

Oil and Gas Commission
Consolidated Financial Statements

March 31, 2007

Oil and Gas Commission

Statement of Management Responsibility

The consolidated financial statements of the Oil and Gas Commission for the year ended March 31, 2007 have been prepared by management in accordance with Canadian generally accepted accounting principles. These consolidated financial statements present fairly the financial position of the Commission as at March 31, 2007, 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 consolidated 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 consolidated 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.



Ross Curtis
Commissioner



James Sproul
Executive Director, Business Services

Date

May 25, 2007



Report of the Office of the Auditor General of British Columbia

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

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

I have audited the consolidated statement of financial position of the *Oil and Gas Commission* as at March 31, 2007 and the consolidated statements of operations and net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. 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 plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the *Oil and Gas Commission* as at March 31, 2007 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 25, 2007*

Errol Price, CA
Acting Auditor General

Oil and Gas Commission
Consolidated Statement of Financial Position
(in \$000s)

March 31	2007	2006
Assets		<i>(restated – Note 14)</i>
Current assets		
Cash	8,061	7,398
Accounts receivable	4,502	4,818
Due from Province of British Columbia <i>(Note 3)</i>	2,364	3,113
Prepaid expenses	135	51
	<u>15,062</u>	<u>15,380</u>
Property, plant and equipment <i>(Note 4)</i>	<u>3,080</u>	<u>2,177</u>
	<u>18,142</u>	<u>17,557</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	1,467	602
Wages payable	780	608
Due to First Nations	496	2,087
Due to the Province of British Columbia <i>(Note 3)</i>	403	3,011
	<u>3,146</u>	<u>6,308</u>
Net Assets		
Net assets	14,853	11,011
Contributed assets <i>(Note 5)</i>	143	238
	<u>14,996</u>	<u>11,249</u>
	<u>18,142</u>	<u>17,557</u>

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

Orphan Site Reclamation (OSRF) Fund *(Note 8)*

Contingent Liability *(Note 9 and 10)*



Greg Reimer
Board Chair



Ross Curtis
Commissioner

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Consolidated Statement of Operations and Net Assets
(in \$000s)

March 31	2007	2006
Revenues		
Fees <i>(Note 11)</i>	14,364	16,605
Levies <i>(Note 11)</i>	15,245	11,415
Recoveries from Province <i>(Note 12)</i>	772	1,545
Miscellaneous	267	164
	30,648	29,729
Expenses		
Salaries and benefits	11,262	10,078
First Nations <i>(Note 13)</i>	9,065	11,108
Professional services and training	1,690	1,816
Travel and vehicle costs	1,248	1,150
Building occupancy	1,227	1,222
Telecommunications and info systems	775	699
Amortization	582	462
Miscellaneous and reserve for doubtful accounts	553	1
Office supplies and equipment	492	539
Grants	7	9
Orphan well reclamation	-	878
	26,901	27,962
Revenue from operations	3,747	1,767
Amortization of contributed assets <i>(Note 5)</i>	95	95
Net revenue from operations	3,842	1,862
Net assets beginning of year	11,011	9,149
Net assets end of year	14,853	11,011

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Consolidated Statement of Cash Flows
(in \$000s)

March 31	2007	2006
Operating activities		
Cash generated from:		
Fees <i>(Note 11)</i>	15,381	15,907
Levies <i>(Note 11)</i>	14,231	10,465
Miscellaneous	258	168
	29,870	26,540
Cash used for:		
Payments to First Nations	10,656	10,410
Salaries & benefits	12,592	9,841
Operating costs	4,702	5,509
	27,950	25,760
Cash from operating activities	1,920	780
Investment activities		
Cash used for:		
Purchase of plant and equipment	(1,257)	(715)
Cash used in investment activities	(1,257)	(715)
Increase in cash	663	65
Cash beginning of year	7,398	7,333
Cash end of year	8,061	7,398

The accompanying notes are an integral part of these statements.

Oil and Gas Commission

Notes to the Consolidated Financial Statements March 31, 2007

(tabular amounts 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 regulate 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 also accountable for delivering initiatives and programs that serve to minimize the environmental impact of oil and gas activities in British Columbia.

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

- Levies from oil and gas production,
- Fees related to applications for, and issuance of, approvals, licenses, permits and other authorizations issued by the Commission under the *Petroleum and Natural Gas 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 consolidated financial statements of the Commission are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

Consolidation

The accounts of the Oil and Gas Commission and the Orphan Site Reclamation Fund have been consolidated in these financial statements. The Commission administers and controls the Orphan Fund and all inter company balances and transactions have been eliminated.

