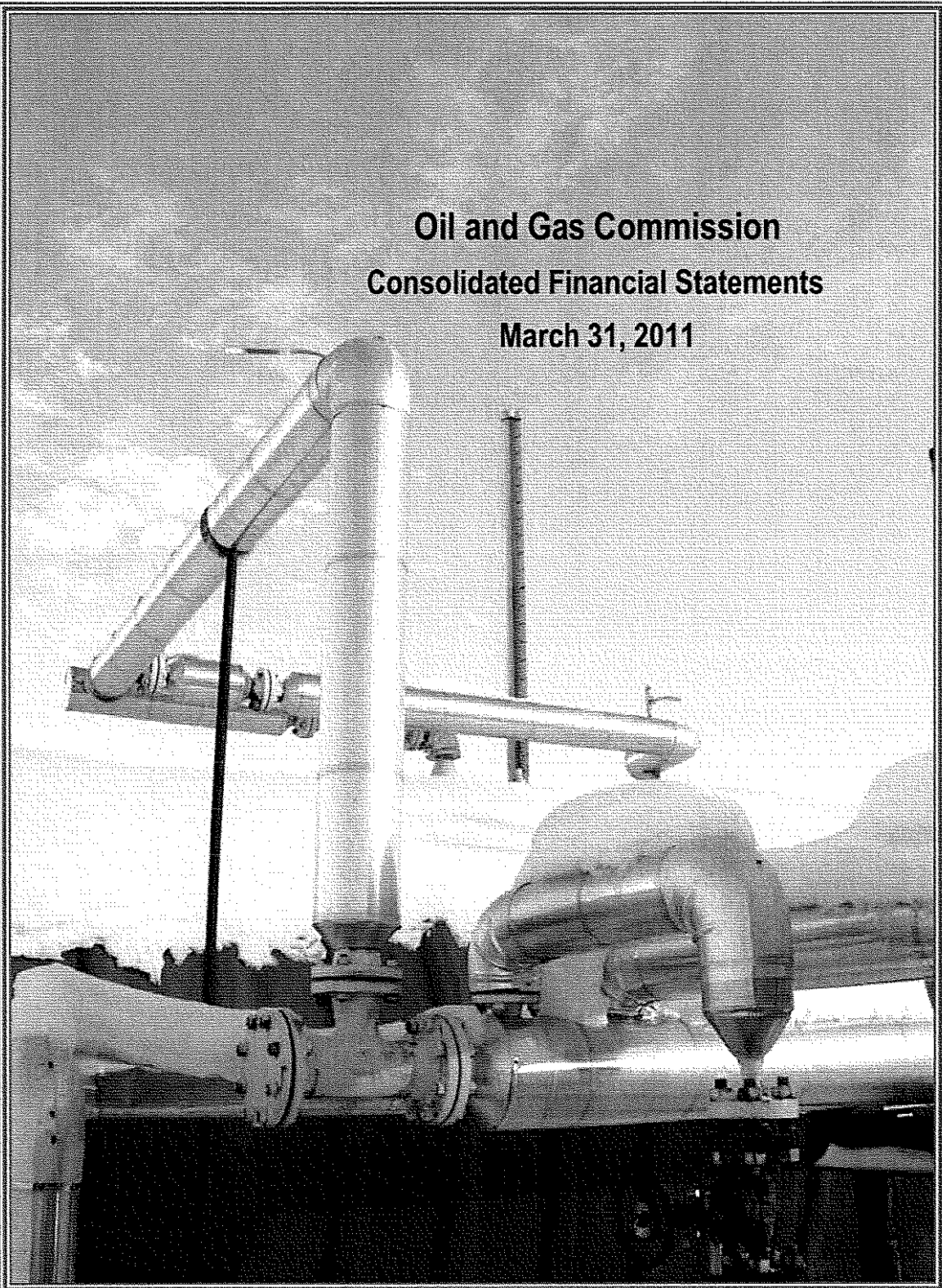


Oil and Gas Commission
Consolidated Financial Statements
March 31, 2011





INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Oil and Gas Commission, and
To the Minister of Energy and Mines, Province of British Columbia

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Oil and Gas Commission, which comprise the consolidated statement of financial position as at March 31, 2011, and the consolidated statements of operations and net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Oil and Gas Commission as at March 31, 2011, 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
June 20, 2011

John Doyle, MAcc, CA
Auditor General



Statement of Management Responsibility

The consolidated financial statements of the Oil and Gas Commission (Commission) for the year ended March 31, 2011 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, 2011, and the results of its operations and changes in its cash flows for the year then ended.

