Alberta Petroleum Marketing Commission

2018

Annual Report

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REPORT FROM THE CEO

Progress continued for APMC during 2018 under the mandate provided to the organization by the Minister of Energy.

Financial Results

In June, 2018, as per the processing agreement with North West Redwater Partnership, APMC started paying debt tolls (total of $209.6 million for the year-ended December 31st). These costs were expensed and resulted in APMC reporting a loss of $163.2 million for the year compared to net income and comprehensive income of $36.8 million for 2017. The Commission continues to monitor its general and administrative costs closely at $4.7 million (2017 $4.6 million).

In addition, for Conventional Crude Oil royalties APMC forwarded net proceeds of $1.121 billion (2017 $727 million) to General Revenue. The increase is due to a growth in royalty volumes and a rise in realized prices.

Market Access

On December 18, 2017, APMC signed agreements to obtain 50,000 barrels per day of capacity on the Keystone XL Pipeline Project. In October, 2018, APMC's capacity on Keystone XL was successfully assigned to Cenovus.

APMC continues to stay engaged with industry on other market access initiatives involving pipelines, crude by rail and terminal opportunities. In February, 2019, APMC was directed by the Minister of Energy to proceed with the execution of a Crude by Rail program to enable the Province to move 120KBPD of bitumen and diluted bitumen to markets outside the Province for the purpose of reducing pipeline constraints and improving the WCS/WTI differential realized in the Province. The program will move approximately 125M barrels of crude in just over three years bridging the gap until Kinder Morgan TransMountain Pipeline and TCPL Keystone XL Pipeline is built. With the election of the UCP in April, 2019, APMC received direction in May, 2019, from the Minister of Energy to assign the Crude by Rail contracts to industry. APMC is diligently working to achieve this objective.

Value Added and North West Redwater Partnership Sturgeon Refinery

Construction of the Sturgeon Refinery continues with an expected Commercial Operations Date of late, 2019 and capital budget of $9.925 billion. The APMC team is working diligently to prepare for the start-up of the refinery.

APMC was directly involved in drafting the Department of Energy's Partial Upgrading Program and lead the Evaluation Committee to provide a short list of recommended partial upgrading proposals to the Steering Committee. APMC lead the negotiation of non-binding Letter of Intent with the six successful proponents. APMC also participated in the evaluation of the applications to the Petrochemical Facility Infrastructure Program and assisted in negotiations with successful applicants.

Operations

On the conventional crude oil royalty operations APMC continues to work with Shell to identify opportunities to improve on the industry forecast variance to maximize APMC netback.

Adrian Begley,
Chief Executive Officer
June, 2019

CORPORATE GOVERNANCE

As of June, 2019, here are the members of the Board of Directors for Alberta Petroleum Marketing Commission ("APMC" or the "Commission"):

Grant Sprague – Chair of the Board
Prior to his return as Deputy Minister of Energy, Grant served as associate counsel at Miller Thomson LLP where he provided advice on natural resource and environmental law, administrative law matters, and regulatory processes. Previously, he served as Deputy Minister of Energy from July 2013 to May 2016 and Chair of the Alberta Petroleum Marketing Commission. Grant also served as Chief of the Policy Coordination Office of Executive Council and as Assistant Deputy Minister of Alberta Justice.

Grant was appointed Queen's Counsel for Alberta in December of 2010 and is a Senior Fellow with the C.D. Howe Institute and a sessional lecturer at the University of Alberta, School of Business. Grant holds the ICD.D designation.

Grant was appointed Chair of the Board in May, 2019.

Douglas Borland – Chair of the Audit Committee
Douglas joined the Alberta Public Service in 1984 and has been the Assistant Deputy Minister of Ministry Services since May 2014. The division provides enterprise-wide support services for the Department of Energy, and ensures alignment with and adherence to related Government of Alberta-wide policy and direction.

Douglas was first appointed to the Board in August, 2009.

Diane Pettie
Diane is a corporate director and lawyer. She retired in 2015 as Vice President, General Counsel & Corporate Secretary of Canexus Corporation (a TSX-listed chemical manufacturer), a position she held since 2006. Prior to joining Canexus, she worked in progressively more senior legal executive and in-house positions in the energy marketing sector (with Sempra Energy Trading, Mirant Corporation, Pan-Alberta Gas and TransCanada), and practiced at the law firm which is now Borden Ladner Gervais LLP. Diane also currently serves on the Boards of ATB Financial (Chair, Governance and Conduct Committee) and the Chartered Professional Accountants of Alberta (public member). Diane earned a J.D. from the University of Alberta and holds the ICD.D designation from the Haskayne School of Business. Diane was appointed Queen's Counsel for Alberta in December of 2013.

Diane was appointed to the Board in July, 2017.

Stephanie Sterling – Member of the Audit Committee
Stephanie is a Corporate Director, Independent Consultant and former senior executive with over 25 years' experience in engineering, large project start-up and operations, governance, joint venture negotiations, risk management, business development, strategic planning and organizational redesign and change management. Senior executive roles with Shell Canada included General Manager for non-technical risk, Community and Indigenous Relations for Canada, USA and Latin America; and Vice President Business and Joint Ventures for the Heavy Oil Athabasca Oil Sands Project and AERA in California.

Stephanie currently serves on the board of Cardinal Energy (Audit; Reserves; & Environmental, Social & Corporate Governance Committees), and was previously on the board of Riversdale Resources Inc. (Audit; Safety, Health & Environment; Remuneration; and Takeover Response Committees). She also serves as an independent Corporate Ombudsman for Shell Canada.

Stephanie's community service includes President and Chair of the MEOW Foundation & Director on the board of the Kerby Centre.

Stephanie holds a Bachelor's of Science in Mechanical Engineering, is a Professional Engineer in Alberta, has a Master of Business Administration with the University of Alberta, is a member of the International Ombudsman Association and completed her ICD designation in July 2017.

Stephanie was appointed to the Board in July, 2017.

Corrina Bryson

Corrina Bryson is an Independent Director and Consultant with 25 years' experience in the energy industry.

Corrina currently serves on the Canada-Nova Scotia Offshore Petroleum Board, the Alberta Public Notaries Review Committee and as Chair of the Town of Canmore Environmental Advisory Review Committee.

Since 2016, Corrina has led her own consultancy company, Simplify Complexity Inc., delivering petroleum engineering and management consulting to operators and investors. From 2011 to 2016, she worked with CNOOC-Nexen in a variety of roles, including VP, Resource Development. Between 2004 and 2011, Corrina was a consultant and director with RPS Energy and APA Petroleum Engineering. Corrina began her career with Shell, working in progressive engineering, project and business roles from 1994 to 2004 in the Netherlands, the UK and Canada.

Corrina graduated from the University of Bradford, England with M.Eng and B.Eng degrees in Chemical Engineering with Management. She is a P.Eng in Alberta and holds a Masters Certificate of Project Management (MCPM) from the University of Lethbridge. Corrina is a member of the Institute of Corporate Directors (ICD), recently completed the ICD-Rotman Director's Education Program (DEP) and holds the ICD.D designation.

Corrina was appointed to the Board in January, 2019.

Terrance Kutryk

Terrance is the former President and Chief Executive Officer of Alliance Pipeline Ltd, a position he held from 2012 to 2017. Previously, Terrance served as a Senior Vice President of Midstream and Refined Products with Husky Oil Operations Limited, where he was responsible for Husky's global commodity marketing, logistics and trading, storage, refining and upgrading business, pipelines, cogeneration, retail and wholesale operations, asphalt marketing, product supply and distribution and new ventures.

He has served as Board Chair for Sultran Ltd., Pacific Coast Terminals Company Ltd. and the Canadian Energy Pipeline Association. In addition, he is a member of the American Society of Mechanical Engineers, Petroleum Society of Canada, Canada Heavy Oil Association, CFA Institute and the Calgary Society of Financial Analysts and the Institute of Corporate Directors. Terrance maintains an active management, commercial, operations and due diligence consulting practice and he sits on the advisory boards for Crux Operations Control Management, WaterSmart Solutions, the University of Calgary's Haskayne Centre for Advanced Supply Chain Management & Logistics and Schulich School of Engineering Industry Advisory Council, and the board of VantEdge O&G.