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 |

One half of the amortization rate is applied to the year in which an asset is acquired.

Amortization associated with assets originally paid for by the Province of British Columbia (at the time when the Commission was created) is transferred from contributed surplus to revenue each year. See *Note 5*.

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2007
(tabular amounts in \$000s)

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 in full.

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 are recognized when earned, that is, when "leave to open" has been granted.

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.

Financial Instruments

The Commission's consolidated financial instruments consist of cash held in its bank account, accounts receivable, accounts payable, wages payable, due from and to the Province of British Columbia, and amounts due to First Nations. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risk arising from these financial instruments.

3. Due from / to the Province of British Columbia

	<u>2007</u>	<u>2006</u>
Due from:		
Fee and levies	2,246	1,946
Contract reimbursement	45	559
Salary reimbursement	73	-
Accrued leave liability	-	120
Signing bonus	-	488
	<u>2,364</u>	<u>3,113</u>
Due to:		
Operating expenses	153	3,011
Capital costs	250	-
	<u>403</u>	<u>3,011</u>

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2007
(tabular amounts in \$000s)

4. Property, Plant and Equipment

	Cost	Accumulated Amortization	2007 Net book value	2006 Net book value <i>(restated – Note 14)</i>
Furniture and tenant improvements	2,845	(1,515)	1,330	1,291
IT migration project	1,074	-	1,074	166
Computer hardware	906	(634)	272	221
Automotive equipment	368	(149)	219	297
Operating equipment	157	(57)	100	124
Computer software	563	(535)	28	21
Land	57	-	57	57
	5,970	2,890	3,080	2,177

5. Contributed Assets and Forgiveness of Start-up Costs

During its first year of operation (fiscal 1998/99) the Commission borrowed funds from the Province to finance its purchase of start-up capital and pay for start-up professional contracts. The total of all of these amounts was \$1.620 million.

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

Contributed assets are amortized each year and the amount is transferred to revenue.

Contributed assets beginning of year	2007 238	2006 333
Amortization of contributed assets	(95)	(95)
Contributed assets end of year	143	238

Oil and Gas Commission

Notes to the Consolidated Financial Statements March 31, 2007

(tabular amounts in \$000s)

6. Commitments

The Commission occupies leased office buildings in Fort St. John, Fort Nelson, Victoria and Kamloops. The Commission pays building occupancy fees to the Accommodation and Real Estate Services of B.C. ("ARES", previously BC Buildings Corporation). The lease for the Fort St. John office space expires March 31, 2008 with no early release option. The Commission rents office space at two separate locations in Victoria. The lease for the first location expires April 30, 2010 with no early release option. The lease for the second location is managed through the Ministry of Energy, Mines & Petroleum Resources with no fixed end date, and requires six months notice to vacate. The lease for the space in Kamloops expires July 31, 2010.

The Commission will spend approximately \$ 1 million per year on an IT Migration Project. This project is expected to be completed by fiscal 2009/10 and will see the retirement of legacy systems and the creation of a new service delivery model.

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>Contracts</u>	<u>First Nations</u>	<u>Total</u>
2007/08	3,157	855	4,012
2008/09	1,643	540	2,183
2009/10	323	540	863
2010/11	61	540	601
2011/12	41	270	311
2012/13	10	-	10
	<u>\$ 5,235</u>	<u>\$ 2,745</u>	<u>\$ 7,980</u>

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). Separate audited financial statements are available.

8. Orphan Site Reclamation Fund

The Oil and Gas Commission administers an Orphan Site Reclamation Fund. It was created on April 1, 2006 and is intended to pay for the reclamation of orphan sites and for related costs. There are 36 known wells in the province.

9. Employee Benefit Plans and Future Liability

Employee's Benefits Plan

The employees and employers of the public service contribute to the Public Service Pension Plan (the Plan), a jointly trustee pension plan. The Public Service Pension Board of Trustees, representing plan members and employers is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The plan has 51,000 active plan members and 30,000 retired plan members.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The latest valuation as at March 31, 2005 indicated an unfunded liability of \$ 767 million for basic pension benefits. The next valuation will be as at March 31, 2008 with results available in early 2009. The actuary does not attribute portions of the unfunded liability to individual employers. The Oil and Gas Commission paid \$ 408,058 for employer contributions to the Plan in fiscal 2006/07.

Employee Future Post-retirement Benefits

The Commission annually accrues for future specific retirement benefits as provided for under the collective agreement and terms of employment. The future liability for this obligation is \$ 284,346.

10. Contingent Liability

Litigation and Claims

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.