Management is responsible for the preparation of the consolidated financial statements and have established systems 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 Commission. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Commission.

A handwritten signature in black ink, appearing to read 'Alex Ferguson', written over a horizontal line.

Alex Ferguson
Commissioner

A handwritten signature in black ink, appearing to read 'Randall Smith', written over a horizontal line.

Randall Smith
Executive Financial Officer

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


March 31	2011	2010
Assets		
Current assets		
Cash	5,207	1,962
Accounts receivable (Note 5)	12,598	11,148
Prepaid expenses	302	212
	18,107	13,322
Restricted cash		
Orphan fund (Note 6)	3,869	3,031
Liability management security deposits (Note 8)	11,776	-
Other assets		
	66	66
Property, plant and equipment (Note 9)		
	3,860	3,420
Intangible assets (Note 9)		
	992	588
	38,670	20,427
Liabilities and net assets		
Current liabilities		
Accounts payable	648	894
Wages payable (Note 11)	1,053	826
Due to First Nations	1,553	1,451
Due to the Province of British Columbia (Note 14)	600	170
Deferred revenue	818	492
	4,672	3,833
Security deposits refundable (Note 8)		
	11,776	-
Future retirement allowance (Note 11)		
	453	409
	16,901	4,242
Net assets		
Net assets	21,719	16,125
Contributed assets (Note 10)	50	60
	21,769	16,185
	38,670	20,427

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board



Steve Carr, Board Chair



Alex Ferguson, Commissioner

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

March 31	2011	2010
Revenues		
Production levies	24,701	19,514
Fees and annual pipeline levies	15,012	12,865
Recoveries from the Province of British Columbia	67	381
Miscellaneous	198	135
	39,978	32,895
Expenses		
Amortization	1,514	1,317
Building occupancy	2,243	2,196
First Nations (Note 15)	6,965	6,296
Grants	264	10
Miscellaneous and reserve for doubtful accounts	146	37
Office supplies and equipment	656	516
Professional services and training	2,101	1,638
Salaries and benefits	18,159	15,372
Telecommunications and information systems	1,214	746
Travel and vehicle costs	1,132	928
	34,394	29,056
Income from operations	5,584	3,839
Gain on sale of assets	-	150
Amortization of contributed assets (Note10)	10	10
Net income	5,594	3,999
Net assets beginning of year	16,125	12,126
Net assets end of year	21,719	16,125

The accompanying notes are an integral part of these statements.

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

March 31	2011	2010
Operating activities		
Cash generated from:		
Production levies	22,906	17,156
Fees and annual pipeline levies	16,049	11,508
Miscellaneous and recoveries	354	412
	39,309	29,076
Cash used for:		
Operating expenses	(8,117)	(7,330)
Payments to First Nations	(6,863)	(5,689)
Salaries and benefits	(17,887)	(16,117)
	(32,867)	(29,136)
Cash from (used in) operating activities	6,442	(60)
Investing activities		
Cash generated from:		
Proceeds from sale of assets	-	207
	-	207
Cash used for:		
Cash restricted for Orphan Site Reclamation Fund	(839)	(789)
Purchase of intangible assets	(1,071)	(13)
Purchase of plant and equipment	(1,287)	(1,912)
	(3,197)	(2,714)
Cash from (used in) investing activities	(3,197)	(2,507)
Increase (decrease) in cash	3,245	(2,567)
Cash beginning of year	1,962	4,529
Cash end of year	5,207	1,962

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

1. The Oil and Gas Commission

The Oil and Gas Commission (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:

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

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 (GAAP). Significant accounting policies are as follows:

New Accounting Pronouncements

Future Accounting Framework

The Commission is a government organization within the British Columbia government reporting entity, and as such follows the accounting standards of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). The Commission has been classified as an "other government organization" under PSAB and has chosen to follow the private sector accounting standards of the CICA.