Terrance has a Masters of Business Administration and Bachelor of Commerce degrees from the University of Calgary and a Petroleum Land Management certificate from Mount Royal University. He is a Chartered Financial Analyst, an ICD.D from the Institute of Corporate Directors and holds designations from the Investment Dealers Association of Canada.

Terrance was appointed to the Board in January, 2019.

Dave Mowat – Member of the Audit Committee
Dave Mowat has been a banker his entire career and held three CEO posts and most recent being the President and CEO of ATB Financial. Through more than 5,000 team members in 247 communities, ATB provides a full range of banking services to 725,000 customers. ATB has grown to assets of more than $55 billion and is the largest, provincially based financial institution in Alberta.

Dave was named Canada's #1 CEO in 2016 by Glassdoor. He also made the list of Alberta's Top 50 Most Influential People by Alberta Venture Magazine (2016), was named the Inspired Leader of the Year by the International Association of Business Communicators (2015), and was honoured as Business Person of the Year in 2014 by Alberta Venture.

In 2016, Dave headed Alberta's Royalty Review panel that, after months of study and consultation with stakeholders and the public, the province fully adopted the panel's recommendation of an innovative new approach to Alberta's oil and natural gas royalty structure.

Dave has served on numerous boards, including Telus, STARS, Alberta Blue Cross, the Citadel Theatre in Edmonton, and the National Music Centre in Calgary. He was also involved with Dogs With Wings, and in 2016 was accompanied everywhere by Vaughn, a black lab service puppy who was part of the agency's program to train service dogs to make life better for blind and autistic children.

Dave was appointed to the Board in January, 2019.

MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

This Management's Discussion and Analysis ("MD&A) dated June 17, 2019, should be read in conjunction with the audited financial statements of the APMC for the years ended December 31, 2018 and 2017.

The financial statements for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars.

APMC was created in 1974 by the *Petroleum Marketing Act*. It is a provincial Crown corporation and an agent of the Government of Alberta. APMC is responsible for marketing Alberta's conventional crude oil royalty, developing prices used in royalty calculations and other energy related activities. In 2012, the APMC's mandate was expanded to include assisting in the development of Value Added activity in Alberta's petroleum sector, such as the development of the Sturgeon Refinery as well as new energy markets and transportation infrastructure.

APMC is accountable to and receives policy direction from the Minister of Energy.

Operational and Financial Highlights

Years ended December 31 (in thousands of dollars, unless otherwise noted)	2018	2017
Conventional Crude Oil Marketing Operations		
Net volumes sold (bbls/d)	45,866	36,861
Dollars to be remitted to the Crown	1,042,638	739,876
Realized price (Cdn$/bbl)	62.28	54.99
Financial Results		
Statement of Income (Loss) and Comprehensive Income (Loss)		
Conventional crude oil marketing operations		
Marketing fee revenue	5,717	6,304
Finance income	134	45
Expenses	4,628	4,633
Net income from conventional crude oil marketing operations	**1,223**	**1,716**
Sturgeon Refinery		
Finance income	53,359	37,850
Debt toll expense	209,601	-
Finance costs and other	8,192	2,736
Net income (loss) attributable to Sturgeon Refinery	**(164,434)**	**35,114**
Net income (loss) and comprehensive income (loss)	**(163,211)**	**36,830**
Statement of Financial Position		
Total assets	613,468	597,291
Total liabilities	682,943	502,960
Net assets (liabilities)	(69,475)	94,331

Royalty in Kind Operations

The province of Alberta takes all conventional crude oil royalties in kind. APMC monetizes these barrels in the market. This is achieved directly (10%) through APMC staff and indirectly (90%) through our agent, Shell Canada Trading. The royalty in kind barrels are aggregated and sold at Alberta's trading hubs (Edmonton and Hardisty) through month-to-month or evergreen type arrangements.

Under the Petroleum Marketing Act and Regulations producers are obligated to transfer their royalty share to the Commission at field delivery batteries. Producers split out the royalty share to either APMC or APMC's agent. The Commission reconciles the volumes that are nominated to the Crown. During settlement, APMC validates producer statements, equalization statements, tariff statements and single shipper invoices. On the 25th of each month, the Commission settles all contracts, validates the agent payment summary and transfers the money collected to Treasury Board and Finance

The average net volumes sold increased by 24% year over year from 36,861 bpd (2017) to 45,866 bpd (2018) and associated net realized prices increased by 13% from $54.99/bbl (2017) to $62.28/bbl (2018). Resulting in dollars to be remitted to the Crown increasing by 41%. The Crown's royalty share is very sensitive to commodity prices, as the realized prices have increased year over year, so has the royalty volumes and associated net revenue.

Sturgeon Refinery Processing Agreement

APMC has a 30 year (plus perpetual five year renewal rights) tolling arrangement with NWRP for 75% of the Sturgeon Refinery capacity. NWRP has entered into agreements to construct and operate a 50,000 barrel per day bitumen upgrader and refinery (the "Project") under processing agreement that targets to process 37,500 barrels per day of bitumen feedstock for the APMC.

During late 2017 and early 2018, NWRP commenced commissioning activities in the Projects' light oil units while continuing work on the heavy oil units. The light oil units transitioned from pre-commissioning and start-up to operations and are processing synthetic crude oil into refined products. The Project's bitumen refining operations have been delayed and remain in the commissioning phase due to design modifications to the reactor burners in the gasifier unit and to address stress cracking identified in certain stainless steel piping. Currently, the heavy oil units are expected to commence commercial processing of bitumen in late 2019. As at December 31, 2018, the total facility capital cost ("FCC") budget for the Project, net of margins from pre-commercial sales, totaled approximately $9,925 million.

During 2013, APMC and CNRL agreed, each with a 50% interest, to provide subordinated debt, bearing interest at prime plus 6%, as required for Project costs to reflect an agreed debt to equity ratio of 80/20. As at December 31, 2018, each party has provided $439 million of subordinated debt, together with accrued interest thereon of $152 million, for a total of $591 million. Any additional subordinated debt financing is not expected to be significant.

Pursuant to the processing agreements, on June 1, 2018 APMC began paying its 75% pro rata share of the debt portion of the monthly cost of service toll, currently consisting of interest and fees, with principal repayments beginning in 2020. APMC is unconditionally obligated to pay this portion of the cost of service toll over the 30-year tolling period. As at December 31, 2018, APMC had expensed $210 million in debt tolls.

Crude by Rail

During the fourth quarter of 2018, the NDP government instructed APMC to setup a 120,000 bpd crude by rail program to create incremental crude oil egress out of Western Canada to address the shortage of pipeline takeaway capacity. Except for additional consulting expense, no material financial commitment was made in 2018 by APMC.

Alberta Partial Upgrading Program

The business development team at APMC was tasked with the creation and administration of the Alberta Partial Upgrading Program. Through the Energy Diversification Act (Bill 1 – 2018), $1 billion was allocated to financially support partial upgrading projects in Alberta with a goal to have two to five commercial operating facilities within eight years.

Sixteen applications were received. APMC led the evaluation teams to shortlist the highest potential projects/companies that were to be considered for financial support. Except for minor general and administrative expenses, no material financial commitments were made in 2018 by APMC.

Assets

Details of Assets Years ended December 31 (in thousands of dollars)	2018	2017
Cash and short term investments	5,725	7,173
Accounts receivable	7,243	91,284
Intangible assets under development	9,818	8,125
Term loan	438,638	391,963
Accrued interest on term loan	152,044	98,746
Total assets	**613,468**	**597,291**

Accounts receivable

Accounts receivable consists of marketing sales of conventional crude oil for the delivery month of December and royalty financial settlements (e.g. billing of under delivered volumes, penalties and interest). The primary reason for the dramatic decrease in accounts receivable compared to the prior year was the December 2018 WTI index prices fell (US $57.95/bbl for Dec/17 vs US $48.98/bbl for Dec/18) and the differentials widened significantly (US $13.93/bbl for Dec/17 and US $43.01/bbl for Dec/18) .

