BC Oil and Gas Commission

Financial Statements

March 31, 2015

BC Oil & Gas COMMISSION

Statement of Management Responsibility

The financial statements of the BC Oil and Gas Commission (Commission) for the year ended March 31, 2015 have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial statements on a quarterly basis and external audited financial statements annually.

The external auditors, the Auditor General of British Columbia, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the financial statements. The external auditors have full and free access to the Audit Committee and management of the Commission and meet when required.

The accompanying Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the financial statements.

On behalf of the Commission

Paul Jeakins
Commissioner

Randall Smith
Chief Financial Officer

May 29, 2015

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Oil and Gas Commission, and
To the Minister of Natural Gas Development, Province of British Columbia

I have audited the accompanying financial statements of the Oil and Gas Commission ("the entity"), which comprise the statement of financial position as at March 31, 2015, and the statement of operations and accumulated surplus, statement of changes in net financial assets and statement of 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.

In my view, 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 Oil and Gas Commission as at March 31, 2015, and the results of its operations, changes in accumulated surplus, changes in its net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Victoria, British Columbia
June 1, 2015

Russ Jones, CPA, FCA
Deputy Auditor General

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

	Note	March 31 2015	March 31 2014
Financial assets			
Cash		5,818	4,259
Investments	3,4	36,000	30,000
Accounts receivable	5	12,045	11,811
Due from government	7	4,674	3,596
		58,537	49,666
Liabilities			
Accounts payable & accrued liabilities	8	5,134	2,682
Employee future benefits	9	285	258
Due to First Nations	10	1,793	2,431
Due to SCEK	6	734	970
Due to government		300	484
Deferred revenue	11	3,315	1,973
Deferred lease inducements		297	191
Liability for orphan sites	12	7,507	5,214
Security deposits	4	25,869	18,713
		45,234	32,916
Net financial assets		13,303	16,750
Non-financial assets			
Tangible capital assets	13	15,516	10,743
Prepaid expenses		883	823
		16,399	11,566
Accumulated surplus		**29,702**	**28,316**
Contractual obligations	14		
Contingent liabilities	15		
Measurement uncertainty	17		

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board

Steve Carr, Board Chair

Paul Jeakins, Commissioner

Doug Wilkes, Audit Committee Chair

BC Oil and Gas Commission
Statement of Operations and Accumulated Surplus
(in $000s)

	Note	Budget 2015	March 31 2015	March 31 2014
		(Note 19)		
Revenues				
Production levies		27,241	31,215	29,215
Annual pipeline levies		2,351	2,356	2,314
Fees		19,729	22,199	13,960
Interest		499	733	510
Other revenue		301	1,087	319
		50,121	57,590	46,318
Expenses	18			
Oil and gas activities regulation		48,471	52,555	41,152
Orphan site reclamation		1,000	3,649	3,097
		49,471	56,204	44,249
Annual surplus		650	1,386	2,069
Accumulated surplus beginning of year		28,316	28,316	26,247
Accumulated surplus end of year		28,966	29,702	28,316

The accompanying notes are an integral part of these statements.

BC Oil and Gas Commission
Statement of Change in Net Financial Assets
(in $000s)

	Budget 2015	March 31 2015	March 31 2014
	(Note 19)		
Annual surplus	650	1,386	2,069
(Acquisition) of tangible capital assets	(4,586)	(7,719)	(7,033)
Disposals of tangible capital assets	-	32	-
Amortization of tangible capital assets	2,615	2,914	2,381
	(1,971)	(4,773)	(4,652)
(Acquisition) of prepaid expense	(500)	(883)	(823)
Use of prepaid expense	400	823	697
	(100)	(60)	(126)
Decrease in net financial assets	(1,421)	(3,447)	(2,709)
Net financial assets at beginning of year	16,750	16,750	19,459
Net financial assets at end of year	**15,329**	**13,303**	**16,750**

