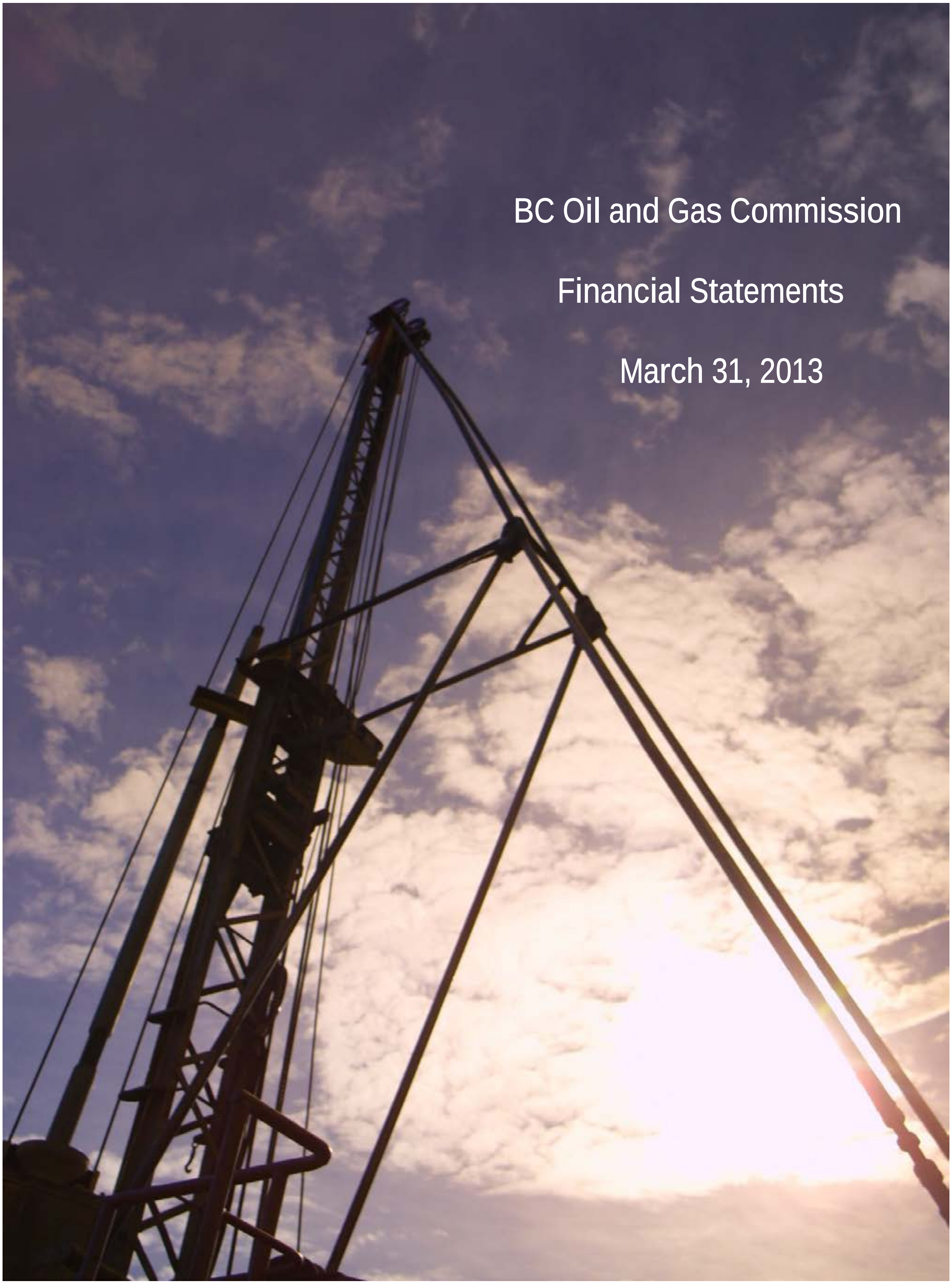

BC Oil and Gas Commission

Financial Statements

March 31, 2013

Statement of Management Responsibility

The financial statements of the BC Oil and Gas Commission (Commission) for the year ended March 31, 2013 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 are 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 auditor, the Auditor General of British Columbia, conducts an independent examination, in accordance with Canadian auditing standards, and expresses his opinion on the statements. The external auditor has full and free access to the Audit Committee and management of the Commission, and meets when required.