APMC adopted IFRS 9 *Financial Instruments* as of January 1, 2018. A credit loss provision of $153 thousand was recorded as at December 31, 2018.

Intangible assets under development

These costs pertain to the VMS Replacement Project. APMC is replacing a 30 year old mainframe application to handle operations and accounting processes with an in-house database to handle operations and purchased Microsoft Dynamics AX to cover the accounting function. The new systems will “Go Live” in 2019. At that point the costs will be moved to Intangible assets and amortized over the estimated useful life of the software.

Term loan and Accrued interest on term loan

APMC has lent monies to North West Redwater Partnership (NWRP). The term loan earns interest at a rate of prime plus six percent, compounded monthly. The accrued interest and principal will be repaid over 10 years starting one year after Commercial Operations Date (COD). NWRP requested an additional $46.85 million during 2018.
While these loans are outstanding, APMC has a 25 percent voting interest on the Executive Leadership Committee. This committee is charged with overseeing and making decisions on the construction, start-up and operation of the Sturgeon Refinery.

APMC adopted IFRS 9 *Financial Instruments* as of January 1, 2018. A credit loss provision of $236 was recorded as at December 31, 2018.

Liabilities and Net Assets (Liabilities)

Details of Liabilities and Net Assets (Liabilities) Years ended December 31 (in thousands of dollars)	2018	2017
Accounts payable	38,705	21,862
Due to Department of Energy	2,707	81,118
Short term debt	625,228	391,963
Accrued interest on short term debt	16,303	8,017
Net assets (liabilities)	(69,475)	94,331
Total liabilities and net assets (liabilities)	**613,468**	**597,291**

Accounts payable

Accounts payable are significantly higher in 2018 due to the accrual of $24.4 million for December, 2018 debt tolls.

Due to Department of Energy

As noted above the realized price for December 2018 deliveries was below $10/bbl vs $61/bbl for December 2018 which resulted in a significantly lower payable to the Crown.

Short term debt and Accrued interest on short term debt

APMC borrows short term funds (with a one year term) from Treasury Board and Finance. In 2018, the Commission borrowed an additional $186.415 million for debt tolls and $46.85 million to lend to NWRP.

Conventional Crude Oil Marketing Operations

Details of Conventional Crude Oil Marketing Operations Years ended December 31 (in thousands of dollars)	2018	2017
Marketing fee revenue	5,717	6,304
Finance income	134	45
Expenses	4,628	4,633

Marketing fee revenue

APMC charges the Department of Energy a marketing fee for each net barrel sold (e.g. barrels sold less barrels purchased (e.g. condensate)). The fee per barrel was down 27% year over year, however the net volumes sold were up 24% resulting in a $587 thousand reduction.

Expenses

Expenses were essentially flat year over year.

Sturgeon Refinery

Details of Sturgeon Refinery **Years ended December 31** (in thousands of dollars)	**2018**	**2017**
Finance income	53,359	37,850
Debt toll expense	209,601	-
Finance costs and other	8,192	2,736

Finance income

Finance income is earned on term loans provided to NWRP. The interest rate charged is prime plus six percent. The prime rate increased 0.25% twice in 2017 and three times in 2018. The term loan at the beginning of 2017 showed $324 million outstanding and as at the end of 2018 the balance is $439 million. This would account for the increase in finance income year over year.

Debt toll expense

APMC, as a toll payer of the Sturgeon Refinery, has an obligation to pay 75% of the debt service costs related to the financing of the Facility Capital Costs (FCC). Per the PA, this payment obligation started June 1, 2018 and will continue to the end of the 30 year initial term of the PA, at which point the debt related to the FCC will be fully paid. The full debt toll invoiced to APMC for the June 1, 2018 to December 31, 2018 period has been expensed.

Finance costs and other

The Short term debt has increased from $324 million from the beginning of 2017 to $625 million at the end of 2018, resulting in a significant increase in costs.

Liquidity and Cash Flow

Details of Cash and Short Term Investments **Years ended December 31** (in thousands of dollars)	**2018**	**2017**
Cash and short term investments, beginning of year	7,173	4,176
Net cash from (used in) operating activities	(186,345)	5,092
Net cash (used in) investing activities	(48,368)	(69,695)
Net cash provided by financing activitites	233,265	67,600
Cash and short term investments, end of year	**5,725**	**7,173**

The Commission actively manages its liquidity through cash and receivables strategies, and the ability for the Commission to obtain financing through external banking credit facilities or obtaining borrowing from Treasury Board and Finance.

The term loan is structured so that APMC will receive repayments starting one year after commercial start-up of the Sturgeon Refinery. The outstanding amount owed will be repaid straight line over a 10 year period with accrued interest.

For the short term debt APMC intends to borrow additional funds from Treasury Board and Finance and then to match the repayment terms detailed for the term loan above.

Risk Management

APMC recognizes that risk is present in its business activities and that the management of risk is critical in maximizing performance and helping the Commission achieve its strategic objectives.

Risk management is the culture, capabilities and practices integrated within strategy setting and execution, influenced by APMC's Board of Directors, executive management and all staff. It is a continuous process applied strategically across the Commission in its day-to-day operations, designed to identify, assess and prioritize potential events that could affect APMC's performance and enable the Commission to respond to and monitor key risks.

In 2018, APMC documented and received Board approval for its Risk Management Policy and Risk Management Process Guidance. In the last half of the year management reviewed with the Board a Risk Register (documenting all the Commission's material risks) and a Risk Assessment Heat Map. Quarterly, management will provide the Board with: analysis of the most impactful risks; a Risk Assessment Heat Map; and a complete Risk Register for their review.

Accounting Policy Changes

Effective January 1, 2018 APMC retrospectively adopted IFRS 9 *Financial Instruments* in accordance with the allowed transitional provisions. An impairment provision was calculated for the Commission's financial assets as at December 31, 2017 and this amount was reflected in the 2018 opening net assets. No restatement has been made in the comparative periods for this initial impairment provision.

The initial impairment provision calculated effective January 1, 2018 is $595 and reflected as a deduction to net assets (liabilities). The impairment provision calculated as at the reporting period December 31, 2018 is $389 with the net adjustment from the January 1, 2018 amount going through the statement of income (loss) and comprehensive income (loss).

APMC adopted IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018 using the retrospective with cumulative effect method. There were no changes to reported net income (loss) and comprehensive income (loss) or net assets (liabilities) as a result of adopting this standard.

APMC

Financial Statements

Auditor General OF ALBERTA

Independent Auditor's Report

To the Board of Directors of the Alberta Petroleum Marketing Commission

Report on the Financial Statements

Opinion

I have audited the financial statements of the Alberta Petroleum Marketing Commission, which comprise the statement of financial position as at December 31, 2018, and the statements of income (loss) and comprehensive income (loss), changes in net assets (liabilities) and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Alberta Petroleum Marketing Commission as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting 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 Financial Statements* section of my report. I am independent of the Alberta Petroleum Marketing Commission in accordance with the ethical requirements that are relevant to my audit of the 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 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 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 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 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 financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Alberta Petroleum Marketing Commission'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 Alberta Petroleum Marketing Commission's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My 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 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 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 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 Alberta Petroleum Marketing Commission'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 Alberta Petroleum Marketing Commission'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 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 Alberta Petroleum Marketing Commission 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.

