

Agriculture and Forestry

Annual Report
2017–18



Note to Readers:

Copies of the annual report are available on the Alberta Open Government Portal website:

<https://open.alberta.ca/publications/2371-2228>

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PREFACE

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Fiscal Planning and Transparency Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 21 ministries.

The annual report of the Government of Alberta contains ministers' accountability statements, the consolidated financial statements of the province and the *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

This annual report of the Ministry of Agriculture and Forestry contains the minister's accountability statement, the audited consolidated financial statements of the ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This ministry annual report also includes:

- the financial statements of entities making up the ministry including the Department of Agriculture and Forestry, regulated funds, and provincial agencies for which the minister is responsible;
- other financial information as required by the *Financial Administration Act* and *Fiscal Planning and Transparency Act*, either as separate reports or as a part of the financial statements, to the extent that the ministry has anything to report; and
- financial information relating to trust funds.

MINISTER'S ACCOUNTABILITY STATEMENT

The ministry's annual report for the year ended March 31, 2018, was prepared under my direction in accordance with the *Fiscal Planning and Transparency Act* and the government's accounting policies. All of the government's policy decisions as at May 31, 2018 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original signed by]

Honourable Oneil Carlier
Minister of Agriculture and Forestry

MESSAGE FROM THE MINISTER

Alberta's agriculture and forestry industries continue to be integral not only to a successful, diversified provincial economy – but also to our culture and identity as Albertans. These industries have an impact on every person in our province, in our major cities, at the heart of rural Alberta, and in our communities of all sizes and characters.

The 2017-18 year was a year of exploring beyond what our top two renewable industries are already achieving, and looking to the potential for growth in the global marketplace. Through major trade missions to the European Union in the fall of 2017 and to India this past February, I have met with government leaders, investors, producers and businesses to explore new opportunities and strengthen relationships.

We must continue to advocate for our producers and exports, as well as promoting the immense opportunities that exist here in Alberta for potential investors. September saw the Canada-European Union Comprehensive Economic and Trade Agreement come into effect, and the potential for lucrative market and trade opportunities has already begun to be realized. The importance of Alberta's voice in trade relationships has never been more vital, and we will continue to advocate for our industries' interests. As Canada moves forward with important discussions regarding softwood lumber and the North American Free Trade Agreement, we must remain steadfast in supporting Alberta's position for fair and sustainable trade agreements and relationships.

This year also saw our government's continued investment in the success of our agriculture sector. A focus on support for the food-processing sector, in partnership with the federal government through Growing Forward 2, is leading to industry growth, the creation of important new jobs, and it is helping value-added businesses pursue economic opportunities and respond to consumer demand.

As Growing Forward 2 came to an end at the end of the 2017-18 year, we focused on finalizing and preparing for the new Canadian Agricultural Partnership – which was signed in March and began on April 1, 2018. The partnership is a five-year, federal-provincial-territorial agreement designed to strengthen the agriculture, agri-food and agri-based products sector, ensuring continued innovation, growth and prosperity. Over the next five years, the Canada and Alberta governments will together invest \$406 million to support strategic programs and activities under the partnership.

Alberta's agriculture and forestry industries have continued to show their commitment to environmental leadership. Our province is recognized not only for the high quality of our wood products, but also for our industry's and government's commitment to the sustainable management of our forests.

This year we continued our vital fight against the spread of mountain pine beetle, which threatens more than five million hectares of Alberta's pine forest. We have worked together in partnership with our forest communities and the forestry sector on sustained and aggressive control, which continues to be the key strategy to fight the pine beetle.



We have also worked closely with our agriculture industry to address climate change and help them transition to a low-carbon economy. In January 2018, we announced \$81 million over four years to expand energy efficiency programs for the agriculture sector – through Alberta's Climate Leadership Plan and the federal government. This significant investment will improve energy efficiency and the environmental sustainability of agricultural operations, while also reducing costs for producers and helping ensure the sector remains competitive in the global marketplace.

The 2017 wildfire season marked the implementation of our government's 2016 changes to the *Forest and Prairie Protection Act*. The improved tools in the act helped reduce the number of human-caused wildfires during some extreme wildfire conditions that were seen during the season. Government also nearly tripled funding for our FireSmart program, to \$15 million per year, to help communities boost their wildfire protection activities. The three-year, \$45 million commitment will see \$10.5 million specifically targeted for fire prevention work in the Fort McMurray area.

Throughout 2017-18, we have focused on our core programs that support wildfire management, research and innovation, improved market access, environmental stewardship, value-added industry development and food safety. We will continue to work in partnership with our agriculture and forestry sectors, and with Albertans across the province, to ensure a successful year ahead.

[Original signed by]

Honourable Oneil Carlier
Minister of Agriculture and Forestry

MANAGEMENT'S RESPONSIBILITY FOR REPORTING

The Ministry of Agriculture and Forestry includes:

- Department of Agriculture and Forestry
- Agriculture Financial Services Corporation
- Environmental Protection and Enhancement Fund

The executives of the individual entities within the ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and strategic plan, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the Minister of Agriculture and Forestry. Under the direction of the minister, I oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- Reliability – Information used in applying performance measure methodologies agrees with the underlying source data for the current and prior years' results.
- Understandability – the performance measure methodologies and results are presented clearly.
- Comparability – the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- Completeness – outcomes, performance measures and related targets match those included in the ministry's Budget 2017.

As deputy minister, in addition to program responsibilities, I am responsible for the ministry's financial administration and reporting functions. The ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the province under ministry administration;
- provide Executive Council, the President of Treasury Board and Minister of Finance, and the Minister of Agriculture and Forestry the information needed to fulfill their responsibilities; and
- facilitate preparation of ministry business plans and annual reports required under the *Fiscal Planning and Transparency Act*.

In fulfilling my responsibilities for the ministry, I have relied, as necessary, on the executives of the individual entities within the ministry.

[Original signed by]

Andre Corbould
Deputy Minister of Agriculture and Forestry
May 31, 2018

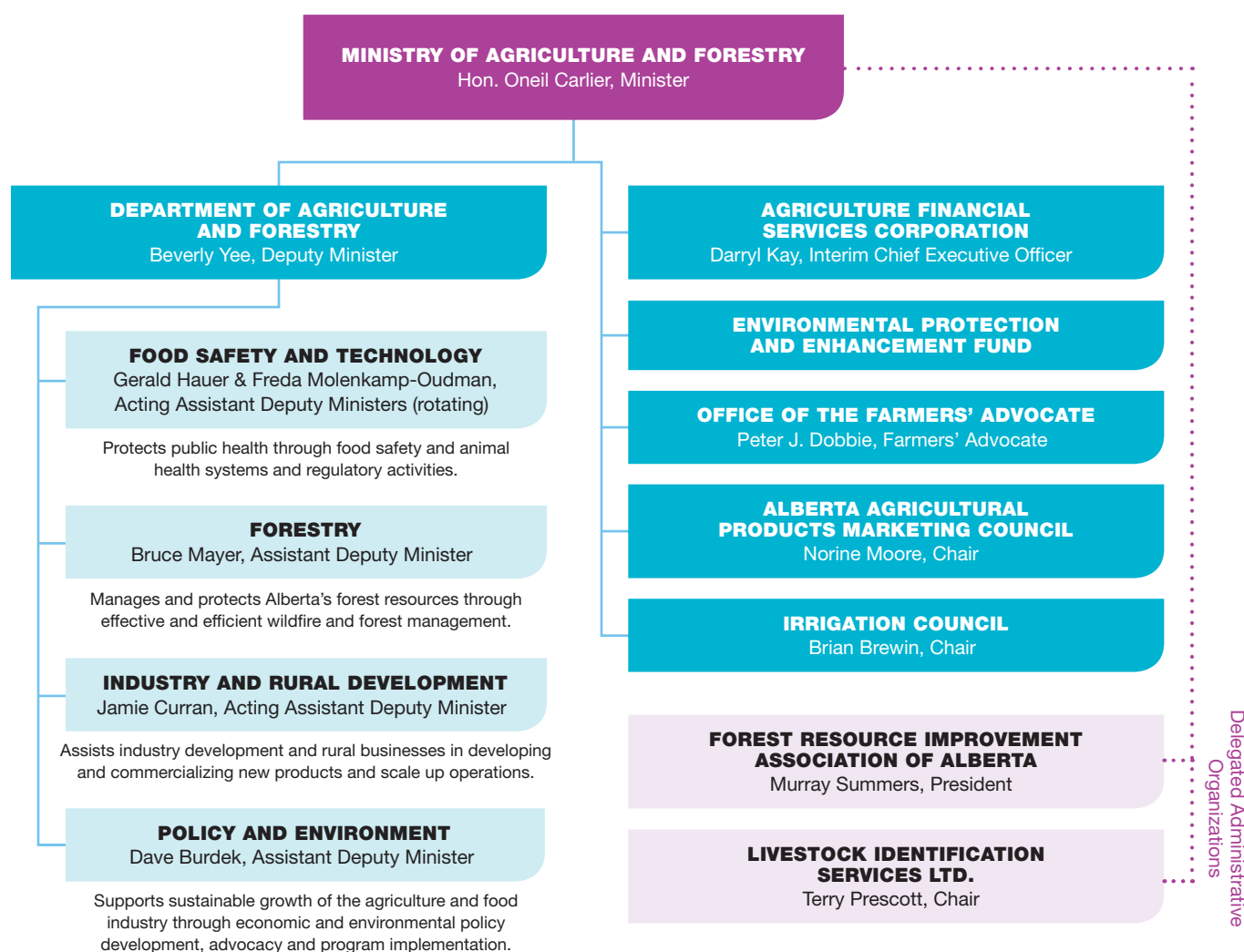
RESULTS ANALYSIS

Ministry Overview

The ministry is responsible for the policies, legislation, regulations and services necessary to grow, prosper and diversify Alberta's agriculture, food and forest industries. It inspires public confidence in wildfire and forest management, the quality and safety of food, supports environmentally sustainable resource management practices and leads collaboration that enables safe and resilient rural communities.

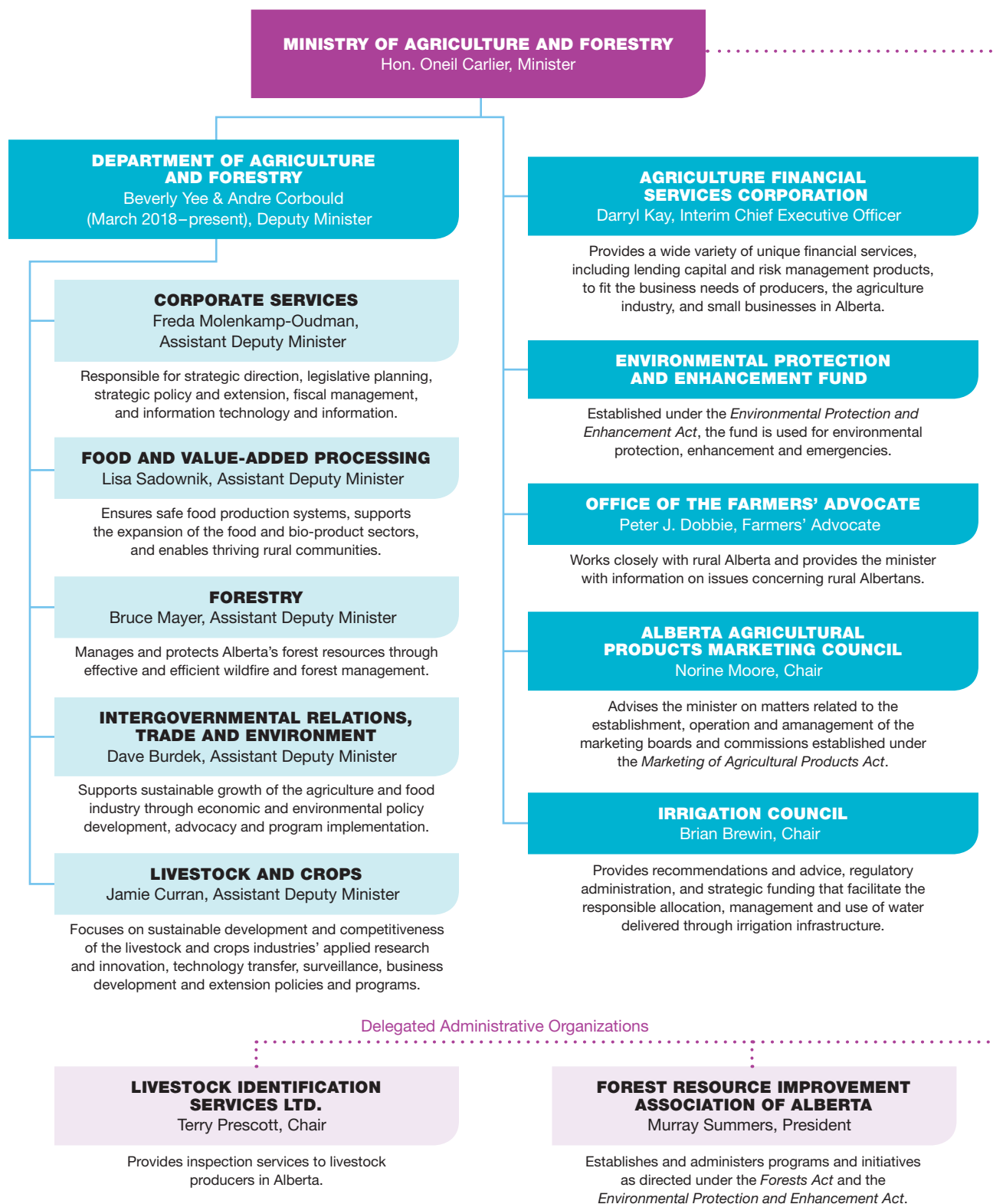
The ministry is comprised of the Department of Agriculture and Forestry, the Agriculture Financial Services Corporation, the Environmental Protection and Enhancement Fund, as well as other entities including the Office of the Farmer's Advocate, the Alberta Agricultural Products Marketing Council and the Irrigation Council. The Forest Resource Improvement Association of Alberta and Livestock Identification Services Ltd. are delegated administrative organizations operating outside of government and are accountable to the minister.

Organizational Chart
(April-August 2017)



Organizational Chart (September 2017–March 2018)

The ministry's organizational structure was altered to better align the Department of Agriculture and Forestry with ministry strategic objectives and to evolve and transform the delivery of the government's priorities.



Strategic Context

Alberta's agriculture and forest industries experienced a mixture of successes and challenges in 2017-18.

Market access, commodity market swings, agronomic conditions, rising production costs and supply chain logistics are some of the key issues impacting the agriculture industry. Variable weather conditions across the province in 2017 impacted crop production and grain prices. Similarly, key issues facing the forest industry include market access, commodity market swings and secure access to fibre for producing items such as processed wood products and paper. The November 2017 imposition of the final countervailing and anti-dumping duties by the United States (U.S.) on Canadian softwood lumber has created uncertain market access. Additionally, wildfires and mountain pine beetle continue to threaten communities, forest health and long-term wood fibre access.

Despite these challenges, Alberta producers and exporters continued to do well overall. In 2017, more than 90,000 Albertans were employed in the agriculture and forest industries. The revenues from primary production of Alberta farm businesses, or farm cash receipts, totalled \$14.1 billion in 2017, while total food and beverage manufacturing sales reached a new high of \$14.4 billion and was the second highest among all manufacturing industries in the province. Alberta's agriculture and forest exports remain strong, reaching a combined total of \$14.7 billion in 2017, an increase from \$13 billion in the previous year. Both industries are also well positioned to capitalize on the Government of Canada's efforts to secure favourable trade access to other key markets in Europe and Asia.

For the agriculture industry, adapting to changing demographics of both consumers and producers, monitoring consumer demand trends, safe food and assurance systems, as well as market access are critical to ensuring its continued success. For the forest industry, success depends primarily on secure access to fibre, aggressive wildfire and mountain pine beetle management, and predictable and fair access to the U.S. market.

This annual report provides an integrated results analysis for the most significant actions we took to achieving ministry outcomes. Our consolidated accomplishments are presented from management's perspective according to our desired outcomes, key strategies and performance measures, as listed in the 2017-20 ministry business plan.

Discussion and Analysis of Results

Financial Results of Operations

Revenue

Ministry revenue was over \$1 billion, \$125 million higher than budget but only \$227 thousand more than 2016-17, with some fluctuations between revenues from different sources.

Compared to Budget 2017-18

- Revenue from the Government of Canada was over \$58 million higher than budget primarily due to higher than anticipated AgriStability estimates resulting from a decline in cattle prices.
- Investment income was \$20 million lower than budget due to a lower return on investment on the Agriculture Financial Services Corporation's (AFSC) crop insurance fund and lower interest income resulting from reduced lending volumes at AFSC.
- Premiums, Fees and Licenses revenue was \$76 million higher than budget, including a \$70 million increase in Timber Royalties and Fees due to the softwood lumber dispute, resulting in the price of softwood lumber soaring to an all-time high.
- Other Revenue was \$8 million higher than budget, consisting of an increase of \$3 million in Mutual Aid Resource Sharing revenue due to the British Columbia and California wildfires combined with an additional \$4 million resulting from a change in the accounting policy for capital assets transferred to the department.

Compared to 2016-17 Actual

- Revenue from the Government of Canada decreased by \$38 million in 2017-18, primarily due to a \$17 million decrease in Wildlife Damage Compensation resulting from prior year over accruals combined with lower wildlife indemnities. Additionally, Agri-Insurance premiums decreased by \$19 million due to lower premium rates in 2017-18, which was offset by a \$20 million increase in Agristability programs mainly due to fluctuating cattle prices. The remaining decrease is due to a \$20 million reduction in the Growing Forward 2 budget in the department and a decrease of \$2 million in contributions for wildfire operations as there was less wildfire activity in 2017-18. Revenues from Premiums, Fees and Licenses increased by \$44 million compared to 2016-17, primarily due to a \$70 million increase in Timber Royalties and Fees due to the softwood lumber debate, which were offset by a decrease of \$22 million resulting from lower Agri-Insurance premium rates and participation.

Expense

Ministry expense was over \$1 billion, almost \$346 million higher than budget, but \$141 million less than 2016-17.

Compared to Budget 2017-18

- Agri-Insurance was more than \$69 million higher than budget, due to higher than anticipated indemnities resulting from hot, dry conditions. Agriculture income support payments were more than \$100 million higher than budget, primarily due to higher than anticipated Agristability estimates resulting from declining cattle prices. Fluctuating commodity prices and variable weather conditions can create significant variances on indemnities and income support payments.
- Forest-related expenses, including wildfire management spending, totalled over \$390 million, almost \$189 million higher than budget. Disaster costs related to wildfire suppression are not included in budget, as the severity of wildfire season can vary significantly from year to year. More than \$201 million of wildfire disaster assistance funding was required for wildfire suppression costs for 2018.

Compared to 2016-17 Actual

- Over \$678 million in indemnity and agriculture income support payments were incurred in 2017-18, compared to \$779 million in 2016-17. The \$102 million decrease was due to a better harvest year, resulting in a decrease in Agri-Insurance indemnities of \$62 million. Wildlife Damage indemnities were lower by \$38 million due to less unharvested acres in 2017-18. Hail indemnities decreased by \$37 million due to drier weather conditions. These costs were partially offset by an increase of \$35 million in Agriculture income support due to higher Agristability estimates, partly due to fluctuating cattle prices.
- Forest-related expenses were \$35 million less than 2016-17, primarily due to a decrease in wildfire suppression and prevention activities compared to the previous year.
- Grants provided under the Alberta Small Brewers Development Program totalled \$29 million, an \$11 million increase compared to prior year and grants provided for climate leadership initiatives increased by \$3 million.

OUTCOME ONE: Alberta's agriculture and forest industries are competitive

Alberta's agriculture and forest industries are important contributors to the province's economy. The outcome focuses on improving competitiveness in the industries to drive self-sustaining growth and economic performance in a globally competitive environment.

The ministry works to make progress on and achieve this outcome through:

- increased collaboration between industry, governments and research bodies;
- greater translation of research knowledge and uptake of innovative technology and practices;
- product development and commercialization;
- supporting the transformation of existing agri-processing industries and the growth of new ones; and
- enabling access to new markets and improving competition in existing ones to realize the expected benefits from trade agreements negotiated by the federal government.

KEY STRATEGY 1.1

Assist Alberta's agri-food and forest product companies to increase exports.

Alberta continues to build its profile as a trade partner and as a reliable supplier of premium agriculture, food and forest products for international markets. It is vital to enhance the province's export readiness and capacity so that the industries are positioned for growth and success in the global marketplace. This also requires the expansion of export markets, thereby allowing companies to capture additional export opportunities in new and/or emerging markets while maintaining established markets. Agriculture and Forestry develops programs and initiatives to support provincial export-ready companies in gaining knowledge about international opportunities, building export capacity to meet market demands and addressing market barriers.

In 2017-18, the ministry completed or initiated 93 market development initiatives in the agriculture industry, including: international trade shows, buyer visits to Alberta, export readiness workshops, in-market promotions and seminars which profile Alberta and its industry and products. A total of \$247,559 in grants was spent to fund these 93 initiatives. These enhanced trade development activities helped 102 Alberta-based exporters get their products to China, Colombia, Cote D'Ivoire, European Union, Ghana, India, Japan, Jordan, Kazakhstan, Mexico, Philippines, South

Korea, Thailand, Turkey, U.S., Ukraine, United Arab Emirates and Vietnam. To support international agri-trade, agriculture officers have been appointed in four Alberta International Offices located in Beijing, Tokyo, Seoul and New Delhi. International agriculture officer activities directly benefit the agriculture industry by enhancing agricultural trade relations, advocacy and investment attraction efforts.

In 2017, Alberta increased its export of primary wood products into Asian markets by 8 per cent over the previous year, from \$831 million to \$901 million. To sustain the industry's ongoing performance, the ministry contributed \$450,000 in grants to a collaborative national approach for market expansion of primary wood products into the Asian market and for expansion of secondary and specialized wood (aspen lumber) products into the U.S. During the year, the ministry participated in opportunities to work with potential wood buyers by attending the Global Buyers Mission held annually at Whistler, British Columbia and visits from government representatives from Asia.

Agriculture and Forestry also undertook several international trade missions that helped build trade opportunities and relations for the agriculture industry. In the fall of 2017, Minister Oneil Carlier travelled to

Europe to promote exports to the region and attract investment in Alberta's value-added agriculture industry through the Canada-European Union Comprehensive Economic and Trade Agreement (CETA). Under the provisional application of the CETA, Canada will have preferential access to the world's most lucrative market, with 500 million consumers across 28 European Union member states and almost \$17 trillion in annual economic activity. This mission also enhanced the Government of Alberta's broader government relations priorities in the region by adding forestry to the scope of an existing Letter of Intent with the French Ministry of Agriculture on cooperation in international education, student and faculty exchanges, and research and innovation in agriculture and food. In January 2018, the ministry participated in the annual Legislative Agriculture Chairs Summit in Kansas City, providing significant opportunities to advocate for the modernization of the North American Free Trade Agreement (NAFTA) on behalf of Alberta's agriculture industry. In February 2018, Minister Oneil Carlier was the guest of honour at the Pulse Conclave 2018 in Delhi, India, a gathering of pulse growers, processors and traders from around the world. India represents a sizable market for pulse

and canola exports. During this trip, Alberta renewed the agriculture-focused Memorandum of Understanding with the state of Meghalaya, which calls for collaboration in agricultural development, trade, research and technology, as well as the creation of an Agriculture Working Group to advance our partnership.

The agriculture and agri-food industry is primarily comprised of small and medium enterprises (SMEs), often with insufficient in-house expertise and resources to adapt and transition from a domestic-focused to a global-focused enterprise. Growing the inventory of exporters in Alberta is crucial to diversifying Alberta's economy and positioning the industry for growth. Key barriers to expanding in domestic and international markets includes a limited inventory of export ready companies, knowledge of foreign markets and increased global competition. In order to increase the number of exporters and SMEs engaged in international markets, we are engaging and educating Alberta's agriculture and food industry to build appropriate capacity for and interest in export markets. The ministry is building and implementing an export readiness strategy to provide focused services to transition SMEs from a domestic focus to a global focus, thus growing the number of export-ready companies in Alberta.

Maximizing Yield and Harvestability

Cropping Systems researchers wrapped up a significant project in 2017 that involved research expertise from Agriculture and Forestry, SARDA Ag Research, the University of Alberta, and industry partners (Syngenta, Engage Agro, Bayer, BASF, SeCan) that investigated advanced agronomic practices in wheat, barley and pea to maximize yield and harvestability. Financial support of \$2.3 million has been provided since 2014 by the Alberta Wheat Commission, Alberta Barley Commission, Alberta Pulse Growers, Western Grains Research Foundation and Alberta Innovates Bio-Solutions. The team identified advanced agronomic practices that could increase wheat yields by 18 percent and barley yields by seven per cent. These findings are being applied on Alberta farms today, where Alberta producers are adjusting their agronomic management to increase yields, efficiency and profitability. This research project also demonstrated that some production practices are not economically or environmentally viable and their use should be discontinued. For example, discontinuing the practice of using foliar fungicides on non-responsive wheat cultivars could save western Canadian growers over \$10 million annually.

A significant fiscal challenge for the forest industry continues to be the imposition of duties on softwood lumber resulting from a lack of a new softwood lumber agreement with the U.S.. The development of a new long-term softwood lumber agreement would create certainty for consumers and support working families and businesses in the forest industry. The Government of Canada has initiated World Trade Organization and

NAFTA appeal processes to challenge the duty rates imposed by the U.S. on Canadian softwood lumber. Appeal processes are lengthy and initial rulings are not expected until late 2018 or 2019. Alberta continues to work with its legal counsel, industry, the federal government and other provincial governments to support appeal processes and continued litigation to resolve this issue.

Risks to Achieving Outcomes: Market Access

International market access is crucial to the success of Alberta's agriculture and forest industries. While Canada continues to open new prospects through trade agreements and works to maintain and enhance market access, there remain obstacles to capitalizing on market opportunities.

Agriculture and Forestry is working closely with the federal government and other Government of Alberta ministries on all trade negotiation files that affect the trade interests of Alberta's agriculture and forest industries. Currently, Alberta's main focus is on the NAFTA negotiations, but we are also advocating for the completion of other trade negotiations, such as for the Canada-Japan Economic Partnership or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership that includes 10 other countries. In addition, Agriculture and Forestry has taken a proactive approach in developing our international trade relationships, which includes trade missions and agreements, as well as working with Alberta's 12 international offices to support producers securing and expanding their market access.

KEY STRATEGY 1.2

Increase Alberta's capacity to diversify the agri-food and forest industries.

This key strategy focused on growing more resilient and diversified industries that see small companies grow into medium-sized enterprises, and then into larger national and internationally recognized business ventures. In addition, the key strategy supports the rural forest-reliant communities, helping reduce the impacts of a long-term softwood lumber dispute with the U.S. and actively promoting forest management to reduce the risk of unplanned catastrophic wildfires and forest pests.

During the past year, government worked with the Alberta Gaming and Liquor Commission, liquor producers and the hospitality industry to cut red tape, increase market access for Alberta-made products and support job growth. In addition, the Alberta Small Brewers Development Program contributed to nearly 780 jobs in the small brewing industry and the addition of 513 new beer products made in the province.

KEY STRATEGY 1.2 (1st bullet)

Attract investment to Alberta's value-added agri-processing sector.

This component of the key strategy focuses on attracting subsidiaries of agri-processing firms that have headquarters outside of Alberta and Canada to

the province. It is also about facilitating the expansion of existing firms in Alberta whose headquarters are outside of Alberta and outside of Canada. Investment attraction also assists small and medium-sized Alberta agri-businesses in attracting capital to support their growth strategy.

In 2017-18, \$3.8 million in grants were provided to six companies in support of this effort, including funding provided under Growing Forward 2 programs and related initiatives. This funding assistance allowed companies to grow by acquiring new technologies, improving processing efficiencies and advancing workforce training programs.

The ministry also facilitated three new investments announced in 2017-18 valued at over \$290 million, including:

- An Alberta-based pet food processing plant publicly announced an expansion of a new facility in Parkland County in May 2017. The investment is expected to create 200 jobs. Once fully operational in the spring of 2019, the new 400,000-square-foot facility will be able to produce 150,000 tonnes of pet food and treats.
- Construction of a foreign-owned large grain terminal to store western Canadian grain that

is ultimately destined for export. The terminal will generate 50 construction jobs and, upon completion, 15 new full time permanent jobs at the terminal site.

- In early 2018, a U.S. company opened an industrial hemp fibre manufacturing facility on Indigenous land in central Alberta.

In addition to continued work on investment builds that were announced in 2016-17 for potato processing and specialty meat manufacturing, the ministry serviced 73 new investment leads in 2017-18 as well as organized the agri-business section of the Government of Alberta's Stampede Investment Forum, attracting 11 international investors.

The ministry faced many challenges in attracting investments in the value-added agri-processing sector. International investors have expressed concerns over the uncertainty of U.S. trade policies, especially NAFTA. Others are citing concerns over Canada's corporate rates in relation to the U.S. after U.S. corporate tax rates were reduced. To address these challenges, Agriculture and Forestry reached out to the U.S. parent companies with subsidiaries in Alberta to reaffirm Alberta's attractiveness as an investment destination, as well as taking advantage of Canada's new trade agreements with the European Union and in Asia to diversify sources of foreign investment.

KEY STRATEGY 1.2 (2nd bullet)

Expand food processing capacity at the Agrivalue Processing Business Incubator to accelerate the scaling up of food product development and the establishment of new agri-food business ventures.

In June 2016, the Government of Alberta announced the expansion of the Agrivalue Processing Business Incubator and Food Processing Development Centre located in Leduc. The expansion will add 25,000 square feet to the facility, including two new incubator suites, as well as new food research and development space that will allow the facility to serve more clients in a timely manner. It is expected that this expansion could support the graduation of two to three companies over a three-year period, as well as new product processing and development space

for the increasing demand for these services. The strategy intends to enhance the ministry's capacity to support economic development and diversification opportunities within the value-added food processing sector by providing coaching and equipment access to entrepreneurs.

The construction schedule has been adjusted to take into account provincial fiscal challenges. However, planning and design work on the expansion project continues. The project team has selected Prime Architectural Consultant, with a target design completion date of August 2018. The construction timelines will be re-evaluated after the completion of the design phase and will be dependent upon the availability of funding.

KEY STRATEGY 1.2 (3rd bullet)

Develop an Alberta Wood Charter initiative to encourage the increased use of wood products such as aspen.

The Alberta Wood Charter initiative aims to reduce carbon dioxide emissions and increase investment in the forest industry by encouraging the use of wood in the design and construction for publicly funded buildings. Since using wood is less energy and fossil fuel intensive than other building products such as steel and concrete, the strategy supports the Climate Leadership Plan and the Pan-Canadian Framework on Clean Growth and Climate Change. It will assist Alberta in achieving its goal to reduce its emissions by 20 million megatonnes by 2030. It also means promoting employment and value-added wood processing to maximize the level of economic activity we receive from each unit of wood fibre harvested in Alberta.

To support this effort, the ministry granted Wood WORKS! Alberta \$300,000 to engage architects and the design community to consider the options and opportunities for using wood. As a result, the Alberta Wood Charter has been drafted and is currently awaiting final approval. Once released, it will outline the procedure required to assess greenhouse gas emissions from building materials used to construct buildings funded by the government.

A significant hurdle in the development of the Alberta Wood Charter was determining the computer software model that was widely accepted and appropriately assessed greenhouse gas emissions from structural building materials. The Athena Impact Estimator was chosen as it was an approved greenhouse gas emission model that was currently being used throughout North America. Another challenge the ministry encountered was that the reduction of greenhouse gas emissions through the increased use of wood on projects could displace other materials with higher emissions. This may be seen as a negative impact to the cement and steel industries. The ministry consulted these industries on the development of the Alberta Wood Charter to address some of their concerns.

KEY STRATEGY 1.2 (4th bullet)

Increase opportunities for secondary wood manufacturing and better utilize wood products such as aspen.

This initiative aimed to expand secondary wood manufacturers and advance the utilization of the provincial aspen resources to diversify the economy and create jobs in rural communities. Aspen makes up approximately 40 per cent of Alberta's forest resource and is primarily used as the major source of raw material in pulp and oriented strand board production.

Seeking opportunities to expand into value-added products opens new market opportunities for the forest industry. For example, much of the secondary wood products are destined for the U.S. market and there are currently no trade tariffs on manufactured forest products such as cabinets, windows and panel homes. Agriculture and Forestry awarded a grant valued at \$200,000 to BC Wood Specialties Group Association for market expansion of secondary wood products and specialty aspen products into the U.S., and to Alberta Innovates to help expand the oriented strand board market in China. The ministry and Alberta Innovates also identified a potential market opportunity for aspen veneer and lumber in China and other export markets. We have created a collaborative research and development network in China. Alberta producers

are in a position to fast-track into the existing Chinese wood products markets and gain a competitive edge over exporters from other jurisdictions.

The ministry also surveyed the forest industry about how to best develop the aspen sector in Alberta. Industry's interest was focused on producing more oriented strand board with limited interest in pursuing a specialty market for aspen solid wood. Millar Western has successfully developed appearance-grade aspen lumber to support new product lines. This will help diversify the markets for aspen and create new job opportunities in rural communities. Creating value-added products will retain revenues in Alberta and provide for valuable non-commodity wood products.

The ministry will continue to develop secondary wood manufacturing and utilization of provincial aspen resources as a sub-strategy under the new and broader forest products sector strategy. The Alberta Government, through the direction of the Economic Development Policy Committee, approved the development of nine economic sector strategies with the goal to support stable jobs, encourage investment, diversify Alberta's economy and bring a more stable stream of revenue.

A secure fibre supply is an increasingly challenging issue for Alberta's forest industry as access to fibre is being constrained by competing land use pressures, such as protecting species-at-risk, recreation industries and conservation needs. Additionally, securing a high-quality aspen supply for companies that would like to expand their market opportunities is biologically problematic. Aspen trees are disease-prone and a sufficient supply of high-quality raw materials to produce aspen lumber products is a challenge. To overcome these challenges, the ministry continues to support the sector in new product development and new market access. Where an existing aspen resource is being underutilized, the government will seek to have this fibre support economic activity by the forest industry. Finally, Alberta is part of the Canadian Council of Forest Ministers Forest in Mind Program that seeks to ensure Canada's high standards for forest management are communicated to international markets to ensure Canadian wood products are not discriminated against.