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

	March 31 2015	March 31 2014
Operating transactions		
Cash generated from:		
Production levies	29,824	28,761
Annual pipeline levies	2,284	2,191
Fees	23,545	14,306
Interest	705	262
Miscellaneous and recoveries	1,168	187
Security deposits	11,158	3,979
	68,684	49,686
Cash used for:		
Salaries and benefits	(25,119)	(21,124)
Payments to First Nations	(8,135)	(6,647)
Operating expenses	(14,772)	(10,421)
Orphan site reclamation	(207)	(3,232)
Security deposits refunded	(4,001)	(2,968)
	(52,234)	(44,392)
Cash from operating activities	16,450	5,294
Capital transactions		
Cash used to acquire tangible capital assets	(8,891)	(6,932)
Investing transactions		
Investments in portfolio investments	(6,000)	(30,000)
(Decrease) increase in cash	1,559	(31,638)
Cash beginning of year	4,259	35,897
Cash end of year	**5,818**	**4,259**

(in $000s)

1. The Oil and Gas Commission

The Commission was established under the *Oil and Gas Commission Act* on July 30, 1998 to regulate oil and gas activities, having regard to environmental, economic and social values, encourage participation of First Nations, and advance safe and efficient practices in the industry. The Commission is accountable for delivering initiatives and programs that serve to minimize the environmental impact of oil and gas activities in British Columbia. The Commission and its purposes were continued in the *Oil and Gas Activities Act* which came into force October 4, 2010.

The Commission is funded through:

- Fees charged in respect of permit applications, transfers and amendments and
- Levies on oil and gas production and
- Annual pipeline levies

The Commission is exempt from federal and provincial income taxes.

2. Significant Accounting Policies

Basis of accounting

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

Financial Instruments

The Commission reports its Financial Instruments as follows: Cash is measured at fair value, all other financial assets and financial liabilities are measured at cost or amortized cost.

Tangible Capital Assets

Capital assets are recorded at cost. The costs, less estimated residual value, of the tangible assets, are amortized on a straight-line basis over the estimated useful life of the assets at the following annual rates:

Capital assets	Rate
Tenant improvement	over the lease term
Furniture	10%
Computer hardware	33%
Operating equipment	10% - 20%
Automotive equipment	20%
Business systems development	33%
Computer software	20% - 33%

Computer software includes satellite imagery which is being amortized on a straight-line basis at an annual rate of 20%.

2. Significant Accounting Policies (continued)

Revenue Recognition

Revenues are recognized in the period in which the transaction or events occurred that give rise to the revenues. All revenues are recorded on an accrual basis. Revenue related to fees or services received in advance of the fee being earned or the service being performed is deferred and recognized when the fee is earned or service performed.

Levy Revenue

All production levy revenue authorized and collected under the *Oil and Gas Activities Act* is first paid to the Minister of Finance. The Province is required to transfer this amount of revenue to the Commission in full. Levy revenue is calculated based on production of oil and gas, and is also recognized as revenue at point of production. Annual pipeline levies are billed and recognized based on length and size of pipe owned at March 31 of the applicable fiscal year.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Grants are recorded as expenses when the payment is authorized and eligibility criteria have been met by the recipient. Reclamation costs are estimated and accrued when determinable.

Prepaid Expenses

Prepaid expenses include flight passes, subscriptions, insurance, property taxes and other general prepaid expenses and are charged to expense when used or over the periods expected to benefit from the expenditures.

Employee Future Retirement Allowance

Employee Future Retirement Allowance liabilities are estimated each year and the change is recorded in salaries and benefits expense. Actuarial gains or losses are amortized over the expected average remaining service life of the employees.

Liability for Contaminated Sites

Contaminated sites result from contamination by a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into air, soil, water or sediment. The Commission has a liability for contaminated sites that have been designated as orphan sites. An orphan site is defined as a well, facility, pipeline, area, or oil and gas road where the permit holder is insolvent or cannot be located or identified. A liability for remediation of contaminated sites is recognized when the Commission accepts responsibility for the remediation of an orphan site, contamination at the orphan site exceeds the environmental standard and a reasonable estimate of the amount can be made.

(in $000s)

3. Investments

Investments consist of term deposits which are liquid short term investments with maturity dates of one year or less from the date of acquisition and are carried on the Statement of Financial Position at the lower of cost or market value.