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

On behalf of the Commission

Paul Jeakins
Commissioner

Randall Smith
Chief Financial Officer

May 15, 2013

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying financial statements of Oil and Gas Commission ("the entity"), which comprise the statement of financial position as at March 31, 2013, and the statement of operations, statement of changes in accumulated surplus, statement of change 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 Oil and Gas Commission as at March 31, 2013 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.

Russ Jones

Victoria, British Columbia
May 15, 2013

Russ Jones, MBA, CA
Acting Auditor General

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

	Note	March 31 2013	March 31 2012
Financial assets			
Cash	3	18,194	16,079
Security deposits	4	17,703	12,428
Accounts receivable	5	9,995	10,784
Due from government	7	3,218	2,883
Other assets		66	66
		49,176	42,240
Liabilities			
Accounts payable & accrued liabilities	8	1,782	1,674
Employee future benefits	9	224	240
Due to First Nations	10	2,707	3,062
Due to SCEK	6	875	606
Due to government		300	209
Deferred revenue	11	551	383
Deferred lease inducements		226	264
Liability for orphan sites	12	5,349	757
Security deposits	4	17,703	12,428
		29,717	19,623
Net financial assets		19,459	22,617
Non-financial assets			
Tangible capital assets	13	6,091	5,733
Prepaid expenses		697	475
		6,788	6,208
Accumulated surplus		26,247	28,825
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

Arn van Iersel, Audit Committee Chair

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

	Note	Budget 2013	March 31 2013	March 31 2012
		(Note 19)		
Revenues				
Production levies		31,157	26,838	28,893
Annual pipeline levies		2,200	2,160	2,215
Fees		14,557	9,806	12,185
Other revenue		343	822	934
		48,257	39,626	44,227
Expenses	18			
Oil and gas activities regulation		45,684	37,379	36,254
Orphan site reclamation		1,000	4,825	917
		46,684	42,204	37,171
Annual (deficit) surplus		1,573	(2,578)	7,056
Accumulated surplus beginning of year		28,825	28,825	21,769
Accumulated surplus end of year		30,398	26,247	28,825

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 2013 (Note 19)	March 31 2013	March 31 2012
Annual (deficit) surplus	1,573	(2,578)	7,056
(Acquisition) of tangible capital assets	(3,822)	(2,302)	(2,530)
Amortization of tangible capital assets	1,731	1,945	1,650
	(2,091)	(357)	(880)
(Acquisition) of prepaid expense	(500)	(699)	(476)
Use of prepaid expense	400	476	302
	(100)	(223)	(174)
Increase (decrease) in net financial assets	(618)	(3,158)	6,002
Net financial assets at beginning of year	22,617	22,617	16,615
Net financial assets at end of year	21,999	19,459	22,617

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

	March 31 2013	March 31 2012
Operating transactions		
Cash generated from:		
Production levies	27,039	28,094
Annual pipeline levies	2,137	2,145
Fees	9,999	11,886
Interest	333	241
Miscellaneous and recoveries	565	916
	40,073	43,282
Cash used for:		
Salaries and benefits	(20,062)	(19,087)
Payments to First Nations	(7,679)	(5,276)
Operating expenses	(7,682)	(9,242)
Orphan site reclamation	(233)	(188)
	(35,656)	(33,793)
Cash from operating activities	4,417	9,489
Capital transactions		
Proceeds on sale of tangible capital assets	-	44
Cash used to acquire tangible capital assets	(2,302)	(2,530)
Cash from (used in) capital transactions	(2,302)	(2,486)
Increase in cash	2,115	7,003
Cash beginning of year	16,079	9,076
Cash end of year	18,194	16,079

Consists of:		
Cash - operating	12,113	10,989
Cash - Orphan Site Reclamation Fund	6,081	5,090
	18,194	16,079

(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 and all gains and losses are reported in the statement of operations in the period in which they occur. 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	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 a rate of 20%.