KEY STRATEGY 1.3

Negotiate a national agreement on an agricultural policy framework that will drive sustainable growth, innovation and competitiveness in the agri-food sector.

Agriculture and Forestry worked with federal-provincial-territorial (FPT) governments to develop a new five-year, pan-Canadian agricultural policy framework to replace the Growing Forward 2 (GF2) Framework, which expired on March 31, 2018.

Alberta signed the Canadian Agricultural Partnership (CAP) Multilateral Agreement in January 2018. The agreement is a \$3 billion FPT initiative aimed at generating economic growth in the agriculture industry and delivering the greatest benefits for farmers, food processors and Canadian families. CAP is in effect from April 1, 2018 to March 31, 2023 and outlines a national vision to create the most modern, sustainable and prosperous agriculture industry in the world.

The national agreement outlines a strategy to support the industry to:

- increase competitiveness, productivity and profitability;
- increase environmental sustainability;
- expand domestic and international markets; and
- improve the anticipation, mitigation and response to risks.

Alberta successfully concluded the negotiations of the bilateral agreement with the Government of Canada on March 26, 2018, which outlines the CAP programs and initiatives for Alberta over the next five years. CAP commits to an investment of \$406 million in the province, which is cost-shared between Canada and Alberta (60:40), and will be delivered through 15 grant programs tailored to Alberta's needs. These programs will achieve outcomes in the following five areas:

- Environmental Sustainability and Climate Change,
- Products, Market Growth and Diversification,
- Science and Research,
- Risk Management, and
- Public Trust.

The new CAP agreement also commits to greater transparency with increased reporting by the province to facilitate reporting at a pan-Canadian level. The ministry will ensure processes are in place so that the level of reporting meets agreement requirements.

Growing Forward 2: A Look Back

For over 15 years, agricultural frameworks have proven to be an effective way to coordinate Canada's FPT agricultural programs and services. Growing Forward 2 reflected a federal-provincial investment in Alberta of more than \$407 million over the past five years. This included more than \$34 million in federally-attributed programs and expenses, as well as approximately \$373 million in total funding for provincial programs, which was broken down as:

- 31% (\$117 million) in Agri-Business Innovation, Automation and Commercialization;
- 25% (\$93 million) in Assurance systems including food safety, biosecurity, livestock welfare and traceability;
- 19% (\$70 million) toward Environmental Resource Management and Innovation;
- 11% (\$40 million) directed to water management programs and services;
- 9% (\$33 million) went to Business Management, Opportunities and Skills Development; and
- 5% (\$20 million) in Investment Attraction, International Market Development initiatives and Research activities.

Here is a look back at some of the highlights of what we achieved:

- In 2016-17 and 2017-18, GF2 invested nearly \$5.7 million in six high potential Strategic Investments projects that leveraged over \$660 million in industry projects. These projects contributed to the creation of 473 jobs and the sourcing of \$175 million worth of inputs from local producers.
- From 2015-2017, Agriculture and Forestry utilized GF2 funds to introduce 635 companies to new markets and channels through market development and advocacy missions. Industry reported sales linked to ministry activities were over \$324 million for the same fiscal years. Recognizing a further industry need, the ministry offered additional support through 15 workshops and export readiness development initiatives in 2016-17.

- The ministry leveraged GF2 funds and accessed \$9 million from the Alberta Climate Change Office in 2017-18. The leveraged funds broadened the reach and impact of the GF2 environmental stewardship, irrigation efficiency, energy efficiency and climate change programs (see Outcome Three for more information).
- The GF2 Irrigation Efficiency Program resulted in upgrades to over 400 irrigation systems in Alberta. This led to an estimated savings of 9.2 million cubic metres of water and 1.9 million kilowatt of energy per year.

The GF2 governance model also provided a structured process to continually address challenges over the course of the agreement. For example:

- When other provinces were dealing with porcine epidemic diarrhea outbreaks, the Biosecurity programs ramped-up their investment in industry-led initiatives to help keep it out of the province.
- The Accelerating Innovation program was added in 2016-17 to address emerging opportunities in the agri-processing sector that were particularly innovative or unique and did not fit into existing grant programs.
- Minimizing year-end slippage was a challenge that was also addressed through the governance committees to ensure that spending of federal funds under the agreement were maximized.
- Capturing reporting metrics that conveyed the impact of the investment were not consistently available across all programs. Moving forward, Alberta has committed to enhance its reporting and evaluation of the impact of programs under CAP.

Overall, Alberta has been well-served by its partnership in Canada's national agriculture policy framework. GF2 was a significant factor in providing Alberta's agriculture industry with supports for upgrading equipment, increasing energy efficiency and increasing market competitiveness.

KEY STRATEGY 1.4

Review all ministry research activities and initiatives to ensure efforts are focused and relevant, and continue to effectively support the agriculture and forestry sectors.

In January 2017, the ministry initiated a review of its research activities and the existing funding models to ensure that Agriculture and Forestry was doing the right things in the right way and collaborating effectively with our stakeholders. The ministry focused on research activities in crops, environment, food, forestry and livestock to get a clearer picture of the distribution of ministry research investments and related outcomes. This review was an important tool to help Agriculture and Forestry build upon its successes and ensure that ongoing ministry-funded research efforts remain focused, relevant and responsive to the needs of the ministry, our stakeholders and government priorities.

The ministry research review concluded in the fall of 2017 with recommendations to improve internal governance, strategic planning, priority setting and stakeholder engagement. These recommendations have been accepted by ministry leadership. A Science, Research and Innovation Framework is being developed in 2018-19. This framework will align research priorities more broadly with government strategic priorities, as well as ministry stewardship, economic development and assurance priorities. Results of the next phase of this research review will be reported in the 2018-19 annual report.

Research Highlights

Agriculture and Forestry's Research and Development Program assists the agriculture and forest industries in innovating, diversifying and enhancing their competitiveness.

Research funding was provided for agricultural and forestry projects that supported ministry outcomes of assurance and public safety, economic development and competitiveness and environmental stewardship. Agriculture and Forestry's Strategic Research and Development Program approved \$12.2 million in new funding in 2017-18 (including \$10.7 million in grants).

Examples of projects funded for the forest industry:

- \$600,000 to the University of Alberta from April 2016 to March 2019 to support the Western Partnership for Wildland Science. The partnership promotes scientific research, education, knowledge exchange and building of operational decision support tools to support Wildfire Management.
- FPIInnovations received \$507,000 for Wildfire Operations Research and \$150,000 for research on the effectiveness of FireSmart fuel treatments in different fuel types.
- Mountain pine beetle infestation is affecting a quarter of Alberta's pine forest, with the most severe concentrations being in the west-central pine-belt. Agriculture and Forestry is working to minimize the spread of beetles north and south along the mountains, and prevent them from spreading further east into Canada's boreal forest. A total of \$500,000 was provided for mountain pine beetle-related research in 2017-18.

Examples of projects funded for the agriculture industry:

- \$500,000 to the Alberta Beef Producers to advance knowledge translation and transfer to support sustainable livestock and forage production systems.
- \$140,000 was provided to Agriculture and Agri-food Canada as matching funds towards a \$1.16 million Agricultural Greenhouse Gases Program to improve beef cattle performance and reduce greenhouse gas emissions through the addition of Biochar to feed.
- Grande Prairie Regional College was funded \$250,000 along with \$45,000 from British Columbia, Alberta and Manitoba Beekeeper Associations to develop new diagnostics for apiary health through the National Bee Diagnostic Centre.
- Agriculture and Agri-Food Canada was funded \$104,540 for two projects that will improve trailer design and pig handling to address animal welfare during transport. Total project value is \$872,478 including support from Alberta Pork, Sask Pork and Manitoba Pork and industry.
- \$96,650 was provided to the University of Calgary to pilot new technology involving methanogen microorganisms in the rumen that could potentially result in increased use of alternative antibiotics and reduced greenhouse gas emissions.

Performance Measures

Product development and commercialization

YEAR ENDING AT MARCH 31

Performance Measure 1.a	Actual 2013-14	Actual 2014-15	Actual 2015-16	Actual 2016-17	Actual 2017-18	Target 2017-18
Number of value-added agriculture products developed and successfully introduced to market with assistance from Agriculture and Forestry	217	220	227	315	218	230

SOURCE: Agriculture and Forestry

- This measure tracks the number of value-added products developed and introduced into market with support from ministry staff. Value-added products refers to primary agricultural commodities that have undergone a change in physical state to achieve enhanced product value. This measure does not reflect economic impacts of benefits such as revenue growth, job creation or investment that may have been generated from these products.
- The ministry facilitates value-added product development and processing of safe food and pet food products to foster growth and commercialization of food and pet food companies serving local and global markets. It does this through its product development and sensory science laboratories, pilot plant facilities, the incubation facility at the Food Processing Development Centre (Leduc), the Consumer Product Testing Centre (Edmonton), the Food Science and Technology Centre (Brooks) and the Agri-Value Processing Business Incubator (Leduc).
- The ministry facilitates new and diversified product development and commercialization by providing a unique combination of specialized facilities and scientific, technical and business development expertise. This helps guide producers and agri-processors in developing new and improved value-added agriculture products for local, domestic and export markets. Companies are able to access product research and development facilities they could not afford to create on their own. Our services help start-up companies reduce the risk of investing in full commercial production at the idea stage as well as help established companies access short-term scientific consultancy services on a competitive fee-for-service basis.
- In 2017-18, a total of 218 new value-added agriculture products were developed and successfully introduced to market with assistance from Agriculture and Forestry. While the result is significantly lower than the prior year's result, it is almost identical to the annualized average result of 221 for the three-year timeframe prior to 2016-17. There was significant commercialization activities in 2016-17, which are not expected to be repeated. The result this year is five per cent below the target, which was heavily influenced by the:
 - continued weakness in the economy and sales expectation of processors. In periods of downturn in the economy, processors may cut back on product development, reformulate existing products or delay introducing new products to a depressed market; and
 - length of time it takes to develop a product from concept to commercialization. It typically takes between two to three years for a product to develop from concept to commercialization.
- Examples of the products, which focus on strong and broad-range niche market areas with significant growth potentials, include: bio-based products for industrial applications in energy, transportation and agriculture; consumer personal care products; and ready-to-eat healthy products. The ministry assisted an Alberta-based small scale company established a hemp/flax decortication system in central Alberta to process hemp/flax and resins for industrial applications in building materials, transportation and recreation. During 2017-18, three new products were attributed to this company.

Research investment by collaborators

YEAR ENDING AT MARCH 31

Performance Measure 1.b	Actual 2013-14	Actual 2014-15	Actual 2015-16	Actual 2016-17	Actual 2017-18	Target 2017-18
Research and development investment by collaborators leveraged through ministry resources (\$ million)	4.8	5.2	5.3	6.3	5.9	5.5

SOURCE: Agriculture and Forestry

- This measure tracks the amount of funds leveraged from outside sources for applied agricultural research and development, and provides an indication of our success in building strong research partnerships with external collaborators to ensure industry needs and views guide our research priorities. External collaborators include industry organizations, producer groups, private companies, universities, government departments and agencies. The research and development projects covered under this measure include value-added processing, food safety surveillance, livestock development, crop diversification and environmental sustainability.
- We collaborate with the agri-food industry to perform research and development to ensure industry needs and views guide research priorities in a rapidly changing global innovation environment. Collaboration with industry is important for targeting investment efficiently and effectively.
- In 2017-18, Agriculture and Forestry collaborated with external collaborators and industry to conduct 97 research and development projects, leveraging over \$5.9 million to fund innovative solutions in the agricultural sector relating to productivity, competitiveness, profitability and resource management.
- While the result is approximately seven per cent higher than the forecasted target, it was still seven per cent lower than the prior year's result of \$6.3 million. The prior year's result was higher due to the completion of major external-funded crop-related projects in 2016-17 that were funded under the Alberta Crop Industry Development Fund, which had used up its research funding and is winding down. Over the past 15 years, the government invested about \$80 million into the Alberta Crop Industry Development Fund model to encourage innovation and competitiveness of Alberta's crop industry.
- Agriculture and Forestry is transitioning to a new model where we will work to fund crop research collaboratively with Alberta's crop commissions. Future results may fluctuate until a stable and predictable source(s) of research funds is in place for ministry research and development networks.

Performance Indicators

Export market diversification

YEAR ENDING AT DECEMBER 31

Performance Indicator 1.a	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017
Alberta's agri-food exports by sector (in \$ millions)					
United States	3,080 35%	3,945 40%	3,998 39%	4,061 41%	4,269 38%
Rest of the World	5,662 65%	5,809 60%	6,183 61%	5,945 59%	6,969 62%

SOURCE: Statistics Canada; Agriculture and Forestry (results current as of May 4, 2018)

- This indicator represents the monetary value and proportion of Alberta's agriculture and food products leaving the province through customs for a foreign destination market. This indicator is used to monitor key trends and conditions within the area of export markets diversification where the ministry has identified as a priority for sustainable growth for Alberta's agriculture and food products. The indicator provides context on the economic conditions in which the ministry operates and are not intended as direct measures of performance for ministry's trade development and market access efforts.
- Diversification of export markets contributes to industry growth and to the provincial economy. A broader base of export market destinations allows the industry to benefit from accessing emerging markets with high growth potential such as the European Union and India, while maintaining its traditional current markets (U.S., China, Japan and Mexico). By diversifying our agriculture and food export markets, we reduce demand uncertainties for agri-food products and raise the expected benefits of investing in agri-food processing.
- In 2017, Alberta's agri-food exports reached a record \$11 billion, an increase of 12 per cent over the 2016 result of \$10 billion. Gains were reported for both primary commodity and processed products, particularly for wheat, barley, pulses, canola seed, meats, crude canola oil and processed cereals. Beef and pork exports also grew in values and quantities.
- The growth in agri-food exports varies by export market destination. Agri-food exports to the U.S. continued to grow, and remains the largest market for Alberta. In 2017, exports to the U.S. grew by five per cent to \$4.3 billion. However, despite an increase in value, the U.S. share of Alberta's total agri-food exports declined in 2017 to 38 per cent, due to larger exports to the "Rest of the World". Revenues from agri-food exports to the "Rest of the World", at \$6.9 billion, increased over 17 per cent from 2016 and accounted for 62 per cent of Alberta's agri-food exports, primarily due to larger exports in wheat, barley, canola seed, dry peas, oilseed cake and meal, crude canola oil, beef and pork. China, Japan and Mexico remain the main markets within the "Rest of the World".

Composition of export products

YEAR ENDING AT DECEMBER 31

Performance Indicator 1.b	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017
Alberta's agri-food exports by sector (in \$ millions)					
Primary commodities	5,061 58%	5,476 56%	5,379 53%	4,957 50%	5,653 50%
Processed or manufactured products	3,651 42%	4,278 44%	4,802 47%	5,049 50%	5,585 50%

SOURCE: Statistics Canada; Agriculture and Forestry (results current as of May 4, 2018)

- This indicator tracks the type and proportion of Alberta's agri-food exports and provides an indication of whether the industry is shifting from primary commodities to processed products. Increasing the export share of processed products relative to primary commodities allows the industry to generate and retain a larger portion of revenues and economic benefits from global agri-food trade.
- Primary commodities are products that are in a raw or unprocessed state, such as crops or livestock. Processed or manufactured products involve refining primary commodities to increase value, such as turning raw canola into higher valued canola oil. The processing sector also strengthens a diverse range of secondary industries across the food supply chain, including transportation and logistics, refrigerated storage facilities, beverage manufacturing, wholesale and retail distributors and the food service industry.
- This indicator is used to monitor key trends and conditions within the area of export markets diversification that the ministry has identified as a priority for sustainable growth for Alberta's agriculture and food products. The indicator provides context on the economic conditions in which the ministry operates and are not intended as direct measures of performance for ministry's trade development and market access efforts.
- In 2017, Alberta's total agri-food exports set a new record at \$11 billion, of which primary commodity and, processed product exports, each accounted for approximately one-half of the total agri-food exports.
- Revenue from exports of primary commodities, at nearly \$5.7 billion, grew by 14 per cent from the 2016 result of \$5 billion, primarily due to higher values and quantities of wheat, barley, canola seed, dry peas, lentils, and hay fodder. Revenue from exports of processed or manufactured products, worth \$5.6 billion, grew 11 per cent over the previous calendar year, due to higher values and quantities of meats, crude canola oil, oilseed cake and meal, processed cereals and dairy products. Beef grew about four per cent in value and three per cent in quantity.

Market cash receipts

YEAR ENDING AT DECEMBER 31

Performance Indicator 1.c	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017
Alberta's share of Canadian market cash receipts.	21%	22%	22%	22%	23%

SOURCE: Statistics Canada; Agriculture and Forestry (results current as of May 28, 2018)

- This indicator tracks the proportion of total Canadian farm market cash receipts earned by Alberta producers. Farm market cash receipts refers to the aggregate cash income, or revenue, from the sale of agricultural commodities (crops and livestock, in current dollars) and excludes direct program payments to producers of farm businesses.
- This indicator highlights the financial performance of Alberta's primary commodities in the market place (e.g., wheat, cattle). For primary agriculture, it is the most common and transparent metric available, with an established methodology which looks at market performance at the farm-gate, relative to other jurisdictions in Canada and the U.S. Farm market cash receipts (along with program payments) also serve as the basis for allocating program expenditures for federal and provincial budgeting purposes (e.g., AgriStability, Canadian Agricultural Partnership).
- In 2017, farm market cash receipts for Alberta were 23 per cent of the Canadian total, and ranked first among provinces. Alberta's total farm market cash receipts (excluding program payments to producers) reached a new high of \$13.3 billion, and up four per cent from 2016. Record crop market receipts combined with higher receipts for livestock was the reason for the gains. New records were set for crop market receipts, which were up four per cent to \$6.9 billion. The growth in receipts was largely driven by higher quantities of products sold and prices, notably wheat and canola. Livestock market receipts were up five per cent to \$6.4 billion (second highest on record), mainly due to increased quantity sold, notably cattle.

Food and beverage manufacturing sales

YEAR ENDING AT DECEMBER 31

Performance Indicator 1.d	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017
Alberta's share of Canadian food and beverage manufacturing sales	13%	22%	14%	13%	13%

SOURCE: Statistics Canada; Agriculture and Forestry (results current as of May 16, 2018)

- This indicator tracks the proportion of Canadian food and beverage manufacturing sales that originates from Alberta-based agri-processing industries. Food and beverage manufacturing involves refining primary commodities to increase value, such as turning raw canola into the higher valued canola oil, or barley into alcoholic beverages.
- This indicator provides a good industry metric of the monetary value of goods produced by provincial establishments in Alberta's manufacturing sector. Food and beverage manufacturing sales are often used to monitor economic performance of the value-added sector. It is also used as an indicator on the relative economic health of agri-processing industries in Alberta.

- In 2017, Alberta's food and beverage manufacturing sales set a record at \$14.4 billion, an increase of eight per cent from 2016. This marked the fourth consecutive annual gain. Food manufacturing sales jumped 11 per cent to \$13.3 billion, while beverage manufacturing declined by 17 per cent to \$1.1 billion. Contributing to the increased food manufacturing sales were meat products (including poultry), dairy products and grain and oilseed milling. The largest food and beverage processing segment is meat product manufacturing, accounting for over one-half (\$7.4 billion) of total food and beverage manufacturing sales.
- The 2017 result represents 13 per cent of the total Canadian food and beverage manufacturing sales, which increased by one per cent from 2016, primarily due to Alberta's meat products (including poultry) and dairy manufacturing sales outpacing the national gains. Nationally, total food and beverage manufacturing sales grew five per cent to \$112.6 billion.

Timber royalties and fees

YEAR ENDING AT MARCH 31

Performance Indicator 1.e	Actual 2013-14	Actual 2014-15	Actual 2015-16	Actual 2016-17	Actual 2017-18
Timber royalties and fees (\$ millions)	61.2	57.4	51.3	69.9	139.9

SOURCE: Agriculture and Forestry.

NOTE: The "year" headings were mislabeled in the 2017-20 Agriculture and Forestry business plan and have been corrected – i.e., "2014-15" was labelled as "2015-16". The headings were labelled correctly in the 2018-21 Agriculture and Forestry business plan.

- This indicator tracks the total direct monetary payments (anticipated revenue) made by Alberta producers into the provincial consolidated revenue fund for the right to harvest Crown timber, excluding corporate and personal income taxes. Timber fees include Crown timber holding and protection charges, Crown timber disposition issuance charges and Crown timber disturbance charges. It enables economic benefits of Crown timber holding to be monitored by ascertaining trends in quantities, values and usage of timber harvested from crown lands. Timber royalty revenues mimic the ups and downs of commodity forestry product market cycles and, by extension, the economic health of Alberta's forest industry.
- The ministry has an indirect influence on this indicator from policy to regulation and permitting processes that contribute to an operating environment conducive to revenue generation. The indicator is based on Crown forest activities under prevailing economic conditions, and is subject to market fluctuations.
- Alberta's timber dues system is grounded on the principles of fairness, efficiency, transparency, and industry competitiveness. As profits climb higher, timber dues paid to the Crown increases. It also helps to ensure Albertans receive a fair return from private companies using a public timber resource.
- In 2017-18, provincial revenues collected from royalties, rentals and fees from timber harvested on Crown lands reached \$139.9 million, double the prior fiscal year's revenue of \$69.9 million. The combination of the strong Canadian dollar, the pickup in the U.S. housing market and continued high lumber softwood prices, particularly during January to March 2018, has contributed to this year's increase. We continue to ensure a thoughtful and sustainable approach to forest management that balances the economic, social and environmental needs of Albertans and our communities.

Forest products

YEAR ENDING AT DECEMBER 31

Performance Indicator 1.f	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Actual 2016
Sales of Alberta's forest products (\$ millions)	5,440	6,080	6,190	6,115	6,205

SOURCE: Statistics Canada (results current as of May 28, 2018)

NOTE: Results are reported with a time lag of one year.

- This indicator tracks the total revenue (sales) of Alberta-based forest product companies from forest product manufacturing and logging activities. Total revenue from forest product manufacturing represents sales from pulp, newsprint, veneer, oriented strand board, particle board, lumber and secondary wood products.
- Timber-based manufacturing involves the conversion of harvested timber into wood and pulp and paper products. Wood products manufacturing includes solid wood products, such as lumber, panels (oriented strand board, plywood), engineered and other wood products. Pulp and paper manufacturing includes pulp wood products such as chemical and mechanical pulp, newsprint and other paper products. Logging activities encompass the harvesting and transporting of timber logs to forest-based manufacturing establishments.
- The manufacturing sales values for forest products comprise of both forestry product production volumes and forestry product prices. Changes in annual product sales values are therefore indicative of the relative health of Alberta's forest industry. The forest manufacturing sector also includes a diverse range of timber-based secondary industries.
- In 2016, sales of Alberta's forest products reached another record at \$6.2 billion, an increase of one per cent over the 2015 record of \$6.1 billion. This record performance was aided by the low Canadian dollar relative to the U.S. dollar, higher pulp and softwood lumber prices and the continuous improvement in American demand for softwood lumber.
- To sustain future industry performance, the ministry is working with Alberta-based forest and timber industries to secure current markets and access new export markets.

OUTCOME TWO: Alberta's effective agri-food and forest assurance systems inspire confidence

Assurance systems refer to a suite of regulations and standards designed to address risks related to humans, animals and plants through project-driven and other outcome-based approaches. These risks focus on, but are not limited to, areas where Agriculture and Forestry is accountable and

has oversight responsibility, including wildfires, food safety, animal welfare, biosecurity, animal traceability and animal and plant health. Maintaining effective assurance systems depends on strong prevention, suppression and mitigation, as well as response and recovery measures.

KEY STRATEGY 2.1

Implement refinements and enhancements to the wildfire management program.

This key strategy reaffirms the ministry's commitment to providing a safe, effective and efficient wildfire management program by implementing best practices. Agriculture and Forestry reviews its wildfire management operations and assesses new information and technology on an ongoing basis for improvement. The objective is to provide the best possible protection for Albertans, communities, sensitive soils and watersheds, natural resources and infrastructure from the risk of wildfire.

The 2011 Flat Top Complex Wildfire Review, 2015 Wildfire Season and Program Review and 2016 Horse River Wildfire Review identified the need for government to continue taking proactive steps to enhance the resiliency of Alberta's communities against the impacts of wildfire. These actions promote public safety, economic strength and healthy landscapes. Recommendations from these reviews are being implemented through initiatives such as enhanced wildfire suppression efforts, the implementation of amendments to the *Forest and Prairie Protection Act* and the completion of wildfire management plans.

Wildfire Management Plans are nearing completion for the Rocky Mountain House and Edson Forest Areas and will be implemented during the 2018 fire season. In 2017-18, the ministry trained 24 additional staff to fulfill Peace Officer roles. The ministry also implemented amendments to the *Forest and Prairie*

Protection Act and associated regulations including:

- An updated fine and penalty structure (includes new and increased fines and administrative penalties).
- New and updated provisions for public safety and wildfire prevention. These include Off Highway Vehicle restrictions that can be administered in severe wildfire danger conditions; enhanced industry requirements for debris disposal; and the prohibition of the use of exploding targets in forested areas.
- Enhanced provisions to support wildland firefighting including a provision to prohibit interference with wildfire operations (e.g., the use of drones); and starting fire season one month earlier on March 1.

The changes to the *Forest and Prairie Protection Act* and regulations demonstrated immediate benefits and were key to preventing human-caused wildfires in southern Alberta in 2017 during extreme wildfire conditions. Amendments allowed for the implementation of enhanced wildfire prevention and enforcement tools during fire bans, off-highway vehicle restrictions and forest area closures.

Over the past five years, the provincial FireSmart program has invested over \$35 million to help 95 communities develop FireSmart initiatives in their municipalities. In 2017, the Alberta Government boosted FireSmart funding to \$45 million over the next three years. This includes providing \$7.5 million to the Forest Resource Improvement Association of

Alberta, which offers financial assistance to Alberta communities seeking to implement FireSmart. Seventy-eight communities have utilized this program. Agriculture and Forestry also entered into a grant agreement with the Regional Municipality of Wood Buffalo, which was heavily affected by the 2016 Horse River wildfire. The grant provided \$10.5 million over three years to assist with the implementation of FireSmart principles in the region. The ministry also granted \$500,000 to the Canadian Partnership

for Wildland Fire Science, which provides wildfire science and technology-related research, education and knowledge exchange for the development of innovative policies and practices. Finally, the ministry provided FPInnovations \$507,000 for Wildfire Operations Research and \$150,000 for research on the effectiveness of FireSmart fuel treatments in different fuel types.

For more information about other wildfire management activities, please see Performance Measure 2.a.

KEY STRATEGY 2.2

Collaborate with Alberta Health and engage with stakeholders to develop and implement a provincial strategy to address antimicrobial resistance that supports the federal pan-Canadian antimicrobial resistance framework and action plan.

Antimicrobial resistance (AMR) threatens to render antimicrobials ineffective to treat bacterial infections in humans and animals. It is a global problem that the World Health Organization, World Economic Forum and numerous countries have identified as a serious threat to global public health. In 2016, a United Kingdom government commissioned review estimated that there were 700,000 deaths globally in 2014 due to antimicrobial resistant infections. This figure is estimated to climb to 10 million by the year 2050. This key strategy aims to reduce the development and spread of AMR and preserve the effectiveness of antimicrobials in order to minimize the health, social and economic impacts associated with antimicrobial resistant infections.

The development of the Alberta Antimicrobial Resistance Strategy, is ongoing. This provincial strategy is expected to complement the Pan-Canadian Framework for AMR, which has been completed, and the development of a national action plan, which is underway.

Concurrently, Health Canada has been moving ahead with several regulatory and policy changes to increase the oversight on the use of medically important antimicrobials (MIA) for veterinary use. The change to make all MIAs available only by prescription has

provincial ramifications because laws around the prescribing and dispensing of prescription drugs fall within provincial authorities. Agriculture and Forestry adhered to the intent of the federal changes by utilizing existing professional oversight mechanisms that veterinarians and pharmacists operate under. This will ensure appropriate use of these important drugs, utilize existing regulatory frameworks for oversight and accountability, and ensure interprovincial consistency by aligning with how other provinces have approached this issue.

Further regulatory changes from the federal government regarding antibiotic use in agriculture are anticipated, which will affect our livestock sector. The ministry is working closely with Alberta Health, agriculture industry organizations, veterinarians and other animal and human health partners as we move forward.

KEY STRATEGY 2.3

Develop and implement risk- and science-based inspection and surveillance systems and policies in response to existing and emerging food safety and animal health risks.

Food safety and animal health are shared responsibilities among provincial and federal governments, as well as the industry and consumers. This key strategy aims to optimize ministry resources by focusing on the animal health and food safety issues of highest risk. By using evidence obtained through the most current science available, Agriculture and Forestry ensures public health and industry's viability are protected. This is achieved in two ways: by having inspection and surveillance systems in place to identify issues, and having clear policies and response plans in place to manage the risks.

Developing and maintaining a strong understanding of food safety challenges by provincially-licensed facilities is part of the foundation of building an effective culture of food safety. The ministry supports enhanced food safety process controls by promoting a positive culture of food safety and facilitating the adoption of internationally accepted food safety best practices and standards. In support of food safety, more than \$1.6 million in GF2 grants were provided to 312 producers and 44 processors in 2017-18, a decrease from the previous year due to the overall early success of the programs and delivery of allocated funds in the previous years. These grants provided funding for new equipment and upgrades, development and implementation of food safety systems, food safety training, workshops and audits as well as delivery of on-farm and post-farm food safety programs.

A continuing challenge for the ministry is the emerging and growing prevalence of food-related hazards and ongoing efforts to ensure the provincial food safety system continues to evolve to manage those risks. The ministry does this through a responsive and proactive approach that utilizes science and modern technologies as the basis for decisions. There is a

need to incorporate more routine surveillance data to effectively identify risks and to better support science-based decisions. Agriculture and Forestry is undergoing a process to implement a more comprehensive surveillance program.

The ministry is taking other concrete steps as part of this effort. For example, a modernized poultry inspection model has been developed and is being implemented in provincially-licensed poultry abattoirs. In 2018, a poultry monitoring program will be introduced to reinforce and enhance Alberta's food safety system by ensuring that sustainable food safety programs are in place at provincially-licensed abattoirs. Generic *E. coli* will be monitored in these raw poultry products so that areas for process improvements can be identified. Another example relates to several foodborne illness outbreaks of *E. coli* O157:H7 associated with pork in recent years. This pathogen has not been typically found in products in the past. In the winter of 2017, the ministry completed a study on *E. coli* O157:H7 in swine and on pork carcasses to understand its prevalence, assess the source of the pathogen on pork and options for control. A summary of results will be shared with provincially-licensed abattoirs as the information becomes available. The results of these activities will also support the ministry's ability to respond to emerging food safety issues and policy development.

KEY STRATEGY 2.4

Enhance provincial plant health pest surveillance to improve early identification and pest detection capabilities and better manage pest and disease threats.

Left unchecked, plant diseases and pests can spread, causing serious economic damage and rendering some crops uneconomical to grow. For example, with the rapid growth in pulse crop acreage, plant diseases are becoming a concern. Root rot diseases can cause significant yield loss, especially in field peas. The ability to manage emerging disease pressures is key to maintaining and growing the crops sector.

Through the Alberta Plant Health Laboratory, the ministry provides the scientific laboratory-based support required for pest identification, surveillance, management and extension. These activities provide information about the incidence and geographic distribution of potential threats to crops, which is vital for early detection and effective risk management. Agriculture and Forestry is also collaborating with Agriculture and Agri-Food Canada on three pulse crop disease research projects. These projects have already

identified the specific organisms responsible for pulse crop diseases in Alberta, their spread, infectivity and epidemiology. Ministry staff regularly deliver this new information to producers at growers meetings, crop walks, Agri-news articles, through industry associations and a variety of other means.

Some notable challenges include the Potato Spindle Tuber Viroid, a quarantine plant pathogen in Canada, which was found and identified on tomato plants in an Alberta-based greenhouse in December 2017. This finding was reported to the Canadian Food Inspection Agency (CFIA) and later was confirmed by CFIA and corrective action was taken to eliminate the disease from spreading to other greenhouse facilities. The ministry is also helping producers with the management of contagious plant viral diseases like cucumber green mottle mosaic virus in Alberta greenhouses.

Risks to Achieving Outcomes: Diseases and Pests

Outbreaks of highly contagious livestock or plant diseases and forest pests are a potential challenge for Alberta and pose a major risk to both industries and Albertans.

Key concerns in 2017-18 include the outbreak of bovine tuberculosis in southern Alberta and the spread of mountain pine beetle. After a significant federal investigation, all quarantined farms with cattle were released from quarantine by February 2018 and owners have restocked their herds. This attests to the strong assurance system in place to address disease outbreaks. However, the ministry continues to strengthen and improve on areas where we find challenges, including in the animal traceability system.

Mountain pine beetle (MPB) continues to pose a serious threat to Alberta's forests. The province has a survey and control plan that focuses on the highest priority sites and in areas where control is most likely to have an impact on the number of beetles. The ministry allocated \$25 million to MPB management in 2017-18 and will continue to work with affected community and industry stakeholders, strengthen operational plans to better utilize available resources, as well as maximize the benefits of stand-level harvesting within the hardest hit areas and where control can be the most effective.

KEY STRATEGY 2.5**Develop a strategy to enhance Alberta's animal welfare system.**

Complaints and concerns about animal care cover a wide range of issues that reflect changing demographics and evolving perspectives on animals. The development of a provincial strategy that establishes long-term strategic outcomes and clarifies roles and responsibilities could assist in a well-coordinated and effective animal welfare system in Alberta.