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

June 17, 2019
Edmonton, Alberta

Statement of Financial Position
As at December 31
(thousands of Canadian dollars)

	2018		2017	
Assets				
Cash and short term investments (Note 5)	$	5,725	$	7,173
Accounts receivable (Note 6)		7,243		91,284
Intangible assets under development (Notes 7 and 15)		9,818		8,125
Term loan (Note 9)		438,638		391,963
Accrued interest on term loan (Note 9)		152,044		98,746
Total assets	$	613,468	$	597,291
Liabilities				
Accounts payable (Note 10)	$	38,705	$	21,862
Due to the Department of Energy (Note 11)		2,707		81,118
Short term debt (Note 12)		625,228		391,963
Accrued interest on short term debt		16,303		8,017
Total liabilities	$	682,943	$	502,960
Net assets (liabilities)	$	(69,475)	$	94,331
Total liabilities and net assets (liabilities)	$	613,468	$	597,291

Commitments (Note 14)

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

Statement of Income (Loss) and Comprehensive Income (Loss)
As at December 31
(thousands of Canadian dollars)

	2018	2017
Conventional crude oil marketing operations		
Marketing fee revenue (Note 15)	$ 5,717	$ 6,304
Finance income	134	45
	5,851	6,349
Expenses		
Wages and benefits (Note 15)	3,529	3,816
Consulting	792	560
Dues and subscriptions	131	65
Software and maintenance (Note 15)	122	88
Directors' fees	49	66
Travel	30	11
Telephone	8	9
Conferences	4	8
Other	12	10
Change to loss provision for Accounts receivable	(49)	-
	4,628	4,633
Net income from conventional crude oil marketing operations	1,223	1,716
Sturgeon Refinery		
Finance income	53,359	37,850
Debt toll expense (Note 8)	(209,601)	-
Finance costs	(8,286)	(2,722)
Trust costs	(63)	(14)
Change to loss provision for Term loan & Accrued interest	157	-
Net income (loss) attributable to Sturgeon Refinery	(164,434)	35,114
Net income (loss) and comprehensive income (loss)	$ (163,211)	$ 36,830

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

Statement of Changes in Net Assets (Liabilities)
As at December 31
(thousands of Canadian dollars)

	2018	2017
Net assets, beginning of year	$ 94,331	$ 57,501
Credit loss provision per IFRS 9 (Note 3b)	(595)	-
Net income (loss) and comprehensive income (loss)	(163,211)	36,830
Net assets (liabilities), end of year	$ (69,475)	$ 94,331

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

Statement of Cash Flows
For the year ending December 31
(thousands of Canadian dollars)

	2018	2017
Operating activities		
Net income (loss) and comprehensive income (loss)	$ (163,211)	$ 36,830
Credit loss provision per IFRS 9	(595)	-
Non-cash items included in net income		
Accrued interest on term loan	(53,298)	(37,850)
Accrued interest on short term debt	8,286	2,722
Changes in non-cash working capital		
Decrease/ (Increase) in accounts receivable	84,041	(13,202)
Increase in accounts payable	16,843	3,283
(Decrease)/ Increase in due to Department of Energy	(78,411)	13,309
Net cash from operating activities	(186,345)	5,092
Investing activities		
Term loan	(46,675)	(67,600)
Intangible assets under development	(1,693)	(2,095)
Net cash used in investing activities	(48,368)	(69,695)
Financing activities		
Proceeds from issuance of short term debt	233,265	67,600
Net cash from financing activities	233,265	67,600
(Decrease)/ Increase in cash and short term investments	(1,448)	2,997
Cash and short term investments, beginning of year	7,173	4,176
Cash and short term investments, end of year	$ 5,725	$ 7,173

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

Note 1 Authority and Structure

The Alberta Petroleum Marketing Commission ("APMC" or the "Commission") operates under the authority of the *Petroleum Marketing Act, Chapter P-10*, Revised Statutes of Alberta 2000, and the *Natural Gas Marketing Act*, Chapter N-1, Revised Statutes of Alberta 2000. Pursuant to Alberta legislation the Commission as agent of Her Majesty the Queen in right of Alberta (the "Province"), as represented by the Department of Energy (the "Department"), accepts delivery of and markets the Province's royalty share of crude oil. This is achieved through the Commission receiving crude oil in kind from producers on behalf of the Department and transferring the proceeds received from the sale of the crude oil back to the Department. These financial statements disclose the transactions the Commission incurs while acting as agent on behalf of the Department.

The *Petroleum Marketing Act* was amended on January 10, 2014. The amendments provided the Minister of Energy with new power to give directions to the APMC; modernized and improved the basic corporate rules under which the APMC operates including the ability to appoint up to seven directors, some of whom may be from outside the public service; clarified financial tools available to the APMC and ensured proper Crown controls on use of these tools.

The Commission's mandate has been enhanced to include assisting in the development of new energy markets and transportation infrastructure. In line with that is the Commission's involvement with North West Redwater Partnership ("NWRP") and the Sturgeon Refinery. The Commission operates a Business Development group to identify and analyze business ideas and proposals that provide strategic value to Alberta and are financially feasible.

As an agent of the Government of Alberta, the Commission is not subject to federal or provincial corporate income taxes.

The Commission is located at the following address: #300, 801 – 6th Avenue S.W., Calgary, Alberta, T2P 3W2. These financial statements were authorized for issue by the Board of Directors on June 17, 2019.

Note 2 Basis of preparation

(a) Basis of presentation

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB).

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except as disclosed in the significant accounting policies in Note 3.

(c) Financial and presentation currency

These financial statements are presented in Canadian dollars, which is the Commission's functional currency.

Note 3 Significant accounting policies

The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have been prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Accounting policy changes

(a) IFRS 15 – Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15, "*Revenue from Contracts with Customers"* ("IFRS 15") replacing International Accounting Standard 11, "Construction Contracts" ("IAS 11"), IAS 18, "Revenue" ("IAS 18") and several revenue related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers and prescribes additional disclosure requirements.

The Commission adopted IFRS 15 on January 1, 2018 using the retrospective with cumulative effect method. There were no changes to reported net income (loss) and comprehensive income (loss) or net assets (liabilities) as a result of adopting IFRS 15.

Upon adoption of IFRS 15 the Commission applied the practical expedient such that contracts that were completed in the comparative periods have not been restated. Applying this expedient had no impact to the revenue recognized under the previous revenue accounting standard as all performance obligations had been met and the consideration had been determined.

Effective January 1, 2018, the Commission's accounting policy for Revenue is as follows: The Commission earns revenue through marketing fees charged to the Department of Energy based on net volumes sold. Marketing fees are recognized when earned which corresponds to the service period in which the conventional crude oil marketing activities take place.

As part of the marketing activities, inventory of $229 is being held in a fiduciary capacity on behalf of the Department at December 31, 2018 ($1,588 as at December 31, 2017). Inventory represents the royalty oil in feeder and trunk pipelines and consists of both purchased oil and royalty share oil. The Commission purchases oil to fulfill pipeline and quality requirements as part of the conventional crude oil marketing activities. As the Commission does not hold title to the oil and will not benefit from the ultimate sale as a principal, inventory is not recognized.

The Commission will adopt IFRS 15 in its accounting for the Sturgeon Refinery when it achieves the Commercial Operations Date (COD) expected in late 2019.

(b) IFRS 9 - Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "*Financial Instruments*" ("IFRS 9") to replace IAS 39, "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in Other Comprehensive Income rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. The Commission does not currently apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018. Effective January 1, 2018 the Commission has retrospectively adopted IFRS 9 in accordance with the allowed transitional provisions. An impairment provision was calculated for its financial assets as at December 31, 2017 and this amount was reflected in the 2018 opening net assets. No restatement has been made in the comparative periods for this initial impairment provision.

From January 1, 2018 the Commission can classify its financial assets in the following categories: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The classification is made at initial recognition and depends on the Commission's business model for managing financial assets and the contractual terms of the cash flows. Subsequent measurement of financial instruments is based on their initial classifications. The Commission classifies cash and short term investments, accounts
receivable, term loan and accrued interest on term loan as financial assets at amortized cost, and accounts payable, due to department of energy, short term debt, and accrued interest on short term debt as financial liabilities at amortized cost.

Amortized cost is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, as adjusted for any loss allowance.