Investment funds are pooled from the following sources:

	March 31 2015	March 31 2014
Security deposits - Liability Management Rating program (note 4)	25,869	18,713
Orphan site reclamation fund (note 12)	3,000	5,000
Operating fund	7,131	6,287
	36,000	**30,000**

4. Security Deposits

On October 28, 2010, the Commission established a Liability Management Rating (LMR) program. The objective of the LMR program is to ensure that permit holders carry the financial risk of their oil and gas operations through to regulatory closure. The Commission, through the LMR program, undertook the responsibility to regularly assess security deposits and provide refunds. The Commission holds $42,202 in security deposits, of which $25,869 (2014: $18,713) is held in cash and/or investments and $16,333 (2014: $14,132) in the form of irrevocable letters of credit which are not recorded in these financial statements. Security deposits are restricted for use in settling potential permit holder remediation obligations. In fiscal 2015, the Commission recovered $346 (2014: $21) from security deposits to satisfy remediation obligations of permit holders for specific sites. This is reported within Other revenue on the Statement of Operations.

5. Accounts Receivable

	March 31 2015	March 31 2014
Production levies receivable	8,245	7,961
Annual pipeline levies receivable	2,358	2,286
Fees	1,069	1,059
Other receivables	373	505
	12,045	**11,811**

Production levies are collected and processed by the provincial government. At any point in time, a portion of levies receivable by the Commission is payable by industry, and a portion is payable by the Province. See note 7.

(in $000s)

6. Science and Community Environmental Knowledge (SCEK) Fund

The Commission provides administrative services for the SCEK fund on behalf of the SCEK Steering Committee. The activities and balances of the SCEK fund are not included in these financial statements. Funding is generated and collected by the Commission through a portion of the levy on oil and gas production and a portion of the application fee for wells. The Commission collected $3,465 (2014: $2,480) during the year on behalf of SCEK. The Commission charges an annual fee to SCEK to administer the fund. In addition to normal funding, the Commission also provided a grant of $3.5 million to the SCEK fund in lieu of potential future levies and fees.

7. Due from Government

	March 31 2015	March 31 2014
Levies collected	4,328	3,192
Recoveries and other	346	404
	4,674	**3,596**

8. Accounts Payable and Accrued Liabilities

	March 31 2015	March 31 2014
Accounts payable and accrued liabilities	3,089	1,306
Salaries and benefits payable	2,045	1,376
	5,134	**2,682**

Employee Leave Entitlements

As of March 31, 2015, the value of employee entitlements to vacation, other leave and compensatory time off, plus related benefits, in accordance with collective agreements and terms of employment was $760 (2014: $566). This amount is included in salaries and benefits payable.

9. Employee Future Benefits

Employee Benefit Plan

The Commission and its employees contribute to the Public Service Pension Plan (the 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 defined benefit multi-employer contributory pension plan.

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, 2014 indicated a surplus of $194 million for basic pension benefits. The next valuation will be as at March 31, 2017 with results available in early 2018. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. Contributions to the Plan by the Commission for 2015 were $1,922 (2014: $1,748) and are included in salaries and benefits expense.

(in $000s)

9. Employee Future Benefits (continued)

Future Retirement Allowance Liability

The Commission accrues for future retirement allowances as provided under the collective agreements and terms of employment. The accrual as at March 31, 2015 is actuarially determined based on service and best estimates of retirement ages, expected future salary and wage increases, long term inflation rates and discount rates. The estimates are also based on assumptions about future events.

The liability as reported on the statement of financial position is as follows:

	March 31 2015	March 31 2014
Accrued retirement obligation		
Balance at beginning of year	258	224
Current benefit cost	33	34
Interest	15	12
Amortization of actuarial loss	8	9
Benefits paid	(29)	(21)
Balance at end of year	**285**	**258**
Actuarial retirement obligation		
Accrued retirement obligation	285	258
Unamortized actuarial loss	132	112
Balance at end of year	**417**	**370**

The significant actuarial assumptions adopted in measuring the Commission's accrued retirement obligations are as follows:

	2015	2014
Discount rate	3.30%	4.00%
Wages and salary escalation	2.00%	2.00%

Over time, changes in assumptions and actual experience compared to expected results will cause actuarial gains and losses in future valuations. The unamortized actuarial loss on future payments is amortized over the estimated average remaining years of service of the employee group which has been determined to be approximately 16 years at March 31, 2015.