A well-developed strategy requires input from stakeholders. To better understand the livestock stakeholders' perspectives on animal welfare, the ministry provided a \$150,000 grant from April 2016 to March 2018 to Alberta Farm Animal Care to gather input and create an inventory of existing livestock resources, including issues, challenges and opportunities.

Agriculture and Forestry remains committed to ensuring owners, operators and all who have care

and control of animals live up to their responsibilities as outlined in the *Animal Protection Act*. The ministry works to achieve this purpose through three main activities:

- Strategic animal welfare investments in extension and training activities. These investments support organizations that are involved in the development of animal care assurance programs to improve animal welfare.
- The provision of stable funding for animal protection investigation and compliance in rural Alberta by the Alberta Society for the Prevention of Cruelty to Animals.
- The promotion of farm animal care through a variety of avenues such as research funding, seminars, workshops and distribution of educational materials.

Performance Measures**Containment of wildfires**

YEAR ENDING AT DECEMBER 31

Performance Measure 2.a	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Target 2017
Percentage of wildfires contained before 10 a.m. the day following assessment	98.3%	99.2%	92.7%	97.1%	96.8%	97%

SOURCE: Agriculture and Forestry

NOTE: Results have been revised to reflect the increase in the length of the legislated fire season. In December 2016, the Forest and Prairie Protection Act was amended to start the fire season one month early, from March 1 to October 31 (previously April 1 to October 31).

- This performance measure reports how successful Agriculture and Forestry is in containing wildfires by 10 a.m. the day following assessment. Wildfires traditionally start in the mid-afternoon or early evening and can build in size and fire behaviour, making control more difficult. During the evening and overnight periods, the temperature tends to decrease and relative humidity tends to increase, which gives firefighters an opportunity to contain the wildfire by 10 a.m. Prompt containment reduces rapid spread, size and intensity of wildfire and its impacts, thus protecting Albertans from the risk of wildfire and minimizing losses and costs.
- The 2017 fire season started on March 1, 2017, and ended on October 31, 2017. During this period, the ministry responded to 1,230 wildfires of which 96.8 per cent of these wildfires were contained before 10 a.m. the day following assessment. This result is nearly identical to both the targets and the result from the prior year. As the season progressed, portions of the province saw prolonged

stretches of hot and dry conditions, which raised the hazard to extreme levels. These conditions were particularly prevalent in southern Alberta, including the Calgary Forest Area where wildfire hazards continued into October. Almost all the remaining 3.2 per cent of wildfires were contained between two and five days following assessment. The measure is subject to variance due to external factors that are outside the control of the ministry, including wildfire activity (number, size, intensity and topography), drought conditions, weather events and forest fuel conditions.

- The wildfire activity for the 2017 fire season was much lower compared to the corresponding five-year averages in terms of number, size and burned area:
 - the ministry responded to 1,230 wildfires, which was fewer than the five-year average of 1,487;
 - the area burned by wildfires was approximately 49,133 hectares, which was significantly lower than the five-year average of approximately 301,369 hectares burned; and
 - twenty large wildfires, defined as greater than 200 hectares, were detected, which was fewer than the five-year average of 25.
- Starting in 2018-19, the target setting procedure was slightly changed to use actual results from the five preceding years already published in prior ministry annual reports. In prior years, targets were not listed in the business plan because results for the current year were not available at the time the business plan was prepared. In lieu of actual targets, the target setting procedure is disclosed in the ministry's business plan.

Compliance with slaughter and meat processing requirements YEAR ENDING AT DECEMBER 31

Performance Measure 2.b	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Target 2017
Percentage of active provincial licensed abattoirs that meet provincial slaughter and meat processing requirements	n/a	90%	84%	86%	92%	100%

SOURCE: Agriculture and Forestry

NOTE: Results represent the combined animal slaughter and meat processing functions for which Agriculture and Forestry has an oversight responsibility. The result for 2013 is not comparable because operating procedures for meat processing inspections were changed from one scheduled audit to three unannounced inspections over the course of the year.

- This measure tracks the percentage of active provincially-licensed abattoir facilities that meet or exceed provincial animal slaughter and meat processing requirements at all times and at each inspection under the *Meat Inspection Act* and Meat Inspection Regulation. An appropriate and transparent regulatory environment is essential in maintaining continued excellence in food safety at the animal slaughter level.
- The scope of provincial animal slaughter and meat processing requirements encompasses food safety risk factors associated with all aspects of animal slaughter and meat processing functions. This includes animal handling, slaughter and processing equipment, protection from contamination; personnel hygiene practices, storage of meat products; cleaning and sanitation practices; ventilation and lighting; plumbing and sewer facilities; and maintenance of required written procedures for all slaughter and processing operations.
- Each facility is required to demonstrate continued knowledge of and strict adherence to all animal slaughter and meat processing practices at slaughter and processing day inspections. Ministry food safety inspection staff track and respond to areas of non-compliance by issuing a corrective action report when inspections reveal that slaughter, meat processing practices or operating procedures create a potential food safety risk.

- Approximately 92 per cent (140 out of 152 abattoirs) of the inspected Alberta-licensed abattoirs met or exceeded provincial animal slaughter and meat processing requirements at all slaughter and meat processing inspections in 2017. In total, 6,453 slaughter and 237 meat processing inspections were completed at 152 active Alberta-licensed abattoirs. Twelve of these abattoirs did not meet slaughter and/or meat processing requirements during at least one of the inspections and were issued corrective action reports (e.g., correctable operating procedures, building maintenance and sanitation).
- This result of 92 per cent is a six per cent improvement over the prior calendar year's result and can be attributed to the ministry's continued education and regulatory efforts to ensure all abattoirs meet provincial safe food slaughter requirements at all times and at each scheduled inspection.
- The 2017 result is eight per cent below the 100 per cent target. While a perfect score is an admirable target, it is very difficult to achieve this at all times and at each inspection. The reasons for this variance included minor, correctable actions (e.g., facility maintenance and maintenance of written product recall procedures) that were resolved.

Follow-up inspections of the abattoirs confirmed that all 12 abattoirs addressed all areas of non-compliance that were noted during their respective inspections. These abattoirs are being monitored to ensure continued compliance and to reduce the risk of lapsing into non-compliance in future years. Risk-based assessments were conducted on all non-compliant abattoirs to ensure all meat products were safe for further processing and human consumption. The continued advancement of a food safety culture through regulatory activities, as well as education and monitoring programs, will help us drive toward this target of 100 per cent and provide consumer protection.

- Corrective actions have been fully implemented to ensure that high standards are maintained at provincially-regulated facilities. Required corrective actions are identified through day-to-day inspection activities and are prioritized based on risk. Assigned corrective actions are tracked by regulatory staff to ensure that they are completed within their assigned timeframe and that actions have adequately addressed any potential risks. Ministry staff continually work with owners and operators of provincially-regulated abattoir facilities to ensure that a culture of food safety is maintained.

OUTCOME THREE: Alberta's agriculture and forest industries are environmentally responsible and sustainable

Alberta has an abundance of productive soils, clean water and expansive forests. Utilizing our natural resources in an environmentally responsible and sustainable way enhances land stewardship for the benefit of all Albertans in perpetuity. Through

collaboration with industry and government partners, the ministry explores environmentally responsive solutions that contribute to competitiveness and build on opportunities to manage risks, address public concerns and improve efficiencies.

KEY STRATEGY 3.1

Support Alberta's Climate Leadership Plan through energy efficiency and microgeneration programs.

Alberta's Climate Leadership Plan aims to diversify our economy, create jobs and reduce greenhouse gas emissions that are linked to climate change. Agriculture and Forestry supports this by developing programs and extension activities that assist producers and agri-processors in reducing their energy costs, either accomplished through the adoption of energy efficiency technologies or the generation of renewable energy, leading to a reduced carbon footprint.

These programs include the Farm Energy and Agri-Processing Program, with awarded grants totalling \$2.19 million. Expected electricity savings resulting from the program totalled 15 million kilowatt hours and 154,500 gigajoule of natural gas over the lifetimes of the projects, which is equivalent to 16,900 tonnes of greenhouse gas. These programs share costs with the agriculture and agri-processing sector on energy efficiency investments. The program is designed to encourage energy management that will result in

cost savings, energy conservation and, ultimately, reduced greenhouse gas emissions. The ministry provided \$182,000 in grants as part of the On-Farm Solar Photovoltaics Program, which supports on-farm investment in clean energy to reduce emissions. A total reduction of 4,500 tonnes of greenhouse gas was achieved through this ministry program.

Moving forward, the ministry has successfully secured additional funding of \$81 million, over four years, from the Climate Leadership Plan and the federal government for the ministry's farm energy programs. This funding will assist farmers and agri-processors to adopt energy efficiency technologies and reduce greenhouse gas emissions. This collaborative effort and funding demonstrates the Government of Alberta's continuous support for the agriculture industry in reducing greenhouse gas emissions from agriculture sources and a reduced carbon economy.

KEY STRATEGY 3.2

Review the *Forests Act* and forestry practices to ensure the sustainability, economic viability and biodiversity of Alberta's forests.

Alberta obtains great social, economic and environmental benefits from forested public lands. However, climate change will threaten the resiliency of our forests over the next decades. Maintaining healthy forests over the long-term will be challenging and will

require active adaptation. This key strategy aims to modernize Alberta's forest legislation and policies to better align it with broader government priorities such as the Climate Leadership Plan, a renewed relationship with Indigenous peoples, and the Alberta Jobs Plan.

An internal review of the *Forests Act* was completed. This included an independent third party jurisdictional scan of forest management practices and legislation focused on forestry jobs and economy, climate change, environmental stewardship, Indigenous communities and forestry, and compliance and transparency. The review looked at Alberta's forest management system and legislative framework, and found that it is comparable to other national and international jurisdictions and is more comprehensive

in some areas. The potential forestry legislative or regulatory amendments identified through the internal review need to be prioritized within a broader government-wide environmental policy objective. However, the ministry can effectively address policy updates to existing government policy related to the five focus areas, identified above, and will continue to review forestry practices in 2018-19 to ensure the ongoing sustainability, economic viability, health and resilience of Alberta's forests in perpetuity.

KEY STRATEGY 3.3

Support irrigated agriculture to increase water-use efficiency through improved water application technology, conveyance infrastructure and management techniques.

Since the volume of water allocated to irrigation is largely capped in Alberta, Agriculture and Forestry looks at a number of tools to increase water efficiency and sustainability. Any increase in irrigated acres needs to come from water that is made available from improvements in water-use, efficiency on the acres that are currently irrigated, such as pipelines replacing canals and modernized irrigation equipment. Environmental sustainability can be achieved by reducing the amount of water required to be diverted from a natural water body for irrigation. A continuous improvement in water use efficiency will reduce the risk of water shortage for existing irrigators and other licensed water users, create an opportunity to irrigate more acres within the existing water allocation, and as a result, increase the volume of water left in the source water body for aquatic and recreational activities.

This key strategy represents several mutually reinforcing activities including collaborative research and policy programs and extension that is designed to facilitate sustainable use of water resources for agriculture production and processing. Agriculture and Forestry provided \$19 million, as part of the Irrigation Rehabilitation Program, to the irrigation sector to focus efforts on improving the efficiency of water conveyance, as well as \$4.9 million to the Irrigation Efficiency Program to improve energy and water-use efficiency of on-farm irrigation application systems. This investment in on-farm applications systems resulted in water savings of approximately

13 million cubic metres per year, and energy savings of over three million kilowatt hours per year. Examples of conveyance improvement projects include the Lethbridge Northern Irrigation District's installation of 18.9 kilometres of buried pipeline to replace a deteriorating open channel canal, improving water efficiency and reducing maintenance costs. The project delivers water to 1,766 irrigated hectares, livestock operations and domestic users. Similarly, the Bow River Irrigation District (based in Vauxhall) installed 6.4 kilometres of buried pipeline to eliminate several deteriorating drop structures and an open channel canal in poor condition, improving operational efficiencies and reducing return flows (referred to as spillage). The project is part of a larger, three-year phased project that serves 5,085 irrigated hectares and other users including recreational, wildlife habitat, industrial and domestic use.

A reduction in funding is anticipated in 2018-19 as we continue to manage public expenditures carefully. To offset some of the effect of the reduction, Agriculture and Forestry made a one-time payment of \$3 million in operational funding at the end of 2017-18. This provides some degree of cost certainty heading into 2018-19 and allows irrigation districts to plan and execute their operations. An additional potential source of funding for irrigation districts and projects is through programs under the new Canadian Agricultural Partnership, which may offset other costs.

Risks to Achieving Outcomes: Drought Conditions

Although drought conditions can begin slowly and subtly, experience has proven that the impact can be as significant as other more dramatic disasters. Such circumstances can lead to water shortages that affect crop, forage, hay productivity and livestock water needs, as well as extreme wildfires that threaten human lives, communities and economic interests.

Dry conditions and their impacts are currently addressed by various programs and strategies. For example, wildfire management plans help address devastating fires made worse by extreme weather events (see Key Strategy 2.1). In addition, drought management plans can assist the agriculture industry in making both long-term and day-to-day decisions related to drought. The ministry, in partnership with 13 irrigation districts, has also made great strides in addressing water security issues, with more than 2,100 kilometres of canal being converted to pipeline since 2001. This raises the percentage of Alberta's irrigation conveyance network that is in pipeline from 26 per cent to more than 53 per cent – a significant increase in water conservation and efficiency.

KEY STRATEGY 3.4

Encourage the adoption of environmentally sustainable agriculture practices.

The ministry is committed to supporting the agriculture industry in achieving improved environmental stewardship and to reducing the overall impact of climate change. By reducing its environmental footprint through the uptake of the best environmental management practices at the farm level, Alberta's agriculture industry is able to achieve environmental and economic sustainability, while enhancing public trust and market acceptance. Agriculture and Forestry provides support to industry with the development and delivery of programs, tools and resources to support farm operators in making management decisions on their operation.

In 2017-18, the ministry provided approximately \$6.3 million in grants to increase uptake of the environmental best management practices. A total of 585 environmentally sustainable agriculture practices were adopted by producers who participated in the ministry's environmental programs. About 179 new environmental farm plans were completed with another 371 currently being developed. Under the Alberta Environmentally Sustainable Agriculture Program, 12 research organizations and 65 municipalities and counties delivered environmentally sustainable agriculture extension programs and services. This provided an opportunity for producers to learn

about the Environmental Farm Plan and GF2 funding opportunities to support the adoption of beneficial management practices that reduce agriculture risk to water and reduction of greenhouse gases, as well as area-specific topics like the benefits of energy, nutrient and grazing management and agriculture plastic management practices that can help producers manage for environmental impact.

Other results include the development and delivery of new and existing decision-making support tools and information such as the Manure Tracker App, the Fusarium Head Blight Risk App and an updated Soil Information Viewer. The ministry also completed agri-environmental research to address information gaps in key areas such as fertilizer and manure management, producer adoption of environmentally sustainable agriculture practices, and public trust in agriculture. Research included gaining more information on Enhanced Efficiency Fertilizer, Nitrogen Stabilizer and Greenhouse Gas Emissions Mitigation, and Manure Management Greenhouse Gas Mitigation.

In implementing this key strategy, Agriculture and Forestry faced several challenges. This included the uptake of programs and information by targeted/relevant audiences for use in their business decisions as it related to environmental stewardship. Another

challenge is the expiration of many programs, as GF2 was coming to a close on March 31, 2018. Finally, there are additional factors that make it challenging to measure results, such as short-term programming, diverse individual needs for information, and the long-term nature in conducting science-based measurements on how agricultural practices impact the environment. To address these issues, the ministry engaged with an extensive network of organizations

to leverage our information and programs to industry audiences and increase recognition as a reliable resource for relevant evidence-based information. We also increased collaboration within the ministry, with external research institutions and organizations, and with other government ministries and levels of government to address various research, extension, policy and performance measurement challenges.

Performance Measures

Environmentally sustainable agriculture practices

YEAR ENDING AT MARCH 31

Performance Measure 3.a	Actual 2013-14	Actual 2014-15	Actual 2015-16	Actual 2016-17	Actual 2017-18	Target 2017-18
Average percentage of improved environmentally sustainable agriculture practices adopted by producers (biennial survey).	56%	n/a	55%	n/a	53%	57%

SOURCE: Agriculture and Forestry

NOTE: The survey is conducted every second year. In 2018, revisions were made to three questions to improve clarity. The changes included providing a specific definition for water wells, how farmers control runoff from manure and storage and whether farmers had planted trees for agricultural purposes. Prior years' results were reassessed based on the new definitions and it was determined that there was no significant change that would impact comparability of 2017-18 results.

- Environmentally sustainable agricultural practices are farming techniques that are economically viable and protect the environment. The Environmentally Sustainable Agriculture Tracking Survey is used to indicate whether producers in Alberta are adopting management practices and making continuous improvements that protect the environment. This survey measures the progress related to adopting 40 key environmentally sustainable agriculture practices by Alberta producers within the areas of manure management, water quality and quantity, wildlife habitat conservation, grazing management, general practices, agriculture waste management, energy use and climate change and soil conservation. This survey also informs decision-making related to the ministry's agri-environmental programs.
- The average percentage of adoption for the 40 key environmentally sustainable agriculture practices by producers was 53 per cent, which is four per cent below the target and continuing

the downward trend observed in results over the four years. Since the result is an overall average and there is variation in the level of adoption of environmental practices across the eight agri-environmental risks areas, it does not reflect the true environmental stewardship of producers at the farm level. Agricultural landscapes are dynamic, with beneficial and potentially detrimental land-cover changes often happening concurrently. For 2017-18, as in prior years, higher adoption rates of beneficial management practices were used to address grazing management, wildlife habitat conservations, manure management and water quantity and quality issues. For example, 75 per cent of applicable practices were adopted to address environmental risks on water quality and quantity. In contrast, lower adoption rates of applicable practices were adopted to address environmental risks associated with soil conservation, energy and climate change. For

example, 28 per cent of applicable practices were adopted to address environmental risks on soil conservation. Analyses conducted at a broad provincial scale can lead to a counterbalancing of the improvements made at a regional or local scale.

- These results are influenced in part by regional variability in environmental conditions, lower awareness of new energy efficiency technologies and low adoption of precision agriculture. Increasing awareness and uptake of new and effective soil conservation and no-tillage practices, energy efficiency technologies and increased participation of continuous farmers in Carbon Credit Trading markets would have the greatest potential to accelerate improvements in areas where crop type and tillage leaves the soil exposed and vulnerable to erosive forces.
- In an effort to improve the overall environmental performance, the ministry is refocusing its research, extension capacity and incentive-based programs to enable producers to address environmental risks in areas where lower adoptions were observed. For example, the ministry secured additional funding of \$81 million, over four years, from the Industrial Energy Efficiency Program for ministry energy programs. This funding will assist farmers and agri-processors to adopt energy efficiency technologies and reduce greenhouse gas emissions. It is anticipated that the enhanced focus would improve the adoption rates for energy efficiency over time.

Forest management: timber harvest

YEAR ENDING AT MARCH 31

Performance Measure 3.b	Actual 2012-13	Actual 2013-14	Actual 2014-15	Actual 2015-16	Actual 2016-17	Target 2016-17
Sustainable timber harvest by						
Annual allowable cut (million cubic metres)	30	31	31	31	32	Harvest does not exceed the approved harvest level
Harvest (million cubic metres)	20	21	21	22	23	

SOURCE: Agriculture and Forestry

NOTE: Figures are reported on a five-year rolling average inclusive on the reporting year to account for differences in timing of timber harvesting operations, which is an integral part of sustainable forest management.

- This measure reflects Agriculture and Forestry's ability to manage Alberta's timber resources in a sustainable manner in perpetuity. It indicates the status of Alberta's timber supply by comparing the timber harvest with the long-term annual allowable cut, as set by the ministry. The target is to keep Alberta's timber harvest at or below the annual allowable cut (AAC). The majority of Alberta timber dispositions are in effect for more than one year and harvest is balanced, tracked and monitored over a five-year period to accommodate weather and market conditions that affect the amount of timber harvest in a specific year.
- The total provincial AAC is the sum of up to three coniferous AACs and two deciduous AACs per Forest Management Unit (FMU). The AAC volumes in each FMU are split up and allocated to one or more timber dispositions. Yearly harvest levels for each disposition holder or FMU may be greater than the AAC due to differences in timing of timber harvesting operations. However, to ensure sustainability, the five-year average harvest levels do not exceed the five-year average AAC within each FMU.

- The 2016-17 harvest level result of 23 million cubic metres is below the five year average approved annual allowable cut of 32 million cubic metres, meeting the target. Both the harvest and cut levels increased by one million cubic metres, leaving the gap unchanged at 9 million cubic metres.
- Since 2012-13, the five year average provincial annual allowable cut has ranged from 30 million to 32 million cubic metres, while the five year average

harvest has ranged from 20 million to 23 million cubic metres during the same time period. The gap between the harvested volume and allowable cut has decreased from 10 million to 9 million cubic metres. Fluctuations in harvest volume from year to year reflect short term trends in lumber and pulp markets. The five year average harvest level reflects longer term trends.

Forest management: reforestation

YEAR ENDING AT MARCH 31

Performance Measure 3.c	Actual 2012-13	Actual 2013-14	Actual 2014-15	Actual 2015-16	Actual 2016-17	Target 2016-17
Percentage of forest regrowth as a result of reforestation	97.3%	97.9%	97.5%	98.3%	98.1%	97.5%

SOURCE: Agriculture and Forestry

- This measure tracks the rate of forest regrowth following timber harvest, ensuring sustainability of our forestry resources. Reforestation is required by law and is a critical component to forest sustainability following industrial harvesting. Monitoring reforestation in relation to provincial standards is an essential part of forest sustainability and assures the continued flow of economic, social and environmental values Albertans expect from their forests.
- The percentage of forest regrowth for the 2016-17 timber year is 98.1 per cent, compared to a target of 97.5 per cent, and is consistent with the values achieved in previous years. The achievement in 2016-17 reflects continued use of effective silvicultural practices, as well as government's commitment to reforest areas impacted by mountain pine beetle and wildfires. While 100 per cent is an ideal target, uncontrollable natural variability occurring at the site or on the landscape, coupled with dynamic climatic conditions, makes achieving an ideal target of 100 per cent unrealistic.
- Alberta's reforestation standards, based on sound science, are designed to ensure that mandatory reforestation activities completed by forest companies will return a healthy, genetically diverse forested landscape with the same or greater volume of timber than was originally harvested. In 2016, there were more than 122 million seedlings planted in Alberta, which is an increase of approximately 30 million seedlings than was planted in 2015.
- Effective regeneration of forests after wood harvesting is a fundamental process in sustainable forest management, since regeneration determines the long-term productivity growth, dynamics and composition of forest stands. Actions such as prompt reforestation activities following harvesting and better early seedling growth resulting from more appropriate site preparation enhances early seedling establishment and growth. Additionally, conservative re-growth rate targets have historically been assumed given poor young forest forecasting techniques. Successful forest management and selection and application reforestation techniques have resulted in vigorously regenerating young forests.

OUTCOME FOUR: Alberta has thriving rural communities

A thriving rural Alberta contributes to the long-term resiliency of the provincial economy and strengthens the agriculture and forest industries. Rural communities succeed when residents and businesses have the means to adapt to and benefit from a range of

opportunities that leads to growth in diverse rural businesses, increased self-reliance and an improved quality of life. Agriculture and Forestry provides resources and tools that enable rural Albertans to thrive and build strong communities.

KEY STRATEGY 4.1

Implement farm safety education programs to support the adoption of safe practices on Alberta farms.

This key strategy includes educational opportunities and learning sessions provided under a variety of settings. This included programs, such as FarmSafe Alberta, workshops and one-on-one sessions to nurture farm safety skills and a safety culture among farmers.

The Alberta Farm Safety Program reached more than 3,000 Alberta farmers and stakeholders through farm safety presentations and events aimed at sharing information with youth and adults. Through partnerships with rural communities, the program facilitated more than 100 successful farm safety community events, providing access to 17 different interactive displays and demonstrations as well as 60 farm safety planning tools and resources. The Alberta Farm Safety Program provided funding for farm safety partner groups to assist in delivering farm safety information and programming, including:

- Alberta Association of Agricultural Societies: \$1 million over three years (April 2015 to March 2019) to assist individual Agricultural Societies to provide community-based farm safety programming. Over 35 events were held in the first year of the program, reaching over 8,000 participants.

- AgSafe Alberta: \$500,000 over three years (April 2016 to March 2018) to develop materials, resources and services specific to various farm industry sectors, including online hazard assessment tools and an advisor program.
- Farm Safety Centre (FSC): \$1.26 million from September 2015 to February 2018 to extend the Safety Smarts in-school program to over 65,000 students. Approximately 76 per cent of rural and 94 per cent of Hutterite student participants in the program reported remembering the key farm safety messages from year to year. FSC's other flagship program, Sustainable Farm Families program, provided workshops to more than 25 per cent of Hutterite Colonies as well as other farm communities. Over 93 per cent of attendees reported their intention to keep returning to the three-year intensive health and safety program.

The Alberta Farm Safety Program is helping build and maintain a culture of safety in the farming community. The delivery of programs to communities and school children is resulting in an increased awareness of farm hazards and best practices. However, building a culture of safety takes time to achieve, which creates challenges in measuring performance in the short term.

KEY STRATEGY 4.2

Enhance local food production and market channels to meet consumer demand for locally grown food.

Local food is an important market opportunity for Alberta producers and processors that is complementary to existing commodity and export-focused market opportunities. Consumer interest in, and demand for, local food continues to grow. A ministry commissioned study in 2016 estimated that Alberta local food sales through direct-to-consumer market channels (e.g., farmers' markets and farm retail) have more than doubled since 2008 and projected to reach \$1.2 billion in 2017. Direct-to-consumer sales represent just a small portion of overall local food sales and do not account for local food sales through foodservice, wholesale and retail market channels. Overall, an expanding local food sector continues to be a significant contributor to a diverse provincial economy and to the quality of life of Albertans. Strong local food systems generate jobs and economic opportunities as well as increase Albertans' access to fresh and nutritious local food.

The ministry engaged stakeholders on the development of provincial local food legislation. A minister's roundtable was held in September 2017 with six industry participants providing feedback on developing a successful local food system. In January 2018, 81 individuals, representing all facets of local food, attended engagement sessions on the proposed *Supporting Alberta's Local Food Sector Act*. Key themes that emerged were related to the need for increased consumer awareness, market development and access to capital.

The ministry brought forward this new legislation in April 2018 to support the local food sector. The legislation proposed to build on existing programs and services that support local food producers in developing their businesses. In 2017-18, 62 grants for approximately \$8.3 million were provided through two GF2 programs, the Agri-Processing Product and Market Development Program and the Agri-Processing

Automation and Efficiency Program. These grants assisted local food producers and processors in obtaining the knowledge and tools necessary to meet the growing consumer demand for local food.

Another service offered to support local food producers are New Venture Specialists that provided business coaching and support to 425 individuals inquiring about an agriculture or food business venture. Furthermore, in 2017-18, 596 participants took part in 27 Explore Local extension events that focused on providing information to producers on issues related to marketing, human resources, market channel access, finance and productivity improvements. Finally, seven businesses participated in the Productivity/Continuous Improvement Project, resulting in individual action plans that helped to address business productivity issues. Combined with improvements in marketing, financial and strategic management, client businesses were able to increase revenue, decrease costs and improve overall profitability.

A part of educating the urban population on the intricacies of farm life and supporting local foods is evident in the successful Open Farm Days, which in 2017 marked its biggest year yet. Over the August 19-20 weekend, more than 20,000 people visited 101 host farms and ranches and resulted in on-farm sales of \$146,121, an increase of nine per cent over the previous year.

Alberta Open Farms Days aims to grow farm-to-fork tourism opportunities and support growth in the local food sectors. The 2017 event was a collaborative project Alberta Open Farms Days is a collaborative project between Agriculture and Forestry, Culture and Tourism, Agriculture for Life, the Alberta Association of Agricultural Societies, Travel Alberta and participating farms, ranches, hosts and agricultural societies.

KEY STRATEGY 4.3

Complete the review of organizational strategic objectives for Agriculture Financial Services Corporation.

In response to the Office of the Auditor General of Alberta's Lending System audit, the Agriculture Financial Services Corporation (AFSC) agreed to undertake a review of its lending programs and to clearly define its strategic objectives. Through this review, AFSC will ensure that the needs of the agriculture industry and Alberta's rural economy are well understood. AFSC can then objectively determine how its lending programs align with the *Agriculture Financial Services Act* and the specific and evolving credit needs of the agricultural industry and Alberta's rural economy, thus enabling AFSC to better serve Albertans.

In 2017-18, AFSC undertook an extensive review of its lending mandate, which included public consultation, meetings with key government officials, clients, staff and industry groups. The consultations confirmed that there is a continued need for AFSC lending in our province. In January 2018, in order to more clearly define AFSC's lending objectives and to ensure that its lending programs are relevant, the minister approved a revised Lending Mandate that defines the strategic objectives for AFSC's program offering. The Lending Mandate was developed based on a market assessment conducted in the spring and summer of 2017. The market assessment provided clarity in understanding credit needs for young and new producers, developing producers, agri-food processors and agri-businesses. Through these activities, AFSC will be more strategic in its activities leading to increased lending in our target markets.

This will result in more successful industry succession, expansion and increased productivity in agriculture and growth in Alberta's value-added agri-processors and agri-businesses.

The revised mandate will focus on newer entrants to farming, such as producers that are actively expanding their operations as well as agri-food processing/agri-businesses, with a secondary focus on more established farming operations and rural commercial businesses. It also focuses on specific industry sectors to achieve outcomes that support government priorities with respect to economic growth and diversification, job creation, encouraging investment in Alberta and providing disaster support when needed.

With this revised mandate, AFSC is well on its way to addressing some of the pressing challenges the industry faces. For example, land prices and the capital costs of value-added agri-food processing have challenged AFSC's ability to support the financial needs of clients with a \$5 million regulatory loan limit. As a result, AFSC is reviewing this loan limit and considering if, how and when to consider increases to better serve Alberta's agriculture, agri-food and agri-business sectors. Increasing AFSC's lending limit will allow businesses to engage in lending markets and to partner on deals that they currently cannot. In 2018-19, AFSC will implement the revised Lending Mandate, review and implement new and existing lending programs that align with that mandate, and complete a Market Needs Assessment for Lending in the agriculture industry.

Performance Measures

Investment in rural businesses

YEAR ENDING AT MARCH 31

Performance Measure 4.a	Actual 2013-14	Actual 2014-15	Actual 2015-16	Actual 2016-17	Actual 2017-18	Target 2017-18
Total investment leveraged in rural businesses facilitated through Agriculture Financial Services Corporation lending services (\$ million).	644	716	697	526	408	701

SOURCE: Agriculture Financial Services Corporation

NOTE: Values reported for investments are a proxy measure based on approved loans. Not all loans are disbursed, and in some cases, there may be timing differences between approval and disbursement of loans.

- This measure tracks the success of AFSC's direct contribution, partnership and collaboration with stakeholders in ensuring farm and rural businesses can access capital to foster economic activities, development and growth. AFSC facilitates capital investment in rural business development through its lending products, services and partnerships. AFSC's partnerships create flourishing and profitable businesses and support the overall rural economy.
- Regardless of the economic cycles that can create difficulties in accessing capital for businesses in rural Alberta, AFSC's flexible loan terms, long-term fixed rate financing, competitive interest rates and reasonable agreement conditions help ensure that primary agriculture producers and rural business enterprises can access the capital necessary to foster growth. These lending services are demand-driven by the agriculture and rural business community, with total dollar investment in agri-businesses and farm loans serving as a proxy value for investment based on loans approved. Dollar investment is any fund (i.e., debt, equity or investment) that would be used to support the growth of farming and commercial activities.
- The \$408 million in investments leveraged in rural businesses in 2017-18 was substantially below the target of \$701 million (42 per cent) and below the actuals for the four preceding years. The results for 2017-18 was lower than the last actual and target due to lower levels of AFSC farm and commercial loan approvals that are not expected to fully recover until 2020-21. The lower investments is attributed to the uncertainty in the amount of approved loans that are withdrawn during the fiscal year because of the inability of many farmers to complete farm land purchases, due to the continuous increase in the average value of Alberta farm land. This target will be adjusted to reflect future demand-driven expectations in next year's business plan.
- A review of this performance measure was planned as part of a broader review of AFSC's strategic objectives and performance expectations of its lending programs, as per the October 2016 recommendation by the Office of the Auditor General. However, due to timing differences between anticipated and actual completion dates for project deliverables, the overarching review could not be completed in time to enable initiation of a review of this measure this year. Consequently, the completion date for the review on the ministry's measure on AFSC's lending function has been extended to March 2019.

Risk management

YEAR ENDING AT DECEMBER 31

Performance Measure 4.b	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Actual 2017	Target 2017
Percentage of eligible seeded acres for major crop categories insured under Production Insurance:						
Annual crops	77%	76%	77%	77%	71%	79%
Perennial crops	26%	25%	25%	29%	28%	27%

SOURCE: Statistics Canada; Agriculture Financial Services Corporation

- This measure tracks our success in providing customized insurance products to producers to offset the risks of agriculture production, based on type of crop, risk area, and coverage level selected (individual producer risk preference). Production Insurance (AgriInsurance) mitigates the effects of unstable production for Alberta producers by providing protection against losses caused by designated natural perils on annual and perennial crops. By having a strong selection of choices, backed by sound financial management practices, Alberta producers are better protected against the risks of production and are better able to be positioned for future success and sustainability.
- AFSC's competitive market-responsive risk management solutions help producers operate successful farm businesses in the absence of effective private sector tools/methods when natural and market events occur that are beyond agri-business managers' control. In the event of a downturn, effective risk management programs are essential to shorten the recovery time and provide a stable platform from which industry can achieve its full economic potential.
- In the 2017 calendar year, Production Insurance claims for annual crops (including hail endorsement) totalled \$393.1 million and claims for perennial crops totalled \$30.8 million. The uptake of annual crops insured under Production Insurance was 71 per cent, six per cent lower than the previous calendar year and eight per cent lower than the target of 79 per cent. The decreased uptake is mainly due to the substantial number of acres from the 2016 crop remaining unharvested into the spring of 2017 and excessive spring precipitation that delayed the 2017 seeding season that resulted in a substantial number of acres remaining unseeded by the crop insurance seeding deadlines. The result continues to reflect a high participation rate, due to the financial risks involved in crop production, high input costs, and commodity prices. The estimated maximum that could be expected to be insured is 80 per cent, as smaller producers and a small percentage of large producers self-insure. In total, 14.5 million acres and \$4.3 billion in risk is insured on annual crops.
- The uptake of perennial crops insured under Production Insurance was 28 per cent in 2017, which is almost identical to the stated target and the result from the year before. The seeded acres of perennials covered under Production Insurance are heavily influenced by growing season moisture conditions and a reduced loss experience. Excellent growing conditions are often followed by a reduction in insured acres as some producers expect moisture to carryover and to produce a reasonable crop the following year. Good moisture in the 2016 year resulted in above average hay crops. As a result, there was increased carry-over of hay and other feed supplies in the 2017 crop year. Because of the increased carry-over, more producers self-insured. Annual crop producers have proven to be less responsive to soil moisture conditions when making their insurance decisions. Perennial crops account for 7.3 million acres and \$179.6 million in risk.

