


Statement of Management Responsibility

The financial statements of the Oil and Gas Commission for the year ended March 31, 2000 have been prepared by management in accordance with generally accepted accounting principles. These financial statements present fairly the financial position of the Commission as at March 31, 2000, 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.



Rob McManus
Commissioner



Scott Wisdahl
Director, Corporate Services

May 18, 2000

Report of the Auditor General of British Columbia

*To the Commissioner
of the Oil and Gas Commission, and*

*To the Minister of Energy and Mines and
the Minister Responsible for Northern Development,
Province of British Columbia:*

I have audited the statement of financial position of the *Oil and Gas Commission* as at March 31, 2000 and the statements of deficit, operations 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 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, 2000 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.



Wayne Strelieff, CA
Auditor General

*Victoria, British Columbia
May 18, 2000*

Oil and Gas Commission
Statement of Financial Position
March 31, 2000

(in \$,000s)

	2000	1999
Assets		
Current assets		
Cash	5,132	-
Accounts receivable	1,513	1,384
Due from Province of British Columbia (Note 5)	994	4,546
Prepaid expenses	14	-
	<u>7,653</u>	<u>5,930</u>
Capital assets (Note 4)	1,129	1,206
Commitments (Note 9)		
	<u>8,782</u>	<u>7,136</u>

On behalf of the Commission



Rob McManus
 Commissioner

	2000	1999
Liabilities and deficit		
Current liabilities		
Accounts Payable	626	399
Due to First Nations (Note 6)	3,262	1,285
Due to the Province of British Columbia (Note 5)	6,216	7,001
Environmental Fund (Note 7)	282	-
	<u>10,386</u>	<u>8,685</u>
Long-term liabilities		
Due to First Nations (Note 6)	2,395	1,373
Deficit	(3,999)	(2,922)
	<u>8,782</u>	<u>7,136</u>



Pradeep Khare
 Deputy Commissioner

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Statement of Deficit
Year ended March 31, 2000
(in \$,000s)

	<u>2000</u>	<u>1999</u>
Deficit beginning of years	(832)	-
Restatement of prior years		
Accounting change <i>(Note 3)</i>	(2,624)	-
Removal of internally imposed restrictions	534	-
Deficit beginning of year , as restated	(2,922)	-
Loss from operations	(1,077)	(2,922)
Deficit end of year	<u>(3,999)</u>	<u>(2,922)</u>

Oil and Gas Commission
Statement of Operations
Year ended March 31, 2000

(in \$,000s)

	<u>2000</u>	<u>1999</u>
Revenues		
Fees	7,732	2,967
Levies	5,365	2,843
Miscellaneous	105	-
	<u>13,202</u>	<u>5,810</u>
Expenses		
Payments to First Nations	6,236	4,385
Salaries and benefits	5,327	2,228
Building occupancy	854	450
Telecommunications and information systems	368	235
Travel and vehicle costs	477	327
Professional services and training	436	781
Amortization	290	108
Office supplies and equipment	208	212
Miscellaneous	83	6
	<u>14,279</u>	<u>8,732</u>
Loss from operations	<u>(1,077)</u>	<u>(2,922)</u>

Oil and Gas Commission
Statement of Cash Flows
Year ended March 31, 2000

(in \$,000s)

	2000	1999
Cash provided by operating activities		
Cash generated from:		
Fees	7,465	-
Levies	4,969	-
Miscellaneous	93	-
	<u>12,527</u>	<u>-</u>
Cashed used for :		
Payments to First Nations	3,236	-
Salaries	5,224	-
Operating costs	2,389	-
	<u>10,849</u>	<u>-</u>
Cash from Operations	<u>1,678</u>	<u>-</u>
Cash provided by financing activities		
Payments from Ministry for previous year's activities	4,426	-
Payments to Ministry	(7,293)	-
Increased borrowing from the Ministry	6,509	-
Cash from Financing	<u>3,642</u>	<u>-</u>
Cash used in investment activities		
Purchase of capital assets	(188)	-
Increase in cash	<u>5,132</u>	<u>-</u>
Cash, beginning of year	-	-
Cash, end of year	<u>5,132</u>	<u>-</u>

For the 1999 fiscal year all cash transactions flowed through the Ministry of Energy Mines.

The accompanying notes are an integral part of these statements

Oil and Gas Commission

Notes to the Financial Statements

March 31, 2000

(in \$,000s)

1 The Oil and Gas Commission

The Oil and Gas 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 scope of administration and control over oil and gas industry activity includes services formerly provided by the:

- Ministry of Energy and Mines under the *Petroleum and Natural Gas Act* and the *Pipelines Act*,
- Ministry of Environment, Lands and Parks (latterly by the British Columbia Assets and Land Corporation) under the *Lands Act*, and
- Ministry of Forests for administration of the Forests Practices Code.

Management and staff from these ministries joined to form the Oil and gas Commission.

The Commission commenced active operations on October 23, 1998 and 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 generally accepted accounting principles. Significant accounting policies are as follows:

Capital Assets

Capital assets 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 |
| • Computer hardware | 33 per cent |
| • Computer software | 100 per cent |

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 and Corporate Relations. The Province then transfers this amount of revenue to the Commission.

Oil and Gas Commission

Notes to the Financial Statements

March 31, 2000

(in \$,000s)

2. Significant accounting policies (cont'd)

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 average prior months' assessments. 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 that have been directed to pay for research under the Environmental Fund are recognized when the research costs have been incurred. Prior to costs being incurred the amounts are included as deferred contributions, in the Environmental Fund.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

3. Changes in accounting policy

In the prior year, the Commission established an internally restricted fund to account for future payments to First Nations pursuant to the MOU described in Note 4. Following this method, only the amounts actually paid to the First Nations in the year were recorded as an expense.

