

**Oil and Gas Commission
Financial Statements**

March 31, 2005

Oil and Gas Commission

Statement of Management Responsibility

The financial statements of the Oil and Gas Commission for the year ended March 31, 2005 have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements present fairly the financial position of the Commission as at March 31, 2005, and the results of its operations and changes in its financial position for the year then ended.

Management is responsible for the preparation of the financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized, and that financial records provide reliable information for the preparation of financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the Oil and Gas Commission. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Oil and Gas Commission.



Derek Doyle
Commissioner



Craig Wilkinson
Division Leader, Corporate Services

May 11, 2005

Report of the Auditor General of British Columbia

*To the Members of the Board of Directors
of the Oil and Gas Commission, and*

*To the Minister of Energy and Mines,
Province of British Columbia*

I have audited the statement of financial position of the *Oil and Gas Commission* as at March 31, 2005 and the statements of operations and net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Oil and Gas Commission* as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
May 11, 2005*



Wayne Strelhoff, FCA
Auditor General

Oil and Gas Commission
Statement of Financial Position
March 31, 2005

(in \$000s)

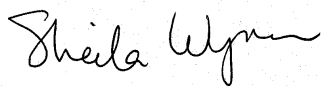
	<u>2005</u>	<u>2004</u>
Assets		
Current assets		
Cash	7,333	3,890
Accounts receivable	3,686	1,902
Due from Province of British Columbia (Note 4)	1,931	1,411
Prepaid expenses	51	53
	<u>13,001</u>	<u>7,256</u>
Property, plant and equipment (Note 3)	<u>1,813</u>	<u>1,661</u>
	<u>14,814</u>	<u>8,917</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	513	375
Due to First Nations	1,389	1,152
Due to the Province of British Columbia (Note 4)	3,430	1,231
	<u>5,332</u>	<u>2,758</u>
Net Assets		
Net assets	9,149	5,731
Contributed assets (Note 5)	333	428
	<u>9,482</u>	<u>6,159</u>
	<u>14,814</u>	<u>8,917</u>

Commitments (see Note 6)

Science and Community Environmental Knowledge (SCEK) Fund (see Note 7)

Contingent Liability (see Note 10)

On behalf of the Board



Sheila Wynn
Board Chair



Derek Doyle
Commissioner

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Statement of Operations and Net Assets
For the period ended March 31, 2005
(in \$000s)

	<u>2005</u>	<u>2004</u>
Revenues		
Fees	16,243	14,019
Levies	10,283	6,221
Miscellaneous	85	120
	<u>26,611</u>	<u>20,360</u>
Expenses		
First Nations (<i>Note 8</i>)	9,819	8,779
Salaries and benefits	8,934	8,343
Building occupancy	877	857
Telecommunications and info systems	707	741
Travel and vehicle costs	831	680
Professional services and training	1,299	864
Amortization	393	371
Office supplies and equipment	417	435
Grants	2	2
Miscellaneous and bad debts	9	9
	<u>23,288</u>	<u>21,081</u>
Revenue (loss) from operations	3,323	(721)
Amortization of contributed assets (<i>Note 5</i>)	<u>95</u>	<u>95</u>
Net revenue (loss) from operations	3,418	(626)
Net assets beginning of year, as previously reported	6,413	6,840
Prior period adjustment (<i>Note 11</i>)	<u>(682)</u>	<u>(483)</u>
Net Assets, beginning of year, as restated	<u>5,731</u>	<u>6,357</u>
Net assets end of year	<u>9,149</u>	<u>5,731</u>

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Statement of Cash Flows
For the period ended March 31, 2005
(in \$000s)

	<u>2005</u>	<u>2004</u>
Operating activities		
Cash generated from:		
Fees	15,213	14,347
Levies	9,079	6,411
Miscellaneous	14	156
	<u>24,306</u>	<u>20,914</u>
Cash used for:		
Payments to First Nations	9,582	10,911
Salaries	6,864	9,013
Operating costs	3,872	3,879
	<u>20,318</u>	<u>23,803</u>
Cash from (used in) operating activities	3,988	(2,889)
Cash used in investment activities		
Purchase of plant and equipment	(488)	(333)
Purchase of land	(57)	-
Cash transferred to SCEK	-	(2,247)
Increase (Decrease) in cash	3,443	(5,469)
Cash beginning of year	3,890	9,359
Cash end of year	7,333	3,890

The accompanying notes are an integral part of these statements.