Performance Measures and Indicators Methodologies

Performance Measure 1.a

Number of value-added agriculture products developed and successfully introduced to market with assistance from Agriculture and Forestry.

- The result for this measure is the total number of written confirmations provided by industry clients for products that were developed with assistance from the ministry and successfully introduced to market.
- At year-end, each industry client is asked to provide a written confirmation (or declaration) to verify all new value-added products that were developed with the assistance from the ministry and successfully introduced to market. Each industry client self-declares the following information: name of processing company; name of product(s), date the product entered the marketplace, signature of an authorized representative of the processing company, and ministry project lead. This information is aggregated and reported under this measure.
- Value-added products include value-added food, beverage, bio-industrial products and new crop varieties. Introduced to market refers to a product that has obtained a listing at retail or food service, domestically or internationally, as well as products that have been sold as ingredients for further manufacturing. Ministry staff assist industry clients in one or more of the following areas: product formulation, shelf-life, packaging, sensory evaluation, marketing and commercialization.
- The number of new products confirmed by industry clients are aggregated and reported for this measure. The data is collated from program areas within the ministry that are engaged in product development and commercialization.

Performance Measure 1.b

Research and development investment by collaborators leveraged through ministry resources (\$ million).

- The result for this measure is the sum of expended dollars from outside sources leveraged through ministry investment in research and development in five priority areas: value-added processing; livestock development; crop diversification; food safety; and environmental stewardship. The outside sources or collaborators include: industry organizations, private companies, universities, government departments and agencies.
- Research and development is creative work undertaken on a systematic basis in order to increase the stock of scientific and technical knowledge and to use this knowledge in new applications. The central characteristic of research and development is an appreciable element of novelty and it involves scientific investigations resulting in new knowledge, products or processes.
- A standardized questionnaire, with detailed instruction guide, is used to collect information from ministry program areas that are involved in research and development activities. The questionnaire collects information on a branch's fiscal year research and development projects, expenditures, and corresponding levels of expended amounts received from outside sources. An expended amount is an aggregate amount of revenue that has been used to offset part or all of project expenses.
- Data on in-kind contributions from collaborators are not included in the calculation of this measure. As a result, the performance result likely understates the true amount of leveraged resources invested by collaborators. Measures of in-kind contributions are less reliable, as they are based on estimates that can be subjective in nature.

Performance Indicators 1.a and 1.b

a. Alberta's agri-food exports by market (\$ million) (United States or U.S.; and Rest of the World)

b. Alberta's agri-food exports by sector (\$ million) (Primary commodities; and Processed/manufactured products)

- The results for these measures are derived from the monetary value of Alberta's agri-food products leaving the province through customs for a foreign destination market.
- Measure 1.a reports the total value of Alberta's agri-food exports categorized by country or region of destination, where the country of destination is the last known destination of the agri-food products at the time of export.
- Measure 1.b reports the total value of Alberta's agri-food exports categorized into primary commodities and processed or manufactured products.
- Agri-food exports refers to domestic exports, which exclude re-exports and include primary commodities and processed or manufactured products. Primary commodities refer to all crops grown and livestock raised in Alberta that have not been materially transformed. Processed or manufactured products refer to processed crops and livestock products under broad groupings of food, beverages, animal feed, and inedible crude animal and plant products.
- The ministry purchases export statistics related to agri-food from the International Trade Division of Statistics Canada. This data set provides detailed breakdown of agri-food exports originating from Alberta and valued at "Free on Board" port of exit from Canada. Canadian international export statistics are developed from administrative files of Canada Border Services Agency and U.S. Border Protection. Information on Alberta's agri-food exports is compiled by the Statistics and Data Development Section of Agriculture and Forestry.
- Statistics developed from administrative records of customs agencies may understate or incorrectly portray the destination of exports or the province of origin. Inaccuracies of exports data often result from the attribution of exports on a province of lading basis rather than by province of origin. Export statistics are subject to revisions, with revisions being conducted by Statistics Canada

on a monthly basis. In this report, revisions are made only in the case when the difference in annual value of exports is greater than 5 per cent.

- The "Rest of the World" represents all countries, excluding the U.S.

Performance Indicator 1.c

Alberta's share of Canadian market cash receipts

- The result for this indicator represents the proportion of total Canadian farm market cash receipts earned by Alberta producers. Farm market cash receipts refers to the aggregate cash income, or revenue, from the sale of agricultural commodities (crops and livestock, in current dollars), and excludes direct program payments to producers of farm businesses.
- Receipts are recorded each calendar year (January-December) when money is paid to farmers at the point when ownership first changes hands. They include sales of crop and livestock products. The information is collected by Statistics Canada from a wide variety of surveys and administrative sources that report the quantity and average farm price for each commodity sold in a province. Administrative data sources include marketing boards, regulatory agencies and market information. Some prices are also provided from monthly farm price surveys conducted by Statistics Canada.
- Since receipts are estimated on a cash basis, any amounts received after the sale of a product, whether in the form of a final or an adjustment payment, will be shown when the cash is received rather than when it was earned. The information for these payments is obtained directly from the administrative bodies involved. Statistics Canada evaluates the quality of the farm market cash receipts by checking the consistency of these data with other sources or previous releases. Much of the data which goes into the calculation of farm market cash receipts comes from administrative programs or data already produced by Statistics Canada, including audited data from source organizations. Annual and quarterly farm cash receipts data are published twice each year (May and November) by Statistics Canada and subject to revision.

- The provincial and national estimates of farm market cash receipts are available on the Statistics Canada website through CANSIM, series number 002-0001.
- Data and information on the Alberta and Canadian farm market receipts is prepared by the Statistics and Data Development Section of Agriculture and Forestry, based on the Statistics Canada release.

Performance Indicator 1.d

Alberta's share of Canadian food and beverage manufacturing sales

- The result for this measure is derived by dividing total Alberta food and beverage manufacturing sales at current prices by the corresponding total for Canadian food and beverage manufacturing sales. The result is then expressed as a percentage. Food and beverage manufacturing involves refining primary agricultural commodities to increase value, such as turning raw canola into the higher valued canola oil, or barley into alcoholic beverages.
- Food and beverage manufacturing sales data is compiled by Statistics Canada through its Annual Survey of Manufacturing and Logging (ASML) and Monthly Survey of Manufacturing (MSM). Both are mandatory surveys.
 - The target population of the ASML survey consists of incorporated establishments primarily engaged in food and beverage manufacturing, with value of shipments of \$30,000 or more. The survey does not include unincorporated establishments, and their activity is not estimated in the results. The sample frame is from the Business Register, Statistics Canada's continuously-maintained central repository of baseline information on businesses and institutions operating in Canada. The survey covers about one-third of all manufacturing establishments in Canada, but the value of shipments for these establishments is estimated to represent over 98 per cent of all manufacturing establishments in Canada.
 - The target population for the MSM survey consists of all statistical establishments on the Business Register that are classified, according to the 2012 North American Industrial Classification System (NAICS).

- The samples for both ASML and the MSM surveys are periodically modified to improve efficiency.

- The total monetary value of goods produced by Alberta-based manufacturing establishments is extracted from these two surveys and compared to corresponding values for all Canadian manufacturing establishments. The annual data is published with a one year lag, while the monthly data is used as a preliminary indicator which takes the sum of twelve months sales (January to December). Food and beverage manufacturing sales statistics are subject to revisions by Statistics Canada. In this report, revisions are made only in the case when the difference in annual value of Alberta's share of Canadian food and beverage manufacturing sales is greater than three per cent. Data from both surveys are available at Statistics Canada's CANSIM database:

- Principal Statistics for Manufacturing Industries Series;
- Manufacturing Sales Series; and
- Manufacturers' Sales, Inventories, Orders and Inventory to Sales Ratios Series.

Performance Indicator 1.e

Timber royalties and fees (\$ millions)

- The results for this indicator represent the sum of government revenues collected from royalties, rentals and fees from timber harvested on Crown lands. Timber royalties are the various costs recovery-based charges and fees (or lost revenue recovery-based charges in the case of timber damage) that the provinces charges for holding and protection, issuance, permits and others. The charges, collected under the authority of the *Forests Act*, ensure that Albertans receive fair compensation.
- The stumpage collected by the Alberta government is the per-cubic-metre log price a private forestry company pays for the right to harvest timber from crown lands. Per-cubic-metre stumpage prices vary based upon the: species (coniferous or deciduous), log characteristics (green or dead), log size (large sawlogs or smaller marginal logs) or, the forestry product produced from the logs (panels, pulp or lumber).

- Timber dues rate levels are determined by applying current Canadian dollar market prices of the major forest products manufactured in Alberta (index prices) to the prescriptive timber dues schedule tables (schedules 3 to 7) of the Timber Management Regulation. These schedule tables are adjusted periodically to reflect changes in manufacturing cost conditions and the cost of goods and services.
 - coniferous timber used to make lumber, pulp or roundwood timber products,
 - timber used to make oriented strand board,
 - deciduous timber used to make pulp,
 - timber used to make veneer, and
 - coniferous timber used to make laminated veneer.
- The schedule tables used to determine the general rates of timber dues, as well as current and historical general rates of timber dues and crown charges are published at Agriculture and Forestry web site.
- Rental fees are the Holding and Protection (H&P) charges that all forest management agreement (FMA) and timber permit holders pay annually to the province. The H&P charges for timber permit holders are \$0.10 per hectare for harvesting dead, damaged, diseased or endangered, coniferous timber or, \$0.25 for harvesting green coniferous timber and, \$0.10 per cubic metre for harvesting deciduous timber. The H&P charges for FMA holders are initially set based on their annual allowable cut or FMA area. This initial H&P amount is indexed to the price index for government purchases of goods and services, and adjusted every year when the price index for government purchases of goods and services changes.
- Crown fees are, permit issuance fees, penalties, mapping fees, and interest charges that timber disposition holders pay to the Crown.

Performance Indicator 1.f

Sales of Alberta's forest products (\$ millions)

- The result for this measure represents the combined total sales (nominal terms) of Alberta-based manufacturing and logging industries. Timber-based manufacturing involves the conversion of harvested timber into wood and pulp and paper products. Wood products manufacturing includes solid wood products, such as lumber, panels (oriented strand board, plywood), engineered, and other wood products. Pulp and paper manufacturing includes pulp wood products such as chemical and mechanical pulp, newsprint, and other paper products. Logging activities encompass the harvesting and transporting of timber logs to forest-based manufacturing establishments.
- Forest products sales data is compiled by Statistics Canada through its Annual Survey of Manufacturing and Logging Industries (ASML). This survey covers all Canadian businesses/establishments primarily engaged in manufacturing and logging activities as well as some sales offices and warehouses which support these establishments. The survey is administered as part of the Integrated Business Statistics Program (IBSP), which aims to integrate approximately 200 separate business surveys into a single master survey program. The IBSP aims at collecting industry and product detail at the provincial level while minimizing overlap between different survey questionnaires. Data are collected directly from survey respondents and extracted from administrative files.
- Data integration combines data from multiple data sources including survey data collected from respondents, administrative data from the Canadian revenue agency or other forms of auxiliary data when applicable. During the data integration process, data are imported, transformed, validated, aggregated and linked from the different data source providers into the formats, structures and levels required for IBSP processing. Administrative data are used in a data replacement strategy for a large number of financial variables for most small and medium enterprises, a select group of large

enterprises to avoid collection of these variables, and as an auxiliary source of data for editing and imputation when respondent data are not available.

- The total monetary value of forest products produced by Alberta-based business establishments is extracted from ASML and categorized by logging activities, wood product manufacturing and paper product manufacturing. Forest products manufacturing and logging data are subject to a one year revision policy by Statistics Canada. In this report, revisions are made only in the case when the difference in annual sales of Alberta's forest products is greater than three per cent.
- The results for this indicator are available at Statistics Canada's CANSIM databases under three data files:
 - Principal Statistics for Wood Product Manufacturing Series;
 - Principal Statistics for Paper Manufacturing Series; and
 - Principal Statistics for Revenue from Logging Activities Series.

Performance Measure 2.a

Percentage of wildfires contained before 10 a.m. the day following assessment

- The number of wildfires contained by 10 a.m. the day following assessment is expressed as a percentage of all wildfires that occur during the fire season (March 1 to October 31).
- Wildfires in the province are thoroughly tracked for detection, assessment, control and containment logging time, and resources used. The results of the performance measure indicate how quickly the ministry controls wildfires. Early detection, assessment and containment minimizes fire loss and reduces suppression costs.
- Targets reflect average of actual results from the five preceding years. For example, the 2016 target is based on the average of the actual results from calendar years 2011 to 2015, inclusive both years.
- Starting 2018-19, the target setting procedure was slightly changed to use actual results from the five preceding years that had already been published

in prior ministry annual reports. Previously, targets were not provided in the business plan because current year results were not available at the time the business plan was prepared. In lieu of actual targets, the target setting procedure is disclosed in the ministry business plan.

Performance Measures 2.b

Percentage of active provincial licensed abattoirs that meet provincial slaughter and meat processing requirements

- The result for this measure is derived by dividing the number of active Alberta-licensed abattoir facilities that are compliant with the Meat Inspection Regulation at each and every scheduled inspection by a base value of total number of active Alberta-licensed abattoir facilities.
- All Alberta-licensed abattoir facilities (poultry, red meat abattoirs and mobile butcher facilities) receive animal slaughter and/or meat processing inspections as part of facility and operating standards under the slaughter and meat processing inspection program. All licensed meat processing abattoir facilities receive three unannounced processing inspections over the course of the year. All animal slaughter abattoirs receive inspections at scheduled slaughter days over the course of the year. The inspections (scheduled and unannounced) are used to determine if a meat processing or animal slaughter facility has met provincial animal slaughter or meat inspection requirements for the reporting calendar year.
- The animal slaughter and meat processing requirements target food safety risk factors associated with: animal handling, slaughter and processing equipment, sanitation, protection from contamination; personnel hygiene practices, storage of meat products; cleaning and sanitation practices; ventilation and lighting; plumbing and sewer facilities; and maintenance of written procedures for all slaughter and processing operations. The animal slaughter and meat processing inspections are used to determine if an abattoir facility has met provincial animal slaughter and meat processing requirements for the reporting calendar year.

- This measure only reports compliance with inspections related to animal slaughter and meat processing requirements under the Meat Inspection Regulation. Each active Alberta-licensed abattoir facility receives a compliance designation for each food safety risk factor: Compliant (Meets Requirements), Requires Improvement, or Non-Compliant. Requires Improvement indicates a low food-safety risk. Non-compliant indicates that slaughter or meat processing practices and/or operating procedures (such as repetitive occurrences of low-risk food-safety incidences) may create a high food-safety risk or indicate a poor food-safety culture. A corrective action request is issued for repetitive Requires Improvement ratings or for a Non-Compliant rating that poses a high food safety risk; abattoirs are expected to address areas of non-compliance within the timeframe established by a ministry inspector.
- An active abattoir facility that receives Meets Requirements for all components of all slaughter or meat processing inspections is deemed compliant for the inspection period. An active facility that complies with the Meat Inspection Regulation at all slaughter or meat processing inspections is deemed to have met provincial animal slaughter or meat processing requirements for the entire reporting calendar year.
- An active abattoir facility that receives one or more corrective action requests for any slaughter or meat processing inspection is deemed not to have met the Meat Inspection Regulation for the entire reporting calendar year. Active facilities that comply with the Meat Inspection Regulation for some (but not all) slaughter day inspections are not counted as having met provincial food safety animal slaughter requirements. As a result, the performance result likely understates the level of compliance among active Alberta-licensed abattoir facilities.
- The data for this measure is collated from the ministry's Meat Inspection Program.

Performance Measure 3.a

Average percentage of improved environmentally sustainable agriculture practices adopted by producers (biennial survey)

- The result for this measure is derived from 40 environmentally sustainable agriculture (ESA) practices that could be used to address soil conservation, water management, wildlife habitat conservation, energy management, climate change adaptation, agricultural waste management, and grazing and manure management.
- An eligible ESA practice (or group) for the base calculation is based on farm type, farm site characteristics, and operation practices. The percentage of eligible environmentally sustainable agricultural practices adopted by each respondent is multiplied by a weighting factor to generate a weighted adoption score for each respondent. The result of this measure is the average weighted adoption score of all respondents expressed as a percentage.
- The target population for Agriculture and Forestry's Environmentally Sustainable Agriculture Tracking Survey is based on a list of commercial farmers in Alberta maintained by Kynetec Canada. The random and representative sample size was 500, providing a margin of error in provincial results of ± 4.4 per cent at a 95 per cent confidence level. The response rate was 8.3 per cent.
- Data limitations include: producers that are not included in Kynetec Canada's database (the source of the survey list); non-contactable subscribers (due to privacy legislation compliance); unreachable samples (due to wrong telephone numbers, answering machine, busy, no answer, etc.) and non-response; and disqualification due to failure to answer a required screening question.

Performance Measure 3.b

Sustainable timber harvest (million cubic metres) by:

- **Annual allowable cut (million cubic metres)**
- **Harvest (million cubic metres)**
- A five-year rolling average inclusive of the reporting year is used to report provincial Annual Allowable Cut (AAC) and actual timber harvest levels in order to more closely align with the way timber dispositions are managed. Results are reported with a time lag of one year.
- Results reflect Alberta's ability to manage forests on Crown land in a sustainable manner. The AAC is the amount of timber that can be harvested on a sustainable basis (in accordance with the policy of sustained yield) within a defined planning area. Recreation areas, wildlife reserves and stream buffers are excluded from the AAC calculation.
- The AAC is determined on either an individual forest management unit basis or a specific forest management agreement area basis. Each forest management unit (or area) with an AAC has up to three coniferous AACs and two deciduous AACs. These are rolled up into a provincial coniferous AAC and a provincial deciduous AAC. Finally, the coniferous and deciduous AACs are summed to determine the total provincial AAC. Information is stored in a database and summed to determine the total provincial AAC for the province.
- AACs are developed by forest management agreement (FMA) holders as part of their detailed forest management plans. An FMA is an area-based tenure agreement between a forest company and the Government of Alberta that gives a forestry company the right to establish, grow, and harvest timber. The ministry approves the company-recommended AAC following a technical review; ministry staff develop AACs for other forest management units.
- Data from the Timber Production and Revenue System is used to determine the provincial harvest level (actual timber harvest). Certain volumes are not included in the harvest level for the purpose of comparability to the AAC. For example, fire salvage is not included in harvest levels if it does not contribute to the AAC.

Performance Measure 3.c

Percentage of forest regrowth as a result of reforestation

- The rate of forest regrowth is the percentage of targeted regrowth achieved on harvested areas at the time of the last mandated assessment. This measure ensures that reforestation continues to sustain Alberta's public forests and forest lands following industrial harvesting. Monitoring reforestation in relation to regeneration standards is an essential part of continued forest sustainability and demonstrates efforts that Agriculture and Forestry staff perform to sustain Alberta's forest resources.
- The current forest regeneration assessment system utilizes detailed data and assesses sufficiency of the harvested areas' reforestation status and trends over time. Two approaches are generally used to track forest growth rates following industrial harvesting:
 - current forest growth status relative to a fixed point-in-time standard; or
 - forecasting the growth rate of the reforested trees relative to the growth rate assumed for that forest type in the Forest Management Plan for the area.
- The regrowth rate measure reports a single metric combining both systems of assessing regeneration performance.

Performance Measure 4.a

Total investment leveraged in rural businesses facilitated through Agriculture Financial Services Corporation lending services (\$ million)

- Farms and commercial business investments in rural areas are added together and reported as total dollar investment (all sources are included whether it is direct from AFSC, other sources of debt, business owner's equity or investment by a third party). This amount excludes all loans that were approved in the 2017-18 fiscal year and subsequently cancelled or withdrawn on or before March 31, 2018.

- Dollar investment is any fund (i.e., debt, equity, investment) that would be used to support the growth of farming and commercial activities. Total leveraged investment is a proxy for the total dollar investment as a result of AFSC's involvement with the facilitation of capital investment in agribusiness and farm loans for farming and/or commercial activities outside Calgary and Edmonton.
- Total dollar investment in rural businesses is a proxy value for investment based on loans approved. Values reported are affected by timing differences between approval and disbursement of loans approved. As well, not all approved loans are disbursed. The data is collated from AFSC's lending activities.
- The total eligible seeded acres for the annual crops insured under the crop insurance program is divided by the corresponding total seeded acres for annual crops, as reported in Statistics Canada's November 2017 Field Crop Reporting Series (modified on February 2, 2018). The result is then expressed as a percentage. The corresponding eligible seeded acres of annual crops insured under the Crop Insurance program is supplied by the AFSC.
- The total eligible seeded acres for the perennial crops insured under the Crop Insurance program is divided by the corresponding total for seeded and native pastures (Census of Agriculture 2016, Statistics Canada (released on May 10, 2017)) and tame hay pasture (November 2017 Field Crop Reporting Series, Statistics Canada (modified on February 2, 2018)). The result is then expressed as a percentage. The corresponding eligible acres of perennial crops insured under the Crop Insurance program is obtained from AFSC.
- The estimate for land (in acres) seeded to annual crops in Alberta is taken from Statistics Canada's November 2017 Field Crop Reporting Series. This Statistics Canada publication also provides a detailed methodology of the field crop data. The November estimate provides the most recent information available on seeded acreage in Alberta.
- The Census of Agriculture is collected every five years, so acres may change during that time.

Performance Measure 4.b

Percentage of eligible seeded acres for major crop categories insured under Production Insurance:

- **Annual Crops**
- **Perennial Crops**

- Annual crops are seeded every year. The annual crops included in this measure are: wheat (winter wheat, spring wheat, and durum wheat), oats, barley, fall rye, mixed grain, flaxseed, canola, corn for grain, dry peas, triticale, dry coloured beans, lentils, mustard seed, chick peas, sugar beets and fodder corn.
- Perennial crops refer to crops that do not need to be seeded every year and last for several years. Perennial crops are made up of seeded pasture, native/natural pasture, and tame hay.

Appendix A: Agriculture and Forestry Statistics

Alberta Agriculture and Agri-Food Industry

		2015	2016	% Change
ANNUAL AVERAGE HOUSEHOLD FOOD EXPENDITURE	Average Household Expenditure on Food (Dollars)	\$10,171	\$9,766	-4.0
	<i>% of Total Average Household Expenditure</i>	<i>9.2%</i>	<i>9.2%</i>	

NOTE: Expenditure data for 2017 are not yet available.

		2016r	2017p	% Change
REAL GROSS DOMESTIC PRODUCT (GDP) IN 2007 DOLLARS	- Agri-Food Industries (\$ billions)	\$6.34	\$6.49	2.5
	- Agriculture Industries	\$3.45	\$3.51	1.9
	- Food and Beverage Manufacturing Industries	\$2.89	\$2.98	3.2
	- Food Manufacturing	\$2.42	\$2.50	3.4
	- Beverage Manufacturing	\$0.46	\$0.47	2.2
EMPLOYED LABOUR FORCE	Agri-Food Industries (Number of Persons)	73,200	75,100	2.6
	<i>% of Total Alberta Employment</i>	<i>3.2%</i>	<i>3.3%</i>	
	- Agriculture Industries	50,800	52,100	2.6
	- Food and Beverage Manufacturing Industries	22,400	23,000	2.7
	<i>% of Total Manufacturing Industries</i>	<i>19.4%</i>	<i>19.3%</i>	
FARM INCOME	Total Farm Cash Receipts (\$ billions)	\$13.50	\$14.11	4.5
	- Crops	\$6.67	\$6.93	3.9
	<i>% of Total Farm Cash Receipts</i>	<i>49.4%</i>	<i>49.1%</i>	
	- Livestock and Livestock Products	\$6.13	\$6.42	4.6
	<i>% of Total Farm Cash Receipts</i>	<i>45.4%</i>	<i>45.5%</i>	
	Supply Management (Dairy, Poultry and Eggs)	\$0.93	\$0.96	3.7
	<i>% of Livestock and Livestock Products Receipts</i>	<i>15.1%</i>	<i>15.0%</i>	
	- Direct Program Payments	\$0.70	\$0.76	9.7
	<i>% of Total Farm Cash Receipts</i>	<i>5.2%</i>	<i>5.4%</i>	
	Farm Operating Expenses (After Rebates) (\$ billions)	\$10.11	\$10.50	3.8
	Net Cash Farm Income (\$ billions)	\$3.39	\$3.62	6.8
	Realized Net Income (\$ billions)	\$1.65	\$1.82	10.3
	Total Net Income (\$ billions) ⁽¹⁾	\$2.22	\$2.21	-0.3
FOOD AND BEVERAGE MANUFACTURING INDUSTRIES VALUE OF SALES	Food and Beverage Industries (\$ billions)	\$13.28	\$14.40	8.4
	<i>% of Total Alberta Manufacturing Sales</i>	<i>20.8%</i>	<i>20.3%</i>	
	Top Three Largest Food Manufacturing Sales Groups in 2017:			
	1. Meat Products (Includes Poultry)	\$6.74	\$7.37	9.3
	2. Grain and Oilseed Milling	\$1.70	\$1.73	1.9
	3. Dairy Products Manufacturing	\$0.81	\$1.22	50.7

		2016r	2017p	% Change
AGRI-FOOD EXPORTS TO ALL COUNTRIES	Total Agri-Food Exports (\$ billions)	\$10.01	\$11.24	12.3
	- Primary Commodities (Animals and Crops)	\$4.96	\$5.65	14.0
	- Value Added Products	\$5.05	\$5.58	10.6
	Top Three Markets in 2017 (% Share of Total)			
	1. United States (38.0%)	\$4.06	\$4.27	5.1
	2. China (17.6%)	\$1.38	\$1.98	44.0
	3. Japan (11.2%)	\$1.23	\$1.26	2.8
VALUE OF FARM CAPITAL	Total Value of Farm Capital at July 1 (\$ billions)	\$148.99	\$159.65	7.2
	- Livestock and Poultry	\$7.87	\$8.06	2.4
	- Land and Buildings	\$127.02	\$136.82	7.7
	- Machinery and Equipment	\$14.10	\$14.77	4.7
PRODUCTION OF TOP THREE MAJOR FIELD CROPS	1. All Wheat (tonnes)	10,106,700	9,980,100	-1.3
	% of Canada	31.4%	33.3%	
	2. Canola (tonnes)	6,157,500	6,826,600	10.9
	% of Canada	31.4%	32.0%	
	3. Barley (tonnes)	4,398,000	3,906,000	-11.2
	% of Canada	49.8%	49.5%	
MEAT PRODUCTION QUANTITY	Beef - Western Canada ⁽²⁾ (tonnes)	815,458	856,800	5.1
	Pork - Alberta (tonnes)	242,145	240,111	-0.8
NUMBER OF LIVESTOCK SLAUGHTERED ⁽³⁾	Cattle and Calves - Western Canada ⁽²⁾ (Head)	2,113,779	2,260,844	7.0
	Hogs - Alberta (Head)	2,619,485	2,597,475	-0.8
LIVESTOCK INVENTORY ON FARMS ON JANUARY 1ST		01/01/2017	01/01/2018	
	Cattle and Calves (Head)	4,730,000	4,755,000	0.5
	% of Canada	41.1%	40.9%	
	Hogs (Head)	1,490,000	1,515,000	1.7
	% of Canada	10.7%	10.6%	
	Sheep and Lambs (Head)	138,000	140,000	1.4
	% of Canada	17.0%	16.7%	

Alberta Agriculture and Agri-Food Industry - Selected Statistics

CENSUS OF AGRICULTURE - ALBERTA		2011	2016	% Change
RURAL POPULATION	Total Population of Alberta	3,645,257	4,067,175	11.6
	- Rural Population	614,855	667,803	8.6
	% of Total Population	16.9%	16.4%	
	- Population Centres (Urban) Population	3,030,402	3,399,372	
NUMBER OF FARMS	Number of Farms	43,234	40,638	-6.0
	% of Canada	21.0%	21.0%	
FARMLAND AREA	Total Farmland Area (Acres)	50,498,834	50,250,183	-0.5
	% of Canada	31.5%	31.7%	
LAND AREA IN CROPS	Land Area in Crops (Acres)	24,102,289	25,261,781	4.8
	% of Canada	27.6%	27.1%	

CENSUS OF AGRICULTURE - ALBERTA		2011	2016	% Change
AVERAGE FARM SIZE	Average Farm Size (Acres)	1,168	1,237	5.9
FARM OPERATORS	Number of Farm Operators	62,050	57,605	-7.2
	Average Age of Farm Operators	54.5 years	55.7 years	
	% Distribution By Age Group:			
	- Under 35 years	7.3%	8.5%	
	- 35 to 54 years	43.1%	35.0%	
	- 55 years and over	49.6%	56.5%	
FARMS BY TYPE ⁽⁴⁾	Top Five Farm Types (Number of Farms):			
	1. Grain and Oilseed	12,692	13,451	6.0
	2. Beef Cattle (Including Feedlots)	12,022	12,282	2.2
	3. Other Crops (Excluding Grain and Oilseed)	9,385	7,414	-21.0
	4. Other Animals (Excluding Beef Cattle)	6,374	5,101	-20.0
	5. Greenhouse, Nursery, Floriculture and Mushroom	826	605	-26.8
FARMS BY SALES CLASS ⁽⁵⁾	% of Total Number of Farms:			
	- Under \$10,000	17.8%	14.2%	
	- \$10,000 to \$24,999	18.2%	14.8%	
	- \$25,000 to \$99,999	27.7%	26.3%	
	- \$100,000 to \$499,999	26.0%	28.5%	
	- \$500,000 and Over	10.3%	16.2%	
LAND AREA SEEDED USING NO-TILL PRACTICES	Total Land Area Prepared for Seeding (Acres)	19,945,813	21,909,580	9.8
	No-Till or Zero-Till Seeding Area	12,924,625	15,176,949	17.4
	% of Total Land Area Prepared for Seeding	64.8%	69.3%	
IRRIGATION AREA	Irrigated Farmland (Acres)	1,241,411	1,517,089	22.2
	% of Canadian Irrigated Area	65.2%	67.9%	

r - REVISED *p* - PRELIMINARY, SUBJECT TO REVISION.

NOTE: Per cent changes shown are based on unrounded data. Data shown in this table are current as May 28, 2018

- (1) Realized net income adjusted for inventory change.
- (2) Western Canada data only; breakdown for Alberta are unavailable.
- (3) Federally and provincially inspected slaughter, irrespective of origin.
- (4) Farms are classified by the commodity or groups of commodities that make up the majority of total farm cash receipts; based on the North American Industry Classification System (NAICS).
- (5) Farms are classified by the gross farm cash receipts of the operation in the previous calendar year, or for the complete accounting (fiscal) year (2010 and 2015).

More detailed statistical information can be found on the Statistics page on the ministry website www.agric.gov.ab.ca

SOURCES: Statistics Canada; Agriculture and Forestry; Agriculture and Agri-Food Canada; and Census data for 2011 and 2016 are from the Census of Population and Census of Agriculture.

Alberta Forest Industry

		2016	2017	YoY % Change
REAL GROSS DOMESTIC PRODUCT (GDP) IN 2007 DOLLARS (\$ MILLIONS)^A	Forestry & logging industries	613.9	628.2	2.3%
	Wood products manufacturing	1,323.1	1,353.9	2.3%
	Pulp & paper manufacturing	612.7	632.4	3.2%
EMPLOYMENT (NUMBER OF PERSONS)^B	Forestry & logging industries	3,284.0	3,521.0	7.2%
	Wood products manufacturing	9,768.0	9,348.0	-4.3%
	Pulp and Paper manufacturing	2,563.0	2,152.0	-16.0%
CAPITAL EXPENDITURES (\$ MILLIONS)^C	Forestry & logging industries	73.2	73.2	0%
	Wood products manufacturing	87.7	106.3	21.2%
	Pulp & paper manufacturing	88.2	81.4	-7.7%
INDUSTRY REVENUES (\$ MILLIONS)^D	Forestry & logging industries	920.1	x	-
	Wood products manufacturing	3,648.6	x	-
	Pulp & paper manufacturing	1,636.1	x	-
TOP THREE EXPORT MARKETS FOR WOOD PRODUCTS (\$ MILLIONS)^E	United States	1,272.2	1,579.8	24.2%
	Japan	46.4	68.6	47.7%
	China	6.5	28.1	336.1%
TOP THREE EXPORT MARKETS FOR PULP & PAPER PRODUCTS (\$ MILLIONS)^E	United States	920.4	899.0	-2.3%
	China	510.5	557.8	9.3%
	Japan	137.2	89.3	-34.9%

NOTES & REFERENCES

X - DATA FOR 2017 IS NOT AVAILABLE UNTIL DECEMBER 2018 (ASML RELEASE).

