

**Oil and Gas Commission  
Financial Statements**

**March 31, 2004**

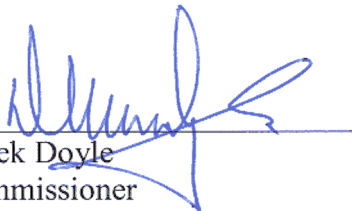
# **Oil and Gas Commission**

## **Statement of Management Responsibility**

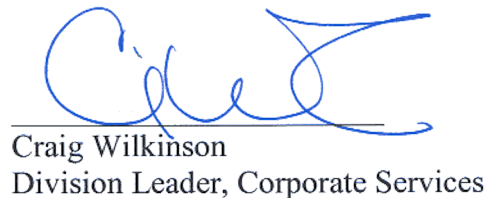
The financial statements of the Oil and Gas Commission for the year ended March 31, 2004 have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements present fairly the financial position of the Commission as at March 31, 2004, and 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 7, 2004**



## 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, 2004 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, 2004 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 7, 2004*

Wayne Strelhoff, FCA  
Auditor General

**Oil and Gas Commission**  
**Statement of Financial Position**  
**March 31, 2004**  
(in \$000s)

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	<u>2004</u>	2003
<b>Assets</b>		
<b>Current assets</b>		
Cash	3,890	9,359
Accounts receivable	2,584	2,834
Due from Province of British Columbia (Note 4)	1,411	1,516
Prepaid expenses	<u>53</u>	<u>36</u>
	<u>7,938</u>	<u>13,745</u>
<b>Capital assets (Note 3)</b>	<u>1,661</u>	<u>1,699</u>
	<u>9,599</u>	<u>15,444</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	375	542
Due to First Nations	1,152	3,284
Due to the Province of British Columbia (Note 4)	<u>1,231</u>	<u>1,966</u>
	<u>2,758</u>	<u>5,792</u>
<b>Due to SCEK Fund</b>		2,289
<b>Net Assets</b>		
Net assets	6,413	6,840
Contributed assets (Note 5)	<u>428</u>	<u>523</u>
	<u>6,841</u>	<u>7,363</u>
	<u>9,599</u>	<u>15,444</u>

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

Commitments (see Note 6)

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, 2004**  
(in \$000s)

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	2004	2003
<b>Revenues</b>		
Fees	14,218	11,073
Levies	6,221	6,756
Miscellaneous	120	102
	<u>20,559</u>	<u>17,931</u>
<b>Expenses</b>		
First Nations	8,779	5,347
Salaries and benefits	8,343	6,272
Building occupancy	857	528
Telecommunications and info systems	741	800
Travel and vehicle costs	680	578
Professional services and training	864	601
Amortization	371	299
Office supplies and equipment	435	507
Grants	2	1
Miscellaneous and bad debts	9	-
	<u>21,081</u>	<u>14,933</u>
<b>(Deficiency) excess of revenues over expenses</b>	<b>(522)</b>	<b>2,998</b>
Amortization of contributed assets <i>(Note 5)</i>	95	69
<b>Net (deficiency) excess of revenues over expenses</b>	<b>(427)</b>	<b>3,067</b>
<b>Net assets beginning of year</b>	<b>6,840</b>	<b>3,773</b>
<b>Net assets end of year</b>	<b><u>6,413</u></b>	<b><u>6,840</u></b>

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

**Oil and Gas Commission**  
**Statement of Cash Flows**  
**For the period ended March 31, 2004**  
(in \$000s)

	<u>2004</u>	<u>2003</u>
<b>Cash flows from operating activities</b>		
Cash generated from:		
Fees	14,347	12,376
Levies	6,411	8,055
Miscellaneous	156	148
	<u>20,914</u>	<u>20,579</u>
Cash used for:		
Payments to First Nations	10,911	7,353
Salaries	9,013	4,412
Operating costs	3,879	3,685
	<u>23,803</u>	<u>15,450</u>
<b>Cash (used in) from operating activities</b>	(2,889)	5,129
<b>Cash (used in) investment activities</b>		
Purchase of capital assets	(333)	(916)
<b>Cash transferred to SCEK</b>	<u>(2,247)</u>	<u>-</u>
<b>(Decrease) increase in cash</b>	(5,469)	4,213
<b>Cash beginning of year</b>	<u>9,359</u>	<u>5,146</u>
<b>Cash end of year</b>	<u>3,890</u>	<u>9,359</u>

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

# Oil and Gas Commission

## Notes to the Financial Statements March 31, 2004

(in \$000s)

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### 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:

#### 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 |

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.

