Emissions Reduction Alberta

(Emissions Reduction Alberta is a registered trade name of Climate Change and Emissions Management (CCEMC) Corporation)

Financial Statements

May 31, 2022

Deloitte.

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Independent Auditor's Report

To the Board of Directors of
Climate Change and Emissions Management (CCEMC) Corporation
(operating as Emissions Reduction Alberta)

Opinion

We have audited the financial statements of Climate Change and Emissions Management (CCEMC) Corporation (operating as Emissions Reduction Alberta) ("ERA"), which comprise the statement of financial position as at May 31, 2022, and the statements of changes in net assets, operations and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ERA as at May 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of ERA in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing ERA'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 management either intends to liquidate ERA or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our 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 ERA’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 ERA’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause ERA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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 we identify during our audit.

Deloitte LLP

Chartered Professional Accountants
September 27, 2022

Emissions Reduction Alberta

Statement of Financial Position

As at May 31, 2022

	2022 $	2021 $
Assets		
Current assets		
Cash	442,309,844	510,645,699
Accounts receivable	36,163	62,734
Grant receivable (note 3)	33,425,723	13,000,000
Interest receivable	756,778	262,494
Prepaid expenses	65,239	41,488
Short-term investments	70,000,000	-
	546,593,747	524,012,415
Non-current assets		
Property and equipment	40,730	78,739
Grant receivable (note 3)	5,311,145	-
	5,351,875	78,739
	551,945,622	524,091,154
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	6,732,941	2,532,892
Deferred lease inducement	-	18,083
Deferred Revenue (note 4)	-	80,842
	6,732,941	2,631,817
Net Assets		
General Fund – unrestricted	-	-
Restricted Fund (note 5)	545,212,681	521,459,337
	551,945,622	524,091,154

Commitments and guarantees (note 7)

Approved by the Board of Directors

____________________ Director ____________________ Director

The accompanying notes are an integral part of these financial statements.

Emissions Reduction Alberta

Statement of Changes in Net Assets

For the year ended May 31, 2022

	2022			2021
	General Fund $	Restricted Fund $	Total $	Total $
Balance – Beginning of year	-	521,459,337	521,459,337	382,854,995
Excess of revenue over expenses for the year	-	23,753,344	23,753,344	138,604,342
Balance – End of year	-	545,212,681	545,212,681	521,459,337

The accompanying notes are an integral part of these financial statements.

Emissions Reduction Alberta

Statement of Operations

For the year ended May 31, 2022

	2022			2021
	General Fund $	**Restricted Fund $**	**Total $**	**Total $**
Revenue				
Grant revenue (note 3)	-	128,486,868	128,486,868	185,000,000
Interest income	-	5,276,358	5,276,358	4,620,210
Other revenue (note 4)	563,019	-	563,019	58,658
	563,019	133,763,226	134,326,245	189,678,868
Project expenses (note 7)	-	100,724,231	100,724,231	44,045,902
Excess of revenue over project expenses	563,019	33,038,995	33,602,014	145,632,966
Operating expenses				
Program management (note 6)	563,019	7,802,179	8,365,198	6,261,929
Consulting contracted services	-	758,770	758,770	245,015
Corporate costs	-	568,738	568,738	432,723
Amortization	-	46,314	46,314	43,390
Board remuneration and expenses (note 6)	-	109,650	109,650	45,567
	563,019	9,285,651	9,848,670	7,028,624
Excess of revenue over expenses for the year	-	23,753,344	23,753,344	138,604,342

The accompanying notes are an integral part of these financial statements.

Emissions Reduction Alberta

Statement of Cash Flows

For the year ended May 31, 2022

	2022 $	2021 $
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	23,753,344	138,604,342
Amortization of property and equipment	46,314	43,390
Amortization of deferred lease inducements	(18,083)	(18,083)
Net change in non-cash working capital items		
Deferred revenue	(80,842)	80,842
Accounts receivable	26,571	(36,656)
Grant receivable	(25,736,868)	(5,000,000)
Interest receivable	(494,284)	156,803
Prepaid expenses	(23,751)	(34,230)
Accounts payable and accrued liabilities	4,200,049	(977,182)
	1,672,450	132,819,226
Investing activities		
Purchase of property and equipment	(8,305)	(31,684)
(Purchase) proceeds of short-term investment	(70,000,000)	350,000,000
	(70,008,305)	349,968,316
(Decrease) increase in cash during the year	(68,335,855)	482,787,542
Cash – Beginning of year	510,645,699	27,858,157
Cash – End of year	442,309,844	510,645,699

The accompanying notes are an integral part of these financial statements.