Effective January 1, 2018 the Commission's accounting policy for impairment of financial assets is as follows: At each reporting date, on a forward looking basis, the Commission assesses the expected losses associated with its financial assets carried at amortized cost. For trade accounts receivable the simplified approach permitted by IFRS 9 is applied, which requires expected lifetime credit losses to be recognized from initial recognition of the receivable. To measure expected credit losses, accounts receivable are grouped based on the counterparty investment rating and applying an anticipated default rate, as reported by the credit rating agencies, to each rating multiplied by the receivable balance outstanding at a reporting date. For counterparties not rated by the credit rating agencies, the simplified approach and a provision matrix will be used to calculate the impairment provision. The matrix would look at a different percentage applied against each aging category, including the current amounts. The internal and external credit rating of a counterparty will be considered as part of this overall process.

For the term loan and accrued interest we measure expected credit losses using the default rates for the Government of Alberta and CNRL weighted credit ratings.

Changes in the provision for expected credit loss are recognized on the statement of income (loss) and comprehensive income (loss).

The initial impairment provision calculated effective January 1, 2018 is $595 and reflected as a deduction to net assets (liabilities). The impairment provision calculated as at the reporting period December 31, 2018 is $389 with the net adjustment from the January 1, 2018 amount going through the statement of income (loss) and comprehensive income (loss).

Existing accounting policies

(c) Foreign currency

Transactions in foreign currencies are translated to the appropriate functional currency at foreign exchange rates that approximate those on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the appropriate functional currency at foreign exchange rates at the financial position date. Foreign exchange differences arising on translation are recognized in income. Non-monetary assets that are measured in a foreign currency at historical cost are translated using the exchange rate at the date of the transaction.

(d) Impairment of loans and receivables

Loans and receivables are assessed at each reporting date to determine whether there is any objective evidence of impairment. A loan or receivable is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective

interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All
impairment losses are recognized in income in the period incurred. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of income (loss) and comprehensive income (loss). The reversal amount would not be more than the asset's carrying amount.

(e) Finance income

Finance income generated from conventional crude oil marketing operations comprises interest income earned on short term investments. Finance income related to the Sturgeon Refinery is earned on a term loan at prime plus six percent compounded monthly.

(f) Provisions

Provisions are recognized when the Commission has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

At each year-end APMC performs an onerous contract assessment. A provision for an onerous contract is recorded when the unavoidable costs of meeting an obligation under a contract exceed the economic benefits expected to be received under it. This provision would be recorded as an expense on the statement of income (loss) and comprehensive income (loss) and offsetting liability on the statement of financial position.

(g) Intangible assets under development

The Commission is in the process of replacing its legacy operating and accounting software. Costs related to software developed or purchased for internal use are capitalized if it is probable those future economic benefits will flow to APMC and that the cost can be measured reliably. Eligible costs include: billings from the Department's Information Management Technical Services (IMTS) group and Service Alberta for development; directly attributable costs; consulting and wages and benefits of people working on the project.

Once the project is complete the total cost will be amortized on a straight line basis over the estimated useful life of the software.

(h) Impairment of intangible assets under development

The carrying amounts of non-financial assets, which include the intangible assets under development, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In addition an annual review is performed. Assets are grouped at the lowest level where there are separately identifiable cash inflows for the purpose of assessing impairment.

If there is an indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of an asset's fair value less cost to sell and its value in use, if the carrying amount of the asset exceeds the recoverable amount, an impairment loss is recognized. Impairment losses are recognized in the statement of income (loss) and comprehensive income (loss).

If the circumstances leading to the impairment are no longer present, an impairment loss may be reversed. The extent of the impairment loss that can be reversed is determined by the carrying cost net of amortization that would have existed if the impairment had not occurred. Therefore reversal of the loss cannot exceed the total carrying cost less amortization of the asset had the impairment not occurred. The impairment loss reversals are recognized in the statement of income (loss) and comprehensive income (loss).

Prior accounting policies

(i) Revenue recognition

The Commission acted as an agent on behalf of the Department to accept delivery of and market the Province's royalty share of crude oil (the "conventional crude oil marketing activities"). As part of these activities, the Commission has entered into an agreement with Shell Trading Canada (Shell) for them to manage the transportation logistics and purchase approximately 90% of the royalty share of crude oil at index-based pricing. The Commission markets the remaining 10% of the royalty share. Amounts collected on behalf of the Department for conventional crude oil marketing activities are not revenue as the Commission never holds title to the barrels. Instead, the Commission earned revenue through marketing fees collected from the Department based on net volumes sold.

Revenue was recognized from marketing fees when earned, which corresponded to the service period in which the conventional crude oil marketing activities took place.

(j) Financial instruments

Financial assets and liabilities were recognized when the Commission became a party to the contractual provisions of the instrument. Financial assets were derecognized when the rights to receive cash flows from the assets expired or were transferred and the Commission had transferred substantially all of the risks and rewards of ownership. Financial liabilities were derecognized when the obligation specified in the contract was discharged, cancelled or expired or the cash flows were modified in a way that is in substance an extinguishment.

All financial instruments were initially recognized at fair value on the statement of financial position. Measurement of financial instruments subsequent to the initial recognition was based on how each financial instrument was initially classified. APMC's financial instruments were classified into the following two categories: financial assets at amortized cost; or financial liabilities at amortized cost. The Commission's financial assets included: cash and short term investments, accounts receivable and term loan. The Commission's financial liabilities consisted of: accounts payable, due to Department of Energy and short term debt. The financial assets and liabilities were measured subsequent to initial recognition at amortized costs using the effective interest method and impairment losses were recorded in the statement of income (loss) and comprehensive income (loss) when they occurred. Transaction costs adjusted the carrying amount initially recognized for a financial asset or liability.

Financial assets and liabilities were offset and the net amount reported in the statement of financial position when there was a legally enforceable right to offset the recognized amounts and there was an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Note 4 Critical accounting estimates and judgments

(a) Government business enterprise

Under public sector accounting standards, organizations which are controlled by the government are either government business enterprises or other government organizations. Government business enterprises are required to apply IFRS, whereas other government organizations are provided with a basis of presentation. The Commission has exercised judgment and determined that it is a government business enterprise because it is a separate legal entity and has been delegated financial and operational authority to carry on a business. In 2013, the Commission's mandate was expanded, and it is expected through its involvement with other marketing activities, such as the Sturgeon Refinery that it can provide services, maintain its operations and

meet liabilities from sources outside of the government reporting entity. Had the Commission not been determined to be a government business enterprise, the Commission would have continued to apply public sector accounting standards, and such an alternative basis of accounting could have a pervasive effect on the measurement and presentation of items in the financial statements.

(b) Revenue recognition

The Commission has exercised judgment in determining whether it is acting as a principal or agent with respect to conventional crude oil marketing activities. The Commission is providing services to the Crown as delegated in the ***Petroleum Marketing Act*** that are *"…in the public interest of Alberta"*. The Commission accepts delivery of and markets the Crown's royalty share of crude oil, and has the ability to determine which customers to transact with, and whether it should purchase additional product for blending activities to change the composition of crude oil sold. The Crown has delegated, through the ***Petroleum Marketing Act*** the responsibilities to the Commission for ensuring the crude oil meets the customers' specifications and establishing prices of the crude oil. However, the Commission is not exposed to inventory risk, this risk belongs to the Crown. Therefore the gross inflows and economic benefits of conventional crude oil marketing activities are considered collected on behalf of the Department and are not recognized as revenue.

Had the Commission been considered to be a principal the Statement of Income (loss) and Comprehensive Income (loss) would have included additional revenues, expenses and amounts to be transferred to the Department of $1,113,495 revenues, $70,857 expenses and $1,042,638 royalties to be transferred to the Department respectively ($814,913 revenues, $75,037 expenses and $739,876 royalties to be delivered to the Department – 2017).