1. All values expressed in Canadian Dollars (\$CAN).
2. GDP values expressed in chained (2007) dollars at basic prices.
3. Capital expenditures expressed in (2007) dollars.
4. Capital expenditures and domestic revenues for forestry & logging industries do not include support activities for forestry, as the data is not reported at that level.
5. Forestry & logging industries refers to harvesting, silviculture, reforestation, pest control, and other related activities.
6. Wood products manufacturing refers to solid wood products, such as lumber, panels (OSB, plywood), engineered, and other wood products.
7. Pulp and paper manufacturing refers to pulp wood products such as chemical and mechanical pulp, newsprint, and other paper products.
8. Industry revenues include all (seasonally adjusted) sales from logging & manufacturing activities, both domestically and internationally. Other revenues not included.

SOURCES FOR DATA & ANALYSIS

- A. Statistics Canada: System of National Accounts (SNA); retrieved May 2, 2018.
- B. Statistics Canada: Survey of Employment, Payroll, & Hours (SEPH); retrieved May 2, 2018.
- C. Statistics Canada: Annual Capital and Repair Expenditures Survey (CAPEX); retrieved May 2, 2018.
- D. Statistics Canada: Annual Survey of Manufacturing & Logging; retrieved May 2, 2018.
- E. Statistics Canada: Canadian International Merchandise Trade Database; retrieved May 2, 2018.

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Ministry of Agriculture and Forestry

Consolidated Financial Statements

Year Ended March 31, 2018

MINISTRY OF AGRICULTURE AND FORESTRY

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2018

Independent Auditor's Report

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Consolidated Statement of Financial Position

Consolidated Statement of Change in Net Financial Assets

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Schedule 1 - Consolidated Revenues

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Schedule 3 - Consolidated Loans Receivable

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Schedule 7 – Consolidated Related Party Transactions

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Independent Auditor's Report

To the Members of the Legislative Assembly

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Ministry of Agriculture and Forestry, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Agriculture and Forestry as at March 31, 2018, and the results of its operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 31, 2018
Edmonton, Alberta

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31, 2018

	2018 Budget	2018 Actual	2017 Actual (Restated - Note 3)
	(in thousands)		
Revenues (Schedule 1)			
Government Transfers			
Government of Alberta Grants	370	1,930	789
Federal Government Grants	297,734	356,108	394,552
Investment Income	142,434	122,591	129,924
Premiums, Fees and Licenses	428,625	504,691	460,660
Other Revenue	10,197	18,557	17,725
	879,360	1,003,877	1,003,650
Expenses - Directly Incurred (Note 2(c), and Schedule 2 & 8)			
Program			
Ministry Support Services	20,972	19,043	22,545
Agriculture Policy and Economics	16,518	14,094	13,875
Agriculture Environment and Water	48,430	51,224	55,259
Food Safety and Animal Health	41,591	36,234	45,269
Industry Development	143,447	141,279	134,138
Forests	201,886	390,797	425,344
Climate Leadership Plan	8,434	11,149	5,912
Lending	38,433	30,628	31,737
Insurance	476,341	545,565	683,273
Agriculture Income Support	122,144	224,160	187,835
	1,118,196	1,464,173	1,605,187
Other			
Debt Servicing Costs	70,735	68,405	68,590
	70,735	68,405	68,590
	1,188,931	1,532,578	1,673,777
Annual Deficit	\$ (309,571)	\$ (528,701)	\$ (670,127)

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

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2018

	2018	2017 (Restated - Note 3)
	(in thousands)	
Financial Assets		
Cash and Cash Equivalents (Note 4)	\$ 320,090	\$ 482,445
Accounts Receivable (Note 5)	367,850	323,420
Loans Receivable (Schedule 3)	2,222,081	2,214,471
Investments (Schedule 4)	2,460,213	2,112,802
	5,370,234	5,133,138
Liabilities		
Accounts Payable and Accrued Liabilities (Note 6)	156,906	141,424
Indemnities Payable	288,540	333,922
Deferred Contributions (Note 8)	16,269	12,631
Liability for Contaminated Sites (Note 9)	2,516	5,047
Borrowing from Government of Alberta (Schedule 6)	2,206,092	2,191,872
	2,670,323	2,684,896
Net Financial Assets	2,699,911	2,448,242
Non-Financial Assets		
Tangible Capital Assets (Schedule 5)	244,978	242,844
Inventories of Supplies	5,025	5,267
Prepaid Expenses	4,052	4,278
	254,055	252,389
Net Assets Before Spent Deferred Capital Contributions	2,953,966	2,700,631
Spent Deferred Capital Contributions (Note 8)	13,658	13,508
Net Assets	\$ 2,940,308	\$ 2,687,123
Net Assets at Beginning of Year	\$ 2,687,123	\$ 2,305,812
Adjustments to Net Assets (Note 15)	-	1,242
Annual Deficit	(528,701)	(670,127)
Net Financing Provided from General Revenues	781,886	1,050,196
Net Assets at End of Year	\$ 2,940,308	\$ 2,687,123

Contingent Liabilities and Contractual Obligations (Notes 10 and 11)

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

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
YEAR ENDED MARCH 31, 2018

	2018 Budget	2018 Actual	2017 Actual (Restated - Note 3)
	(in thousands)		
Annual Deficit	\$ (309,571)	\$ (528,701)	\$ (670,127)
Acquisition of Tangible Capital Assets	(25,129)	(22,785)	(22,284)
Amortization of Tangible Capital Assets (Schedule 5)	28,782	24,809	24,965
Donated Tangible Capital Assets		(286)	(4,182)
Gain on Disposal of Tangible Capital Assets		(34)	(34)
Proceeds on Disposal of Tangible Capital Assets		45	68
Write-downs of Tangible Capital Assets		-	116
Transfer in of Tangible Capital Assets		(3,884)	-
Acquisition of Inventories of Supplies	(1,310)	(1,751)	(2,360)
Consumption of Inventories of Supplies	1,310	1,994	875
Decrease/(Increase) in Prepaid Expenses		226	(297)
Increase/(Decrease) in Spent Deferred Capital Contribution (Note 8)		150	(94)
Net Financing Provided from General Revenue		781,886	1,050,196
Increase in Net Financial Assets		\$ 251,669	\$ 376,842
Net Financial Assets at Beginning of Year		2,448,242	2,071,400
Net Financial Assets at End of Year		\$ 2,699,911	\$ 2,448,242

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

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2018

	2018	2017 (Restated - Note 3)
	(in thousands)	
Operating Transactions		
Annual Deficit	\$ (528,701)	\$ (670,127)
Non-cash items included in Net Operating Results		
Amortization of Tangible Capital Assets (Schedule 5)	24,809	24,965
Deferred Contributions recognized as Revenue (Note 8)	(3,405)	(3,601)
Amortization of premiums and discounts	(1,751)	1,781
Donated Tangible Capital Assets	(286)	(4,182)
Transfer of Tangible Capital Assets from other Government Departments/Entities (Schedule 5)	(3,884)	-
Gain on Disposal of Tangible Capital Assets	(34)	(34)
Write-downs of Tangible Capital Assets	-	116
Gain (Loss) on Sale of Investments	4,154	(7,340)
	(509,098)	(658,422)
Net Change in Operating Assets and Liabilities	(67,622)	14,869
Cash Applied to Operating Transactions	(576,720)	(643,553)
Capital Transactions		
Acquisition of Tangible Capital Assets (Schedule 5)	(22,785)	(22,283)
Proceeds on Disposal of Tangible Capital Assets	45	68
Cash Applied to Capital Transactions	(22,740)	(22,215)
Investing Transactions		
Proceeds from Repayments of Loans Receivable	376,610	387,272
Loan Disbursements	(389,373)	(470,480)
Purchase of Investments	(1,403,900)	(1,205,287)
Proceeds on Disposal of Investments	1,052,106	978,962
Cash Applied to Investing Transactions	(364,557)	(309,533)
Financing Transactions		
Contributions Restricted for Capital (Note 8)	3,555	3,668
Borrowing from the Government of Alberta	1,145,000	1,020,000
Repayment of Borrowing from the Government of Alberta	(1,128,779)	(960,506)
Net Financing Provided from General Revenues	781,886	1,050,196
Cash Provided by Financing Transactions	801,662	1,113,358
(Decrease)/Increase in Cash and Cash Equivalents	(162,355)	138,057
Cash and Cash Equivalents at Beginning of Year	482,445	344,388
Cash and Cash Equivalents at End of Year	\$ 320,090	\$ 482,445

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

Notes to the Consolidated Financial Statements for the Year Ended March 31, 2018

Note 1 Authority and Purpose

The Ministry of Agriculture and Forestry operates under the authority of the *Government Organization Act* and its regulations and has been designated responsibilities for various Acts. The purpose of the Ministry is to enable the growth, prosperity and diversification of Alberta's agriculture, food and forest sectors; to inspire public confidence in wildfire and forest management and the quality and safety of food; to support environmentally sustainable resource management practices; and to lead collaboration that enables safe and resilient rural communities through policies, legislation, regulations and services.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These consolidated financial statements are prepared in accordance with Canadian public sector accounting standards.

(a) Reporting Entity

The Minister of Agriculture and Forestry administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Agriculture and Forestry and constitute the reporting entity.

Organization	Authority
Department of Agriculture and Forestry (the Department)	<i>Government Organization Act</i>
Agriculture Financial Services Corporation (the Corporation)	<i>Agriculture Financial Services Act</i>
Environmental Protection and Enhancement Fund (the Fund)	<i>Environmental Protection and Enhancement Act</i>

The financial statements for the individual entities provide more detailed information about the operations of each entity.

(b) Method of Consolidation

The accounts of the Department, regulated funds and provincial agencies are consolidated using the line-by-line method. Under this method, accounting policies of the consolidated entities are adjusted to conform to government accounting policies and the results of each line item in their financial statements (revenue, expense, assets, and liabilities) are included in government's results.

Revenue and expense, capital, investing and financing transactions and related asset and liability balances between the consolidated entities have been eliminated.

(c) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year-end is recognized as unearned revenue.

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income earned from restricted sources are deferred and recognized when the stipulations imposed have been met. Gains and losses on investments are not recognized in the Consolidated Statement of Operations until realized.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as deferred revenue until earned.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Funds collected under various agreements are restricted contributions subject to externally imposed conditions that specify the purpose for which the funds are to be used. Restricted contributions are recognized as revenue in the period in which the related expenses are incurred. Restricted contributions received for future expenses are deferred until that future period when they are transferred to revenue.

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgriInsurance and Hail Insurance programs. A corresponding premium contribution from the Government of Canada is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Government of Canada. Premiums received in advance of the related policy term are recorded as deferred revenue until earned.

For the Livestock Price Insurance Program premiums are recorded as revenue when a policy is sold.

Government transfers - Transfers from all levels of governments are referred to as government transfers.

Government transfers are recognized as deferred revenue (deferred capital contributions and deferred revenue) if the eligibility criteria of the transfer, or the stipulations together with the ministry's actions and communications as to the use of transfers create a liability. These transfers are recognized as revenues as the stipulations are met and, when applicable, the ministry complies with its communicated uses of these transfers.

All other government transfers, without stipulations for the use of the transfer, are recognized as revenue when the ministry is eligible to receive the funds.

Deferred Revenue - Cash received for which goods or services have not been provided by year end is recognized as deferred revenue.

Expenses

Directly Incurred - Directly incurred expenses are those costs the ministry has primary responsibility and accountability for, as reflected in the government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets;
- inventory consumed;
- pension costs which comprise the cost of employer contributions for current service of employees during the year;
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, loans, guarantees and indemnities; and
- transfer of tangible capital assets to other ministries.

Grant Expense - Grants are recognized as expenses when authorized, eligibility criteria, if any, are met by the recipients and a reasonable estimate of the amounts can be made.

Incurred by Others - Services contributed by other entities in support of the ministry operations are not recognized but disclosed in Schedule 8.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

The fair values of cash and cash equivalents, accounts receivable, loans and advances, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments. Fair values of loans are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Financial Assets

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

Financial assets are the ministry's cash, investments, and financial claims on external organizations and individuals at the year end.

Cash and Cash Equivalents - Cash comprises of cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term commitments rather than for investment purposes.

Due to the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for allowance for doubtful accounts, if applicable. The resulting net book value is considered to be equivalent to fair value. This approach applies to cash; accounts receivable; due from Government of Canada; accounts payable and accrued liabilities; and indemnities payable. Fair values of loans receivable, investments, and borrowing from the Government of Alberta are disclosed in their respective schedules and notes.

Investments – Investments are reported at cost, or amortized cost, unless there is an other than temporary decline in the value of the investments, then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

Loans - Loans are recognized at the lower of cost and net recoverable value. Amounts included in the cost of loans receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs. Valuation allowances are recognized to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured.

Loans made with significant concessionary terms are discounted. The amounts outstanding are discounted to their estimated present value. The amounts discounted are amortized to revenue over the term of the related concessionary loan.

Liabilities

Liabilities are present obligations of the ministry to external organizations and individuals arising from past transactions or events occurring before the year end, the settlement of which is expected to result in the future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liabilities also include:

- all financial claims payable by the ministry at the year end;
- accrued employee vacation entitlements; and
- contingent liabilities where future liabilities are likely.

Borrowing from Government of Alberta - Borrowing from Government of Alberta is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

Liability for Contaminated Sites - Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. The liability is recognized net of any expected recoveries. A liability for remediation of contaminated sites normally results from operation(s) that is no longer in productive use and is recognized when all of the following criteria are met:

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

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Non-Financial Assets

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

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

Non-financial assets are limited to tangible capital assets, inventories of supplies and prepaid expenses.

Tangible capital assets - Tangible capital assets of the ministry are recognized at historical cost and amortized on a straight-line basis over the estimated useful life of the assets. The threshold for capitalizing new systems development is \$250,000-\$500,000 and the threshold for major enhancements is \$100,000. The threshold for computer software acquired from external sources is \$5,000-\$100,000. The threshold for all other tangible capital assets is \$5,000. All land, with exception of Crown lands, is capitalized.

Contributed tangible capital assets from non-related entities are recognized at their fair value at the time of contribution.

Amortization is only charged if the tangible capital asset is put into service.

Inventories of supplies - Inventories of supplies are valued at the lower of cost and replacement cost. Cost is determined on a first-in first-out basis.

Prepaid Expense - Prepaid expense are recognized at cost and amortized based on the terms of the agreement.

Measurement Uncertainty (in thousands)

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

Accounts Receivable, recognized as \$367,850 in these financial statements, includes an allowance for doubtful accounts of \$6,618 (2017 – \$9,533) for estimated losses on premiums receivable and overpayments which is subject to measurement uncertainty. The allowance estimate is based on an assessment of the ability to collect the outstanding balance.

Loans Receivable - Loans receivable, recognized as \$2,222,081 (2017 – \$2,214,471) in these financial statements, include a specific allowance of \$13,687 (2017 – \$23,899) and a general allowance of \$12,143 (2017 – \$12,869) that are subject to measurement uncertainty. The amount established for specific and general allowances of \$25,830 (2017 – \$36,768) to cover estimated losses on loans could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

Provisions are established for specifically identified potential losses on loans. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by reducing the recognized investment in the loan by the discounted net present value of the security and the cost of realization. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

In addition to the specific provision, the ministry establishes a general allowance for doubtful accounts not meeting the specific provision criteria. The general allowance is management's estimate of loss on loan balances based on assessed risk for each account. Risk for each account is determined based on credit risk score, arrears, certain amendments to loan terms and shortfalls of security covering loan balances.

Indemnities Payable - Estimated indemnities payable of \$288,540 (2017 – \$333,922) and corresponding contributions and receivables from the Government of Canada are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Estimated indemnities for the current claim year for AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of \$127,327 to \$181,027.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on potential payments for claims not yet processed.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

(d) Change in Accounting Policy

The ministry has prospectively adopted the following standards from April 1, 2017: PS 2200 Related Party Disclosures, PS 3420 Inter-Entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights which are reflected in Note 2, Schedule 2, Schedule 7 and Schedule 8.

(e) Future Accounting Changes

The Public Sector Accounting Board issued these following accounting standards:

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**
This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.
- **PS 3280 Asset Retirement Obligations (effective April 1, 2021)**
Effective April 1, 2021, this standard provides guidance on how to account for and report a liability for retirement of a tangible capital asset.
- **PS 3450 Financial Instruments (effective April 1, 2021)**
Adoption of this standard requires corresponding adoption of: PS 2601, Foreign Currency Translation; PS 1201, Financial Statement Presentation; and PS 3041, Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement, and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments.

Management is currently assessing the impact of these standards on the financial statements.

Note 3 Government Reorganization

In July 2017, the government announced it is consolidating communications and marketing functions into a single organization, Communications and Public Engagement.

Comparatives for 2017 have been restated as if the Ministry had never been assigned its current responsibilities. The opening net liabilities and net debt as at April 1, 2016 are restated as follows:

	As Previously Reported	Transfer to Communications and Public Engagement	As Restated
Net Liabilities at March 31, 2016	\$ 2,306,938	\$ 116	\$ 2,307,054
Annual Deficit	(671,422)	1,295	(670,127)
Net Financing provided from General Revenues	1,051,491	(1,295)	1,050,196
Net Assets at March 31, 2017	\$ 2,687,007	\$ 116	\$ 2,687,123
Net Assets at March 31, 2016	\$ 2,448,126	\$ 116	\$ 2,448,242

Note 4 Cash and Cash Equivalents (in thousands)

Cash and Cash Equivalents include deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital.

	2018	2017
Cash	\$ 320,090	\$ 482,445
	<u>\$ 320,090</u>	<u>\$ 482,445</u>

Note 5 Accounts Receivable (in thousands)

Accounts receivable are unsecured and non-interest bearing.

	Gross Amount	2018 Allowance for Doubtful Accounts	Net Realizable Value	2017 Net Realizable Value
Accounts receivable	\$ 115,262	\$ 6,618	\$ 108,644	\$ 60,722
Due from Government of Canada	247,942	-	247,942	231,230
Due from Other Governments	11,264	-	11,264	25,770
Premiums from Insured Persons	-	-	-	5,698
	<u>\$ 374,468</u>	<u>\$ 6,618</u>	<u>\$ 367,850</u>	<u>\$ 323,420</u>

Note 6 Accounts Payable and Accrued Liabilities
(in thousands)

	2018	2017 (Restated)
Accounts Payable – General	\$ 76,763	\$ 51,058
Salaries, Wages and Employee Benefits	25,897	27,102
Grants	15,973	8,612
Supplies and Services and Capital Purchases	38,254	54,632
Reinsurance Premiums to Government of Canada	19	20
	<u>\$ 156,906</u>	<u>\$ 141,424</u>

Note 7 Credit and Interest Rate Risk
(in thousands)

Credit Risk - Credit risk is the risk that a borrower may not pay amounts owing thus resulting in a loss.

The following breakdown of the loans receivable provides an indication of the concentration of credit risk in the loan portfolio.

	2018		2017 (Restated)	
	Dollar	Percentage	Dollar	Percentage
Loans receivable by individual sector:				
Grain and Oilseeds	\$ 1,189,275	53%	\$ 1,166,729	52%
Cattle	635,419	28%	611,094	27%
Accommodations and Other Services	137,467	6%	145,594	7%
Manufacturing	83,456	4%	97,761	4%
Other Livestock	73,872	3%	72,379	3%
Trade - Retail and Wholesale	34,905	1%	41,676	2%
Commercial and Industrial	20,669	1%	30,116	1%
Transportation and Warehousing	21,457	1%	24,023	1%
Professional Services	15,943	1%	19,394	1%
Other	61,412	3%	68,470	3%
Allowance	(25,830)	-1%	(36,768)	-1%
	<u>\$ 2,248,045</u>	<u>100%</u>	<u>\$ 2,240,468</u>	<u>100%</u>

Note 7 Credit and Interest Rate Risk (continued)

Interest Rate Risk - Interest rate risk is the impact future changes in interest rates has on cash flows and fair values of assets and liabilities. Loan receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The ministry allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an amount to bridge the gap between interest revenue from the loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the ministry's loan portfolio and borrowing provides additional information on interest rate risk.

	Within 1 Year	Scheduled Repayment ⁽¹⁾		Over 10 Years	Not Interest Rate Sensitive ⁽²⁾	2018 Total	2017 Total
		1 to 5 Years	6 to 10 Years				
<i>(in thousands)</i>							
Loan balances	\$ 197,314	\$ 636,217	\$ 634,068	\$ 757,507	\$ 22,939	\$ 2,248,045	\$ 2,240,468
Yield ⁽³⁾	3.71%	3.74%	3.73%	3.26%	-	3.67%	3.68%
Rural utilities	\$ 63	\$ -	\$ -	\$ -	\$ -	\$ 63	\$ 63
Borrowing from							
Government of Alberta	\$ 271,093	\$ 835,972	\$ 850,152	\$ 250,000	\$ 13,073	\$ 2,220,290	\$ 2,206,540
Yield ⁽³⁾	3.27%	3.22%	3.15%	3.09%	-	3.21%	3.25%
Net gap	<u>\$ (73,716)</u>	<u>\$ (199,755)</u>	<u>\$ (216,084)</u>	<u>\$ 507,507</u>	<u>\$ 9,866</u>	<u>\$ 27,818</u>	<u>\$ 33,991</u>

⁽¹⁾ For loan balances, scheduled repayments of principal and interest are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

⁽²⁾ Includes specific and general allowance, accrued interest, and unamortized loan discount.

⁽³⁾ Yield represents the rate which discounts future cash receipts to the carrying amount.

Note 8 Deferred Contributions
(in thousands)

	2018	2017
Deferred revenue (a)	\$ 15,677	\$ 12,039
Unspent deferred capital contributions and transfers (b)	592	592
Spent deferred capital contributions and transfers (c)	13,658	13,508
	<u>\$ 29,927</u>	<u>\$ 26,139</u>

(a) Deferred revenue

	2018			2017
	Government of Alberta	Non-government	Total	Total
Balance at beginning of year	\$ 1,258	\$ 10,781	\$ 12,039	\$ 16,960
Cash contributions received/receivable during year	795	95,457	96,252	24,879
Less: amounts recognized as revenue	(1,097)	(91,517)	(92,614)	(29,800)
Balance at end of year	<u>\$ 956</u>	<u>\$ 14,721</u>	<u>\$ 15,677</u>	<u>\$ 12,039</u>

(b) Unspent deferred capital contributions and transfers

	2018			2017
	Federal Government	Non-government	Total	Total
Balance at beginning of year	\$ 420	\$ 172	\$ 592	\$ 431
Received/receivable during year	2,921	634	3,555	3,668
Transferred to spent deferred capital contributions and transfers	(2,921)	(634)	(3,555)	(3,507)
Balance at end of year	<u>\$ 420</u>	<u>\$ 172</u>	<u>\$ 592</u>	<u>\$ 592</u>

(c) Spent deferred capital contributions and transfers

	2018			2017
	Federal Government	Non-government	Total	Total
Balance at beginning of year	\$ 11,771	\$ 1,737	\$ 13,508	\$ 13,602
Transferred capital assets, received/receivable	-	-	-	-
Transferred from unspent deferred capital contributions and transfers	2,921	634	3,555	3,507
Less: amounts recognized as revenue	(3,138)	(267)	(3,405)	(3,601)
Balance at end of year	<u>\$ 11,554</u>	<u>\$ 2,104</u>	<u>\$ 13,658</u>	<u>\$ 13,508</u>

Note 9 Liability For Contaminated Sites
(in thousands)

The composition of liabilities is as follows:

	2018	Total 2017
Liabilities at beginning of year	\$ 5,047	\$ 5,263
Additions to liabilities during the year	-	-
Change in estimate related to existing sites	(1,582)	373
Remediation work performed	(949)	(589)
Liabilities at end of year	<u>\$ 2,516</u>	<u>\$ 5,047</u>

The ministry has accepted responsibility to perform remediation work at various locations.

Note 10 Contingent Liabilities
(in thousands)

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

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

The ministry has been named in six (2017: six) claims of which the outcome is not determinable. Of these claims, five (2017: four) have a have total amount claimed of \$924 (2017: \$520). The remaining claim (2017: two) has no amount specified. Included in the total claims is one (2017: zero) claim in which the ministry has been jointly named with other ministries. The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

Note 11 Contractual Obligations
(in thousands)

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

	2018	2017
Obligations under Operating Leases, Contracts and Programs	\$ 130,545	\$ 175,989
Approved, Undisbursed loans	195,932	187,126
	<u>\$ 326,477</u>	<u>\$ 363,115</u>

Note 11 Contractual Obligations (continued)

Estimated payment requirements for each of the next five years and thereafter are as follows:

Obligations Under Operating Leases, Contracts and Programs

	Total
2018-19	\$ 79,620
2019-20	35,074
2020-21	5,634
2021-22	4,391
2022-23	1,621
Thereafter	4,205
	<u>\$ 130,545</u>

Loans and Advances

	Total
2018-19	\$ 195,932
	<u>\$ 195,932</u>

Note 12 Guarantees

(in thousands)

	2018	2017	Expiry Date
Feeder Associations	\$ 71,384	\$ 63,692	Ongoing
Agriculture Financial Services Corporation Guarantees	<u>9,686</u>	<u>13,112</u>	Variable
	81,070	76,804	
Allowance for Loan Guarantees	<u>-</u>	<u>-</u>	
	<u>\$ 81,070</u>	<u>\$ 76,804</u>	

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the ministry. Prior to issuing a loan, security is taken. The security taken depends on the nature of the loan.

Included in Agriculture Financial Services Corporation guarantees is \$7,365 (2017 - \$9,336) guaranteed under the Alberta Flood Recovery Loan Guarantee Program (AFRLGP), which was established to assist Alberta businesses directly impacted by the June 2013 flood in southern Alberta. Under the AFRLGP, the Corporation has entered into agreements with financial institutions guaranteeing repayment of up to 75% of loans issued under this program.

Note 13 Trust Funds Under Administration

(in thousands)

The ministry administers trust funds that are regulated and other funds consisting of public money over which the legislature has no power of appropriation. As the province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the ministry's financial statements.

At March 31, 2018 trust funds under administration were as follows:

	2018	2017
4-H General Trust	\$ 30	\$ 96
Claude Gallinger Memorial Trust Fund	21	21
Performance Deposit Trust	1,213	1,991
Forests Act Securities General Trust	1,554	1,503
	<u>\$ 2,818</u>	<u>\$ 3,611</u>

In addition to the above trust funds under administration, the ministry holds bank guarantees in the form of letters of credit and promissory notes as follows

	2018	2017
Performance Deposit Trust	\$ 5,822	\$ 6,049
Forests Act Securities General Trust	1,326	1,387
	<u>\$ 7,148</u>	<u>\$ 7,436</u>

Note 14 Payments Under Agreement

(in thousands)

The ministry has entered into agreements to deliver fire emergency services. Costs under these agreements are incurred by the department under the Mutual Aid Resource Sharing Agreement with other government organizations. Accounts receivable includes \$17,547 (2017 - \$1,863) and accounts payable includes \$0 (2017 - \$94) relating to payments under agreements.

Amounts paid and payable under agreement with other government organizations are as follows:

	2018	2017
Canadian Governments	\$ 16,957	\$ 3,075
United States Governments	2,253	286
	<u>\$ 19,210</u>	<u>\$ 3,361</u>

Note 15 Adjustments to Net Assets

(in thousands)

The reconciliation of adjustments to net assets is as follows:

	2018	2017
Communications and Public Engagement	\$ -	\$ 116
Non-Grant Transfer of Tangible Capital Asset from other Government Departments	-	1,126
	<u>\$ -</u>	<u>\$ 1,242</u>

Note 16 Benefit Plans

(in thousands)

The ministry participates in the multi-employer pension plans: Management Employees Pension Plan (MEPP) and Public Service Pension Plan (PSPP) and Supplementary Retirement Plan for Public Service Managers (SRP). The expense for these pension plans is equivalent to the annual contributions of \$22,532 for the year ended March 31, 2018 (2017: \$25,667).

At December 31, 2017, MEPP reported a surplus of \$866,006 (2016: surplus \$402,033) and the PSPP reported a surplus of \$1,275,843 (2016: surplus \$302,975) and the SRP reported a deficiency of \$54,984 (2016: deficiency \$50,020).

The ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2018, the Bargaining Unit Plan reported an actuarial deficiency of \$111,983 (2017: deficiency \$101,515) and the Management, Opted Out, and Excluded Plan reported an actuarial surplus of \$29,805 (2017: surplus \$31,439). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 17 Subsequent Events

Effective April 1, 2018, the government consolidated human resource functions under the Public Service Commission within the Ministry of Treasury Board and Finance. April 1, 2018, the government consolidated the Freedom of Information and Protection of Privacy (FOIP) delivery services under the Ministry of Service Alberta; April 23, 2018, the government consolidated information management and technology services under the Ministry of Service Alberta.

Note 18 Comparative Figures

Certain 2017 figures have been reclassified to conform to the 2018 presentation.

Note 19 Budget

The 2017-2018 Government and Lottery Fund Estimates were approved on May 4, 2017.

Note 20 Approval of the Consolidated Financial Statements

The deputy minister and senior financial officer approved these consolidated financial statements.

MINISTRY OF AGRICULTURE AND FORESTRYCONSOLIDATED REVENUESYEAR ENDED MARCH 31, 2018

	2018 (in thousands)	2017
Government Transfers		
Government of Alberta Grants	\$ 1,930	\$ 789
Federal Government Grants		
Agriculture Insurance	203,150	240,585
Agriculture Income Support	112,252	92,039
Growing Forward	31,986	51,990
Other	8,720	9,938
	<u>358,038</u>	<u>395,341</u>
Investment Income		
Agriculture Insurance	35,744	40,969
Lending	85,584	86,976
Other	1,263	1,979
	<u>122,591</u>	<u>129,924</u>
Premiums, Fees and Licenses		
Premiums from Insured Persons	348,131	370,334
Timber Royalties and Fees	139,860	69,748
Other	16,700	20,578
	<u>504,691</u>	<u>460,660</u>
Other Revenue	<u>18,557</u>	<u>17,725</u>
Total Revenues	<u>\$ 1,003,877</u>	<u>\$ 1,003,650</u>

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT
YEAR ENDED MARCH 31, 2018

	2018 Budget	Actual	2017 Actual (Restated - Note 3)
	(in thousands)		
Indemnities	\$ 506,532	\$ 678,385	\$ 779,093
Grants	149,673	162,043	151,733
Salaries, Wages, Employment Contracts and Benefits	242,294	258,731	277,959
Interest	70,735	68,405	68,590
Supplies and Services	181,331	337,327	368,307
Financial Transactions and Other	9,584	2,878	3,130
Amortization of Tangible Capital Assets	28,782	24,809	24,965
Total Expenses	<u>\$ 1,188,931</u>	<u>\$ 1,532,578</u>	<u>\$ 1,673,777</u>

MINISTRY OF AGRICULTURE AND FORESTRYCONSOLIDATED LOANS RECEIVABLEYEAR ENDED MARCH 31, 2018

	2018	2017
	(in thousands)	
Loans Receivable	\$ 2,247,959	\$ 2,251,298
Less Allowance for Doubtful Accounts	(25,851)	(36,788)
Less Loan Discounts	(27)	(39)
	<u>2,222,081</u>	<u>2,214,471</u>
Accrued Interest	26,026	26,060
	<u><u>\$ 2,248,107</u></u>	<u><u>\$ 2,240,531</u></u>

Fair values of loans receivable are not disclosed. Determining fair values with sufficient reliability is not practical due to the absence of verifiable information from established financial markets for such loans.

The allowance for doubtful accounts of \$25,851 (2017 – \$36,768) includes a specific allowance of \$13,687 (2017 – \$23,899) on impaired loans outstanding of \$30,570 (2017 - \$40,697), excluding unamortized loan discounts.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are \$4,966,477 (2017 - \$4,698,479).

The composition of the loans receivable balance by range of effective annual interest rates is as follows:

	2018	2017
		(Restated)
		(in thousands)
Effective annual Interest Rate		
Less than or equal to 2%	\$ 198,673	\$ 219,742
2.01% to 3.00%	430,595	454,977
3.01% to 4.00%	706,808	654,886
4.01% to 5.00%	504,046	462,449
5.01% to 6.00%	285,645	297,894
6.01% to 7.00%	108,179	141,430
7.01% to 8.00%	11,691	16,510
Over 8%	<u>2,213</u>	<u>3,288</u>
	2,247,850	2,251,176
Accrued interest	26,025	26,060
Allowance for doubtful accounts	(21,478)	(36,768)
	<u><u>\$ 2,252,397</u></u>	<u><u>\$ 2,240,468</u></u>
Weighted average annual interest rate	3.85%	3.86%

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED INVESTMENTS

AS AT MARCH 31, 2018

(in thousands)

	2018	2017
Bonds and Debentures		
Government of Canada, direct and guaranteed	\$ 1,283,128	\$ 952,752
Other provincial, direct and guaranteed	87,921	216,590
	1,371,049	1,169,342
Corporate Securities	1,089,164	943,460
	2,460,213	2,112,802
Accrued interest	11,825	11,599
	<u>\$ 2,472,038</u>	<u>\$ 2,124,401</u>

	Term to Maturity			2018 Total	2017 Total
	Within 1 Year	1 to 5 Years	6 to 10 Years		
Bonds and Debentures	\$ 14,726	\$ 1,354,961	\$ 1,362	\$ 1,371,049	\$ 1,169,342
Yield	1.51%	2.02%	2.36%	2.02%	1.08%
Corporate Securities	44,927	1,011,238	32,999	1,089,164	943,460
Yield	1.82%	2.51%	2.84%	2.49%	1.62%
	59,653	2,366,199	34,361	2,460,213	2,112,802
Accrued Interest	216	11,489	120	11,825	11,599
	<u>\$ 59,869</u>	<u>\$ 2,377,688</u>	<u>\$ 34,481</u>	<u>\$ 2,472,038</u>	<u>\$ 2,124,401</u>

The fair value of investments at March 31, 2018 is \$2,430,696 (2017 - \$2,123,136). Fair value is based on quoted market prices excluding accrued interest.