PS3150 requires that the amortization method of the useful life of the remaining unamortized portion of tangible capital asset be reviewed on a regular basis. During the current fiscal year, the Commission revised the estimated useful life of the automotive equipment from 25% to 20%, with a 50% residual value to better reflect the useful life of this group of assets. The revisions were accounted for prospectively as a change in accounting estimate; as a result the amortization expense for the automotive equipment for the current financial year has been decreased by $94.

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 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.

3. Cash – Orphan Site Reclamation Fund

Cash includes $6,081 (2012:$5,090) of cash segregated for use for the Orphan Site Reclamation Fund (OSRF). Net assets accumulated by the OSRF are designated for use by legislation and are not available for general use of the Commission – see note 12.

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. 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 January 2011. The Commission, through the LMR program also undertook the responsibility to regularly assess security deposits and provide refunds. In addition to cash of $17,703 (2012: $12,428) the Commission holds $17,258 (2012: $14,743) in non-cash security in the form of irrevocable letters of credit which are not recorded in these financial statements. Security deposits are designated for use in settling potential permit holder remediation obligations. In fiscal 2013, the Commission realized $153 (2012: $118) from security deposits to satisfy remediation obligations of permit holders for specific orphan sites. This is reported within Other revenue on the Statement of Operations.

(in $000s)

5. Accounts receivable

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.

	March 31 2013	March 31 2012
Production levies receivable	7,641	8,273
Annual pipeline levies receivable	2,139	2,116
Fees	146	171
Other receivables	69	224
	9,995	10,784

6. 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 Commission collected $1,815 during the year on behalf of SCEK. The Commission charges an annual fee to SCEK to administer the fund.

7. Due from Government

	March 31 2013	March 31 2012
Levies collected	2,962	2,706
Recoveries and other	256	177
	3,218	2,883

8. Accounts Payable and Accrued Liabilities

	March 31 2013	March 31 2012
Accounts payable and accrued liabilities	646	531
Salaries and benefits payable	1,136	1,143
	1,782	1,674

Employee Leave Entitlements

As of March 31, 2013, 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 $587 (2012: $529) and this amount is included in salaries and benefits payable.

(in $000s)

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, 2011 indicated an unfunded liability of $275 million for basic pension benefits. The next valuation will be as at March 31, 2014 with results available in early 2015. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. Contributions to the Plan by the Commission for 2013 were $1,553 (2012: $1,402) and are included in salaries and benefits expense.

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, 2013 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 2013	March 31 2012
Accrued retirement obligation		
Balance at beginning of year	240	523
Current benefit cost	16	-
Interest	7	-
Valuation adjustment	-	(233)
Benefits paid	(39)	(50)
Balance at end of year	224	240
Actuarial retirement obligation		
Accrued benefit obligation	224	240
Unamortized actuarial loss	140	-
Balance at end of year	364	240

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

	2013	2012
Discount rate	3.15%	3.13%
Wages and salary escalation	1.7%	1.7%

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, 2013. Although assumptions may be similar, actuarial methodology was not used to determine March 31, 2012 figures.

(in $000s)

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 in negotiations with several First Nations.