10. Due to First Nations

Due to First Nations includes management's best estimate of expected liability to a number of First Nations. The Commission works closely with First Nations and negotiates Consultation Process Agreements and Memoranda of Understanding to establish formal consultation processes for oil and gas activities. These agreements provide resources for First Nations' capacity to participate in the consultation processes as well as set out responsibilities of the parties involved. The Commission is currently participating in negotiations with several First Nations.

(in $000s)

11. Deferred Revenue

Deferred revenue consists of unearned application fees and major application revenue. The change in the deferred revenue balance is as follows;

	Balance at beginning of year	Receipts during year	Transferred to revenue	Balance at end of year
Fees	1,973	21,253	(19,911)	3,315

12. Liability for Orphan Sites

The Commission administers the Orphan Site Reclamation Fund (OSRF). The OSRF was created on April 1, 2006 as a means for industry to pay for restoration of orphaned oil and gas sites and for related costs. Revenue for the OSRF is derived from levies. The Commission has $4,999 cash and investments in the OSRF to pay for costs associated with orphan sites. Currently there are 37 (2014: 40) sites designated as orphan sites, 6 of which have been substantially restored, with the remainder undergoing restoration at various stages of completion.

The Commission recognizes and estimates a liability of $7,507 (2014: $5,214) for remediation of the sites designated as orphan sites. The liability estimate includes costs that are directly attributable to the remediation activities, and reflects the costs required to bring the site up to the current environmental standard for its use prior to contamination. Liability for known orphan sites is estimated using expected abandonment and restoration costs for these specific sites, under expected conditions based on known characteristics of each site. The estimation of the liability does not include contingencies for delays due to weather, problematic plugging activities, or unforeseen sources of contamination. Additional potential liability for the designated sites resulting from these contingencies are estimated based on site characteristics and are disclosed in the measurement uncertainly note. Estimated costs have not been net present valued as the remediation work is not expected to occur over an extended long term period.

The Commission continues to monitor other sites that could potentially be designated as orphan sites.

(in $000s)

13. Tangible Capital Assets

March 31, 2015	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Automotive Equipment	Business Systems Development	Computer Software	Total 2015
Cost								
Opening balance	5,881	2,957	2,165	921	986	5,315	664	18,889
Additions	802	554	913	343	335	4,643	129	7,719
Disposals	-	-	-	-	-	(32)	-	(32)
Closing balance	**6,683**	**3,511**	**3,078**	**1,264**	**1,321**	**9,926**	**793**	**26,576**
Accumulated Amortization								
Opening balance	3,174	859	1,236	282	242	2,025	328	8,146
Amortization	369	291	607	136	109	1,251	151	2,914
Disposals	-	-	-	-	-	-	-	-
Closing balance	**3,543**	**1,150**	**1,843**	**418**	**351**	**3,276**	**479**	**11,060**
Net book value	**3,140**	**2,361**	**1,235**	**846**	**970**	**6,650**	**314**	**15,516**

March 31, 2014	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Automotive Equipment	Business Systems Development	Computer Software	Total 2014
Cost								
Opening balance	4,532	1,425	1,323	391	760	2,926	499	11,856
Additions	1,349	1,532	842	530	226	2,389	165	7,033
Disposals	-	-	-	-	-	-	-	-
Closing balance	**5,881**	**2,957**	**2,165**	**921**	**986**	**5,315**	**664**	**18,889**
Accumulated Amortization								
Opening balance	2,634	665	783	175	171	1,145	192	5,765
Amortization	540	194	453	107	71	880	136	2,381
Disposals	-	-	-	-	-	-	-	-
Closing balance	**3,174**	**859**	**1,236**	**282**	**242**	**2,025**	**328**	**8,146**
Net book value	**2,707**	**2,098**	**929**	**639**	**744**	**3,290**	**336**	**10,743**

Included in the net book value of business systems development are assets not being amortized of $4,339 (2014: $1,092) as they have not yet been completed and put into use.

14. Contractual Obligations

The Commission has entered into a number of multiple-year contracts for the delivery of services, the construction of assets, and operating leases. These contractual obligations will become liabilities in the future when the terms of the contract are met. Disclosure relates to the unperformed portion of the contracts.