Oil and Gas Commission

Notes to the Financial Statements March 31, 2005

(in \$000s)

1. The Oil and Gas Commission

The Oil and Gas Commission (the "Commission") was established under the *Oil and Gas Commission Act* on July 30, 1998, to administer industry activity on oil and gas lands and to resolve industry land use and economic issues related to Aboriginal Lands on behalf of the Province of British Columbia.

The Commission is funded through revenue from the consolidated revenue fund of the Province of British Columbia derived from:

- Levies from oil and gas production,
- Fees in relation to applications for and issuance of approvals, licenses, permits and other authorizations issued by the Commission under the *Petroleum and Natural Gas Act* and the *Pipeline Act*, and
- Annual fees prescribed under the *Petroleum and Natural Gas Act* and the *Pipeline Act*.

The Commission is exempt from federal and provincial income taxes.

2. Significant accounting policies

The financial statements of the Commission are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the assets at the following annual rates:

- | | |
|--|--------------|
| • Furniture, equipment and tenant improvements | 10 per cent |
| • Operating equipment | 20 per cent |
| • Automotive equipment | 25 per cent |
| • Computer hardware | 33 per cent |
| • Computer software | 100 per cent |

Amortization associated with assets paid for by the Province of British Columbia is transferred from contributed surplus to revenue each year. See *Note 5*.

Revenue recognition

All fee and levy revenue authorized and collected under Section 23 of the *Oil and Gas Commission Act* is first paid to the Minister of Finance. The Province then transfers this amount of revenue to the Commission.

Oil and Gas Commission

Notes to the Financial Statements March 31, 2005

(in \$000s)

Revenue is recognized when it is earned. The Oil and Gas Levy is assessed in the second month following production; therefore, revenue for February and March is estimated based on an analysis that takes into account both historical and current year trends. Fees under the *Pipeline Act* for pipelines and gas and compressor stations are recognized when earned, that is, when "leave to open" has been granted.

Fees and levies collected on behalf of the Science and Community Environmental Knowledge Fund are reported separately from the Oil and Gas Commission. Audited financial statements are available upon request.

Employee benefit plan

The Commission and its employees contribute to the Public Service Pension Plan in accordance with the *Public Service Pension Plans Act*. The Public Service Pension Plan is a multi-employer, defined benefit plan and is available to substantially all of the Commission employees. On behalf of employers, the British Columbia Pension Corporation administers the Plan, including payment of pension benefits to employees to whom the Act applies. The most recent actuarial valuation (March 31, 2002) has determined the Plan is in a surplus position. The Corporation also annually contributes through the Provincial Government payroll system for specific termination benefits as provided for under collective agreements and conditions of employment. The cost of these employee future benefits is recognized as an expense in the year that contributions are paid. Effective January 1, 2001, the Public Service Pension Plan's management changed to a joint trusteeship where the management, risks and benefits are shared between the employers and employees.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Oil and Gas Commission
Notes to the Financial Statements March 31, 2005
(in \$000s)

3. Property, plant and equipment

			2005	2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	57	-	57	-
Furniture, equipment, and tenant improvements	2,451	(999)	1,452	1,490
Operating equipment	91	(9)	82	-
Automotive equipment	58	(7)	51	-
Computer hardware	541	(376)	165	169
Computer software	462	(456)	6	2
	3,660	(1,847)	1,813	1,661

4. Due from / to the Province of British Columbia

	2005	2004
Due from:		
Accrued leave liability	120	120
Contract reimbursement	383	268
Fee and levies	1,428	1,023
	1,931	1,411
Due to:		
Operating expenses	3,430	1,231
	3,430	1,231

Oil and Gas Commission

Notes to the Financial Statements March 31, 2005

(in \$000s)

5. Contributed assets and forgiveness of start-up costs

During its first year of operation (1998/1999) the Commission borrowed funds from the Province to finance its purchase of start-up capital and pay for other start-up costs like professional contracts. The total of all of these amounts was \$1,620.