11. Deferred Revenue

	Balance at beginning of year	Receipts during year	Transferred to revenue	Balance at end of year
Well applications	249	8,215	(7,968)	496
Pipeline applications	134	654	(733)	55
	383	8,869	(8,701)	551

12. Liability for Orphan Sites

The Commission administers the Orphan Site Reclamation Fund (OSRF). The OSRF was created on April 1, 2006 to replace funding for The Ministry of Energy and Mines as a means for industry to pay for restoration of orphaned oil and gas sites and for related costs. Currently there are 38 sites designated as orphan sites, 10 which have been substantially restored, with the remainder undergoing restoration at various stages. At March 31, 2013, OSRF Net assets totalled $1,179 (2012: $4, 773).

The Commission has also identified a number of sites that could potentially be designated as orphan sites if no responsible owner can be established. Estimated cost for remediation of these sites could range from $6,700 to $8,900. Until such a time as ownership of these sites is established the potential liability to the Commission or the Orphan Sites Reclamation Fund cannot be determined.

(in $000s)

13. Tangible Capital Assets

March 31, 2013	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Automotive Equipment	Business Systems Development	Computer Software	Total 2013
Cost								
Opening balance	4,478	1,492	1,412	505	553	3,854	418	12,712
Additions	54	101	286	48	207	1,382	224	2,302
Disposals	-	(168)	(375)	(162)	-	(2,310)	(143)	(3,158)
Closing balance	4,532	1,425	1,323	391	760	2,926	499	11,856
Accumulated Amortization								
Opening balance	2,036	706	794	239	109	2,860	236	6,980
Amortization	598	127	364	98	62	597	99	1,945
Disposals	-	(168)	(375)	(162)	-	(2,312)	(143)	(3,160)
Closing balance	2,634	665	783	175	171	1,145	192	5,765
Net book value	1,898	760	540	216	589	1,781	307	6,091

March 31, 2012	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Automotive Equipment	Business Systems Development	Computer Software	Total 2012
Cost								
Opening balance	3,876	1,195	935	502	415	3,178	361	10,462
Additions	602	297	477	7	414	676	57	2,530
Disposals	-	-	-	(4)	(276)	-	-	(280)
Closing balance	4,478	1,492	1,412	505	553	3,854	418	12,712
Accumulated Amortization								
Opening balance	1,483	584	506	166	323	2,394	154	5,610
Amortization	553	122	288	73	66	466	82	1,650
Disposals	-	-	-	-	(280)	-	-	(280)
Closing balance	2,036	706	794	239	109	2,860	236	6,980
Net book value	2,442	786	618	266	444	994	182	5,732

Included in the net book value of business systems development are assets not being amortized of $759 (2012: nil) as they have not yet been completed and put to 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.

2014	2015	2016	2017	2018	Thereafter
3,766	3,295	3,178	3,128	3,215	25,644

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

(in $000s)

15. Contingent Liabilities

The Commission is 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 2013	March 31 2012
Revenues:		
Contract recoveries	38	76
Miscellaneous	333	241
	371	317
Expenses:		
Salaries and benefits	647	604
Building occupancy	1,033	990
Professional services and training	314	328
Grants	250	600
Telecommunications and information systems	145	314
Travel and vehicle costs	278	242
Office supplies and equipment	26	49
	2,693	3,127

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.

	Actual amount reported	Estimation Range	
		Low	High
Revenues			
Production levies	26,838	26,599	27,136

(in $000s)

17. Measurement uncertainty (Continued)

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.

Liability for orphan sites	5,349	5,349	6,430

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 2013	March 31 2012
Salaries and benefits	20,039	-	20,039	18,967
First Nations	7,054	-	7,054	6,785
Building occupancy	2,581	-	2,581	2,552
Professional services and training	1,951	-	1,951	2,009
Amortization	1,945	-	1,945	1,650
Travel and vehicle costs	1,415	-	1,415	1,412
Telecommunications and information systems	1,484	-	1,484	1,354
Grants	331	-	331	673
Orphan site reclamation	-	4,825	4,825	917
Office supplies and equipment	486	-	486	582
Miscellaneous	93	-	93	159
Remediation expenses	-	-	-	111
	37,379	4,825	42,204	37,171

19. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors on January 11, 2012.

20. Comparative note

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