Recent revisions to the introduction of the PSAB Handbook require the Commission to report under either the PSAB Handbook or International Financial Reporting Standards (IFRS) in its fiscal period beginning April 1, 2011; however, the Province of British Columbia has directed the Commission to adopt PSAB accounting standards. Conversion to the PSAB accounting standards will result in minor changes to both the recognition and measurement of certain accounts and to the overall presentation of the financial statements including disclosures.

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

2. Significant Accounting Policies (continued)

Consolidation

The accounts of the Commission and the Orphan Site Reclamation Fund (OSRF) have been consolidated in these financial statements. The Commission administers and controls the OSRF and all intercompany balances and transactions have been eliminated.

Financial Instruments

The Commission has designated its Financial Instruments as follows: Cash is classified as held for trading and measured at fair value and all gains and losses are included in net income from operations in the period in which they occur. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payables, wages payable and due to First Nations are classified as other financial liabilities and are also measured at amortized cost.

Capital Assets

Property, plant and equipment, and intangible 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:

Property, plant and equipment	Rate
Tenant improvements	over the lease term
Furniture	10%
Computer hardware	33%
Operating equipment	20%
Automotive equipment	25%

Intangible assets	Rate
Business systems development	33%
Other software	20% - 33%

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

An amount approximating amortization associated with capital assets originally paid for by the Province of British Columbia is transferred from contributed assets to revenue each year. See note 10.

Revenue Recognition

Levies on oil and gas production are authorized and collected under the *Oil and Gas Activities Act* and first paid to the Minister of Finance. The Province is required to transfer this amount of revenue to the Commission in full. This revenue is calculated and recognized upon production. Application fee revenue is recognized when applications are processed; annual pipeline levies are billed and recognized based on length and size of pipe owned at March 31 of the applicable fiscal year.

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

2. Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with Canadian GAAP 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.

Significant balances that include an element of estimation include production levy revenue and receivables, the amortization of capital assets, and future employee benefit liabilities.

Production levy revenue receivable is estimated based on an analysis that takes into account both historical and current year trends. Actual results have been consistently within 2% of estimate.

3. Capital Management

The Oil and Gas Commission defines capital as net equity (assets minus liabilities). It manages its capital structure in accordance with its long-term view of investments in property, plant and equipment and the anticipated impacts to operations caused by changes in economic conditions necessary to meet its legislative mandate. Net equity includes the net assets of the Orphan Site Reclamation Fund which is restricted in its use (see Note 6). There has been no change to the Commission's approach to capital management during the period. The Commission is currently meeting all of its financial commitments. The Commission has no externally imposed capital requirements.

4. Financial Instruments

The Commission's financial instruments include cash, accounts receivable, accounts payable, wages payable and due to First Nations. The carrying amounts of these instruments approximates fair value due to their short-term nature.

Risks

The activities of the Commission could expose it to a variety of financial risks including credit risk, interest rate risk, and liquidity risk.

Credit Risk

Credit risk is the risk associated with the inability of a third party to fulfill payment obligations. The Commission is exposed to credit risk in the event of non-payment of accounts receivable levies on production of oil and gas. This risk is negligible, as the third parties cannot access their oil and gas assets without the concurrence of the Commission.

The Commission is exposed to credit risk associated with its cash deposits. This risk is mitigated by placing cash deposits in recognized British Columbia and Canadian deposit-taking financial institutions, with coverage of the Credit Union Deposit Insurance Corporation or the Canadian Deposit Insurance Corporation. Credit risk arising from cash deposits is considered negligible.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. The Commission is exposed to interest rate risk on cash deposits, however the risk is not considered significant as interest revenues are not significant.

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

4. Financial Instruments (continued)

Liquidity Risk

Liquidity risk is the risk that the Commission will encounter difficulty in meeting obligations associated with its financial liabilities. The Commission manages its liquidity risk by placing deposits in cash and closely monitoring revenue-generating activities, as well as controlling expenditures to result in suitable cash flows.

It is management's assessment that the Commission is not exposed to significant credit, interest, or liquidity risk arising from these instruments.