(c) NWRP – Significant influence

The Commission has exercised judgment in determining APMC has significant influence over NWRP. However the Commission has no equity ownership interest in NWRP. APMC will not equity account for NWRP within the accounts of the Commission's financial statements, however will provide summarized NWRP financial information in these notes. See Note 9 for further details

In 2018 APMC lent an additional $46.85 million ($67.6 million 2017) to NWRP (total as at December 31, 2018 $438.813 million) in the form of term loans. NWRP is a general partnership formed by CNR (Redwater) Limited (formerly Canadian Natural Upgrading Limited), a wholly-owned subsidiary of Canadian Natural Resources Limited and by NWU LP, an indirect wholly-owned subsidiary of North West Refining Inc. NWRP was formed under the *Partnership Act (Alberta)* pursuant to a partnership agreement dated February 15, 2011, as amended on November 7, 2012, March 11, 2013 and April 7, 2014. The partners each have a 50% partnership interest in NWRP.

This term loan earns interest at a rate of prime plus six percent, compounded monthly, and will be repaid over 10 years starting one year after commercial start-up. While the loan to NWRP is outstanding APMC is entitled to a 25 percent voting interest on an Executive Leadership Committee, which is charged with overseeing and making decisions on the construction, start-up and operation of the Sturgeon Refinery.

NWRP has entered into various agreements to construct and operate a refinery 45 kilometres north-east of Edmonton to have the capacity to process approximately 50,000 barrels per day (bbl/d) of bitumen at an updated facility capital cost (FCC) budget of $9.925 billion ($9.7 billion as at December 31, 2017). A higher than expected USD/CAD exchange rate, scope changes, and productivity challenges during construction have resulted in upward budgetary pressures. APMC will provide the Sturgeon Refinery with 37,500 bbl/d of bitumen feedstock and Canadian Natural Resources Partnership will provide the remaining 12,500 bbl/d of bitumen feedstock under two 30 year fee-for-service tolling agreements. NWRP targets the refinery to come on stream to process bitumen feedstock with COD in late 2019.

(in thousands of Canadian dollars unless otherwise stated)

(d) NWRP - Monthly toll commitment

The Commission has used judgment to estimate the toll commitments included in Note 14 Commitments. The components of the toll are: senior debt; operating costs; class A subordinated debt; equity; and incentive fees. To calculate the toll, management has used estimates for factors including future interest rates, operating costs, oil prices (WTI and light/heavy differentials), refined product prices, gas prices and foreign exchange.

(e) NWRP - Processing agreement assessment

The Commission uses a cash flow model to determine if the unavoidable costs of meeting the obligations under the NWRP Processing Agreement exceed the economic benefits expected to be received. The model uses a number of variables to calculate a discounted net cash flow for APMC. Those variables include technical variables that arise from the design of the project such as catalyst volumes or energy consumption; pricing related variables such as crude oil prices (WTI), heavy-light differentials, ultra-low sulphur diesel-WTI premiums, exchange rates, capital costs, operating costs, interest rates, discount rates; and operating performance compared to capacity.

Technical inputs may be estimated with reasonable accuracy for a particular operating plan; however revenues and costs that depend upon market prices are challenging to estimate, particularly over long future time periods. The Processing Agreement has a term of 30 years and may be renewed for successive five year periods at APMC's option. In order to perform the onerous contract analysis, APMC management developed estimates for the key variables based on information from various sources including forecasts of global consultancies, reserve evaluation consultants, forward markets and the Government of Alberta.

For the 2018 onerous contract analysis the concept of terminal value was introduced. Terminal value is an accepted method for calculating the value in use for assets beyond the forecast period. For the onerous contract review, the terminal value captures the remaining value of the contract after 40 years. This method replaces the previous practice of calculating net present value at 40, 50 and 60 years.

Based on the analysis as at the authorization date of these financial statements, APMC determined the agreement has a positive net present value and no provision is required.

Note 5 Cash and Short Term Investments

	December 31, 2018	December 31, 2017
Cash and short term investments	$ 5,230	$ 5,248
Cash, Initial Proceeds Trust Account	495	1,925
	$ 5,725	$ 7,173

(in thousands of Canadian dollars unless otherwise stated)

Cash and short term investments consist of deposits in the Consolidated Cash Investment Trust Fund (the "Fund") which is managed by the Province of Alberta to provide competitive interest income while maintaining appropriate security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2018, securities held by the Fund have a rate of return of 1.66% per annum (0.94% per annum – 2017). Due to the short term nature of Fund investments the carrying value approximates fair value.

The Initial Proceeds Trust Account are monies held by Computershare (a trustee on behalf of the Sturgeon Refinery Toll payers – APMC and CNRL).

Note 6 Accounts Receivable

	December 31, 2018	December 31, 2017
Accounts receivable	$ 7,396	$ 91,284
Credit loss provision per IFRS 9	(153)	-
Balance, end of year	$ 7,243	$ 91,284

Note 7 Intangible assets under development

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ 8,125	$ 6,030
Additions	1,693	2,095
Balance, end of year	$ 9,818	$ 8,125

Note 8 Pre Commercial Operations Date (COD) Debt Tolls

APMC, as a toll payer of the Sturgeon Refinery, has an obligation to pay 75% of the debt service costs related to the financing of the Facility Capital Costs (FCC). Per the Processing Agreement (PA), this payment obligation started June 1, 2018 and will continue to the end of the 30 year initial term of the PA, at which point the debt related to the FCC will be fully paid. The full debt toll invoiced to APMC for the June 1, 2018 to December 31, 2018 period has been expensed.

(in thousands of Canadian dollars unless otherwise stated)

Note 9 Term loan and accrued interest on term loan

	December 31, 2018	December 31, 2017
Term Loan, beginning of year	$ 391,963	$ 324,363
Additions	46,850	67,600
Term Loan, end of year	438,813	391,963
Credit loss provision - Term Loan	(175)	-
Balance, end of year	$ 438,638	$ 391,963

	December 31, 2018	December 31, 2017
Accrued Interest on term loan, beginning of year	$ 98,746	$ 60,896
Additions	53,359	37,850
Accrued Interest on term loan, end of year	152,105	98,746
Credit loss provision - Accrued interest on term loan	(61)	-
Balance, end of year	$ 152,044	$ 98,746

During the year the Commission lent an additional $46.850 million to NWRP as a term loan representing monthly drawdowns per the subordinated debt agreement. This term loan earns interest at a rate of prime plus six percent, compounded monthly, and will be repaid over 10 years starting one year after commercial start-up.

While loans to NWRP are outstanding APMC is entitled to a 25 percent voting interest on an Executive Leadership Committee, which is charged with overseeing and making decisions on the construction, start-up and operation of the Sturgeon Refinery.

Because of the 25 percent voting interest APMC has significant influence over NWRP. However the Commission has no equity ownership interest in NWRP. APMC will not equity account for the Sturgeon Refinery within the accounts of its financial statements.

Summarized audited financial information with respect to NWRP is presented below as of December 31, 2018. This information has been prepared in accordance with IFRS as issued by the IASB.

(in thousands of Canadian dollars unless otherwise stated)

	NWRP (100% Interest) 2018	NWRP (100% Interest) 2017
Current assets	$ 209,974	$ 290,622
Non-current assets	$ 11,246,141	$ 10,540,474
Current liabilities	$ 351,894	$ 2,476,234
Non-current liabilities	$ 10,535,327	$ 7,769,344
Partners' equity	$ 568,894	$ 585,518
Revenue	$ -	$ -
Net income (loss) and comprehensive income (loss) attributable to Partners	$ (16,624)	$ 62,458

Non-current assets primarily consist of property plant and equipment, which includes: engineering; procurement activities; site construction costs; module fabrication; capitalized interest, and other costs directly attributable to the project. Non-current liabilities primarily include senior secured long term notes, credit facilities (with both Canadian and U.S. dollar denominated debt) and subordinated debt.

The net loss and comprehensive loss in 2018 attributable to Partners primarily consists of general and administrative, and finance costs offset by some foreign exchange gains.

This note in 2017 incorrectly reported Non-current liabilities as $10,245,578.