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED TANGIBLE CAPITAL ASSETS

YEAR ENDED MARCH 31, 2018
(in thousands)

Estimated Useful Life	Land Indefinite	Buildings 25 - 40 years	Equipment and Vehicles 5 - 35 years	Computer		Land Improvements 10 years	Leasehold Improvements 5 years	2018 Total	2017 Total
				Hardware and Software 2 - 10 years	2 - 10 years				
Historical Cost ⁽¹⁾									
Beginning of year	\$ 1,827	\$ 99,904	\$ 272,607	\$ 162,308	\$ 6,231	\$ 19	\$ 542,896	\$ 516,975	
Additions ⁽²⁾	4	8,191	6,728	12,011	180	-	27,114	28,066	
Disposals, including ⁽³⁾ write-downs	-	(45)	(862)	(4,989)	-	-	(5,896)	(2,145)	
	\$ 1,831	\$ 108,050	\$ 278,473	\$ 169,330	\$ 6,411	\$ 19	\$ 564,114	\$ 542,896	
Accumulated Amortization									
Beginning of year	\$ -	\$ 21,720	\$ 157,679	\$ 115,146	\$ 5,503	\$ 4	\$ 300,052	\$ 276,608	
Amortization expense ⁽⁴⁾	-	1,807	12,780	10,172	46	4	24,809	25,268	
Effect of disposals including write-downs	-	(43)	(694)	(4,988)	-	-	(5,725)	(1,824)	
	\$ -	\$ 23,484	\$ 169,765	\$ 120,330	\$ 5,549	\$ 8	\$ 319,136	\$ 300,052	
Net Book Value at									
March 31, 2018	\$ 1,831	\$ 84,566	\$ 108,708	\$ 49,000	\$ 862	\$ 11	\$ 244,978		
Net Book Value at									
March 31, 2017	\$ 1,827	\$ 78,184	\$ 114,928	\$ 47,162	\$ 728	\$ 15	\$ 242,844		

⁽¹⁾ Historical cost includes work-in-progress at March 31, 2018 totaling \$67,400 comprised of: building \$45,316 (2017 - \$37,864), equipment \$7,263 (2017 - \$3,658), computer hardware and software \$14,101 (2017 - \$15,519) and land improvements \$720 (2017 \$550).

⁽²⁾ Includes donated tangible capital assets of \$286 (2017 - \$4,182). Includes transfer from Alberta Seniors and Housing \$248 (2017 - \$280, Service Alberta \$1,705 (2017 - \$725) and Alberta Environment and Parks \$2,089 (2017 - \$596).

⁽³⁾ Includes transfer to Alberta Environment and Parks \$254 (2017 Alberta Infrastructure - \$171).

⁽⁴⁾ Includes transfer from Alberta Environment and Parks of \$121 (2017 - \$303).

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED BORROWING FROM THE GOVERNMENT OF ALBERTA

YEAR ENDED MARCH, 31 2018
(in thousands)

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

	2018	2017
Effective Annual Interest Rate		
Less than or equal to 2%	\$ 355,000	\$ 370,000
2.01% to 3.00%	683,000	583,000
3.01% to 4.00%	759,238	759,238
4.01% to 5.00%	400,751	460,752
5.01% to 6.00%	9,227	18,006
	<u>2,207,216</u>	<u>2,190,996</u>
Unamortized premium	(1,124)	876
	<u>2,206,092</u>	<u>2,191,872</u>
Accrued interest	14,198	14,668
	<u><u>\$ 2,220,290</u></u>	<u><u>\$ 2,206,540</u></u>

The estimated fair value at March 31, 2018 is \$2,272,966 (2017 - \$2,325,485). Fair value is an approximation of market value to the holder.

Scheduled principal repayments in each of the next five years and thereafter are as follows:

Year ending March 31,	2019	\$ 271,092
	2020	293,109
	2021	225,000
	2022	181,432
	2023	136,431
	Thereafter	<u>1,100,152</u>
		<u><u>\$ 2,207,216</u></u>

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED RELATED PARTY TRANSACTIONS

YEAR ENDED MARCH 31, 2018
(in thousands)

Related parties are those entities consolidated or accounted for on a modified equity basis in the Government of Alberta consolidated financial statements. Related parties also include key management personnel in the ministry.

The ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The ministry had the following transactions with related parties reported in the Consolidated Statement of Operations and the Consolidated Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	2018	2017
Revenues:		
Grants	\$ -	\$ -
Transfer of Tangible Capital Assets	3,920	-
Other	2,490	1,294
	<u>\$ 6,410</u>	<u>\$ 1,294</u>
Expenses - Directly Incurred:		
Grants	\$ 8,584	\$ 7,137
Transfer of Tangible Capital Assets	36	-
Accommodation	619	641
Other services	23,237	8,257
Interest	67,953	67,900
	<u>\$ 100,429</u>	<u>\$ 83,935</u>
Payable to		
Ministry of Treasury Board and Finance	\$ 2,295,317	\$ 2,256,614
Ministry of Environment and Parks	165	775
Ministry of Economic Development and Trade	94	230
Ministry of Advanced Education	400	101
Ministry of Justice and Solicitor General	25	-
Ministry of Education	-	1
	<u>\$ 2,296,001</u>	<u>\$ 2,257,721</u>
Receivable from		
Ministry of Municipal Affairs	\$ 11,262	\$ 23,640
Ministry of Economic Development and Trade	353	90
Ministry of Advanced Education	9	14
Ministry of Environment and Parks	-	3
Ministry of Education	-	85
	<u>\$ 11,624</u>	<u>\$ 23,832</u>
Deferred Revenue from		
Ministry of Economic Development and Trade	\$ 441	\$ 309
Ministry of Advanced Education	9	47
Ministry of Education	506	902
	<u>\$ 956</u>	<u>\$ 1,258</u>

The ministry also had transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not reported in the consolidated financial statements and are disclosed in Schedule 8.

Note: The ministry receives services under contracts managed by the Ministry of Service Alberta. Any commitments under these contracts are reported by the Ministry of Service Alberta.

MINISTRY OF AGRICULTURE AND FORESTRY

CONSOLIDATED ALLOCATED COSTS

YEAR ENDED MARCH 31, 2018

(in thousands)

Program	2018 Expenses - Incurred by Others					2017
	Expenses ⁽¹⁾	Accommodation Costs ⁽²⁾	Legal Services ⁽³⁾	Business Services ⁽⁴⁾	Total Expenses	Total Expenses (Restated - Note 3)
Ministry Support Services	\$ 19,043	\$ 2,804	\$ 159	\$ 6,650	\$ 28,656	\$ 32,627
Agriculture Policy and Economics	\$ 14,094	2,406	64	3	\$ 16,567	\$ 16,560
Agriculture Environment and Water	\$ 51,224	3,334	71	4	\$ 54,633	\$ 64,806
Food Safety and Animal Health	\$ 36,234	6,733	198	8	\$ 43,173	\$ 52,842
Industry Development	\$ 141,279	10,221	322	12	\$ 151,834	\$ 144,049
Forests	\$ 390,797	17,683	210	21	\$ 408,711	\$ 440,364
Climate Leadership Plan	\$ 11,149	44				
Lending	\$ 30,628	847	-	-	\$ 31,475	\$ 32,520
Insurance	\$ 545,565	847	-	-	\$ 546,412	\$ 684,070
Agriculture Income Support	\$ 224,160	25	-	-	\$ 224,185	\$ 187,870
	\$ 1,464,173	\$ 44,944	\$ 1,024	\$ 6,698	\$ 1,505,646	\$ 1,655,708

⁽¹⁾ Expenses - Directly incurred per Consolidated Statements of Operations.⁽²⁾ Accommodation Costs, including grants in lieu of taxes, allocated by budgeted full-time equivalent employment.⁽³⁾ Legal Services Costs allocated by estimated costs incurred by each program.⁽⁴⁾ Business Services Costs, including charges for IT support, vehicles, air transportation, internal audit services and other services, allocated by costs in certain programs.

Department of Agriculture and Forestry

Financial Statements

Year Ended March 31, 2018

DEPARTMENT OF AGRICULTURE AND FORESTRY

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2018

Independent Auditor's Report

Statement of Operations

Statement of Financial Position

Statement of Change in Net Debt

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1 – Revenues

Schedule 2 – Credit or Recovery

Schedule 3 – Expenses – Directly Incurred Detailed by Object

Schedule 4 – Lapse/Encumbrance

Schedule 5 – Lottery Fund Estimates

Schedule 6 – Salary and Benefits Disclosure

Schedule 7 – Related Party Transactions

Schedule 8 – Allocated Costs

Independent Auditor's Report

To the Minister of Agriculture and Forestry

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Agriculture and Forestry, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Agriculture and Forestry as at March 31, 2018, and the results of its operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 31, 2018
Edmonton, Alberta

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2018

	2018 Budget	2018 Actual	2017 Actual (Restated - Note 3)
	(in thousands)		
Revenues (Schedule 1)			
Government Transfers			
Federal Government Grants	\$ 37,200	\$ 40,095	\$ 61,928
Government of Alberta Grants	370	2,878	1,714
Timber Royalties and Fees	50,162	120,643	42,910
Premiums, Fees and Licenses	1,970	2,267	2,335
Other Revenue	10,197	16,383	17,419
	99,899	182,266	126,306
Expenses - Directly Incurred (Note 2(a) and 7, Schedules 3, 4, 7 and 8)			
Programs			
Ministry Support Services	20,972	19,043	22,545
Agriculture Policy and Economics	16,518	14,094	13,876
Agriculture Environment and Water	48,430	51,224	55,259
Food Safety and Animal Health	41,591	36,234	45,269
Industry Development	143,447	141,279	134,138
Forests	172,704	369,461	398,350
Climate Leadership Plan	8,434	11,149	5,912
Agriculture Insurance and Lending Assistance			
Lending Assistance	12,547	12,547	11,672
Insurance	240,452	242,900	278,371
Agriculture Income Support	57,478	101,369	85,666
	762,573	999,300	1,051,058
Annual Deficit	\$ (662,674)	\$ (817,034)	\$ (924,752)

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

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2018

	2018	2017 (Restated - Note 3)
	(in thousands)	
Financial Assets		
Cash	\$ 6,701	\$ 11,373
Accounts Receivable (Note 4)	81,049	53,556
	87,750	64,929
Liabilities		
Accounts Payable and Accrued Liabilities (Note 5)	354,314	294,073
Deferred Contributions (Note 6)	8,934	6,821
	363,248	300,894
Net Debt	(275,498)	(235,965)
Non-Financial Assets		
Tangible Capital Assets (Note 8)	210,339	205,574
Inventories of Supplies	5,025	5,267
Prepaid Expenses	119	15
	215,483	210,856
Net Liabilities Before Spent Deferred Capital Contributions	(60,015)	(25,109)
Spent Deferred Capital Contributions (Note 6)	2,174	1,933
Net Liabilities	\$ (62,189)	\$ (27,042)
Net Liabilities at Beginning of Year	\$ (27,042)	\$ (153,728)
Adjustments to Net Assets (Note 14)	-	1,242
Annual Deficit	(817,034)	(924,752)
Net Financing Provided from General Revenues	781,887	1,050,196
Net Liabilities at End of Year	\$ (62,189)	\$ (27,042)

Contingent Liabilities and Contractual Obligations (Notes 9 and 10)

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

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF CHANGE IN NET DEBT

YEAR ENDED MARCH 31, 2018

	2018 Budget	2018 Actual	2017 Actual (Restated - Note 3)
	(in thousands)		
Annual Deficit	\$ (662,674)	\$ (817,034)	\$ (924,752)
Acquisition of Tangible Capital Assets	(17,559)	(15,883)	(14,917)
Amortization of Tangible Capital Assets (Note 8)	18,930	15,283	16,236
Gain on Sale of Tangible Capital Assets		(33)	(15)
Donated Tangible Capital Assets		(286)	(4,182)
Proceeds on Sale of Tangible Capital Assets		38	15
Write-downs of Tangible Capital Assets		-	116
Transfer in of Tangible Capital Assets		(3,884)	-
Acquisition of Inventories of Supplies	(1,310)	(1,752)	(2,360)
Consumption of Inventories of Supplies	1,310	1,994	875
(Increase)/Decrease in Prepaid Expenses		(104)	8
Increase/(Decrease) in Spent Deferred Capital Contribution (Note 6)		241	(382)
Net Financing Provided from General Revenue		781,887	1,050,196
(Increase) Decrease in (Net Debt)		\$ (39,533)	\$ 120,838
Net Debt at Beginning of Year		(235,965)	(356,803)
Net Debt at End of Year		\$ (275,498)	\$ (235,965)

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

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2018

	2018	2017 (Restated - Note 3)
	(in thousands)	
Operating Transactions		
Annual Deficit	\$ (817,034)	\$ (924,752)
Non-cash Items Included in Annual Deficit		
Amortization of Tangible Capital Assets (Note 8)	15,283	16,236
Deferred Contribution recognized as Revenue (Note 6)	(393)	(412)
Donated Tangible Capital Assets	(286)	(4,182)
Transfer of Tangible Capital Asset from other Government Departments/Entities	(3,884)	-
Gain on Disposal of Tangible Capital Assets	(33)	(15)
Write-downs of Tangible Capital Assets	-	116
	(806,347)	(913,009)
Increase in Accounts Receivable	(27,493)	(4,670)
Decrease/(Increase) in Inventories of Supplies	242	(1,485)
(Increase)/Decrease in Prepaid Expenses	(104)	8
Increase/(Decrease) in Accounts Payable and Accrued Liabilities	60,241	(113,210)
Increase/(Decrease) in Deferred Contributions	2,113	(3,799)
Cash Applied to Operating Transactions	(771,348)	(1,036,165)
Capital Transactions		
Acquisition of Tangible Capital Assets (Note 8)	(15,883)	(14,917)
Proceeds on Disposal of Tangible Capital Assets	38	15
Cash Applied to Capital Transactions	(15,845)	(14,902)
Financing Transactions		
Contributions Restricted for Capital	634	191
Net Financing Provided from General Revenues	781,887	1,050,196
Cash Provided by Financing Transactions	782,521	1,050,387
Decrease in Cash	(4,672)	(680)
Cash at Beginning of Year	11,373	12,053
Cash at End of Year	\$ 6,701	\$ 11,373

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

Notes to the Financial Statements for the Year Ended March 31, 2018

Note 1 Authority and Purpose

The Department of Agriculture and Forestry operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000. The purpose of the Department is to enable the growth, prosperity and diversification of Alberta's agriculture, food and forest sectors; to inspire public confidence in wildfire and forest management and the quality and safety of food; to support environmentally sustainable resource management practices; and to lead collaboration that enables safe and resilient rural communities through policies, legislation, regulations and services. The Department is exempt from income taxes under the *Income Tax Act*.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian public sector accounting standards.

(a) Basis of Financial Reporting

Revenue

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year-end is recognized as unearned revenue.

Funds collected under various agreements are restricted contributions subject to externally imposed conditions that specify the purpose for which the funds are to be used. Restricted contributions are recognized as revenue in the period in which the related expenses are incurred. Restricted contributions received for future expenses are deferred until that future period when they are transferred to revenue.

Government transfers - Transfers from all levels of governments are referred to as government transfers.

Government transfers are recognized as deferred capital contributions and deferred revenue if the eligibility criteria of the transfer or the stipulations together with the department's actions and communications as to the use of transfers create a liability. These transfers are recognized as revenues as the stipulations are met and, when applicable, the department complies with its communicated uses of these transfers.

All other government transfers, without stipulations for the use of the transfer, are recognized as revenue when the transfer is authorized and the department meets the eligibility criteria (if any).

Credit or Recovery - Credit or recovery initiatives provide a basis for authorizing spending. Credits or recoveries are shown in the details of the government estimates for a supply vote. If budgeted revenues are not fully realized, spending is reduced by an equivalent amount. If actual credit or recovery amounts exceed budget, the department may, with the approval of the Treasury Board Committee, use the excess to fund additional expenses of the program. Schedule 2 discloses information on the department's credit or recovery initiatives.

Transfer of Tangible Capital Assets from Other Government Departments/Entities - Transfers of tangible capital assets from other government departments or entities are recognized as revenue.

Expenses

Directly Incurred - Directly incurred expenses are those costs the department has primary responsibility and accountability for, as reflected in the government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets;
- inventory consumed;
- pension costs, which comprise the cost of employer contributions for current service of employees during the year;
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Grant Expense - Grants are recognized as expenses when authorized, eligibility criteria, if any, are met by the recipients and a reasonable estimate of the amounts can be made.

Incurred by Others - Services contributed by other entities in support of the department's operations are not recognized but disclosed in Schedule 8.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act.

The fair values of cash, accounts receivable, and accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short term nature of these instruments. Fair values of loans are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

Financial Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

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

Liabilities

Liabilities are present obligations of the department to external organizations and individuals arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amounts.

Non-Financial Assets

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

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

Non-financial assets of the department are limited to tangible capital assets, prepaid expenses and inventories of supplies.

Tangible Capital Assets - Tangible capital assets of the department are recognized at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is \$250,000 and the threshold for major systems enhancements is \$100,000. The threshold for all other tangible capital assets is \$5,000. All land, with the exception of Crown lands, is capitalized.

Contributed tangible capital assets from non-related entities are recognized at their fair value at the time of contribution.

Amortization is only charged if the tangible capital asset is put into service.

When physical assets (tangible capital assets and inventories of supplies) are gifted or sold for a nominal sum, the net book value of these physical assets, less any nominal proceeds, are recognized as grants in kind.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Inventories of Supplies - Inventories of supplies are valued at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis.

Assets acquired by right are not included.

Measurement Uncertainty (in thousands)

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

The department's contribution to Agriculture Financial Services Corporation for the department's share of program payments under the AgriInvest, AgriStability and AgriRecovery programs, disclosed as \$101,369 in these financial statements, is subject to measurement uncertainty. The department's contribution for these programs could change substantially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections, estimated indemnities for the current year would be in the range of \$62,826 to \$85,197.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on potential payments for claims not yet processed.

(b) Change in Accounting Policy

The department has prospectively adopted the following standards from April 1, 2017: PS 2200 Related Party Disclosures, PS 3420 Inter-Entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights which are reflected in Note 2, Schedule 7 and Schedule 8.

(c) Future Accounting Changes

The Public Sector Accounting Board issued these following accounting standards:

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**
This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.
- **PS 3280 Asset Retirement Obligations (effective April 1, 2021)**
Effective April 1, 2021, this standard provides guidance on how to account for and report a liability for retirement of a tangible capital asset.
- **PS 3450 Financial Instruments (effective April 1, 2021)**
Adoption of this standard requires corresponding adoption of PS 2601 Foreign Currency Translation, PS 1201 Financial Statement Presentation, and PS 3041 Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments.

Management is currently assessing the impact of these standards on the financial statements.

Note 3 Program Transfer
(in thousands)

Effective September 14, 2017, Communications and Public Engagement branches were transferred from each department to the Department of Treasury Board and Finance. Comparatives for 2017 have been restated as if the current organization structure had always been the same. The opening net liabilities and net debt as at April 1, 2016 are restated as follows:

	As Previously Reported	Transfer to Communications and Public Engagement	As Restated
Net Liabilities at March 31, 2016	\$ (152,602)	\$ 116	\$ (152,486)
Annual Deficit	(926,047)	1,295	(924,752)
Net Financing provided from General Revenues	1,051,491	(1,295)	1,050,196
Net Liabilities at March 31, 2017	\$ (27,158)	\$ 116	\$ (27,042)
Net Debt at March 31, 2016	\$ (236,081)	\$ 116	\$ (235,965)

Note 4 Accounts Receivable
(in thousands)

Accounts receivable are unsecured and non-interest bearing.

	Gross Amount	2018 Allowance for Doubtful Accounts	Net Realizable Value	2017 Net Realizable Value
Accounts receivable	\$ 60,177	\$ 369	\$ 59,808	\$ 19,125
Due from the Government of Canada	21,089	-	21,089	34,261
Refunds from suppliers	90	-	90	104
Loans and advances	83	21	62	66
	<u>\$ 81,439</u>	<u>\$ 390</u>	<u>\$ 81,049</u>	<u>\$ 53,556</u>

Note 5 Accounts Payable and Accrued Liabilities
(in thousands)

	2018	2017 (Restated - Note 3)
Accounts Payable – General	\$ 4,315	\$ 3,646
Salary, Wages and Employee Benefits	20,635	20,734
Grants	301,417	232,878
Supplies and Services and Capital Purchases	27,947	36,815
	<u>\$ 354,314</u>	<u>\$ 294,073</u>

Note 6 Deferred Contributions

(in thousands)

	2018	2017
Deferred Revenue (i)	\$ 8,342	\$ 6,229
Unspent Deferred Capital Contributions and Transfers (ii)	592	592
Spent Deferred Capital Contributions and Transfers (iii)	2,174	1,933
	<u>\$ 11,108</u>	<u>\$ 8,754</u>

(i) Deferred Revenue

	2018				2017
	Government of Alberta	Federal Government	Non-government	Total	Total
Balance at Beginning of Year	\$ 1,258	\$ -	\$ 4,971	\$ 6,229	\$ 10,028
Cash Contributions Received/Receivable During Year	795	-	88,121	88,916	19,069
Less Amounts Recognized as Revenue	(1,097)	-	(85,706)	(86,803)	(22,868)
Balance at End of Year	<u>\$ 956</u>	<u>\$ -</u>	<u>\$ 7,386</u>	<u>\$ 8,342</u>	<u>\$ 6,229</u>

(ii) Unspent Deferred Capital Contributions and Transfers

	2018				2017
	Government of Alberta	Federal Government	Non-government	Total	Total
Balance at Beginning of Year	\$ -	\$ 420	\$ 172	\$ 592	\$ 431
Cash Contributions Received/Receivable During Year	-	-	634	634	191
Transferred to Spent Deferred Capital Contributions	-	-	(634)	(634)	(30)
Balance at End of Year	<u>\$ -</u>	<u>\$ 420</u>	<u>\$ 172</u>	<u>\$ 592</u>	<u>\$ 592</u>

(iii) Spent Deferred Capital Contributions and Transfers

	2018				2017
	Government of Alberta	Federal Government	Non-government	Total	Total
Balance at Beginning of Year	\$ 381	\$ 493	\$ 1,059	\$ 1,933	\$ 2,315
Transferred Capital Assets Received/Receivable	-	-	-	-	-
Transferred from Unspent Deferred Capital Contributions	-	-	634	634	30
Less Amounts Recognized as Revenue	(63)	(160)	(170)	(393)	(412)
Balance at End of Year	<u>\$ 318</u>	<u>\$ 333</u>	<u>\$ 1,523</u>	<u>\$ 2,174</u>	<u>\$ 1,933</u>

Note 7 Over Expenditure of Authorized Spending

(in thousands)

The department's financial transactions exceeded the authorized votes by \$441 for the year ended March 31, 2018. As required by the *Financial Administration Act*, this amount must be charged against the voted appropriation for the year ending March 31, 2019. See Schedule 4 to the financial statements.

Note 8 Tangible Capital Assets
(in thousands)

			Computer Hardware and Software	Leasehold Improve- ments	Land Improve- ments	2018 Total	2017 Total
Estimated Useful Life	Buildings 40 years	Equipment ⁽¹⁾ 5 - 35 years	3 - 5 years	5 years	10 years		
Historical Cost⁽²⁾							
Beginning of Year	\$ 89,685	\$ 260,508	\$ 52,116	\$ 19	\$ 6,231	\$ 408,559	\$ 389,506
Additions ⁽³⁾	8,152	6,633	5,247	-	180	20,212	20,700
Disposals, Including ⁽⁴⁾ Write-downs	(45)	(847)	(37)	-	-	(929)	(1,647)
	<u>97,792</u>	<u>266,294</u>	<u>57,326</u>	<u>19</u>	<u>6,411</u>	<u>427,842</u>	<u>408,559</u>
Accumulated Amortization							
Beginning of Year	15,912	148,813	32,752	4	5,503	202,984	187,804
Amortization Expense ⁽⁵⁾	1,420	11,823	1,990	4	46	15,283	16,540
Effect of Disposals	(43)	(685)	(36)	-	-	(764)	(1,360)
	<u>17,289</u>	<u>159,951</u>	<u>34,706</u>	<u>8</u>	<u>5,549</u>	<u>217,503</u>	<u>202,984</u>
Net Book Value at March 31, 2018	<u>\$ 80,503</u>	<u>\$ 106,343</u>	<u>\$ 22,620</u>	<u>\$ 11</u>	<u>\$ 862</u>	<u>\$ 210,339</u>	
Net Book Value at March 31, 2017	<u>\$ 73,773</u>	<u>\$ 111,695</u>	<u>\$ 19,364</u>	<u>\$ 15</u>	<u>\$ 728</u>		<u>\$ 205,575</u>

(1) Equipment includes vehicles, heavy equipment, office equipment and furniture and other equipment.

(2) Historical cost includes work-in-progress at March 31, 2018 totaling \$64,344 comprised of: buildings \$45,316 (2017 - \$37,864); equipment \$7,263 (2017 - \$3,658); computer hardware and software \$11,045 (2017 - \$5,976) and land improvements \$720 (2017 - \$550).

(3) Includes donated tangible capital assets of \$286 (2017 - \$4,182). Includes transfer from Alberta Seniors and Housing \$248 (2017 - \$280), Service Alberta \$1,705 (2017 - \$725) and Alberta Environment and Parks \$2,089 (2017 - \$596).

(4) Includes transfer to Alberta Environment and Parks \$254, (2017 Alberta Infrastructure -\$171).

(5) Includes transfer from Alberta Environment and Parks \$121 (2017 - \$303).

Note 9 Contingent Liabilities
(in thousands)

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

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

The department has been named in four (2017: three) claims, the outcome of which are not determinable. Of these claims, three (2017: one) have a total amount claimed of \$612 (2017: \$245). The remaining claim (2017: two) has no amount specified. Included in the total claims is one (2017: zero) claim in which the department has been jointly named with other departments. The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

Note 10 Contractual Obligations
(in thousands)

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

	2018	2017
Obligations under Operating Leases, Contracts and Programs	\$ 85,857	\$ 102,871
	<u>\$ 85,857</u>	<u>\$ 102,871</u>

Estimated payment requirements for each of the next five years and thereafter are as follows:

Obligations Under Operating Leases, Contracts and Programs

	Total
2018-19	\$ 48,296
2019-20	31,308
2020-21	3,021
2021-22	2,426
2022-23	170
Thereafter	636
	<u>\$ 85,857</u>

Note 11 Guarantees
(in thousands)

	2018	2017	Expiry Date
Feeder Associations	\$ 71,384	\$ 63,692	Ongoing
	<u>\$ 71,384</u>	<u>\$ 63,692</u>	

Guarantee programs and their limits are established under the following Acts:

- *Feeder Associations Guarantee Act* (authorized guarantee limit set by Order in Council is \$100 million)
- *Rural Utilities Act* (authorized guarantee limit set by statute is \$50 million). There are currently no outstanding guarantees under this act.

The lender takes appropriate security prior to issuing a loan to the borrower, which is guaranteed by the province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower.

Note 12 Trust Funds Under Administration
(in thousands)

The department administers trust funds that are regulated funds consisting of public money over which the legislature has no power of appropriation. As the province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the department's financial statements.

At March 31, 2018 trust funds under administration were as follows:

	2018	2017
4-H General Trust	\$ 30	\$ 96
Claude Gallinger Memorial Trust Fund	21	21
Performance Deposit Trust	1,213	1,991
Forests Act Securities General Trust	1,554	1,503
	<u>\$ 2,818</u>	<u>\$ 3,611</u>

In addition to the above trust funds under administration, the department holds bank guarantees in the form of letters of credit and promissory notes as follows:

	2018	2017
Performance Deposit Trust	\$ 5,822	\$ 6,049
Forests Act Securities General Trust	1,326	1,387
	<u>\$ 7,148</u>	<u>\$ 7,436</u>

Note 13 Payments Under Agreement
(in thousands)

The department has entered into agreements to deliver fire emergency services. Costs under these agreements are incurred by the department under the Mutual Aid Resource Sharing Agreement with other government organizations. Accounts receivable includes \$17,547 (2017 - \$1,863) and accounts payable includes \$0 (2017 - \$94) relating to payments under agreements.

Amounts paid and payable under agreement with other government organizations are as follows:

	2018	2017
Canadian Governments	\$ 16,957	\$ 3,075
United States Governments	2,253	286
	<u>\$ 19,210</u>	<u>\$ 3,361</u>

Note 14 Adjustments to Net Assets
(in thousands)

The reconciliation of adjustments to net assets is as follows:

	2018	2017
Communications and Public Engagement	\$ -	\$ 116
Non-Grant Transfer of Tangible Capital Asset from other Government Departments	-	1,126
	<u>\$ -</u>	<u>\$ 1,242</u>

Note 15 Benefit Plans

(in thousands)

The department participates in the multi-employer pension plans: Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP) and Supplementary Retirement Plan for Public Service Managers (SRP). The expense for these pension plans is equivalent to the annual contributions of \$16,158 for the year ended March 31, 2018 (2017 – \$18,637). Departments are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2017, the MEPP reported a surplus of \$866,006 (2016 – surplus \$402,033), the PSPP reported a surplus of \$1,275,843 (2016 – surplus of \$302,975) and the SRP reported a deficiency of \$54,984 (2016 – deficiency \$50,020).

The department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2018, the Bargaining Unit Plan reported a surplus of \$111,983 (2017 - surplus \$101,515) and the Management, Opted Out and Excluded Plan a surplus of \$29,805 (2017 - surplus \$31,439). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 16 Subsequent Events

Effective April 1, 2018, the government consolidated human resource functions under the Public Service Commission within the Department of Treasury Board and Finance. April 1, 2018, the government consolidated the Freedom of Information and Protection of Privacy (FOIP) delivery services under the Department of Service Alberta; April 23, 2018, the government consolidated information management and technology services under the Department of Service Alberta.

Note 17 Comparative Figures

Certain 2017 figures have been reclassified to conform to the 2018 presentation.

Note 18 Approval of the Financial Statements

The deputy minister and the senior financial officer approve these financial statements.

DEPARTMENT OF AGRICULTURE AND FORESTRYSCHEDULE TO FINANCIAL STATEMENTSREVENUESYEAR ENDED MARCH 31, 2018

	Budget	2018 Actual (in thousands)	2017 Actual
Government Transfers			
Government of Alberta Grants	\$ 370	\$ 2,878	\$ 1,714
Federal Government Grants			
BSE Surveillance	1,162	1,014	1,019
Growing Forward	31,315	31,986	51,990
Other	4,723	7,095	8,919
	<u>37,570</u>	<u>42,973</u>	<u>63,642</u>
Timber Royalties and Fees	<u>50,162</u>	<u>120,643</u>	<u>42,910</u>
Premiums, Fees and Licenses			
Publications	200	228	243
Food Processing Centre Fees	600	703	712
Livestock Water Program	140	106	147
Meat Services	215	326	328
Green Certificate and Home Study	350	498	497
Other	465	406	408
	<u>1,970</u>	<u>2,267</u>	<u>2,335</u>
Other Revenue			
Project Contributions	7,338	5,183	5,582
Rail Hopper Car Revenue	1,000	342	367
Refunds of Expenditures Previous Years	-	1,606	4,440
Surplus Sales	-	188	71
Miscellaneous	1,859	9,064	6,959
	<u>10,197</u>	<u>16,383</u>	<u>17,419</u>
Total Revenues	<u>\$ 99,899</u>	<u>\$ 182,266</u>	<u>\$ 126,306</u>

DEPARTMENT OF AGRICULTURE AND FORESTRY

Schedule 2

SCHEDULE TO FINANCIAL STATEMENTS

CREDIT OR RECOVERY

YEAR ENDED MARCH 31, 2018

	Authorized	Actual Revenue Recognized	Deferred Revenue (in thousands)	Total Revenue Received/ Receivable	(Shortfall)/ Excess
Program Operating					
Ministry Support Services	\$ 1,225	\$ 473	\$ -	\$ 473	\$ (752)
Agriculture Policy and Economics	2,375	2,312	-	2,312	(63)
Agriculture Environment and Water	8,149	10,714	-	10,714	2,565
Food Safety and Animal Health	7,270	7,604	-	7,604	334
Industry Development	24,506	20,303	-	20,303	(4,203)
Forests	1,535	1,957	-	1,957	422
	<u>\$ 45,060</u>	<u>\$ 43,363</u>	<u>\$ -</u>	<u>\$ 43,363</u>	<u>\$ (1,697) ⁽¹⁾</u>
Program Capital Investments					
Ministry Support Services	\$ -	\$ -	\$ -	\$ -	\$ -
Agriculture Policy and Economics	-	-	-	-	-
Agriculture Environment and Water	-	-	-	-	-
Food Safety and Animal Health	-	-	-	-	-
Industry Development	700	46	634	680	(20)
Forests	-	-	-	-	-
	<u>\$ 700</u>	<u>\$ 46</u>	<u>\$ 634</u>	<u>\$ 680</u>	<u>\$ (20) ⁽¹⁾</u>

Ministry Support Services credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$229) fees for sale of publications (\$217) and farm implement dealers' licenses (\$27).

Agriculture Policy and Economics credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$2,267) and external contributions (\$45).

Agriculture Environment and Water credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$9,508), fees and contributions for Irrigation and Farm Water Program (\$415), contributions for Environmental Stewardship (\$791).

Food Safety and Animal Health credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$7,003), fees and contributions for Food Safety and Animal Health (\$601).

Industry Development credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$12,979), fees and contributions for Research and Extension (\$5,218), Food and Bio Processing (\$1,206) and external contributions to other projects and initiatives (\$900).

Forests credit or recovery initiatives include federal revenue through agreements with the Government of Canada to fund various forestry programs such as the country-wide framework for synthesizing data and reporting on the status of Canadian forests, as well as conducting risk analysis impacts of national significance. Contributions to Forestry Youth Programs and Hinton Training Centre fees are also included.

The revenue of each initiative is included in the Statement of Operations.

⁽¹⁾ Shortfall is deducted from current year's authorized budget, as disclosed in Schedule 4 to the financial statements.