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

# Oil and Gas Commission

## Notes to the Financial Statements March 31, 2004

(in \$000s)

*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.

### 3. Capital assets

	<u>Cost</u>	<u>2004 Accumulated Amortization</u>	<u>Net Book Value</u>	<u>2003 Net Book Value</u>
Furniture, equipment, and tenant improvements	2,253	(763)	1,490	1,563
Computer hardware	412	(243)	169	100
Computer software	449	(447)	2	36
	<u>3,114</u>	<u>(1,453)</u>	<u>1,661</u>	<u>1,699</u>



# Oil and Gas Commission

## Notes to the Financial Statements March 31, 2004

(in \$000s)

### 4. Due from / to the Province of British Columbia

	2004	2003
Due from:		
Accrued leave liability	120	120
Contract Reimbursement	268	326
Fee and levies	1,023	1,070
	<u>1,411</u>	<u>1,516</u>
Due to:		
Operating expenses	1,231	1,966
	<u>1,231</u>	<u>1,966</u>

### 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.

	2004	2003
Contributed assets beginning of year	523	592
Amortization of contributed assets	(95)	(69)
Contributed assets end of year	<u>428</u>	<u>523</u>

### 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.

## **Oil and Gas Commission**

### **Notes to the Financial Statements March 31, 2004**

(in \$000s)

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The Commission's total fiscal year commitments are:

<u>Fiscal Year</u>	<u>Amount</u>
2005	1,047
2006	928
2007	729
2008	712
2009	703

#### **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.

Prior to fiscal year 2003/04, SCEK Fund financial information was included in the Oil and Gas Commission financial statements and all cash was pooled in one operating bank account. To provide better transparency, control and more meaningful information about the SCEK Fund and the Oil and Gas Commission, separate bank accounts are now used and the SCEK Fund financial statements are reported separately. All financial information has been adjusted retroactively.

#### **8. Related party transactions**

The Commission is related to all Province of British Columbia ministries, agencies and Crown corporations. The Commission leases office 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 Public Service Agency provided human resource services during the year under terms of a Service Level Agreement.

#### **9. Comparatives figures**

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

**Science and Community  
Environmental Knowledge Fund  
Financial Statements**

**March 31, 2004**



# Science and Community Environmental Knowledge Fund

## Statement of Management Responsibility

The financial statements of the Science and Community Environmental Knowledge Fund for the year ended March 31, 2004 have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements present fairly the financial position of the Fund as at March 31, 2004, 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 Science and Community Environmental Knowledge Fund. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Fund.

  
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Derek Doyle  
Commissioner  
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Craig Wilkinson  
Division Leader, Corporate Services

May 7, 2004



## Report of the Auditor General of British Columbia

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

I have audited the statement of financial position of the *Science and Community Environmental Knowledge Fund* as at March 31, 2004 and the statements of operations and net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Fund'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 *Science and Community Environmental Knowledge Fund* as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelloff, FCA  
Auditor General

Victoria, British Columbia  
May 7, 2004

**Science and Community Environmental Knowledge Fund**  
**Statement of Financial Position**  
**March 31, 2004**  
(in \$000s)

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	2,746	
Accounts receivable	200	
Due from the Oil and Gas Commission	-	2,289
Deferred charges	204	-
	<u>3,150</u>	<u>2,289</u>
 <b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	124	19
Holdbacks	42	23
	<u>166</u>	<u>42</u>
 <b>Net Assets</b>	<u>2,984</u>	<u>2,247</u>
	<u>3,150</u>	<u>2,289</u>

Commitments (see Note 3)

On behalf of the Science and Community Environmental Knowledge Fund

  
Derek Doyle  
Commissioner

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

**Science and Community Environmental Knowledge Fund**  
**Statement of Operations and Net Assets**  
**For the period ended March 31, 2004**  
(in \$000s)