Note 10 Accounts payable

	December 31, 2018	December 31, 2017
Trade payables	$ 35,598	$ 12,122
GST	3,107	9,740
	$ 38,705	$ 21,862

Note 11 Due to the Department of Energy

	December 31, 2018	December 31, 2017
Due to Department, beginning of year	$ 81,118	$ 67,809
Amount to be transferred	1,042,638	739,876
Amount remitted	(1,121,049)	(726,567)
Due to Department, end of year	$ 2,707	$ 81,118

(in thousands of Canadian dollars unless otherwise stated)

Note 12 Short term debt

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ 391,963	$ 324,363
Additions	233,265	67,600
Balance, end of year	$ 625,228	$ 391,963

Details related to additions are as follows:

Date Issued		Amount	Interest Rate	Due Date
May 31, 2017	$	21,000	0.770%	May 30, 2018
Jun 30, 2017		1,500	1.041%	Jun 29 2018
Jul 31, 2017		8,000	1.286%	Jul 30, 2018
Aug 31, 2017		6,750	1.350%	Aug 31, 2018
Sep 29, 2017		6,100	1.571%	Sep 28, 2018
Oct 31, 2017		7,850	1.520%	Oct 30, 2018
Nov 30, 2017		16,400	1.440%	Nov 29, 2018
	$	67,600		
Jan 02, 2018	$	19,500	1.700%	Jan 02, 2019
Jan 31, 2018		12,500	1.750%	Jan 30, 2019
Feb 28, 2018		4,700	1.750%	Feb 27, 2019
Mar 29, 2018		3,551	1.780%	Mar 29, 2019
May 30, 2018		42	1.873%	May 30, 2019
Jun 25, 2018		40,454	1.845%	Jun 25, 2019
Jun 29, 2018		6,630	1.900%	Jun 28, 2019
Jul 25, 2018		22,058	2.002%	Jul 25, 2019
Jul 30, 2018		30	2.050%	Jul 30, 2019
Aug 24, 2018		23,988	2.140%	Aug 23, 2019
Aug 31, 2018		13	2.140%	Aug 30, 2019
Sep 25, 2018		22,358	2.199%	Sep 25, 2019
Sep 28, 2018		21	2.160%	Sep 27, 2019
Oct 25, 2018		25,512	2.305%	Oct 25, 2019
Oct 30, 2018		22	2.300%	Oct 30, 2019
Nov 26, 2018		22,726	2.310%	Nov 25, 2019
Nov 29, 2018		79	2.310%	Nov 28, 2019
Dec 20, 2018		201	2.122%	Dec 20, 2019
Dec 21, 2018		28,880	2.154%	Dec 20, 2019
	$	233,265		

APMC's intention is to borrow additional short term funds (with a one year term) from Treasury Board and Finance when these amounts come due and repay the aggregated amounts (both principal and interest) starting the year after the Sturgeon Refinery COD. The timing of APMC repaying of this debt is expected to correspond to NWRP's repayment of the term loan to the Commission (see Note 9). The increase in short term debt is mainly due to the requirement for APMC to pay debt toll invoices from NWRP starting June 1, 2018 (see Note 8).

Note 13 Financial instruments

The Commission's financial instruments consist of cash and short term investments, accounts receivable, term loan, accrued interest on term loan, accounts payable, due to Department of Energy, short term debt, and accrued interest on short term debt. Refer to Note 3 b) for information on the adoption of IFRS 9 – Financial Instruments, effective January 1, 2018.

The Commission is exposed to a variety of financial risks: market risk (interest rate risk), credit risk, and liquidity risk. The nature of the risks faced by the Commission and its policies for managing such risks remains unchanged from December 31, 2017.

(a) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Commission is subject to interest rate risk from fluctuations in rates on its cash balance (Note 5). For 2017 and 2018, a 100 basis point change would have a nominal effect on net income.

There is interest rate risk related to the term loans issued to NWRP. APMC earns interest at a rate of prime plus 6%, compounded monthly. A 100 basis point rise in prime would have improved 2018 finance income by $5.8 million (2017 $4.8 million). A 100 basis point decline in prime would have reduced 2018 finance income by $5.8 million (2017 $4.7 million).

(b) Credit risk

Credit risk is the risk of financial loss to the Commission if a customer or party to a financial instrument fails to meet its contractual obligation and arises principally from the Commission's cash and short term investments, accounts receivable and term loan. The maximum amount of credit risk exposure is limited to the carrying value of the balances disclosed in these financial statements.

The Commission manages its exposure to credit risk on cash and short term investments by placing these financial instruments with the Consolidated Cash Investment Trust Fund (Note 5).

A substantial portion of the Commission's accounts receivable are with its agents and customers in the oil and gas industry and are subject to normal industry credit risk. The Commission monitors the credit risk and credit rating of all customers on a regular basis. Aged receivable balances are monitored and a credit loss provision is provided in the period in accordance with IFRS 9. See Note 6 for the provision amount. Any credit losses on accounts receivable would be charged on to the Department.

APMC has issued term loans totaling $439 million to NWRP. NWRP is an investment grade counterparty. Bonds issued by NWRP received a BBB+ credit rating (no change from 2017) from Standard and Poor's. For NWRP, this is subordinated debt which ranks behind senior secured debt. A trust structure has been set up under which APMC receives monies owed under the term loan after amounts owed to senior debt holders and certain other amounts have been paid. A credit loss provision for the term loan and related accrued interest has been provided in the period per IFRS 9. See Note 9 for the provision amount.

(in thousands of Canadian dollars unless otherwise stated)

(c) Liquidity risk

Liquidity risk is the risk that the Commission will not be able to meet its financial obligations as they come due. The Commission actively manages its liquidity through cash and receivables strategies, and the ability for the Commission to obtain financing through external banking credit facilities or obtaining borrowing from Treasury Board and Finance.

The term loan is structured so that APMC will receive repayments starting one year after commercial start-up of the Sturgeon Refinery. The outstanding amount owed will be repaid straight line over a 10 year period with accrued interest.

For the short term debt APMC intends to borrow additional funds from Treasury Board and Finance and then to match the repayment terms detailed for the term loan above.

(d) Offsetting financial assets and liabilities

The Commission enters into contracts with single shipper pipelines, where APMC sells oil to the carrier at the inlet and purchases the oil back at the terminus of the pipeline. The agreements are written to allow for offsetting of accounts receivable and accounts payable, which are presented on a net basis on the statement of financial position. The following table presents the recognized financial instruments that are offset as a result of netting arrangements and the intention to settle on a net basis with counterparties.

	Gross amounts of recognized financial assets (liabilities)	Gross amounts of recognized financial assets (liabilities) offset in the statement of financial position	Net amounts of financial assets (liabilities) recognized in the statement of financial position
Accounts receivable (Note 6)	$ 20,182	$ 12,939	$ 7,243
Accounts payable (Note 10)	(54,910)	(16,205)	(38,705)
Net position, December 31, 2018	$ (34,728)	$ (3,266)	$ (31,462)
Accounts receivable (Note 6)	$ 162,770	$ 71,486	$ 91,284
Accounts payable (Note 10)	(93,206)	(71,344)	(21,862)
Net position, December 31, 2017	$ 69,564	$ 142	$ 69,422

(e) Capital management

The capital structure includes the Commission's net assets (liabilities). The Commission's objectives when managing capital are to safeguard the Commission's ability to continue as a going concern and provide returns to the Department of Energy through responsible selling of conventional crude oil royalty volumes and its other business activities. The Commission does not have any externally imposed restrictions on its capital. There has been no change in the Commission's capital management strategy.