5. Accounts Receivable

Fee and levy revenue is initially receivable from industry. The majority of the revenue is subsequently collected and processed through the provincial government. At any point in time, a portion of fees and levies receivable by the Commission is payable by industry, and a portion is payable by the Province to the Commission.

	<u>2011</u>	<u>2010</u>
Due from industry		
Production levies	6,645	6,022
Fees and annual pipeline levies	<u>2,370</u>	<u>2,065</u>
	<u>9,015</u>	<u>8,087</u>
Due from the Province of British Columbia		
Fees and levies collected	2,932	2,775
Recoveries	<u>95</u>	<u>246</u>
	<u>3,027</u>	<u>3,021</u>
Other	<u>556</u>	<u>40</u>
	<u>12,598</u>	<u>11,148</u>

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

6. Orphan Site Reclamation Fund

The Oil and Gas Commission administers the Orphan Site Reclamation Fund (OSRF). The OSRF was created on April 1, 2006 as a means for industry to pay for reclamation of orphaned oil and gas sites and for related costs. The Ministry of Energy and Mines provided funding to reclaim and remediate orphan sites specifically identified at that time.

There are also 48 potential orphan sites in BC, the majority of which preceded regulation in the Province. Liability for these sites has not been established at this time; however it is probable that the majority will become the responsibility of the OSRF if ownership cannot be determined. Reclamation of the sites would then be prioritized based on risk, and proximity to human habitation or sensitive environment. Because a portion of these sites were potentially orphaned more than 50 years ago with minimal documentation, it is impractical to estimate costs of reclamation or whether reclamation is necessary or feasible.

At March 31, 2011, the Commission held \$3,869,205 in OSRF cash (2010: \$3,031,000). Net assets accumulated by the OSRF are restricted in use by legislation and are not available for general use of the Commission. At March 31, 2011, OSRF Net assets totalled \$4,465,216, (2010: \$3,493,000).

Net assets and results of operations of the OSRF are summarized as follows:

	<u>2011</u>	<u>2010</u>
Assets		
Cash	3,869	3,031
Receivables	624	540
Total assets	<u>4,493</u>	<u>3,571</u>
Current liabilities		
Accounts payable	28	78
Net assets	<u>4,465</u>	<u>3,493</u>
Net assets and liabilities	<u>4,493</u>	<u>3,571</u>
Revenue		
Production levies	997	918
Miscellaneous	28	7
Recoveries from province	-	257
	<u>1,025</u>	<u>1,182</u>
Expenses		
Reclamation expenses	53	297
Net income - Orphan Site Reclamation Fund	<u>972</u>	<u>885</u>

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

7. Science and Community Environmental Knowledge (SCEK) Fund

The Commission administers 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 money is restricted for use as directed by the SCEK Steering Committee for projects and administration of the SCEK fund. This funding was suspended April 1, 2009.

At March 31, 2011 the net asset balance of the SCEK fund is \$1,104,161, (2010: \$1,516,000). For the year ending March 31, 2011 revenues were \$11,445, (2010: \$5,000) and expenses were \$415,882 (2010: \$543,000).

8. Liability Management Rating

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. Under the program, refundable security deposits previously held by the Ministry of Energy and Mines under the Drilling and Production Regulation of the *Petroleum and Natural Gas Act* were transferred to the Commission. In addition to cash of \$11,775,632, the Commission holds \$9,025,991 in non-cash security in the form of irrevocable letters of credit which are not recorded in these financial statements. Refundable cash security deposits have been internally restricted for use in settling potential permit holder liabilities.

9. Capital Assets

Capital assets are amortized at rates as stated in note 2. For the year-ending March 31, 2011, amortization expense for property, plant and equipment was \$847,743 (2010: \$497,000), for business systems development was \$594,782 (2010: \$771,000), and for purchased computer software was \$71,942 (2010: \$49,000).

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Property, plant and equipment						
Tenant improvements	3,875	1,483	2,392	3,656	964	2,692
Furniture	1,196	585	611	948	483	465
Computer hardware	936	507	429	555	335	220
Operating equipment	502	166	336	168	126	42
Automotive equipment	415	323	92	310	309	1
	6,924	3,064	3,860	5,637	2,217	3,420
Intangible assets						
Business systems development	3,178	2,394	784	2,316	1,798	518
Computer software	361	153	208	151	81	70
	3,539	2,547	992	2,467	1,879	588
	10,463	5,611	4,852	8,104	4,096	4,008

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

10. Contributed Assets

The Province provided \$100,000 towards tenant improvements in fiscal 2007. An equivalent amount was recognized as a contributed asset.