DEPARTMENT OF AGRICULTURE AND FORESTRY
SCHEDULE TO FINANCIAL STATEMENTS
EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT
YEAR ENDED MARCH 31, 2018

	Budget	2018 Actual	2017 Actual (Restated - Note 3)
	(in thousands)		
Salaries, Wages and Employee Benefits	\$ 170,280	\$ 170,947	\$ 180,639
Supplies and Services	115,403	94,173	92,938
Grants	456,650	716,847	760,195
Amortization of Tangible Capital Assets	18,930	15,283	16,236
Financial Transactions and Other	1,310	2,050	1,050
	<u>\$ 762,573</u>	<u>\$ 999,300</u>	<u>\$ 1,051,058</u>

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

LAPSE/ENCUMBRANCE

YEAR ENDED MARCH 31, 2018

	Voted Estimate ⁽¹⁾	Supplementary Estimate ⁽²⁾	Adjustments ⁽³⁾ (in thousands)	Adjusted Voted Estimate	Voted Actuals ⁽⁴⁾	Unexpended (Over Expended)
Program - Operating Expense						
1 Ministry Support Services						
1.1 Minister's Office	\$ 754	\$ -	\$ -	\$ 754	\$ 797	\$ (43)
1.2 Deputy Minister's Office	791	-	-	791	668	123
1.3 Farmers' Advocate	970	-	-	970	868	102
1.4 Corporate Services	14,321	-	-	14,321	12,251	2,070
1.5 Communications	-	-	-	-	609	(609)
1.6 Human Resources	3,036	-	-	3,036	2,954	82
	19,872	-	-	19,872	18,147	1,725
2 Agriculture Policy and Economics						
2.1 Alberta Grains Council	-	-	-	-	-	-
2.2 Marketing Council	873	-	-	873	893	(20)
2.3 Economics and Competitiveness	3,574	-	-	3,574	3,646	(72)
2.4 Policy, Strategy and Intergovernmental Affairs	5,662	-	-	5,662	5,068	594
2.5 International Marketing and Investment Attraction	4,809	-	-	4,809	4,393	416
	14,918	-	-	14,918	14,000	918
3 Agriculture Environment and Water						
3.1 Irrigation and Farm Water	11,479	-	-	11,479	15,606	(4,127)
3.2 Environmental Stewardship	17,251	-	112	17,363	15,774	1,589
	28,730	-	112	28,842	31,380	(2,538)
4 Food Safety and Animal Health						
4.1 Animal Health and Assurance	10,881	-	(2)	10,879	9,873	1,006
4.2 Food Safety and Animal Welfare	21,384	-	183	21,567	18,244	3,323
4.3 Food Chain Traceability	4,150	-	-	4,150	4,397	(247)
4.4 Surveillance Support	3,876	-	-	3,876	3,041	835
	40,291	-	181	40,472	35,555	4,917

[illegible]

Schedule 4 (continued)

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Program - Capital Grants

	Voted Estimate ⁽¹⁾	Supplementary Estimate ⁽²⁾	Adjustments ⁽³⁾	Adjusted Voted Estimate	Voted Actuals ⁽⁴⁾	Unexpended (Over Expended)
3 Agriculture Environment and Water	19,000	-	-	19,000	19,160	(160)
3.3 Irrigation Infrastructure Assistance						
5 Industry Development	10,900	(500)	-	10,400	10,225	175
5.1 Rural Economic Development						
5.2 Research and Extension	-	-	-	-	-	-
Total	\$ 29,900	\$ (500)	\$ -	\$ 29,400	\$ 29,385	\$ 15
Lapse						\$ 15

Program - Capital Investment

1 Ministry Support Services						
1.4 Corporate Services	\$ 1,575	-	\$ -	\$ 1,575	\$ 1,424	\$ 151
1.6 Human Resources	-	-	-	-	43	(43)
2 Agriculture Policy and Economics						
2.3 Economics and Competitiveness	-	-	-	-	180	(180)
3 Agriculture Environment and Water						
3.1 Irrigation and Farm Water	200	-	-	200	269	(69)
3.2 Environmental Stewardship	-	-	-	-	424	(424)
4 Food Safety and Animal Health						
4.2 Food Safety and Animal Welfare	380	-	-	380	248	132
5 Industry Development						
5.1 Rural Economic Development	-	-	-	-	83	(83)
5.2 Research and Extension	1,000	-	200	1,200	1,176	24
5.3 Food and Bio-Processing	416	-	-	416	375	41
7 Forests						
7.1 Wildfire Management	10,543	-	(70)	10,473	8,720	1,753
7.2 Flat Top Complex	2,100	-	-	2,100	1,898	202
7.3 Forest Management	-	-	-	-	67	(67)
8 Climate Leadership Plan	975	-	-	975	976	(1)
Credit or Recovery (Shortfall) (Schedule 2)	-	-	(20)	(20)	-	(20)
Total	\$ 17,189	\$ -	\$ 110	\$ 17,299	\$ 15,883	\$ 1,416
Lapse						\$ 1,416

Financial Transactions		Voted Estimate ⁽¹⁾	Supplementary Estimate ⁽²⁾	Adjustments ⁽³⁾	Adjusted Voted Estimate	Voted Actuals ⁽⁴⁾	Unexpended (Over Expended)
7	Forests	1,310	1,050	(1,050)	1,310	1,751	(441)
7.1	Wildfire Management						
Total		\$ 1,310	\$ 1,050	\$ (1,050)	\$ 1,310	\$ 1,751	\$ (441)
Encumbrance							\$ (441)

⁽¹⁾ As per "Expense Vote by Program", "Capital Investment Vote by Program" and "Financial Transaction Vote by Program" page of 2017-18 Government Estimates.

⁽²⁾ Per the *Supplementary Supply Estimates* approved on February 27, 2018.

⁽³⁾ Adjustments include capital carry over amounts and credit or recovery increases approved by Treasury Board and credit or recovery shortfalls (Schedule 2) An encumbrance is incurred when, on a vote by vote basis, the total of actual disbursements in the prior year exceed the total adjusted estimate.

All calculated encumbrances from the prior year are reflected as an adjustment to reduce the corresponding voted estimate in the current year.

⁽⁴⁾ Actuals exclude non-voted amounts such as amortization and valuation adjustments.

DEPARTMENT OF AGRICULTURE AND FORESTRYSCHEDULE TO FINANCIAL STATEMENTSLOTTERY FUND ESTIMATESYEAR ENDED MARCH 31, 2018

	Lottery Fund Estimates	Actual (in thousands)	Unexpended (Over Expended)
Agricultural Service Boards	\$ 11,595	\$ 11,497	\$ 98
Agricultural Societies	11,462	11,462	-
Agriculture Initiatives	1,000	-	1,000
	<u>\$ 24,057</u>	<u>\$ 22,959</u>	<u>\$ 1,098</u>

This table shows details of the initiatives within the department that are funded by the Lottery Fund and compares it to the actual results.

DEPARTMENT OF AGRICULTURE AND FORESTRYSCHEDULE TO FINANCIAL STATEMENTSSALARY AND BENEFITS DISCLOSUREYEAR ENDED MARCH 31, 2018

	2018			2017	
	Base Salary ⁽¹⁾	Other Cash Benefits ⁽²⁾	Other Non- Cash Benefits ⁽³⁾	Total	Total
Department					
Deputy Minister ⁽⁴⁾⁽⁵⁾	\$ 286,977	\$ -	\$ 8,196	\$ 295,173	\$ 325,850
Assistant Deputy Ministers					
Corporate Services ⁽⁶⁾	\$ 85,168	5,010	21,898	\$ 112,076	\$ -
Agriculture Policy and Economics	\$ 199,156	-	48,567	\$ 247,723	\$ 254,511
Industry Development	\$ 200,405	-	48,230	\$ 248,635	\$ 242,805
Food Safety and Animal Health ⁽⁷⁾	\$ 133,600	-	35,579	\$ 169,179	\$ 236,084
Forests	\$ 199,639	26,875	48,453	\$ 274,967	\$ 255,540
Executive Directors					
Human Resources	\$ 164,061	-	39,145	\$ 203,206	\$ 210,000
Senior Financial Officer ⁽⁸⁾	\$ 66,255	-	5,436	\$ 71,691	\$ 176,067
Extension and Communications ⁽⁸⁾	\$ 63,685	-	17,019	\$ 80,704	\$ 185,830
Directors					
Communications ⁽⁹⁾	\$ 117,865	-	27,886	\$ 145,751	\$ -
Boards and Agencies					
Farmers' Advocate	\$ 205,076	-	7,334	\$ 212,410	\$ 213,328

⁽¹⁾ Base salary includes regular salary and earnings such as acting pay.

⁽²⁾ Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2018.

⁽³⁾ Other non-cash benefits include government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, fair market value for parking privileges and professional memberships.

⁽⁴⁾ Automobile provided through the year, no dollar amount included in Other Non-Cash Benefits.

⁽⁵⁾ The position was occupied by two individuals at different times during the year. Occupancy of the position changed March 21, 2018.

⁽⁶⁾ Position created on September 11, 2017.

⁽⁷⁾ The position was occupied by 3 individuals at different times during the year. Occupancy of the position changed September 11, 2017.

⁽⁸⁾ These positions removed from Executive Team on September 11, 2017.

⁽⁹⁾ Salary and benefits are paid by Department of Treasury Board and Finance.

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS

YEAR ENDED MARCH 31, 2018

(in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta Consolidated Financial Statements. Related parties also include key management personnel in the department and their close family members.

The department and its employees paid or collected certain taxes and fees set by regulation for premiums, licences and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this schedule.

The department had the following transactions with related parties reported on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		Other Entities	
	2018	2017	2018	2017
Revenues				
Grants	\$ 650	\$ 653	\$ -	\$ -
Transfer of Tangible Capital Assets	-	-	3,920	1,297
Other	298	272	2,418	1,294
	<u>\$ 948</u>	<u>\$ 925</u>	<u>\$ 6,338</u>	<u>\$ 2,591</u>
Expenses - Directly Incurred				
Grants	\$ 558,304	\$ 618,940	\$ 8,584	\$ 7,137
Transfer of Tangible Capital Assets	-	-	36	171
Other services	-	-	20,069	4,937
	<u>\$ 558,304</u>	<u>\$ 618,940</u>	<u>\$ 28,689</u>	<u>\$ 12,245</u>
Payable to				
Agriculture Financial Services Corporation	\$ 106,460	\$ 98,534	\$ -	\$ -
Environmental Protection and Enhancement Fund	200,730	155,069	-	-
Ministry of Environment and Parks	-	-	-	-
Ministry of Economic Development and Trade	-	-	94	230
Ministry of Advanced Education	-	-	400	101
Ministry of Treasury Board and Finance	-	-	27	-
Ministry of Education	-	-	-	1
	<u>\$ 307,190</u>	<u>\$ 253,603</u>	<u>\$ 521</u>	<u>\$ 332</u>
Receivable from				
Agriculture Financial Services Corporation	\$ 650	\$ 653	\$ -	\$ -
Environmental Protection and Enhancement Fund	294	137	-	-
Ministry of Environment and Parks	-	-	-	-
Ministry of Economic Development and Trade	-	-	353	90
Ministry of Advanced Education	-	-	9	14
Ministry of Education	-	-	-	85
	<u>\$ 944</u>	<u>\$ 790</u>	<u>\$ 362</u>	<u>\$ 189</u>
Deferred Revenue from				
Agriculture Financial Services Corporation	\$ 318	\$ 381	\$ -	\$ -
Ministry of Advanced Education	-	-	9	47
Ministry of Economic Development and Trade	-	-	441	309
Ministry of Education	-	-	506	902
	<u>\$ 318</u>	<u>\$ 381</u>	<u>\$ 956</u>	<u>\$ 1,258</u>

The department also has transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements. Expenses are included in Schedule 8.

Note: The Department receives services under contracts managed by the Ministry of Service Alberta. Any commitments under these contracts are reported by the Ministry of Service Alberta.

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

ALLOCATED COSTS

YEAR ENDED MARCH 31, 2018

(in thousands)

2018

2017

Expenses - Incurred by Others

Program	Expenses ⁽¹⁾	Accommodation Costs ⁽²⁾	Legal Services ⁽³⁾	Business Services ⁽⁴⁾	Total Expenses	Total Expenses (Restated - Note 3)
Ministry Support Services	\$ 19,043	\$ 2,804	\$ 159	\$ 6,650	\$ 28,656	\$ 32,627
Agriculture Policy and Economics	14,094	2,406	64	3	16,567	16,561
Agriculture Environment and Water	51,224	3,334	71	4	54,633	64,806
Food Safety and Animal Health	36,234	6,733	198	8	43,173	52,842
Industry Development	141,279	10,221	322	12	151,834	144,049
Forests	369,461	17,683	210	21	387,375	413,370
Climate Leadership Plan	11,149	44	-	-	11,193	-
Agriculture Insurance and Lending Assistance						
Insurance and Lending	255,447	-	-	-	255,447	290,043
Agriculture Income Support	101,369	-	-	-	101,369	85,666
	<u>\$ 999,300</u>	<u>\$ 43,225</u>	<u>\$ 1,024</u>	<u>\$ 6,698</u>	<u>\$ 1,050,247</u>	<u>\$ 1,099,964</u>

⁽¹⁾ Expenses - Directly Incurred as per Statements of Operations.⁽²⁾ Accommodation Costs, including grants in lieu of taxes, allocated by budgeted full-time equivalent employment.⁽³⁾ Legal Services Costs allocated by estimated costs incurred by each program.⁽⁴⁾ Business Services Costs, including charges for IT support, vehicles, air transportation, internal audit services and other services, allocated by costs in certain programs.

Agriculture Financial Services Corporation

Financial Statements

March 31, 2018

AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2018

Independent Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Change in Net Financial Assets

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Operations

Schedule of Salaries and Benefits

Independent Auditor's Report

To the Board of Directors of the Agriculture Financial Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2018, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 31, 2018
Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2018

(dollars in thousands)

	<u>2018</u>	<u>2017</u>
FINANCIAL ASSETS		
Cash	\$ 294,430	\$ 429,653
Accounts receivable (Note 3)	11,834	10,493
Due from Government of Alberta	106,461	98,534
Due from Government of Canada	226,853	196,969
Due from other Provincial Governments (Note 7)	-	1,941
Loans receivable (Note 4)	2,248,045	2,240,468
Investments (Note 5)	<u>2,472,038</u>	<u>2,124,401</u>
	5,359,661	5,102,459
LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	15,255	21,979
Due to other Provincial Governments (Note 7)	2,832	-
Indemnities payable (Note 8)	288,540	333,922
Borrowing from Government of Alberta (Note 9)	2,220,290	2,206,540
Deferred revenue (Note 10)	<u>7,336</u>	<u>5,810</u>
	<u>2,534,253</u>	<u>2,568,251</u>
Net Financial Assets (Net Debt)	<u>2,825,408</u>	<u>2,534,208</u>
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 11)	34,639	37,269
Prepaid expenses	<u>3,934</u>	<u>4,263</u>
	<u>38,573</u>	<u>41,532</u>
Net assets before deferred capital contributions	<u>2,863,981</u>	<u>2,575,740</u>
Spent deferred capital contributions (Note 10)	\$ 19,282	\$ 19,475
Net Assets	<u>\$ 2,844,699</u>	<u>\$ 2,556,265</u>
Net Assets		
Accumulated surplus	<u>\$ 2,844,699</u>	<u>\$ 2,556,265</u>

Contingencies, Contractual Obligations and Commitments (Note 13)

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

Approved by the Board:

Jennifer Wood, Chair of the Board of Directors

Anne Harder, Audit Chair

Darryl Kay, Interim CEO

Janet Bargolz, Interim Chief Financial Officer

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2018
(dollars in thousands)

	2018		2017
	Budget	Actual (Schedule 1)	Actual
Revenues:			
Premiums from insured persons	\$ 332,962	\$ 348,131	\$ 370,334
Interest	92,310	85,835	87,739
Contribution from Government of Alberta	310,477	356,855	375,481
Contribution from Government of Canada	260,534	316,013	332,624
Investment income	49,235	36,574	41,954
Fees and other income	15,038	14,434	18,416
	<u>1,060,556</u>	<u>1,157,842</u>	<u>1,226,548</u>
Expenses:			
AgriInsurance	410,362	501,291	568,035
Agriculture Income Support	122,144	224,160	187,835
Lending	108,968	99,033	100,327
Hail Insurance	45,641	25,282	55,840
Livestock Insurance	13,634	21,117	24,080
Wildlife Damage Compensation	6,704	(1,475)	35,991
	<u>707,453</u>	<u>869,408</u>	<u>972,108</u>
Annual surplus	<u>\$ 353,103</u>	288,434	254,440
Accumulated surplus at beginning of year		<u>2,556,265</u>	<u>2,301,825</u>
Accumulated surplus at end of year		<u>\$ 2,844,699</u>	<u>\$ 2,556,265</u>

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2018

(dollars in thousands)

	2018		2017
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Net operating results	\$ 353,103	\$ 288,434	254,440
Acquisition of tangible capital assets	(7,570)	(6,902)	(7,366)
Amortization of tangible capital assets (Note 11)	9,852	9,526	8,729
(Gain) Loss on disposal of tangible capital assets	-	6	(19)
Proceeds on sale tangible capital assets	-	-	53
Change in prepaid expenses	-	329	(305)
Change in spent deferred capital contributions	<u>(911)</u>	<u>(193)</u>	<u>473</u>
Increase in net financial assets in the year	354,474	291,200	256,005
Net financial assets, beginning of year	<u>2,480,083</u>	<u>2,534,208</u>	<u>2,278,203</u>
Net financial assets, end of year	<u><u>\$ 2,834,557</u></u>	<u><u>\$ 2,825,408</u></u>	<u><u>\$ 2,534,208</u></u>

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2018

(dollars in thousands)

	<u>2018</u>	<u>2017</u>
Operating activities:		
Net operating results	\$ 288,434	\$ 254,440
Non-cash items included in operating results		
Amortization of capital assets	9,526	8,729
Deferred capital contribution recognized as revenue	(5,061)	(5,355)
Amortization of premiums and discounts	(1,751)	1,781
Allowance for doubtful accounts and for losses	829	2,006
Gain on sale of investments	4,154	(7,340)
Loss on disposal of capital assets	(1)	(19)
Unearned revenue received	7,336	5,810
Changes in assets and liabilities relating to operations	<u>(88,325)</u>	<u>100,464</u>
Net cash provided by operating activities ⁽¹⁾	<u>215,141</u>	<u>360,516</u>
Investing activities:		
Proceeds from repayments of loans receivable	376,610	387,272
Loan disbursements	(389,373)	(470,480)
Purchase of investments	(1,403,900)	(1,205,287)
Proceeds on disposal of investments	<u>1,052,106</u>	<u>978,962</u>
Net cash utilized by investing activities	<u>(364,557)</u>	<u>(309,533)</u>
Capital activities:		
Purchase of tangible capital assets	(6,902)	(7,366)
Proceeds on disposal of tangible capital assets	<u>6</u>	<u>53</u>
Net cash utilized by capital activities	<u>(6,896)</u>	<u>(7,313)</u>
Financing activities:		
Borrowing from the Government of Alberta	1,145,000	1,020,000
Contributions restricted for capital	4,868	5,828
Repayment of borrowing from the Government of Alberta	<u>(1,128,779)</u>	<u>(960,506)</u>
Net cash provided by financing activities	<u>21,089</u>	<u>65,322</u>
Net increase in cash during the year	(135,223)	108,992
Cash at beginning of year	<u>429,653</u>	<u>320,661</u>
Cash at end of year	<u><u>\$ 294,430</u></u>	<u><u>\$ 429,653</u></u>

⁽¹⁾ Net cash provided by operating activities includes \$68,028 (2017 \$68,512) of interest paid.

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000. AFSC is exempt from income taxes under the *Income Tax Act*.

The Corporation provides income stabilization, disaster assistance, AgriInsurance, livestock price insurance and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

Basis of Financial Reporting:

(a) Revenue Recognition

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgriInsurance and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Governments of Canada and Alberta. Premiums received by the Corporation in advance of the related policy term are recorded as deferred revenue until earned.

For the Livestock Price Insurance Program premiums are recorded as revenue when a policy is sold.

Government transfers from the Governments of Canada and Alberta are referred to as government contributions. Contributions from the Governments of Canada and Alberta for estimated compensation payments to participants under Agriculture Income Support Programs such as AgriStability (formerly the Canadian Agriculture Income Stabilization (CAIS)), AgriInvest, AgriRecovery and Wildlife Damage Compensation are recognized in the period in which the program payments to producers are determinable. Overpayments of compensation payments under the AgriStability program are recovered through repayment or the reduction of future eligible payments under the program or other programs administered by the Corporation. Overpayments are repayable to the Governments of Canada and Alberta.

Contributions received from the Governments of Canada and Alberta that are restricted for the acquisition of tangible capital assets are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired tangible capital assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(a) Revenue Recognition (continued)

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income is recognized in the period in which the income is earned. Gains or losses on the value on investments are recognized when realized on disposition.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as deferred revenue until earned.

(b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Identifiable administrative expenses for all of the programs administered by AFSC are charged directly to the specific program. Where the direct charging of the administrative expenses to specific programs is not possible, these expenses are allocated to each program on a basis approved by management.

(c) Valuation of Financial Assets and Liabilities

AFSC's financial assets and liabilities include cash, receivables, loans receivable, investments, accounts payable and accrued liabilities, indemnities payable, borrowing from the Government of Alberta and deferred revenue. All financial instruments are held at cost or amortized cost. The effective interest method is used to recognize interest income or expense. Transaction costs related to all financial instruments are expensed as incurred.

Since no financial assets or liabilities are recorded at fair value and there were no material foreign currency transactions, these statements do not present a Statement of Remeasurement Gains and Losses as the Corporation has no remeasurement gains or losses.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Measurement Uncertainty

There is an inherent degree of uncertainty associated with the measurement of certain amounts recognized or disclosed in the financial statements. In the preparation of the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, net assets and related disclosures. Estimates of material amounts relate to Indemnities payable and Allowances for doubtful accounts and for losses on Accounts receivable and Loans receivable. Accordingly, actual results could differ from these and other estimates thereby impacting future financial statements. Disclosure of the nature and circumstances giving rise to the uncertainty, have been disclosed in the relevant notes in the financial statements (See Notes 3, 4 and 8).

(e) Non-Financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

(f) Cash

Cash consists of bank balances. Interest is earned on bank balances as part of funds managed by the Government of Alberta and is included in investment income.

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses

Loans receivable are recorded at cost or amortized cost less any amount for provision for credit losses. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs.

The Corporation records valuation allowances to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured. Two types of allowances are established for loans receivable.

Specific allowance – a specific allowance is established after a loan-by-loan review of accounts meeting prescribed criteria indicative of a potential deterioration in the credit quality of debt. The specific allowance for each loan is determined as the difference between the loan principal amount outstanding and the discounted net present value of the related security net of the cost of realization. Changes in net realizable value of security subsequent to the recording of the initial allowance are adjusted through the specific allowance.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses (continued)

General allowance – two types of general allowance are recorded. The first type is for estimated probable losses relating to deterioration in the full recoverability of individual loan accounts which have not yet met management's criteria for setting up a specific allowance at the Statement of Financial Position date. A methodology is applied to determine the Corporation's risk exposure to probable losses on individual loan accounts not subject to a specific allowance. The second type is for the aggregate amount owing for individual loans under a specific program or industry sector or a geographical area. In determining the allowance, management considers economic and market conditions and uncertainties affecting recoverability of such loans.

Loans are written off against the related allowance for doubtful accounts and for losses if there is no realistic prospect of future recovery. Any recovery of amounts previously written off is recognized on receipt of proceeds.

(h) Concessionary Loans and Loan Discounts

A loan is considered to have concessionary terms when at inception of the loan, the net present value of expected future cash flows is less than present book value. Book values of concessionary loans are reduced to their net present values by loan discounts expensed in the year in which loans are disbursed and amortized to interest revenue over the period of the concessionary term in proportion to loan repayments received.

(i) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments; then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the effective interest rate method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(j) Borrowing from Government of Alberta

Borrowing is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) Tangible Capital Assets including Capital Leases

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. An asset acquired, other than computer software, with a life of more than one year and a cost of \$5 or more is capitalized. Computer software acquired from external sources at a cost of \$100 or more and software developed by the Corporation costing \$500 or more are capitalized.

Leases that, from the point of view of the lessee, transfer substantially all the benefits and risks incidental to the ownership of the asset to the Corporation are considered capital leases. These are accounted for as an asset and an obligation. Capital lease obligations are recorded at the present value of the minimum lease payments excluding executory costs. The discount rate used to determine the present value of the lease payments is the Corporation's incremental borrowing rate.

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

(l) AgriStability, AgriInvest and AgriRecovery Program

Payments under the programs to participants, administration expenses and corresponding contributions from the Governments of Canada and Alberta are recorded at 100% for AgriStability and AgriRecovery programs because the programs are delivered by the Corporation and at 40% for AgriInvest program because the program is delivered by Agriculture and Agri-Food Canada.

(m) Reinsurance

The Corporation carries reinsurance to cover AgriInsurance risks through two levels of government. Two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. The Government of Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the AgriInsurance net assets of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement between the Governments of Canada and Alberta (see Note 16).

In addition, the Corporation carries two different types of reinsurance through private reinsurance companies for AgriInsurance, Hail and Livestock insurance programs. This includes both Excess of loss and Quota share reinsurance. Excess of loss is a type of reinsurance in which the reinsurer indemnifies the ceding company for losses that exceed a

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(m) Reinsurance (continued)

specified limit. Quota share is a type of pro rata reinsurance contract in which the insurer and reinsurer share premiums and indemnities according to a fixed percentage. To reflect the objective of reinsurance as cost recovery, all reinsurance transactions, including brokerage commissions, ceded premiums and indemnities recovered, are disclosed in Schedule 1 as Net reinsurance expenses. Disclosure of the actual amounts relating to brokerage fees, ceded premiums and indemnity recoveries have been disclosed in the financial statement notes (see Note 17).

(n) AgrilInsurance Accumulated Surplus Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, the AgrilInsurance accumulated surplus of \$2,694,432 (2017 2,431,277) is restricted for AgrilInsurance purposes only (see Schedule 1).

(o) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements are comprised of the cost of employer contributions for the current year service of employees.

(p) Transactions with Related Parties

The Government of Alberta significantly influences the programs delivered by the Corporation and is a major contributor to the funding of the programs. Therefore, the Government is considered a related party. All related party transactions with the Government of Alberta have been recorded at the exchange amount which is the consideration paid or received as agreed to by the related party (see Note 15).

(q) PS3260 Liability for Contaminated Sites

Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. AFSC recognizes a liability for the sites no longer in use where the contamination has exceeded the relevant environmental standards and where AFSC has accepted responsibility. Included in Accounts Payable and Accrued Liabilities (Note 6) is a liability of \$1,330 for the estimated remaining remediation (2017 \$2,925).

(r) Net Debt Model

Net debt model has been adopted for the presentation of financial statements. Net financial asset or net debt is measured as the difference between AFSC's financial assets and liabilities. A net financial asset balance indicates the extent of AFSC's dependence on government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 3 Accounts Receivable

	2018	2017
AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs:		
Overpayments	\$ 5,047	\$ 7,846
Administration fees	328	252
Premiums from insured persons		
AgriInsurance program	3,708	2,914
Livestock insurance program	1,064	2,204
Hail insurance program	542	580
Other	7,394	5,945
	<u>18,083</u>	<u>19,741</u>
Allowances for doubtful accounts		
At beginning of year	(9,248)	(10,017)
Decrease (increase) for this year	1,199	469
Write offs, net of recoveries	1,800	300
	<u>(6,249)</u>	<u>(9,248)</u>
	<u>\$ 11,834</u>	<u>\$ 10,493</u>

Included in the allowances for doubtful accounts is \$5,047 (2017 \$7,846) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. The allowance for doubtful accounts is subject to measurement uncertainty as it is an estimate based on management's assessment of collectability of outstanding balance. Actual write-offs realized in future periods could be materially different from management's estimates.

Note 4 Loans Receivable

Loans receivable are comprised of the following:

	2018			2017
	Farm	Commercial	Total	Total
Performing loans - non concessionary	\$ 1,893,290	\$ 321,886	\$ 2,215,176	\$ 2,207,533
Performing loans - concessionary	2,130	-	2,130	2,985
Impaired loans	2,865	27,705	30,570	40,697
	<u>1,898,285</u>	<u>349,591</u>	<u>2,247,876</u>	<u>2,251,215</u>
Accrued interest	24,513	1,513	26,026	26,060
Loan discount	(27)	-	(27)	(39)
	<u>1,922,771</u>	<u>351,104</u>	<u>2,273,875</u>	<u>2,277,236</u>
Allowances	<u>(4,807)</u>	<u>(21,023)</u>	<u>(25,830)</u>	<u>(36,768)</u>
Net carrying value	<u>\$ 1,917,964</u>	<u>\$ 330,081</u>	<u>\$ 2,248,045</u>	<u>\$ 2,240,468</u>

All loans have fixed interest rates for the term of loan or renewal period.

Loans have blended repayments during the term. Loans can be repaid in full or part during the term without any penalty.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 4 Loans Receivable (continued)

Allowances for doubtful accounts for loans are as follows:

	<u>Farm</u>	<u>Commercial</u>	<u>2018</u>	<u>2017</u>
At beginning of year	\$ 8,002	\$ 28,766	\$ 36,768	\$ 42,502
Increase (decrease) for the year	(3,001)	5,029	2,028	2,475
Write-offs	(194)	(12,772)	(12,966)	(8,209)
At end of year	<u>\$ 4,807</u>	<u>\$ 21,023</u>	<u>\$ 25,830</u>	<u>\$ 36,768</u>
Specific allowance	\$ 536	\$ 13,151	\$ 13,687	\$ 23,899
General allowance	4,271	7,872	12,143	12,869
	<u>\$ 4,807</u>	<u>\$ 21,023</u>	<u>\$ 25,830</u>	<u>\$ 36,768</u>

Valuation allowances of loans receivable are based on management's best estimate. Actual losses realized may vary significantly from management's estimate.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are \$4,966,477 (2017 \$4,698,479 (restated)).

The composition of the Loans receivable balance by range of effective annual interest rates is as follows:

	<u>2018</u>	<u>2017</u>
Effective annual Interest Rate		
Less than or equal to 2%	\$ 198,673	\$ 219,742
2.01% to 3.00%	430,595	454,977
3.01% to 4.00%	706,808	654,886
4.01% to 5.00%	504,046	462,449
5.01% to 6.00%	285,645	297,894
6.01% to 7.00%	108,179	141,430
7.01% to 8.00%	11,691	16,510
Over 8%	2,213	3,288
	<u>2,247,850</u>	<u>2,251,176</u>
Accrued interest	26,025	26,060
Allowance for doubtful accounts	(25,830)	(36,768)
	<u>\$ 2,248,045</u>	<u>\$ 2,240,468</u>
Weighted average annual interest rate	3.85%	3.86%

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 5 Investments

	2018	2017
Bonds and debentures:		
Government of Canada, direct and guaranteed	\$ 1,283,128	\$ 952,752
Other provincial, direct and guaranteed	87,921	216,590
	<u>1,371,049</u>	<u>1,169,342</u>
Corporate securities:		
Asset backed securities, AAA rated	602,882	553,687
Senior bank notes	486,282	389,773
	<u>1,089,164</u>	<u>943,460</u>
	2,460,213	2,112,802
Accrued interest	11,825	11,599
	<u>\$ 2,472,038</u>	<u>\$ 2,124,401</u>

The fair value of investments at March 31, 2018 is \$2,430,696 (2017 \$2,123,136). Fair value is based on quoted market prices excluding accrued interest.

The following provides a breakdown of the investment portfolio by term to maturity.

Term to Maturity ⁽¹⁾			2018	2017
Within 1 Year	1 to 5 Years	6 to 10 Years		
Bonds and debentures \$	14,726	\$ 1,354,961	\$ 1,362	\$1,371,049
Yield ⁽²⁾	1.51%	2.02%	2.36%	2.02%
Corporate Securities	44,927	1,011,238	32,999	1,089,164
Yield ⁽²⁾	1.82%	2.51%	2.84%	2.49%
	59,653	2,366,199	34,361	2,460,213
Accrued interest	216	11,489	120	11,825
	<u>\$ 59,869</u>	<u>\$ 2,377,688</u>	<u>\$ 34,481</u>	<u>\$2,472,038</u>
				<u>\$2,124,401</u>

⁽¹⁾ Term to maturity classifications are based on contractual maturity date of the security.

⁽²⁾ Yield represents the rate which discounts future cash receipts to the carrying amount.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 6 Accounts Payable and Accrued Liabilities

	<u>2018</u>	<u>2017</u>
Supplies and services	\$ 9,759	\$ 15,180
Salaries, wages and employee benefits	4,935	5,968
Reinsurance Premiums to Government of Canada	19	20
Other	<u>542</u>	<u>811</u>
	<u>\$ 15,255</u>	<u>\$ 21,979</u>

Note 7 Due (to) from Other Provincial Governments

Due to provincial governments represents amounts collected from and paid to other provincial governments relating to the Western Livestock Price Insurance Program which was implemented in April 2014. The program provides producers with protection against an unexpected drop in prices on cattle and hogs. The Corporation entered into an agreement with the other provincial governments to deliver this program to producers in British Columbia, Saskatchewan and Manitoba. Any premiums, indemnities or expenses collected on behalf of producers outside of Alberta are recorded as Due to provincial governments in the financial statements. The Corporation's Statement of Operations includes premiums, indemnities and administration expenses for Alberta producers only.

Breakdown of the amounts owing is as follows:

	<u>2018</u>	<u>2017</u>
Premiums collected	\$ (22,703)	\$ (13,497)
Indemnities paid	17,247	15,640
Administration costs receivable	364	438
Reinsurance premiums	4,613	1,713
Reinsurance expense net of ceded premiums	<u>(2,353)</u>	<u>(2,353)</u>
	<u>\$ (2,832)</u>	<u>\$ 1,941</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 8 Indemnities Payable

	<u>2018</u>	<u>2017</u>
	(Note 2(l))	(Note 2(l))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	\$ 149,300	\$ 182,995
Prior claim years	<u>110,198</u>	<u>48,433</u>
	259,498	231,428
AgriInsurance	17,860	77,445
Wildlife compensation	1,022	24,651
Hail insurance	-	396
Livestock price insurance	<u>10,160</u>	<u>2</u>
	<u><u>\$ 288,540</u></u>	<u><u>\$ 333,922</u></u>

Estimated indemnities payable of \$288,540 and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for the AgriStability and AgriInvest programs are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of \$127,237 to \$181,027.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on probable payments for claims not yet processed.