	<u>2004</u>	<u>2003</u>
<b>Revenues</b>		
Fees	787	610
Levies	593	635
Miscellaneous	105	192
	<u>1,485</u>	<u>1,437</u>
<b>Expenses</b>		
Project Costs	623	597
Salaries and benefits	55	9
Travel and vehicle costs	10	-
Professional services and training	44	12
Office supplies and equipment	15	4
Miscellaneous	1	
	<u>748</u>	622
<b>Net revenue</b>	737	815
<b>Net Assets beginning of year</b>	<u>2,247</u>	<u>1,432</u>
<b>Net Assets end of year</b>	<u>2,984</u>	<u>2,247</u>

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

**Science and Community Environmental Knowledge Fund**  
**Statement of Cash Flows**  
**For the period ended March 31, 2004**  
(in \$000s)

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	2004	2003
<b>Cash provided by (used in) operating activities</b>		
Cash generated from:		
Fees	773	
Levies	446	
Miscellaneous	65	
	<u>1,284</u>	
Cash used for:		
Research projects	456	
Prepaid expenses	204	
Fund administration	125	
	<u>785</u>	
<b>Cash from operating activities</b>	499	
<b>Prior year fund balance transferred from OGC</b>	2,247	
<b>Cash beginning of year</b>		
<b>Cash end of year</b>	<u>2,746</u>	

**Note:** No prior year cash flows for SCEK Fund as all cash transactions flowed through the Oil and Gas Commission bank account.

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



# **Science and Community Environmental Knowledge Fund**

## **Notes to the Financial Statements**

### **March 31, 2004**

(in \$000s)

#### **1. The Oil and Gas Commission as Agent and Administrator**

In 1998, the Government of BC entered into an agreement with the Canadian Association of Petroleum Producers (CAPP) and the Small Explorers and Producers Association of Canada (SEPAC) to establish the Environment Fund ('the Fund'). The Fund was allocated \$5 million over five years to support studies concerning practical ways of addressing environmental issues related to oil and gas exploration and development in British Columbia. Findings of completed studies are incorporated, where appropriate, into environmental practice and regulation.

In 2002, CAPP and SEPAC restated their support of the Fund for 5 years. They also agreed to refocus and rename the Fund, changing it from a purely 'research-based', 'environment' fund to a broader based fund which incorporates 'science' and 'community environmental knowledge' – thus the new name 'Science and Community Environmental Knowledge Fund' ('SCEK Fund' or 'the Fund').

The Commission agreed that the administration of the Fund would be part of the Commission's mandate. 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. The objectives of the Fund are:

- To provide credible findings from scientific and knowledge based research that are useful to OGC and industry decision-making;
  - To improve scientific and community environmental knowledge relevant to the management of oil and gas activities in British Columbia; and
- To communicate this information in a format suitable for industry, regulators, First Nations, stakeholders and the general public.

Prior to fiscal year 2003/04, the SCEK Fund financial information was included in the Oil and Gas Commission financial statements. The SCEK Fund financial statements are now reported separately to give more meaningful information about the financial position of the SCEK Fund.

#### **2. Significant accounting policies**

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

# Science and Community Environmental Knowledge Fund

## Notes to the Financial Statements

March 31, 2004

(in \$000s)

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### Deferred Charges

Agreements for which funding is paid up-front are accounted for as deferred charges. These deferred charges are recognized as expenditures upon one of the following conditions:

- a) Receipt of a statement of expenditures for the project;
- b) Receipt of an interim report proving that milestones are being met; or
- c) Completion of the agreement and acceptance of all deliverables.

### Holdbacks

Holdbacks consist of a portion of a contractor's invoice value being held by the Fund until receipt and acceptance of the final report. The holdbacks are paid after review and approval of the report.

### 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.

## 3. Commitments

The SCEK Fund has entered into several agreements. The Fund's total fiscal year commitments are:

Fiscal Year	Amount
2005	579
2006	50

# **Science and Community Environmental Knowledge Fund**

## **Notes to the Financial Statements**

**March 31, 2004**

(in \$000s)

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### **4. Subsequent Events**

On April 28, 2004 an Order in Council was signed amending the amount of levies and fees that go to the SCEK Fund. Effective May 1, 2004 the Fund will not receive that portion of the levies and fees that were previously allocated to it. The Fund was established with the objective of collecting \$1 million per year and has been averaging \$1.3 million. The estimated financial effect of this change is \$1.5 million for fiscal 2004/05 and \$1.7 million for fiscal 2005/06. It is anticipated that, in fiscal 2006/07, the Commission will return to collecting a portion of the levies and fee for the SCEK Fund.