Contributed assets are amortized each year in an amount approximating amortization of capital assets; this amount is transferred to revenue.

	<u>2011</u>	<u>2010</u>
Contributed assets beginning of year	60	70
Amortization of contributed assets	<u>(10)</u>	<u>(10)</u>
Contributed assets end of year	<u>50</u>	<u>60</u>

11. Employee Benefit Plan and Future Liability

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, 2008 indicated a surplus of \$487 million for basic pension benefits. The next valuation will be as at March 31, 2011 with results available in early 2012. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. Contributions to the Plan by the Commission for 2011 were \$1,295,930, (2010: \$1,160,262) and are included in salaries and benefits expense.

Accrued Employee Leave Entitlements

As of March 31, 2011, 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 \$532,864 (2010: \$429,392) and this amount is included in wages payable.

Future Retirement Allowance Liability

The Commission accrues for future retirement allowances as provided under the collective agreements and terms of employment. The discounted value, net of recoveries, of this obligation is \$523,557(2010: \$460,104) of which \$70,191(2010: \$51,320) is included in wages payable as a current liability.

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

12. Commitments

The Commission occupies leased office buildings and storage space in Fort St. John, Fort Nelson, Dawson Creek, Kelowna, and Victoria and has entered into a number of short-term leases and support agreements for vehicles, office equipment, and software development and licensing.

The Commission's commitments for the agreements described above are:

Fiscal Year	Related Parties	Other	Total
2011/12	980	1,570	2,550
2012/13	872	1,575	2,447
2013/14	-	1,499	1,499
2014/15	-	1,222	1,222
2015/16	-	1,099	1,099
	1,852	6,965	8,817

As well, the Commission has signed Consultation Agreements with a number of First Nations communities, committing the Commission to fixed minimum payments totaling \$650,000 within the next year, plus further amounts based on the number of well applications received by the Commission. Future years' payments are dependent upon renewal of existing agreements, the likelihood of which cannot be ascertained at this time.

13. Contingent Liability

Litigation and Claims

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

See also Note 6 regarding potential reclamation costs related to the Orphan Site Reclamation Fund.

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

14. 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 the 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 consolidated financial statements include the following related party transactions:

	<u>2011</u>	<u>2010</u>
Due from the Province of British Columbia:		
Fees and levies collected	2,932	2,775
Recoveries	95	246
	<u>3,027</u>	<u>3,021</u>
Due to the Province of British Columbia:		
Expense reimbursements	600	170
Revenues from the province:		
Contract recoveries	67	381
Miscellaneous	70	17
	<u>137</u>	<u>398</u>
Expenses:		
Building occupancy	910	1,305
Office supplies and equipment	60	62
Professional services and training	314	264
Salaries and benefits	1,819	1,646
Telecommunications and info systems	131	257
Travel and vehicle costs	405	171
	<u>3,639</u>	<u>3,705</u>

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2011
(tabular in \$000s)

15. First Nations Payments

The Commission has entered into Consultation Agreements with the following First Nations. During the life of the Agreements, each First Nation will receive payments based on current oil and gas development activities, for the purpose of consultation services on applications as required by the *Oil and Gas Commission Act*. Payments for the year-ended March 31st are as follows:

Payments to	Agreements Expire	2011	2010
Blueberry River First Nations	March 31, 2020	692	577
Dene Tha' First Nations	September 30, 2011	444	460
Doig River First Nations	March 31, 2011	692	577
Fort Nelson First Nations	March 31, 2011	692	577
Halfway River First Nations	March 31, 2011	692	577
Ktunaxa First Nation	March 31, 2012	3	18
McLeod Lake Indian Band	April 30, 2012	935	982
Prophet River First Nations	March 31, 2011	692	577
Saulteau First Nations	March 31, 2011	1,051	966
West Moberly First Nations	March 31, 2011	1,072	985
		6,965	6,296