accruals totalling \$25 (2023 - \$1,312) have been recognized as a liability. The AER has been jointly named with the Government of Alberta in Athabasca Chipewyan First Nation claim that has a total amount claimed of \$500 million in March 2024, the outcome of which is not determinable.

The AER has identified various sites where contamination may exist and the level of contamination is unknown at this time. As at March 31, 2024, no liability has been recognized for these sites as the AER is acting as an administrator on behalf of the Government of Alberta. No liability for remediation on other sites has been recognized as the AER becoming responsible for these sites is unlikely. The AER's ongoing efforts to monitor contaminated sites may result in environmental remediation liabilities related to newly identified sites, change in the assessment or intended use of existing sites, or change in responsibility. Any change to the environmental liabilities will be accrued in the year in which they are assessed as likely and measurable if they are deemed to be the AER's responsibility.

Note 21 CONTRACTUAL OBLIGATIONS

(in thousands)

As at March 31, 2024, the AER had contractual obligations totalling \$146,267 (2023 - \$125,189).

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, 2024, estimated payment requirements for obligations under operating leases and contracts for each of the next five years and thereafter are as follows:

2024-25	\$ 54,575
2025-26	24,762
2026-27	18,238
2027-28	14,122
2028-29	11,704
Thereafter	22,866
	<u>\$ 146,267</u>

ALBERTA ENERGY REGULATOR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024

Note 22 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, assets under administration included the following types of security deposits:

	2024			2023	
	Cash	Letters of credit	Surety Bond	Total	Total
Liability Management Rating programs and landfills	\$ 107,155	\$ 319,472	\$ -	\$ 426,627	\$ 384,328
Mine Financial Security program	118,461	1,007,981	561,422	1,687,864	1,559,734
Other programs	11,869	13,523	5,628	31,020	21,984
	<u>\$ 237,485</u>	<u>\$ 1,340,976</u>	<u>\$ 567,050</u>	<u>\$ 2,145,511</u>	<u>\$ 1,966,046</u>

Note 23 COMPARATIVE FIGURES

Certain 2023 figures have been reclassified, where necessary, to conform to the 2024 presentation.

Note 24 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These Consolidated Financial Statements were approved by the AER Board of Directors on May 16, 2024.

ALBERTA ENERGY REGULATOR
ENERGY REGULATION EXPENSES - DETAILED BY OBJECT
YEAR ENDED MARCH 31, 2024

Schedule 1

	<u>2024</u>	<u>2023</u>
	<i>(in thousands)</i>	
Salaries, wages and employee benefits	\$ 155,370	\$ 147,068
Consulting services	23,380	22,608
Computer services	20,668	17,801
Buildings	19,056	18,848
Amortization of tangible capital assets	12,903	13,114
Administrative	2,798	1,703
Travel and transportation	2,511	1,640
Equipment rent and maintenance	298	296
Loss on disposal and write-down of tangible capital assets	148	418
	<u>\$ 237,132</u>	<u>\$ 223,496</u>

**ALBERTA ENERGY REGULATOR
SALARY AND BENEFITS DISCLOSURE
YEAR ENDED MARCH 31, 2024**

Schedule 2

Position	2024				2023
	Base salary ⁽¹⁾	Other cash benefits ⁽²⁾	Other	Total	Restated ⁽⁴⁾
			non-cash benefits ⁽³⁾		Total
<i>(in thousands)</i>					
Board Members ⁽⁵⁾	\$ 500	\$ -	\$ 34	\$ 534	\$ 498
President and Chief Executive Officer	341	36	88	465	465
Chief Hearing Commissioner ⁽⁴⁾	247	12	64	323	301
Chief Operations Officer ⁽⁴⁾	285	15	88	388	374
Executive Vice-President, Law and General Counsel ⁽⁴⁾	281	12	98	391	328
Vice-President of Finance and Chief Financial Officer ⁽⁴⁾	252	10	92	354	338
Vice-President of People, Culture and Learning ⁽⁴⁾	241	5	74	320	316
Former Executive Vice-President, Law and General Counsel	-	-	-	-	72

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

(2) Other cash benefits include payments in lieu of vacation, pension and health benefits, as well as vehicle allowances and other cash reimbursements. There were no bonuses paid in 2024.

(3) 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.

(4) The 2023 figures have been restated to include the retroactive application of salary increases.

(5) As at March 31, 2024, the Board of Directors consisted of seven members.

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, 2023 and 2024, 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	2024			2023
	Current service cost	Prior service and other costs	Total	Total
Executive Vice-President, Law and General Counsel	\$ 22	\$ (5)	\$ 17	\$ 23
Vice-President of Finance and Chief Financial Officer	29	(2)	27	32
Vice-President of People, Culture and Learning	21	(2)	19	28

The SEPP and SRP accrued obligation for each executive employed by the AER during the years ended March 31, 2023 and 2024 is outlined in the following table:

Position	Accrued obligation April 1, 2023	Changes in accrued obligation	Accrued obligation March 31, 2024	Accrued obligation March 31, 2023
Executive Vice-President, Law and General Counsel	\$ 198	\$ 46	\$ 244	\$ 198
Vice-President of Finance and Chief Financial Officer	93	46	139	93
Vice-President of People, Culture and Learning	70	30	100	70

ALBERTA ENERGY REGULATOR
CONSOLIDATED ACTUAL RESULTS COMPARED WITH BUDGET
YEAR ENDED MARCH 31, 2024

Schedule 3

	Budget (Note 5)	Adjustments ⁽¹⁾	Adjusted budget	Actual
	<i>(in thousands)</i>			
Revenues				
Administration fees	\$ 217,419	\$ 833	\$ 218,252	\$ 218,234
Orphan fund levies and transfers	135,000	665	135,665	150,241
Government of Alberta grants	12,356	7,039	19,395	14,185
Information, services and fees	1,299	-	1,299	2,701
Investment income	2,700	4,422	7,122	7,223
	<u>368,774</u>	<u>12,959</u>	<u>381,733</u>	<u>392,584</u>
Expenses				
Energy regulation	231,274	12,294	243,568	237,132
Orphan well abandonment	135,000	665	135,665	150,241
	<u>366,274</u>	<u>12,959</u>	<u>379,233</u>	<u>387,373</u>
	<u>2,500</u>	<u>-</u>	<u>2,500</u>	<u>5,211</u>
Capital				
Capital investment	14,500		14,500	14,114
Less: Amortization of tangible capital assets	(12,000)		(12,000)	(12,903)
Net loss on disposal and write-down of tangible capital				(148)
Proceeds on disposal of tangible capital assets				(12)
Net capital investment	<u>2,500</u>	<u>-</u>	<u>2,500</u>	<u>1,051</u>
Surplus	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,160</u>

⁽¹⁾ Adjustments reflect changes to the original budget approved by the Treasury Board. The adjustments reflect the utilization of grant funding received in 2023 to accommodate work completed in 2024 related to mandate expansion activities, higher investment income resulting from the AER issuing the levies earlier than initially planned and rising interest rates, adjustments to reflect administration fee penalties issued, along with projected first-time license fees which were transferred to the Orphan Well Association.