Estimated indemnities payable for the AgriInsurance program are based upon number of claims remaining to be paid and average claim payment amounts. The indemnities payable also includes claims deferred by producers. Based on that information the projected estimated indemnities would be in the range of \$16,191 to \$26,933.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 9 Borrowing from Government of Alberta

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

The composition of outstanding borrowing from the Government of Alberta by range of effective annual interest rate is as follows:

	<u>2018</u>	<u>2017</u>
Effective annual Interest Rate		
Less than or equal to 2%	\$ 355,000	\$ 370,000
2.01% to 3.00%	683,000	583,000
3.01% to 4.00%	759,238	759,238
4.01% to 5.00%	400,751	460,752
5.01% to 6.00%	<u>9,227</u>	<u>18,006</u>
	2,207,216	2,190,996
Accrued interest	14,198	14,668
Unamortized premium	<u>(1,124)</u>	<u>876</u>
	<u>\$ 2,220,290</u>	<u>\$ 2,206,540</u>
Weighted average annual interest rate	3.06%	3.13%

Principal repayments due in each of the next five years and thereafter are as follows:

Year ending March 31, 2019	\$ 271,092
2020	293,109
2021	225,000
2022	181,432
2023	136,431
Thereafter	<u>1,100,152</u>
	<u>\$ 2,207,216</u>

The estimated fair value of borrowings as at March 31, 2018 is \$2,272,966 (2017 \$2,325,485). Fair value is an approximation of market value to the holder.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 10 Deferred Revenue

	2018	2017
Unearned revenue	\$ 7,336	\$ 5,810
Spent deferred capital contributions	19,282	19,475
	<u>\$ 26,618</u>	<u>\$ 25,285</u>

Unearned revenue

	2018				2017
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	\$ -	\$ 5,810	\$ -	\$ 5,810	\$ 6,932
Received during year	-	7,336	-	7,336	5,810
Less amounts recognized	-	(5,810)	-	(5,810)	(6,932)
Balance at end of year	<u>\$ -</u>	<u>\$ 7,336</u>	<u>\$ -</u>	<u>\$ 7,336</u>	<u>\$ 5,810</u>

Spent deferred capital contributions

	2018				2017
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	\$ 11,277	\$ 679	\$ 7,519	\$ 19,475	\$ 19,002
Transferred capital assets received	2,921	-	1,947	4,868	5,828
Less amounts recognized as revenue	(2,978)	(97)	(1,986)	(5,061)	(5,355)
Balance at end of year	<u>\$ 11,220</u>	<u>\$ 582</u>	<u>\$ 7,480</u>	<u>\$ 19,282</u>	<u>\$ 19,475</u>

Unearned revenue represents premiums received from producers for AgriInsurance programs, fees collected for the AgriStability program relating to the next fiscal year and amounts collected in advance from other provincial governments for licensing fees for the Western Livestock Price Insurance Program. Spent deferred capital contributions represent contributions received from the federal and provincial governments that are restricted for the acquisition of tangible capital assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 11 Tangible Capital Assets

	Land	Building	Furniture and Fixtures	Computer Equipment and Software		
Estimated Useful Life	Indefinite	25 - 40 years	5 - 10 years	2 - 10 years	2018	2017
Cost						
At beginning of year	\$ 1,827	\$ 10,219	\$ 12,099	\$ 110,192	\$ 134,337	\$ 127,469
Additions	4	39	95	6,764	6,902	7,366
Disposals	-	-	(15)	(4,952)	(4,967)	(498)
	<u>1,831</u>	<u>10,258</u>	<u>12,179</u>	<u>112,004</u>	<u>136,272</u>	<u>134,337</u>
Accumulated amortization						
At beginning of year	-	5,808	8,866	82,394	97,068	88,803
Amortization expense	-	387	957	8,182	9,526	8,729
Disposals	-	-	(9)	(4,952)	(4,961)	(464)
	<u>-</u>	<u>6,195</u>	<u>9,814</u>	<u>85,624</u>	<u>101,633</u>	<u>97,068</u>
Net book value at March 31, 2018	<u>\$ 1,831</u>	<u>\$ 4,063</u>	<u>\$ 2,365</u>	<u>\$ 26,380</u>	<u>\$ 34,639</u>	
Net book value at March 31, 2017	<u>\$ 1,827</u>	<u>\$ 4,411</u>	<u>\$ 3,233</u>	<u>\$ 27,798</u>		<u>\$ 37,269</u>

Computer equipment and software costs include \$3,056 (2017 \$7,543) of costs incurred that are not amortized because they are still in the development stage.

Note 12 Pensions

The Corporation participates in the multi-employer Alberta Management Employees Pension Plan and the Alberta Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Alberta Public Service Managers.

AFSC does not have sufficient plan information to follow the standards for defined benefit accounting, and therefore, follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the plans is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits. The expense for these pension plans is equivalent to the annual contributions of \$5,808 for the year ended March 31, 2018 (2017 \$6,413).

At December 31, 2017, the Alberta Management Employees Pension Plan reported a surplus of \$866,006 (2016 surplus \$402,033), the Local Authorities Pension Plan reported a surplus of \$4,835,515 (2016 surplus \$637,357), the Alberta Public Service Pension Plan reported a surplus of \$1,275,843 (2016 surplus \$302,975) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$54,984 (2016 deficiency \$50,020). The Corporation's share of these pension plans' deficiency is not determinable. The Corporation is not responsible for future funding of the plan deficits other than through contribution increases.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 13 Contingencies, Contractual Obligations and Commitments

Contingent Liability

	2018	2017
Loan guarantees	\$ 9,686	\$ 13,112
Less allowances for losses	-	-
Total contingencies	<u>\$ 9,686</u>	<u>\$ 13,112</u>

Included in loan guarantees is \$7,365 (2017 \$9,336) guaranteed under the Alberta Flood Recovery Loan Guarantee Program (AFRLGP), which was established to assist Alberta businesses directly impacted by the June 2013 flood in southern Alberta. Under the AFRLGP, the Corporation has entered into agreements with financial institutions guaranteeing repayment of up to 75% of loans issued under this program.

The Corporation has been named in two (2017 three) claims of which the outcomes are not determinable. There are specified amounts totaling \$312 (2017 \$275). The resolution of the indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

Contractual Obligations

	2018	2017
Reinsurance	28,898	23,879
Operating leases	11,187	12,747
Other contracts	9,060	7,061
Total contractual obligations	<u>\$ 49,145</u>	<u>\$ 43,687</u>

Reinsurance, operating leases and contracts due in each of the next five years and thereafter are as follows:

Year ending March 31,	2019	\$ 37,297
	2020	3,386
	2021	2,233
	2022	1,584
	2023	1,075
	Thereafter	<u>3,570</u>
		<u>\$ 49,145</u>

AFSC entered into a quota share reinsurance contract which is a pro rata reinsurance contract in which the insurer and the reinsurer share in premiums and indemnities according to a fixed percentage. The fixed percentages are 55% for Livestock insurance and 39% for Hail insurance.

The operating lease contractual obligations are for accommodations with terms up to twelve years.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 13 Contingencies, Contractual Obligations and Commitments (continued)

Commitments

	2018	2017
Approved, undisbursed loans	\$ 195,932	\$ 187,126

Note 14 Financial Instruments and Financial Risk Management

Financial instruments comprise the majority of AFSC's assets and liabilities. AFSC is exposed to credit, interest and liquidity risks in respect to its use of financial instruments.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, resulting in a loss to the Corporation.

AFSC's maximum possible exposure to credit risk is as follows:

	2018	2017
Loans receivable	\$ 2,248,045	\$ 2,240,468
Investments	2,472,038	2,124,401
Due from Government of Canada	226,853	196,969
Due from Government of Alberta	106,461	98,534
Accounts receivable	11,834	10,493
Loan guarantees	9,686	13,112
Total commitments	\$ 5,074,917	\$ 4,683,977

Loans receivable - Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Adequate security is required for new and emerging businesses as well as for enterprises needing specialized or customized equipment. To mitigate credit risk, lending staff monitor loan accounts continually to ensure prompt response to any financial difficulties customers may encounter.

Investments - AFSC invests surplus funds generated by Production and Hail Insurance operations. To decrease the risk of loss of investment, the majority of funds are invested in bonds of federal or provincial governments or securities of corporations that have superior credit ratings. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown Corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher). Both of these investments consist of securities with relatively low levels of risk.

Due from the Government of Alberta and the Government of Canada – AFSC is not exposed to significant credit risk as payment in full is typically collected when due.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

Accounts receivable - Payments to some CAIS/AgriStability participants resulted in overpayments when information provided to AFSC by participants proved to be incorrect or not supported. This creates a risk of potential non-repayment of the overpayments. The Corporation may set off overpayments against any payments to customers.

AFSC provides insurance coverage on crops, effective at the acceptance of the customer's application for insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, a discount is offered for early payment of insurance premiums and arrangements made for a payment schedule for all customers not taking advantage of the discount. Insurance staff closely monitors outstanding premiums and promptly take collection action when required.

The following breakdown of the Loans receivable provides an indication of the concentration of credit risk in the loan portfolio. Further information is provided throughout these statements which disclose other concentrations of credit risk.

	2018		2017	
	Dollar	Percentage	Dollar (Restated)	Percentage
Loans receivable by individual sector:				
Grain and Oilseeds	\$ 1,189,275	53%	\$ 1,166,729	52%
Cattle	635,419	28%	611,094	27%
Accommodations and Other Services	137,467	6%	145,594	7%
Manufacturing	83,456	4%	97,761	4%
Other Livestock	73,872	3%	72,379	3%
Trade - Retail and Wholesale	34,905	1%	41,676	2%
Commercial and Industrial	20,669	1%	30,116	1%
Transportation and Warehousing	21,457	1%	24,023	1%
Professional Services	15,943	1%	19,394	1%
Other	61,412	3%	68,470	3%
Allowance	(25,830)	-1%	(36,768)	-1%
	<u>\$ 2,248,045</u>	<u>100%</u>	<u>\$ 2,240,468</u>	<u>100%</u>

Interest Rate Risk

Interest rate risk is the impact future changes in interest rates have on cash flows and fair values of financial assets and liabilities. AFSC's interest rate exposure relates to investments, loans receivable, and borrowing from the Government of Alberta.

Investments – Interest rate risk on investments is mitigated by AFSC's Investment Policy for surplus funds. The investment policy is approved by the Board of Directors and compliance with the policy is reported to the Board Audit Committee at least twice a year. Duration of investments are set to match management's best estimate of when investments may be needed to be liquidated to meet financial commitments. These investments are normally held to maturity so changes in interest rates do not affect value of the investments as they are carried at amortized cost.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

Loans receivables – Loans receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The Corporation allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

Borrowing from the Government of Alberta - The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an annual contribution to the Corporation that includes an amount to bridge the gap between interest revenue from the loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the Corporation's loan portfolio and borrowing provides additional information on interest rate risk.

	Scheduled Repayment ⁽¹⁾				Not ⁽²⁾ Interest Rate Sensitive	2018	2017
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
							(Restated)
Loan balances	\$ 197,314	\$ 636,217	\$ 634,068	\$ 757,507	\$ 22,939	\$ 2,248,045	\$ 2,240,468
Yield	3.71%	3.74%	3.73%	3.26%	-	3.67%	3.68%
Borrowing from							
Government of Alberta	\$ 271,093	\$ 835,972	\$ 850,152	\$ 250,000	\$ 13,073	\$ 2,220,290	\$ 2,206,540
Yield ⁽³⁾	3.27%	3.22%	3.15%	3.09%	-	3.21%	3.25%
Net gap	<u>\$ (73,779)</u>	<u>\$ (199,755)</u>	<u>\$ (216,084)</u>	<u>\$ 507,507</u>	<u>\$ 9,866</u>	<u>\$ 27,755</u>	<u>\$ 33,928</u>

⁽¹⁾ For loan balances, scheduled repayments of principal are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

⁽²⁾ Includes impaired loans, specific and general allowance, accrued interest and unamortized loan discount.

⁽³⁾ Yield represents the rate which discounts future cash receipts to the carrying amount.

Liquidity Risk

Liquidity risk relates to AFSC's ability to access sufficient funds to meet its financial commitments.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

AFSC's primary liquidity risk relates to its liability for insurance claims. Insurance claims are funded firstly with current year premiums collected, which normally exceeds cash requirements. In addition, the investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice to fund claim payments. The Corporation also carries private sector reinsurance for AgrilInsurance and Hail Insurance providing significant protection against catastrophic losses. If all of the above are exhausted, the AgrilInsurance program has a reinsurance agreement with the Government of Canada and the Government of Alberta to provide additional funding for claim payments. Additionally, the Corporation has access to advances from the Government of Alberta to meet short-term cash flow needs.

Note 15 Related Party Transactions

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel and their close family members. As a result of an assessment made by management, there are no transactions to report.

The Corporation had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	2018	2017
Revenues:		
Grants	\$ 356,855	\$ 375,481
Other	60	-
	<u>\$ 356,915</u>	<u>\$ 375,481</u>
Expenses:		
Accommodation	\$ 619	\$ 641
Other services	2,362	2,066
Interest	67,953	67,900
	<u>\$ 70,934</u>	<u>\$ 70,607</u>
Payable to:		
Ministry of Agriculture and Forestry	\$ -	\$ 650
Ministry of Treasury Board and Finance	2,220,290	2,206,540
Ministry of Service Alberta	-	-
Receivable from:		
Ministry of Agriculture and Forestry	106,461	98,534
Deferred Revenue from:		
Ministry of Agriculture and Forestry	<u>7,480</u>	<u>7,519</u>
	<u>\$ 2,334,231</u>	<u>\$ 2,313,243</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2018

(dollars in thousands)

Note 16 Crop Reinsurance Funds

The contributions, withdrawals and accumulated net asset positions of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(m)):

	AgrilInsurance Reinsurance Fund of Alberta		AgrilInsurance Reinsurance Fund of Canada for Alberta	
	2018	2017	2018	2017
Opening net assets	\$ 33,642	\$ 33,641	\$ 34,531	\$ 34,530
Contributions	(1)	1	(1)	1
Closing net assets	<u>\$ 33,641</u>	<u>\$ 33,642</u>	<u>\$ 34,530</u>	<u>\$ 34,531</u>

The net assets balance in the Crop Reinsurance Fund of Alberta is consolidated in the AgrilInsurance Fund in Schedule 1.

Note 17 Reinsurance Expense

	AgrilInsurance	Hail Insurance	Livestock Insurance	2018	2017
Brokerage					
Brokerage rebate	\$ (1,037)	\$ (195)	\$ (126)	\$ (1,358)	\$ -
Excess loss					
Reinsurance expense	19,624	1,129	1,861	22,614	28,942
Recoveries	-	-	-	-	(3,904)
Quota Share					
Ceded premiums and commissions	-	13,430	8,339	21,769	
Ceded losses	-	(5,839)	(7,656)	(13,495)	
Net reinsurance expense	<u>\$ 18,587</u>	<u>\$ 8,525</u>	<u>\$ 2,418</u>	<u>\$ 29,530</u>	<u>\$ 25,038</u>

Excess loss recoveries (\$3,904) is included in Fees and other income in prior year.

Note 18 Budget

The budget reported in the Statement of Operations was included in the 2017/18 Government Estimates.

Note 19 Comparative Figures

The 2017 figures have been reclassified and restated where necessary to conform to 2018 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2018
(dollars in thousands)

	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	AgriInsurance Note 2(n)	AgriInsurance Note 2(n)	Agriculture Income Support	Agriculture Income Support	Lending	Lending	Hall Insurance	Hall Insurance	Livestock Insurance	Livestock Insurance	Livestock Insurance	Wildlife Damage Compensation	Wildlife Damage Compensation	Total
Revenues:														
Premiums from insured persons	\$ 282,834	\$ 302,891	\$ -	\$ -	\$ -	\$ -	\$ 45,361	\$ 42,534	\$ 22,763	\$ 22,282	\$ -	\$ -	\$ -	\$ 370,334
Interest	541	549	66	84	85,052	86,976	93	95	81	37	-	-	-	85,835
Contribution from Government of Alberta	242,670	258,738	101,775	85,685	12,547	11,672	-	-	737	806	(874)	18,580	17,246	356,855
Contribution from Government of Canada	203,150	222,140	112,252	92,039	-	-	-	-	1,089	1,199	(478)	-	-	375,481
Investment income	35,203	40,969	271	275	532	419	245	384	329	175	(6)	(22)	-	332,624
Fees and other income	48	85	10,336	10,330	2,805	2,915	383	2,884	716	2,120	136	82	-	41,954
	764,446	825,172	224,700	188,413	100,936	101,982	43,267	48,476	25,715	26,619	(1,222)	35,886	1,157,842	1,226,548
Expenses:														
Indemnities	439,683	501,310	210,716	174,069	-	-	14,779	51,304	16,375	18,400	(3,168)	35,201	678,385	780,284
Salaries, wages and employee benefits	26,332	26,447	9,411	10,343	19,643	20,642	662	1,248	1,127	1,179	937	371	58,112	60,230
Supplies and services	12,800	11,816	4,035	3,961	5,969	5,742	600	908	594	719	623	181	24,621	23,327
Amortization of tangible capital assets	4,004	3,451	1,087	999	2,988	2,878	699	744	615	613	133	44	9,526	8,729
Interest	-	-	-	-	68,405	68,590	-	-	-	-	-	-	-	68,405
Reinsurance (Note 17)	18,587	24,204	-	-	-	-	8,525	1,569	2,418	3,160	-	-	29,530	28,942
Allowance for doubtful accounts and for losses (Note 3 & 4)	(115)	807	(1,089)	(1,537)	2,028	2,475	17	67	(12)	-	-	194	829	2,006
	501,291	568,035	224,160	187,835	99,033	100,327	25,282	55,840	21,117	24,080	(1,475)	35,991	869,408	972,108
Annual surplus	263,155	257,137	540	578	1,903	1,655	17,985	(7,364)	4,598	2,539	253	(105)	288,434	254,440
Accumulated surplus at beginning of year	2,431,277	2,174,140	1,221	643	83,272	81,617	12,706	20,070	26,495	23,956	1,294	1,399	2,556,265	2,301,825
Accumulated surplus at end of year	\$ 2,694,432	\$ 2,431,277	\$ 1,761	\$ 1,221	\$ 85,175	\$ 83,272	\$ 30,691	\$ 12,706	\$ 31,093	\$ 26,495	\$ 1,547	\$ 1,294	\$ 2,844,699	\$ 2,556,265

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

YEAR ENDED MARCH 31, 2018

(dollars in thousands)

	2018				2017
	Base Salary ⁽¹⁾	Other Cash Benefits ⁽²⁾	Other Non-cash Benefits ⁽³⁾	Total	Total
Chair of Board ⁽⁴⁾	\$ 47	\$ -	\$ 1	\$ 48	\$ 13
Board members ⁽⁵⁾	103	-	3	106	32
President and Managing Director ⁽⁶⁾	-	-	-	-	838
Executive Members					
Interim CEO ⁽⁷⁾	246	12	60	318	42
Chief Operating Officer ⁽⁸⁾	7	60	14	81	414
Vice-President, Innovation & Product Development ⁽⁹⁾	-	-	-	-	556
Chief Financial Officer ⁽¹⁰⁾	-	-	-	-	289
Chief Information Officer	174	11	44	229	227
Chief Communication and Marketing Officer ⁽¹¹⁾	-	-	-	-	244
Vice-President, Human Resources and Communications ⁽¹²⁾	152	8	39	199	193
Vice-President, Legal & Compliance, General Counsel	185	4	45	234	142
Interim Vice-President, Innovation & Product Development ⁽¹³⁾	198	2	49	249	127
Interim Vice-President, Business & Strategy ⁽¹⁴⁾	-	-	-	-	114
Interim Vice-President, Operation & Sales ⁽¹⁵⁾	171	9	42	222	106
Interim Chief Financial Officer ⁽¹⁶⁾	115	10	29	154	-

(1) Base salaries are fees for Chair and Board members and base pay for employees.

(2) Other cash benefits include vacation payments and lump sum payments including retirement allowances. There were no bonuses paid during the year.

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

(4) The amounts relate to eleven months during 2017/18 (two and one half months in 2016/17).

(5) The amounts relate to eleven months during 2017/18 (two and one half months in 2016/17).

(6) Position was for twelve months during 2016/17.

(7) The amounts relate to twelve months during 2017/18 (nine and one half months in 2016/17).

(8) The amounts relate to one month during 2017/18 (twelve months in 2016/17)

(9) Position was for twelve months during 2016/17.

(10) The amounts relate to twelve months during 2016/17.

(11) Position was for one month during 2016/17.

(12) Vice-President, Human Resources and Communications was promoted on March 1, 2018 from Senior Manager, Human Resources and Communications.

(13) The amounts relate to twelve months during 2017/18 (five months during 2016/17).

(14) Position was for four and one half months during 2016/17.

(15) The amounts relate to twelve months during 2017/18 (five months during 2016/17).

(16) The amounts relate to eight months during 2017/18.

Environmental Protection and Enhancement Fund

Financial Statements

Year Ended March 31, 2018

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2018

Independent Auditor's Report

Statement of Operations

Statement of Financial Position

Statement of Changes in Net Financial Assets

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1 – Expenses – Detailed by Object

Schedule 2 – Related Party Transactions

Independent Auditor's Report

To the Minister of Agriculture and Forestry

Report on the Financial Statements

I have audited the accompanying financial statements of the Environmental Protection and Enhancement Fund, which comprise the statement of financial position as at March 31, 2018, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Environmental Protection and Enhancement Fund as at March 31, 2018, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 31, 2018
Edmonton, Alberta

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2018

	2018 Budget	2018 Actual	2017 Actual
	(in thousands)		
Revenues			
Government Transfers			
Government of Alberta Grants (Note 9)	\$ -	\$ 201,488	\$ 243,231
Timber Royalties and Fees	28,493	19,217	26,994
Investment Income	889	159	208
Other Revenue	-	2,195	-
	29,382	223,059	270,433
Expenses			
Forest Fires	11,714	210,286	254,991
Flat Top Complex	14,927	11,687	13,436
Forest Health Program	487	409	526
Environmental Emergency Response	1,974	677	1,406
Intercept Feeding and Fencing	80	-	-
Debt Servicing Costs	200	-	74
	29,382	223,059	270,433
Annual Surplus	-	-	-
Accumulated surplus, beginning of year	150,000	150,000	150,000
Accumulated surplus, end of year	\$ 150,000	\$ 150,000	\$ 150,000

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

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2018

	2018 (in thousands)	2017
Financial Assets		
Cash (Note 4)	\$ 18,959	\$ 41,419
Due from Government of Alberta	211,994	178,712
Accounts Receivable	5	14
	230,958	220,145
Liabilities		
Accounts Payable and Accrued Liabilities (Note 5)	4,772	17,949
Due to Government of Alberta	75,000	50,074
Liability for Contaminated Sites (Note 6)	1,186	2,122
	80,958	70,145
Net Assets	150,000	150,000
Net Assets		
Accumulated Surplus	150,000	150,000
	\$ 150,000	\$ 150,000

Contractual Obligations (Note 7)

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

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2018

	2018 Budget	2018 Actual	2017 Actual
	(in thousands)		
Annual Surplus	\$ -	\$ -	\$ -
Change in Net Financial Assets in the Year	-	-	-
Net Financial Assets, Beginning of Year	150,000	150,000	150,000
Net Financial Assets, End of Year	\$ 150,000	\$ 150,000	\$ 150,000

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

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2018

	2018	2017
	(in thousands)	
Operating Transactions		
Annual Surplus	\$ -	\$ -
(Increase) Decrease in Accounts Receivable	(33,273)	120,030
Increase (Decrease) in Accounts Payable and Accrued Liabilities	11,749	(89,699)
Decrease in Liability for Contaminated Sites	(936)	(586)
Cash (Applied to) Provided by Operating Transactions	(22,460)	29,745
(Decrease) Increase in Cash	(22,460)	29,745
Cash at Beginning of Year	41,419	11,674
Cash at End of Year	\$ 18,959	\$ 41,419

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

Notes to the Financial Statements for the Year Ended March 31, 2018

Note 1 Authority

The Environmental Protection and Enhancement Fund (the Fund) operates under the authority of the *Environmental Protection and Enhancement Act* (EPEA), Chapter E-12, Revised Statutes of Alberta 2000.

The components of the Fund are:

- Forest Fires
- Flat Top Complex
- Forest Health
- Environmental Emergency Response
- Intercept Feeding and Fencing

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian public sector accounting standards.

(a) Reporting Entity

The reporting entity is the Fund, which is part of the Ministry of Agriculture and Forestry and for which the Minister of Agriculture and Forestry is accountable. Other entities reporting to the minister are the Department of Agriculture and Forestry and Agriculture Financial Services Corporation. The activities of these organizations are not included in these financial statements. The ministry annual report provides a more comprehensive accounting of the financial position and results of the ministry's operations for which the minister is accountable.

(b) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recognized as unearned revenue.

Government transfers - Transfers from all governments are referred to as government transfers.

Government transfers and the associated externally restricted income are recognized as deferred revenue if the eligibility criteria for the use of the transfer, or the stipulations together with the Fund's actions and communications as to the use of the transfer, create a liability. These transfers are recognized as revenue as the stipulations are met and, when applicable, the Fund complies with its communicated use of these transfers.

All other government transfers, without stipulations for the use of the transfer, are recognized as revenue when the transfer is authorized and the Fund meets the eligibility criteria (if any).

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Grants are recognized as expenses when authorized, eligibility criteria, if any, are met and a reasonable estimate of the amount can be made.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Valuation of Financial Assets and Liabilities

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

<u>Financial Statement Component</u>	<u>Measurement</u>
Cash and cash equivalents	Cost
Accounts Receivable	Lower cost or net recoverable value
Accounts payable and accrued liabilities	Cost

Financial Assets

The Fund has no financial assets measured in the fair value category and has not engaged in foreign currency transactions. The Fund has no re-measurement gains or losses and consequently has not presented a Statement of Re-measurement Gains and Losses.

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets are limited to financial claims, such as advances to and receivables from other organizations.

Liabilities

Liabilities are present obligations of the Fund to external organizations and individuals arising from transactions or events occurring before the year end, the settlement of which is expected to result in the future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liability for Contaminated Sites - Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. The liability is recognized net of any expected recoveries. A liability for remediation of contaminated sites normally results from an operation(s) that is no longer in productive use and is recognized when all of the following criteria are met:

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

Measurement Uncertainty (in thousands)

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

The Liability for Contaminated Sites, recognized as \$1,186 in these financial statements, is subject to measurement uncertainty.

These estimates are based on the current site assessment, including the source and type of the contaminant. During remediation, further site assessments and/or sampling results may materially change the estimate. These changes could be the result of factors such as expanded area of contamination; a revised assessment of the source or introduction of a new source; re-sampling at deeper depths; and cost fluctuations where remedial work is conducted over several years.

(c) Change in Accounting Policy

The fund has prospectively adopted the following standards from April 1, 2017: PS 2200 Related Party Disclosures, PS 3420 Inter-Entity Transactions, PS 3210 Assets, PS 3320 Contingent Assets and PS 3380 Contractual Rights which are reflected in Note 2 and Schedule 2.

Note 3 Future Accounting Changes

The Public Sector Accounting Board has issued the following standard:

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**
This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.
- **PS 3280 Asset Retirement Obligations (effective April 1, 2021)**
Effective April 1, 2021, this standard provides guidance on how to account for and report a liability for retirement of a tangible capital asset.

Management is currently assessing the impact of these standards on the financial statements.

Note 4 Cash

Cash includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term securities with a maximum term to maturity of three years. As at March 31, 2018, securities held by the Fund have a time-weighted return of 1.035% per annum (2017: 0.8% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

Note 5 Accounts Payable and Accrued Liabilities

(in thousands)

	2018	2017
Accounts Payable – General	\$ 1,073	\$ 8,931
Salaries, Wages and Employee Benefits	389	439
Grants	2,500	2,500
Supplies and Services	810	6,079
	<u>\$ 4,772</u>	<u>\$ 17,949</u>

Note 6 Liability for Contaminated Sites
(in thousands)

The composition of liabilities is as follows:

	2018	2017
Liabilities, beginning of year	\$ 2,122	\$ 2,708
Additions to liabilities during the year	-	-
Change in estimate related to existing sites	-	-
Remediation work performed	(936)	(586)
Liabilities, end of year	<u>\$ 1,186</u>	<u>\$ 2,122</u>

The Fund has transferred the liability amount of the contaminated sites for Cold Creek Ranger Station and West Arrowwood to the Department of Environment and Parks.

The Fund has undertaken remediation work on behalf of the proponent at the Gas Plus site for soil and groundwater contamination due to health and environmental risks. The remedial work was scheduled to be completed in 2018. Due to factors outside of the contracted parties' control, the timeline for the reclamation has been extended to March 31, 2019. The unspent funding will be carried forward into the 2018/19 fiscal year. The liability estimate was based on a consultant's proposal to delineate, develop a contaminated site model, implement testing and a remedial action plan. Recovery of compensation equal to the remediation costs will be pursued through the courts. The probability of recovery of all or some of the costs has been assessed as low and therefore, the liability has not been reduced for any potential recoveries.

Note 7 Contractual Obligations
(in thousands)

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

	2018	2017
Obligations under Contracts and Programs	\$ 21,675	\$ 29,431
	<u>\$ 21,675</u>	<u>\$ 29,431</u>

Estimated payment requirements for each of the next four years are as follows:

2018-19	\$ 7,815
2019-20	6,398
2020-21	4,894
2021-22	2,568
	<u>\$ 21,675</u>

Note 8 Net Assets
(in thousands)

The net assets for the Fund are capped at \$150,000 in accordance with a Treasury Board decision (TBDMAR251998).

Note 9 Transfer from the Department of Agriculture and Forestry
(in thousands)

The following revenue was received or is receivable from the Department of Agriculture and Forestry.

	2018	2017
Forest Fires	\$ 201,488	\$ 243,231

Note 10 Budget Figures
(in thousands)

The revenue and expense budget amounts disclosed in these financial statements agree with the 2017-18 Government Estimates.

Note 11 Approval of the Financial Statements

The financial statements were approved by the senior financial officer and the deputy minister.

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUNDSCHEDULE TO FINANCIAL STATEMENTSEXPENSES - DETAILED BY OBJECTYEAR ENDED MARCH 31, 2018

	Budget	2018 Actual (in thousands)	2017 Actual
Salaries, Wages and Employee Benefits	\$ 10,342	\$ 29,672	\$ 35,899
Supplies and Services	15,340	189,887	223,879
Grants	3,500	3,500	10,581
Financial Transactions and Other	200	-	74
	<u>\$ 29,382</u>	<u>\$ 223,059</u>	<u>\$ 270,433</u>

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUNDSCHEDULE TO FINANCIAL STATEMENTSRELATED PARTY TRANSACTIONSYEAR ENDED MARCH 31, 2018

(in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel in the Fund.

The Fund had the following transactions with related parties reported on the Statement of Operations and the Statement of financial position at the amount of consideration agreed upon between the related parties.

	Entities in the Ministry		Other Entities	
	2018	2017	2018	2017
Revenues				
Grants	\$ 201,488	\$ 243,231	\$ -	\$ -
Other	-	-	12	-
	<u>\$ 201,488</u>	<u>\$ 243,231</u>	<u>\$ 12</u>	<u>\$ -</u>
Expenses				
Grants	\$ -	\$ -	\$ -	\$ -
Other Services	235	209	1,457	1,925
	<u>\$ 235</u>	<u>\$ 209</u>	<u>\$ 1,457</u>	<u>\$ 1,925</u>
Payable to				
Agriculture and Forestry	\$ 294	\$ 137	\$ -	\$ -
Environment and Parks	-	-	165	775
Justice and Solicitor General	-	-	25	-
Treasury Board and Finance	-	-	75,000	50,074
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,190</u>	<u>\$ 50,849</u>
Receivable from				
Agriculture and Forestry	\$ 200,730	\$ 155,069	\$ -	\$ -
Municipal Affairs	-	-	11,262	23,640
Environment and Parks	-	-	-	3
	<u>\$ 200,730</u>	<u>\$ 155,069</u>	<u>\$ 11,262</u>	<u>\$ 23,643</u>

OTHER FINANCIAL INFORMATION

* Information on this page has not been audited *

Statement of Remissions, Compromises and Write-Offs for the Year Ended March 31, 2018

The following statement has been prepared pursuant to Section 23 of the *Financial Administration Act*. The statement includes all remissions, compromises and write-offs made or approved during the fiscal year.

Write-offs

Departmental accounts receivable	\$	-
Agriculture Financial Services Corporation		(14,765,859)
Total remissions, compromises and write-offs	\$	(14,765,859)

The following statement has been prepared pursuant to Section 75 of the *Financial Administration Act*. The statement includes all guarantees, indemnities, payments and recoveries made during the fiscal year.

Statement of Guarantees and Indemnities Given by Provincial Corporations for the Year Ended March 31, 2018

Program/Borrower	Amount of Guarantee or Indemnity	Payments	Recoveries
Agriculture Financial Services Corporation	\$ 10,435,648	\$ 2,729	\$ -
Total guarantees and indemnities given	\$ 10,435,648	\$ 2,729	\$ -

ANNUAL REPORT EXTRACTS AND OTHER STATUTORY REPORTS

Public Interest Disclosure Act

Section 32 of the *Public Interest Disclosure Act* requires the ministry to report annually on the following parts of the Act:

- (a) the number of disclosures received by the designated officer of the Public Interest Disclosure Office, the number of disclosures acted on and the number of disclosures not acted on by the designated officer;
- (b) the number of investigations commenced by the designated officer as a result of disclosures;
- (c) in the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

In 2017-18 for the ministry, there were no disclosures of wrongdoing filed with the Public Interest Disclosure Office.