The new accounting policy recognizes the future payments as an expense and a liability in the year that they are incurred. This accounting treatment matched the expense with the revenue that triggered it.

If the previous accounting policy was used this year then the expense shown for First Nations would be \$5,427, (1999: \$ 1,761), the loss from operations would be \$(269), (1999: \$(298)), the deficit would be \$(2,248), (1999: \$(832)), and the restricted net assets would be \$1,781 (1999: \$534).

4. Capital assets

	2000		1999	
	Cost	Accumulated amortization	Net book value	Net book value
Furniture, equipment, and tenant improvements	1,034	147	887	903
Computer equipment	468	226	242	303
	1,502	373	1,129	1,206

Oil and Gas Commission
Notes to the Financial Statements
March 31, 2000

(in \$,000s)

5. Due from / to the Province of British Columbia

	<u>2000</u>	<u>1999</u>
Due from:		
Accrued leave liability	120	120
Fee and levies	874	4,426
	<u>994</u>	<u>4,546</u>
Due to:		
Start up costs	1,620	1,620
Operating expenses	4,596	5,381
	<u>6,216</u>	<u>7,001</u>

6. Due to the First Nations

The Treaty 8 First Nations signed Memorandums of Understanding (MOU) with the Province of British Columbia and the Commission that encourages a favorable business climate for resource development, and to develop a framework to consult about the impacts of oil and gas sector activities on treaty rights.

Under the terms of the MOUs, the Commission will pay the First Nations a fixed annual contribution as well as an amount based on fee-generating activities. The amount for fee-generating activities has two components: the first is payable

when the activity occurs, the second is due on the anniversary date of the original activity. This amount is calculated to the end of the MOU (2002/2003) and is recorded as a long-term liability.

<u>Current liability</u>	<u>2000</u>	<u>1999</u>
Development payments for 4 th quarter	2,064	827
Current portion of long-term liability	1,198	458
	<u>3,262</u>	<u>1,285</u>
<u>Long-term liability</u>	<u>2000</u>	<u>1999</u>
Wells	2,790	1,576
Plants	18	8
Pipelines	785	247
	<u>3,593</u>	<u>1,831</u>
Less: current portion	1,198	458
	<u>2,395</u>	<u>1,373</u>

On February 29, 2000, six of the seven First Nations submitted written notification that they intended to rescind the MOUs. The notification provides for 90 days before the MOU would end.

The Commission continues to record the liabilities that would occur if the MOU stays in force as it is the opinion of the

Oil and Gas Commission

Notes to the Financial Statements

March 31, 2000

(in \$,000s)

Commission that the liability reflects the most likely future costs arising from negotiations surrounding the MOU.

7. Environmental Fund

The Commission signed an agreement with the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC) that will see the Commission spend \$5 million over 5 years on research on the effects of the oil and gas industry on BC. The funds required for this research will be raised through increasing the levy on oil and gas production and by an increase to the application fee for wells. This money is restricted for use for research and administration of the Fund.

	<u>2000</u>
Opening balance	-
Add: Fees and levies collected	253
Contributions of research funds	31
Interest earned	1
	<u>285</u>
Deduct: Research project costs	-
Steering committee costs	-
Commission administration	3
	<u>3</u>
Ending balance	<u>282</u>

8. Related party transactions

The Commission is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Significant related party transactions during the year are detailed below:

The Commission leases office and warehouse space from the British Columbia Buildings Corporation as disclosed in Note 9.

The Ministry of Employment and Investment provided payroll and human resource services and certain capital assets during the year at no cost to the Commission.

The Ministry of Attorney General acted as the Commissions primary legal advisor during the year on a cost recovery basis.

9 Commitments

The Commission occupies leased office buildings in Fort St. John and Victoria, as well as a storage warehouse for core samples at Charlie Lake, for which the Commission pays building occupancy fees to the British Columbia Building Corporation. The lease for the Fort St. John office space runs for two years until March 31, 2002 with no early release option. The office space in Victoria is managed through the Ministry of Employment and Investment with no fixed end date, and requires six months notice to vacate. As of April 1,

Oil and Gas Commission

Notes to the Financial Statements

March 31, 2000

(in \$,000s)

2000 the core storage warehouse will revert to the control of the Ministry of Energy and Mines and no longer be an obligation to the Commission. The annual costs for the two office buildings are \$369 (Fort St. John) and \$118 (Victoria).

The Commission has a commitment to make annual payments for development and capacity to first nations as detailed in Note 6. These commitments run until the end of the MOU with First Nations in 2003. The amounts for development are not included in the table below. The capacity amount of \$1,750 per year is included as a commitment.

The Commissions total annual commitments are:

<u>Year</u>	
2001	2,374
2002	2,282
2003	1,883

10. Pension plan

The Commission and its employees contribute to the Public Service Pension Plan in accordance with the Pension (Public Service) Act. The Superannuation Commission of the Province of British Columbia administers the Plan, including the payment of pension benefits on behalf of employers and employees to whom the Act applies. The Plan is a defined

benefit pension plan. The Province of British Columbia has statutory responsibility for any unfunded liability.

The most recent actuarial valuation (March 31, 1999) has determined the Plan is in a surplus position. As a result, of this valuation the Superannuation Commission has refunded a portion of the Commission's employer contributions. This refund is in the way of a reduction in the employer's contribution in the 2000/2001 fiscal year.

11. Subsequent events

The Province of British Columbia as part of its 2000/2001 estimates made a provision to forgive \$1,620 of amounts owing from the Commission that are due for start up costs, including capital items.

12. Comparatives

The comparative figures are for the period from incorporation, July 30, 1998 to March 31, 1999.

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