(in thousands of Canadian dollars unless otherwise stated)

Note 14 Commitments

	2019	2020	2021	2022	2023	Beyond 2024	Total
NWRP Tolls	$ 297,000	$ 834,000	$1,007,000	$1,034,000	$1,002,000	$ 22,600,000	$ 26,774,000

(a) NWRP Tolls

On November 8, 2012 NWRP, announced the sanctioning of the construction of Phase 1 of the Sturgeon Refinery which it will build, own and operate. The Commission has entered into agreements whereby NWRP will process 37,500 bbls/day of bitumen (55,000 bbls/day of diluted bitumen) into refined products. NWRP will market the refined products (primarily ultra low sulphur diesel and low sulphur vacuum gas oil) on behalf of the Commission. There is risk to the Commission under these agreements pertaining to the price differential between bitumen supplied as feedstock and marketed refined products, relative to the costs of the processing toll.

Under the processing agreement (PA), after Commercial Operations Date (COD), the Commission is obligated to pay a monthly toll comprised of: senior debt; operating; class A subordinated debt; equity; and incentive fees
on 37,500 barrels per day of bitumen (75% of the project's feedstock) for 30 years. The toll includes flow through costs as well as costs related to facility construction, estimated to be $9.925 billion. The Commission has very restricted rights to terminate the agreement, and if it is terminated the Commission remains obligated

to pay its share of the senior secured debt component of the toll incurred to date. The Sturgeon Refinery did not attain COD in 2018, and per the PA, APMC was required to start paying at the Toll Commencement Date (June 1, 2018) only the debt toll, (see Note 8).

The nominal tolls under the processing agreement assuming: a $9.925 billion FCC; market interest rates; and 2% operating cost inflation rate, are estimated above. The total estimated tolls have increased $748 million relative to 2017, due primarily to increases in forecasted capital costs, interest and property taxes. As of the authorization date of these financial statements NWRP has issued $6.35 billion in bonds at lower than anticipated rates.

No value has been ascribed to the anticipated refining profits available to APMC over the term of the agreement. In addition no value has been credited for finance income net of finance costs on term loans outstanding to NWRP.

(b) NWRP Term loan

Under the agreements related to FCC for the Sturgeon Refinery, the financing structure is required to be 80% senior debt and 20% equity/subordinated debt. As part of the Subordinated Debt Facilities – Base and Additional agreements, executed April 7, 2014 APMC is committed to provide 50% of the subordinated debt required to meet this test. This commitment relates to incremental FCC from April 7, 2014 until six months after COD, when FCC is finalized.

Up to 6 months after COD the calculation of the 80/20 ratio does not allow for the deduction of cumulative debt service costs (accrued interest) which could result in a temporary need for additional subordinated debt lending by APMC. A final reconciliation of the amount of subordinated debt required will be done six months after COD at which time the calculation does allow for the deduction of accumulated debt service costs which would result in monies being returned to APMC.

Management is forecasting APMC to provide NWRP no additional subordinated debt. As part of the final subordinated debt true-up six months after COD, the Commission anticipates NWRP will repay $90 million to APMC.

(c) Keystone XL Pipeline Project.

Effective October 30, 2018 APMC has assigned these capacity agreements to another party. Therefore the Commission no longer has this commitment.

Note 15 Related Party Transactions

The Department pays the Commission a fee to market crude oil on its behalf under conventional crude oil marketing activities, reported as marketing fees within the statement of income (loss) and comprehensive income (loss). The amounts owing to the Department have been disclosed in Note 11.

The Commission enters into transactions with the Department of Energy, a related party, in the normal course of business. The Department incurs costs for salaries on behalf of the Commission, as recognized under wages and benefits (2018 $2,084, 2017 $2,231) and software and maintenance (2018 $39, 2017 $72) within the statement of income (loss) and comprehensive income (loss). In addition some of the Department salaries have been capitalized within intangible assets under development (2018 $154, 2017 $173).

Starting in April, 2018 Service Alberta, a related party provided the software and maintenance services (2018 $70) and are recognized within the statement of income (loss) and comprehensive income (loss). In addition their technology services related to software development (2018 $905) have been capitalized within intangible assets under development.

The Commission has outstanding short term debt with Treasury Board and Finance. For more details see Note 12.

The Board members of the Commission, executive management and their close family members are deemed to be related parties of the Commission. Transactions with close family members are immaterial; compensation for Board members and executive management is disclosed in Note 16.

Note 16 Salaries and benefit disclosure

Key management personnel include the Commission's Chief Executive Officer, Executive Director Business Development, Director of Finance and Board Members. The amounts in the financial statements relating to board members and key management compensation in 2018 and 2017 are as follows:

(in thousands of Canadian dollars unless otherwise stated)

	2018				2017
	Base Salary	Other Cash Benefits (2)	Other Non-cash Benefits (3)	Total	Total
Board Members (1)	$ -	$ 49	$ -	$ 49	$ 66
Chief Executive Officer - Prior	-	-	-	-	349
Chief Executive Officer - Interim	-	-	-	-	126
Chief Executive Officer - Current	301	66	6	373	12
Senior Management					
Executive Director, Business Development	348	39	6	393	452
Director of Finance	234	25	4	263	268

(1) The Chair of the Board (Deputy Minister, Department of Energy) and one director (Assistant Deputy Minister, Department of Energy) are unpaid. Two outside Board Members were added in the 3rd quarter of 2017. One outside Board Member's term expired in the 1st quarter of 2019. Three new outside board members were added in the 1st quarter of 2019, bringing the total number of outside Board Members to five. The outside Board Members receive an annual retainer and meeting fees.
(2) As per their employment contracts the three key management personnel receive cash payments in lieu of benefits.
(3) Included in Other Non-cash benefits is parking.

The Prior Chief Executive Officer (CEO) resigned effective July 5, 2017. The Interim CEO was in place from July 6 to December 19, 2017. The Current CEO was hired effective December 20, 2017.

Note 17 Subsequent events

Short term debt.

On January 2, 2019 APMC replaced its short term debts of $19.5 million and $100.812 million originally issued January 2, 2018 with new short term debt of $122.621 million at 2.103% interest due January 2, 2020.

On January 25, 2019 the Commission borrowed $24.502 million of short term debt from Treasury Board and Finance at an effective interest rate of 2.040% due January 24, 2020.

On January 30, 2019 APMC replaced its short term debt of $12.5 million originally issued January 31, 2018 with new short term debt of $12.744 million at 2.015% interest due January 29, 2020.

On February 25, 2019 APMC borrowed $16.877 million of short term debt from Treasury Board and Finance at an effective interest rate of 1.920% due February 24, 2020.

On February 27, 2019 APMC replaced its short term debt of $4.7 million originally issued February 28, 2018 with new short term debt of $4.808 million at 1.915% interest due February 26, 2020.

On March 25, 2019 APMC borrowed $17.244 million of short term debt from Treasury Board and Finance at an effective interest rate of 1.780% due March 23, 2020.

On March 29, 2019 APMC replaced its short term debt of $3.551 million originally issued March 29, 2018 with new short term debt of $3.621 million at 1.770% interest due March 27, 2020.

On April 4, 2019 APMC replaced its short term debt of $116.127 million originally issued April 4, 2018 with new short term debt of $118.282 million at 1.796% interest due April 2, 2020.

On April 25, 2019 APMC borrowed $17.201 million of short term debt from Treasury Board and Finance at an effective interest rate of 1.799% due April 23, 2020.

On May 24, 2019 APMC borrowed $16.304 million of short term debt from Treasury Board and Finance at an effective interest rate of 1.820% due May 22, 2020.

On May 30, 2019 APMC replaced its short term debt of $21.203 million originally issued May 30, 2018 with new short term debt of $21.623 million at 1.795% interest due May 28, 2020.

Crude-by-rail Program

On February 14, 2019 the Minister of Energy instructed APMC, as agent of the Crown, to execute a crude-by-rail program as part of the Government of Alberta's plan to alleviate the constrained market access for Alberta's heavy crude oil production. Consequently during February and March of 2019 various commercial agreements were entered into between APMC and crude-by-rail market participants.

The Commission has evaluated the program and the contracts thereunder with respect to IFRS 15*, Revenue from Contracts with Customers,* and determined that APMC is acting as agent for the Department on all commercial elements. As a result, all financial obligations, risks and rewards of the program are borne by the Department.