2016	2017	2018	2019	2020	Thereafter
3,524	**3,472**	**3,594**	**3,119**	**2,306**	**20,150**

The Commission is committed under First Nations agreements to make certain payments in the coming year's that are based on well applications received.

(in $000s)

15. Contingent Liabilities

The Commission may become contingently liable with respect to pending litigation and claims in the normal course of operations. In the opinion of management, any liability that may arise from pending litigation would not have a material effect on the Commission's financial position or results of operations.

See also Note 12 regarding potential reclamation costs related to the Orphan Site Reclamation Fund.

16. Related party transactions

The Commission is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are recorded on an accrual basis, are considered to be in the normal course of operations, and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties.

The financial statements include the following related party transactions:

	March 31 2015	March 31 2014
Revenues:		
Recoveries	612	136
Miscellaneous	107	182
	719	**318**
Expenses:		
Salaries and benefits	964	574
Building occupancy	181	840
Professional services and training	772	359
Grants	47	1,013
Telecommunications and information systems	118	122
Travel and vehicle costs	154	93
Office supplies and equipment	46	69
	2,282	**3,070**

(in $000s)

17. Measurement uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards require 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. Measurement uncertainty exists in these financial Statements. Actual results could differ from these estimates.

	Reported	Low	High
Production Levies	31,215	30,903	31,527

Production levies are revenues derived from oil and gas production in the province of British Columbia. As of the date of these statements, production for the last month of the fiscal year is estimated. This estimate is based on analysis that takes into account both historical and current year trends in production. Actual production revenue for the year has consistently been within 1% of estimated production revenue. A difference in this estimate would also affect production levies receivable and annual and accumulated surpluses.

	Reported	Low	High
Liability for orphan sites	7,502	6,001	9,958

Liability for known orphan sites is estimated using expected abandonment and restoration costs for these specific sites, under expected conditions based on known characteristics of each site. The estimation of the liability does not include contingencies for delays due to weather, problematic plugging activities, or unforeseen sources of contamination. Additional potential liability for the designated sites resulting from these contingencies is also estimated based on site characteristics. Changes in this estimate would also affect orphan reclamation expenses and annual and accumulated surpluses.

18. Expense by Object

	Oil and Gas Activities Regulation	Orphan Site Reclamation	March 31 2015	March 31 2014
Salaries and benefits	25,815	-	25,815	21,398
First Nations	7,547	-	7,547	6,396
Building occupancy	4,339	-	4,339	4,143
Professional services and training	3,443	-	3,443	1,889
Amortization	2,914	-	2,914	2,381
Travel and vehicle costs	2,043	-	2,043	1,573
Telecommunications and information systems	2,132	-	2,132	1,615
Grants	3,704	-	3,704	1,097
Orphan site reclamation	-	3,649	3,649	3,097
Office supplies and equipment	582	-	582	630
Miscellaneous	36	-	36	30
	52,555	**3,649**	**56,204**	**44,249**

19. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the budget approved by the Board of Directors on January 19, 2014.

20. Financial risk management

It is management's opinion that the Commission is not exposed to significant credit, liquidity or interest rate risks arising from its financial instruments.

Credit Risk - Credit risk is the risk of financial loss to the Oil and Gas Commission if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Oil and Gas Commission's exposure to credit risk related to the value of accounts receivable in its normal course of business is managed by minimizing the amount of transactions which require recovery. The Commission continually monitors and manages the collection of receivables.

The Commission's cash and investments are held at Canadian chartered banks, and credit unions. The Commission is not exposed to significant credit risk.

Liquidity Risk - Liquidity risk is the risk that the Oil and Gas Commission will have difficulty in meeting its financial obligations when they come due. The Oil and Gas Commission manages liquidity risk by continually monitoring cash flows.

Interest rate risk - Interest rate risk is the risk that the Commission's investments will change in fair value due to future fluctuations in market interest rates. The Commission's investments are measured at cost. Income they generate varies as market interest rates vary. All other financial instruments are non-interest bearing. The Commission mitigates this risk by monitoring interest rates.

21. Comparative note

Certain comparative figures have been restated to conform to the current year's presentation.