1 Organization

Climate Change and Emissions Management (CCEMC) Corporation ("CCEMC") is an Alberta-based, independent, not-for-profit organization incorporated under the Canada Corporations Act on February 17, 2009 and continued under the Canada Not-for-profit Corporations Act on October 14, 2016; its operations commenced on June 1, 2009. On October 21, 2016, CCEMC registered the trade name of Emissions Reduction Alberta ("ERA") and uses this as its operating name. ERA's mandate is to identify and accelerate innovative solutions that secure Alberta's success in a lower carbon economy. The Technology Innovation and Emissions Reductions Fund (formerly the Climate Change and Emissions Management Fund) (the "Fund") is established under the Emissions Management and Climate Resilience Act, SA 2003, c. E-7.8 (formerly the Climate Change and Emissions Management Act) by the Government of Alberta to support investment in innovation and clean technologies that will reduce Alberta's emissions of specified gases and support its ability to adapt to climate change. The Fund provides the primary source of revenue for ERA.

The Government of Alberta and ERA entered into an Agreement dated and effective March 8, 2017 together with an Amending Agreement dated March 6, 2020, for the period up to and including March 31, 2024, with respect to funding under the Emissions Management and Climate Resilience Act. As a not-for-profit organization, ERA is exempt from tax in accordance with Section 149(1)(l) of the Income Tax Act (Canada).

2 Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") within the framework of the accounting policies summarized below.

Fund accounting

For financial reporting purposes, the accounts have been classified into the following funds:

- General Fund

  The General Fund includes all resources available for immediate purposes and accounts for ERA's activities other than those directly attributable to funding innovation and clean technologies and adaptation to climate change.

  The General Fund includes all unrestricted monies received that are available for use at ERA's discretion.

- Restricted Fund

  The Restricted Fund includes those funds that are to be used to support investment in innovation and clean technologies and adaptation to climate change.

Revenue recognition

These financial statements have been prepared using the restricted fund method of accounting for contributions, the key elements of which are:

- Unrestricted contributions are recognized as revenue in the General Fund when received or on becoming receivable if the amount to be received can be estimated and collection is reasonably assured.

- Externally restricted contributions are recognized as revenue in the Restricted Fund when received or receivable if the amount to be received can be estimated and collection is reasonably assured. Externally restricted amounts can only be used for the purposes designated by external parties.

- Investment income earned on contributions subject to external restrictions is recorded as revenue in the Restricted Fund in the year it is earned.

For contracts fulfilled over a period of time, ERA recognizes revenue using the percentage of completion method. The degree of completion is determined using an input-based method. In the application of percentage of completion, total expected costs to complete are determined at contract inception and are periodically reviewed. Percentage of completion is then determined based on total costs incurred to date. Funds received prior to the delivery of a milestone will be recorded as deferred revenue until such time as the recognition criteria are met.

Financial instruments

ERA currently does not hold any equity instruments that would be measured after initial recognition at fair value. Financial assets and financial liabilities are initially recognized at fair value less transaction costs when ERA becomes a party to the contractual provisions of the financial instrument and subsequently are measured at amortized cost with any changes recorded in the Statement of Operations.

Cash

Cash consists of cash on deposit. Amounts held will be used to fund project funding commitments for executed agreements, approved projects and initiated funding calls as outlined in note 7 to the financial statements.

Short-term investments

Short-term investments are guaranteed investment certificates (“GICs”). GICs that mature in 12 months or less are measured at cost, recorded as short-term investments and any interest is accrued as earned.

Use of estimates and judgements

The preparation of financial statements in conformity with ASNPO requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Estimates and underlying assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in judgements, estimates and assumptions based on new information could result in a material change to the carrying amount of assets or liabilities and have a material impact on assets, liabilities, revenues and expenses recognized in future periods.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Computer equipment and software	3 years
Furniture and fixtures	5 years
Leasehold improvements	3 years

Lease inducements are accounted for as reductions of the lease expense over the term of the lease.

Project expenses and liabilities

Project expenses and the associated project liability (included in accounts payable and accrued liabilities) are recognized on receipt by ERA of a valid project progress report and associated milestone invoices. A commitment for a project expense is disclosed as such when a contribution agreement is executed. Project expenses have increased in fiscal year 2022 due to the rise in the number of active projects from the prior year.

3 Grant revenue

Funds are granted from the Government of Alberta to ERA on an annual basis through a Grant Agreement. The current Grant Agreement was executed on March 8, 2017 and was amended on March 6, 2020 to extend the effective date to March 31, 2024.