Orphan Sites

Management has estimated the contingent liability for orphan well reclamation to be approximately \$ 3.1 million.

This calculation is based on 36 known orphan wells, with an average estimated reclamation liability of \$ 150,000 per well. From this gross liability figure of \$ 5.4 million, management has deducted \$ 1.5 million approved by Treasury Board in fiscal year 2004/05 for reclamation spending by the Ministry of Energy, Mines and Petroleum Resources (MEMPR), and a further \$ 800,000 in reclamation spending set aside by the MEMPR in fiscal year 2005/06, yielding a contingent liability to the Fund of \$ 3.1 million. As the Fund currently has assets of just over \$ 1 million, the unfunded liability for orphan wells is estimated to be \$ 2.1 million. This unfunded portion will be retired as the Fund assets increase sufficiently over time due to revenues estimated to be \$ 1 million annually.

Facilities and Pipelines

At this time, contingent liability arising from orphan facilities or pipelines can not be estimated. None have been identified.

Landowner Compensation

In addition to the \$ 1.5 million allocated to MEMPR in fiscal year 2004/05 for reclamation spending, Treasury Board also approved MEMPR to spend up to \$ 100,000 for land-owner compensation for unpaid surface rentals. Management estimates that this allocation is sufficient for known liabilities.

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2007
(tabular amounts in \$000s)

11. Revenues

The Oil and Gas Commission is funded through the collection of fees and a combination of levies on oil and gas production. The fees are collected and temporarily deposited into a revenue account where they are accessed by government for processing. For fiscal 2006/07, the Oil and Gas Commission Levy was set at \$ 0.46 per one thousand cubic meter of gas produced and \$ 0.92 per cubic meter of oil produced. The Orphan Site Reclamation Fund Tax was and is set at \$ 0.03 per one thousand cubic meter of gas produced and \$ 0.06 per cubic meter of oil produced.

Due to timing for Government invoicing and subsequent processing of the fees and levies, there is typically a four-month lag between realization of the revenue (income) and deposit into the general operating account of the Commission (cash position).

On May 1, 2007, as per Order in Council, the fee payable to the Oil and Gas Commission for well applications will increase by \$ 400 per well (to \$ 9100 for 1st drill and to \$ 8,500 for 2nd drill) Levies will increase by \$ 0.02 per cubic meter of oil produced (to \$ 0.94) and by \$ 0.01 per one thousand cubic meters of gas produced (to \$ 0.47). From this increase, and in agreement with the Canadian Association of Petroleum Producers (CAPP), a budget for SCEK project expenditures has been reinstated for fiscal 2007/08.

12. Related Party Transactions

The Commission is related to all Province of British Columbia ministries, agencies and Crown corporations. The consolidated financial statements include the following related party transactions:

	<u>2007</u>	2006
Recoveries from the province		
Oil and Gas Regulatory Improvement Initiative (OGRII)	400	-
Reimbursement		
Contract reimbursement	204	878
Salary costs	168	179
Signing bonuses	-	488
	<u>772</u>	<u>1,545</u>
Expenses		
Building occupancy	1,227	1,200
Professional services and training	349	346
Telecommunications and info systems	250	256
Travel and vehicle costs	215	345
Office supplies and equipment	110	95
	<u>2,151</u>	<u>2,242</u>
Assets		
Tenant improvements	291	34
	<u>291</u>	<u>34</u>

Oil and Gas Commission

Notes to the Consolidated Financial Statements March 31, 2007

(tabular amounts in \$000s)

The Commission leases office space from the Accommodation and Real Estate Services of B.C. ("ARES", previously BC Buildings Corporation). 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 (until September 2006, at which time the Commission was no longer subject to the Public Service Act). Common IT Services provides information technology services to the Commission. Queen's Printer provides publishing and other services to the Commission.

13. 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:	Agreements Expire	2007	2006
Blueberry River First Nations	March 31, 2020	1,070	1,355
Doig River First Nations	March 31, 2011	1,070	1,354
Dene Tha' First Nations	Sept 30, 2011	450	440
Fort Nelson First Nations	March 31, 2011	1,070	1,354
Halfway River First Nations	March 31, 2011	1,070	1,354
McLeod Lake Indian Band	December 31, 2007	1,074	1,112
Prophet River First Nations	March 31, 2011	1,070	1,355
Saulteau First Nations	March 31, 2011	1,086	1,354
West Moberly First Nations	March 31, 2011	1,099	1,355
Ktunaxa First Nation	March 31, 2008	6	60
Tahltan First Nation	-	-	15
		9,065	11,108

14. Comparative Figures

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