During the 2000/01 fiscal year the Province forgave this amount and the amount equal to the capital assets. They were recognized as a contributed asset.

Contributed assets are reduced each year and an amount transferred to revenue equal to the yearly amortization.

	2005	2004
Contributed assets beginning of year	428	523
Amortization of contributed assets	(95)	(95)
Contributed assets end of year	333	428

6. Commitments

The Commission occupies leased office buildings in Fort St. John, Victoria and Kamloops for which building occupancy fees are paid to the British Columbia Buildings Corporation. The lease for the Fort St. John office space runs until March 31, 2013 with no early release option. The office space in Victoria is managed through the Ministry of Small Business and Economic Development with no fixed end date, and requires six months notice to vacate. The lease for the space in Kamloops ends on April 1, 2007.

The Commission has entered into a number of short-term leases and support agreements. These are for vehicles and office equipment.

The Commission's total fiscal year commitments are:

<u>Fiscal Year</u>	<u>First Nations</u>	<u>Other</u>	<u>Total</u>
2006	2,060	1,469	3,529
2007	860	996	1,856
2008		950	950
2009		936	936
2010		940	940

Oil and Gas Commission

Notes to the Financial Statements March 31, 2005

(in \$000s)

7. Science and Community Environmental Knowledge (SCEK) Fund

The Oil and Gas Commission administers this fund on behalf of the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC). Funding is generated through a portion of the levy on oil and gas production and a portion of the application fee for wells. This money is restricted for use for projects and administration of the Fund.

8. First Nations Payments

The Commission has entered into Agreements or Memorandums of Understanding with the following First Nations. During the life of the MOUs and Agreements each First Nation will receive payments based on current well activities. These payments are for consultation services on applications as required by the *Oil and Gas Commission Act*.

Payments to:	Agreement Expires	2005	2004
Blueberry River First Nations	March 31, 2006	1,187	1,095
Doig River First Nations	March 31, 2006	1,265	1,095
Dene Tha' First Nations	March 31, 2007	440	320
Fort Nelson First Nations	March 31, 2006	1,277	1,191
Halfway River First Nations	March 31, 2006	1,187	1,094
McLeod Lake Indian Band	March 31, 2007	902	699
Prophet River First Nations	March 31, 2006	1,187	1,095
Saulteau First Nations	March 31, 2006	1,187	1,095
West Moberly First Nations	March 31, 2006	1,187	1,095
		9,819	8,779

Oil and Gas Commission

Notes to the Financial Statements March 31, 2005

(in \$000s)

9. Related party transactions

The Commission is related to all Province of British Columbia ministries, agencies and Crown corporations. The Commission leases office space from the British Columbia Buildings Corporation. The Ministry of Management Services provided payroll services during the year at no cost to the Commission. The Ministry of Attorney General acted as the Commission's primary legal advisor during the year on a cost recovery basis. The BC Public Service Agency provided human resource services during the year under terms of a Service Level Agreement.

10. Contingent Liability

The Commission is contingently liable with respect to pending litigation and claims in the normal course of business. An estimate of a contingent loss cannot be determined at this time. In the opinion of management, any liability that may arise would not have a material adverse effect on future income.

11. Prior period adjustment

During the year, the Commission determined that the basis for accruing pipeline fee revenue was being applied in a manner inconsistent with its stated accounting policy. The adjustment to opening net assets was made in order to reconcile the current receivable balance and revenue to the amounts that should have been billed under the *Pipeline Act's* policy of recording revenue when the "leave to open" has been granted. The process of reconciling between the billed amounts and the granted "leave to open" is currently in progress and changes to these balances will be reflected in the year in which they become known.

12. Comparatives figures

Certain comparative figures have been restated to conform to the presentation used in the current year.