On December 1, 2021, ERA received a letter from Alberta's Minister of Environment and Parks confirming funding of $64 million to be used to execute ERA's business plan, as well as for the purposes stated in the Grant Agreement and the memorandum of understanding. This includes funding the Carbon Capture Kickstart Call that supports carbon capture, utilization and storage feasibility and front-end engineering design studies, and the Circular Economy Challenge. The funding was received on December 21, 2021 and recorded as grant revenue. ERA also received a letter from Alberta's Minister of Environment and Parks in fiscal year 2021 confirming funding of $180 million to be used to execute ERA's business plan, which includes supporting the Shovel Ready Challenges, Energy Savings for Business ("ESB") program, and Partnership Intake Program. The funding was received on March 18, 2021.

On January 28, 2021, ERA executed an amendment to the original Delivery Entity Agreement dated February 22, 2019 with respect to funds that are committed to ERA under the Federal Low Carbon Economy Leadership Fund ("LCELF"). Under the amended agreement, the Government of Alberta has committed up to $99.8 million in funding to ERA to support various initiatives including Food, Farming, and Forestry Challenge, Shovel Ready Challenges, Partnership Intake Program, ESB, and the Industrial Efficiency Challenge previously committed to in the original Delivery Entity Agreement. In the current fiscal year, ERA has recognized $64.5 million of LCELF grant revenue (2021 – $5 million), which includes $50 million on the Shovel Ready Challenge, $12.3 million on the ESB program, and $2.2M on the Partnership Intake Program. Of the total LCELF revenue recognized since fiscal year 2021, $38.75 million was received in the current fiscal year. The remaining LCELF commitment up to the $99.8 million approved is expected to be received in the fiscal years ending May 31, 2023 and 2024.

4 Other revenue

	2022 $	2021 $
CRIN Revenue	563,019	58,658
Total Other Revenue	563,019	58,658

On February 10, 2021, ERA entered into a competition coordination agreement with Clean Resource Innovation Network ("CRIN") to run an open competition for proposals. The selected proponents/projects will be awarded funds directly from CRIN. For the year ending May 31, 2022, ERA incurred $563,019 (2021 - $58,658) of costs associated with the design and delivery of the CRIN competition and has received $482,177 (2021 - $139,500) in compensation for competition coordination. Activities related to the CRIN competition are complete as of May 31, 2022 and all deferred revenue has been recognized.

5 Restricted Fund

The Restricted Fund consists of funds that are externally restricted by the Government of Alberta for the purpose of investing in various initiatives and projects related to reducing emissions of specified gases or supporting Alberta's ability to adapt to climate change as established by the Fund. The funds are also restricted for the purpose of administering ERA, which includes fees, expenses, liabilities and other costs.

6 Board and management remuneration

Total honoraria and expenses related to the directors of the board amounted to $106,074 (2021 – $43,981) in the fiscal year. Remuneration paid to directors or their employers includes honoraria totaling $72,857 (2021 – $43,981) as follows:

	2022 $	2021 $
C. Bak	6,870	4,728
V. Bellissimo	8,675	2,519
C. Bryson (A)	8,737	5,051
D. Collyer	13,590	5,518
J. Doucet	11,791	4,974
J. Dyring	4,783	4,206
R. Goulden (B)	-	-
S. Hastings-Simon	4,018	4,247
C. Mather	10,252	4,575
P. Mohr (C)	-	4,244
D. Moss	4,141	3,919
K. Rich (D)	-	-
	72,857	43,981

A) Board term concluded May 2022
B) Honoraria waived by this director; Board term concluded February 2022
C) Retired May 2021
D) Appointed February 2022 and honoraria waived by this director

Amounts paid to directors relating to reimbursements for meals, travel and accommodation was $33,217 (2021 – nil). Included in accounts payable and accrued liabilities is $8,622 (2021 – $6,203) related to board honorarium and expenses. Amounts increased in 2022 resulting from a return to in-person meetings.

Program management expenses include remuneration to contract management who report directly to the board, totaling fees of $287,595 (2021 – $290,220); of this amount, $24,990 (2021 – $26,129) is included in accounts payable and accrued liabilities. Program management cost for fiscal 2022 increased significantly due to the additional administration costs for the ESB program.

7 Commitments and guarantees

During the year, contribution agreements for ERA funding were executed for 38 projects, 1 project was cancelled, 2 projects were terminated, and 2 projects were not initiated. As at May 31, 2022, ERA has 218 (2021 – 183) executed contribution agreements outstanding and has commenced or completed funding for 192 (2021 – 152) of these approved projects. Funding for 26 of the 218 executed projects has not commenced. Total committed funds for executed projects is the difference between the total funding approved for executed contribution agreements and project expenses incurred to date or contribution agreements cancelled. A summary of these amounts (excluding the ESB program) is outlined as follows:

	2022 $	2021 $
Total committed funds for executed projects – Beginning of year	290,552,852	209,372,596
Total funds for executed projects approved or adjusted during the year	196,250,207	125,226,158
Project expenses incurred during the year	(92,034,260)	(44,045,902)
Contribution agreements cancelled during the year	(19,931,897)	-
Total committed funds for executed projects – End of year	374,836,902	290,552,852
Total funds for projects approved but not yet executed	10,000,000	223,575,051
Total commitments	384,836,902	514,127,903

Funds allocated to the executed contribution agreements are subject to ERA's review and approval prior to disbursement to ensure full compliance with the terms of the contribution agreement. The actual financial commitment could therefore differ materially from $374,836,902 but will not exceed that amount. Project expenses incurred during the year increased due to the larger number of approved projects under management. Sufficient funds are held in cash and short-term investments as at May 31, 2022, to service these commitments, approved projects and other initiated commitments.

For the current fiscal year in addition to the $92,034,260 project expenses noted above, ERA paid $8,689,971 of incentives to projects under the ESB program. This program was launched in November 2020 and is still accepting applications. Incentive values for projects approved for funding under this program total $19,753,486 as of May 31, 2022. Subsequent to year end, an additional $ 2,038,852 of project incentive funding has been approved for ESB and pre-approved projects totaling $2,820,220 are no longer proceeding. During the fiscal year, the ESB program expanded to include two new streams, the Small Producers Energy Efficiency Deployment ("SPEED") and the Expanded Technologies Pilot ("ETP"). Subsequent to year end, $15.8M of incentives were pre-approved for SPEED and $0.6M has been pre-approved for ETP.

On January 14, 2022, ERA launched the Carbon Capture Kickstart call. Funding decisions for this call were made on June 14, 2022 in the amount of $40,568,950 for a total of 11 projects. This amount is in addition to the commitment in the table above. The Circular Economy Challenge and the Accelerating CCS Technologies 4th call opened for applications on March 20, 2022 and May 12, 2022 respectively. Both programs are still undergoing the assessment process and no funding decisions have been made yet.

There are 2 projects totaling $10,000,000 (2021 – $223,575,051) that have been approved for funding by ERA's board of directors but for which contribution agreements have not yet been executed as at May 31, 2022.

Included in the project expenses for the current year is $98,920 (2021 – $299,907) paid to projects being developed in Canada, but outside of Alberta. No expenses were paid to projects being developed outside of Canada in the current year (2021 – nil). Included in total executed and approved commitments for the year is $814,610 (2021 – $153,398) committed to projects being developed in Canada, but outside of Alberta. There are no remaining commitments for projects being developed outside of Canada (2021 – nil).

ERA indemnifies its directors against claims reasonably incurred and resulting from the performance of their services to ERA. No amounts are reflected in the financial statements related to these indemnifications.

8 Financial instruments

ERA's financial instruments are exposed to certain financial risks, including credit risk, market risk and liquidity risk.

Credit risk

Credit risk is the risk of financial loss to ERA if a party to a financial instrument fails to meet its contractual obligations and arises principally from cash and accounts receivable. The maximum amount of credit risk exposure is limited to the carrying value of the balances disclosed in these financial statements.

Management monitors these accounts regularly and does not believe ERA is exposed to significant credit risk at the statement of financial position date.

Market risk

Market risk is the risk changes in market prices, such as interest rates, will affect ERA's interest income or the value of the financial instruments held. ERA is subject to interest rate cash flow risk arising primarily from fluctuations in interest rates applied to its cash balances, which are subject to floating interest rates.

Liquidity risk

Liquidity risk is the risk ERA will not be able to meet its financial obligations as they come due. Management mitigates liquidity risk by monitoring forecasted and actual cash flows to ensure sufficient liquidity to meet its liabilities. Accounts payable and accrued liabilities are due within the current operating period.

9 Economic dependence

100% of ERA's grant revenue is received from the Government of Alberta via the executed Grant Agreement or the Delivery Entity Agreement. The loss of this funding would have a material adverse impact on ERA's future operations, project commitments and financial position.