

A low-angle photograph of an oil rig's derrick structure against a dramatic sky at sunset or sunrise. The sun is a bright, glowing orb in the lower right, casting a lens flare and illuminating the clouds with a golden light. The rig's metal beams and cables are silhouetted against the sky, creating a strong geometric pattern.

BC Oil and Gas Commission

Financial Statements

March 31, 2014



Statement of Management Responsibility

The financial statements of the BC Oil and Gas Commission (Commission) for the year ended March 31, 2014 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 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

A handwritten signature in black ink, appearing to read 'Paul Jeakins'.

Paul Jeakins
Commissioner

A handwritten signature in black ink, appearing to read 'Randall Smith'.

Randall Smith
Chief Financial Officer

May 30, 2014



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, 2014, 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, 2014, and the results of its operations, changes in accumulated surplus, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Victoria, British Columbia
May 30, 2014

Russ Jones, MBA, CPA, CA
Auditor General

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

	Note	March 31 2014	March 31 2013
Financial assets			
Cash		4,259	35,897
Investments	3,4	30,000	-
Accounts receivable	5	11,811	9,995
Due from government	7	3,596	3,218
Other assets		-	66
		49,666	49,176
Liabilities			
Accounts payable & accrued liabilities	8	2,682	1,782
Employee future benefits	9	258	224
Due to First Nations	10	2,431	2,707
Due to SCEK	6	970	875
Due to government		484	300
Deferred revenue	11	1,973	551
Deferred lease inducements		191	226
Liability for orphan sites	12	5,214	5,349
Security deposits	4	18,713	17,703
		32,916	29,717
Net financial assets		16,750	19,459
Non-financial assets			
Tangible capital assets	13	10,743	6,091
Prepaid expenses		823	697
		11,566	6,788
Accumulated surplus		28,316	26,247
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)

	Budget 2014	March 31 2014	March 31 2013
Note	(Note 19)		
Revenues			
Production levies	28,083	29,215	26,838
Annual pipeline levies	2,281	2,314	2,160
Fees	10,529	13,960	9,806
Other revenue	438	829	822
	41,331	46,318	39,626
Expenses			
18			
Oil and gas activities regulation	40,228	41,152	37,379
Orphan site reclamation	1,000	3,097	4,825
	41,228	44,249	42,204
Annual (deficit) surplus	103	2,069	(2,578)
Accumulated surplus beginning of year	26,247	26,247	28,825
Accumulated surplus end of year	26,350	28,316	26,247

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 2014	March 31 2014	March 31 2013
	(Note 19)		
Annual (deficit) surplus	103	2,069	(2,578)
(Acquisition) of tangible capital assets	(4,551)	(7,033)	(2,302)
Amortization of tangible capital assets	2,264	2,381	1,945
	(2,287)	(4,652)	(357)
(Acquisition) of prepaid expense	(500)	(825)	(699)
Use of prepaid expense	400	699	476
	(100)	(126)	(223)
Increase (decrease) in net financial assets	(2,284)	(2,709)	(3,158)
Net financial assets at beginning of year	19,459	19,459	22,617
Net financial assets at end of year	17,175	16,750	19,459

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

	March 31 2014	March 31 2013
Operating transactions		
Cash generated from:		
Production levies	28,761	27,039
Annual pipeline levies	2,191	2,137
Fees	14,306	9,999
Interest	262	333
Miscellaneous and recoveries	187	565
Security deposits	3,979	7,594
	<u>49,686</u>	<u>47,667</u>
Cash used for:		
Salaries and benefits	(21,124)	(20,062)
Payments to First Nations	(6,647)	(7,679)
Operating expenses	(10,421)	(7,682)
Orphan site reclamation	(3,232)	(233)
Security deposits refunded	(2,968)	(2,319)
	<u>(44,392)</u>	<u>(37,975)</u>
Cash from operating activities	<u>5,294</u>	<u>9,692</u>
Capital transactions		
Cash used to acquire tangible capital assets	(6,932)	(2,302)
Investing transactions		
Investments in portfolio investments	(30,000)	-
(Decrease) increase in cash	<u>(31,638)</u>	<u>7,390</u>
Cash beginning of year	35,897	28,507
Cash end of year	<u><u>4,259</u></u>	<u><u>35,897</u></u>

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	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 a 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 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. Investments

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

Investment funds are pooled from the following sources:

	March 31 2014	March 31 2013
Security deposits - Liability Management Rating program (note 4)	18,713	-
Orphan site reclamation fund (note 12)	5,000	-
Operating fund	6,287	-
	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 \$32,845 in security deposits, of which \$18,713 (2013: \$17,703) is held in cash and/or investments and \$14,132 (2013: \$17,258) 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 2014, the Commission recovered \$21 (2013: \$153) 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.

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 2014	March 31 2013
Production levies receivable	7,961	7,641
Annual pipeline levies receivable	2,286	2,139
Fees	1,059	146
Other receivables	505	69
	11,811	9,995

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 \$2,480 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 2014	March 31 2013
Levies collected	3,192	2,962
Recoveries and other	404	256
	3,596	3,218

8. Accounts Payable and Accrued Liabilities

	March 31 2014	March 31 2013
Accounts payable and accrued liabilities	1,306	646
Salaries and benefits payable	1,376	1,136
	2,682	1,782

8. Accounts Payable and Accrued Liabilities (continued)

Employee Leave Entitlements

As of March 31, 2014, 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 \$487 (2013: \$587). 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, 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 2014 were \$1,748 (2013: \$1,553) 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, 2014 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 2014	March 31 2013
Accrued retirement obligation		
Balance at beginning of year	224	240
Current benefit cost	34	16
Interest	12	7
Amortization of actuarial loss	9	-
Benefits paid	(21)	(39)
Balance at end of year	258	224
Actuarial retirement obligation		
Accrued benefit obligation	258	224
Unamortized actuarial loss	112	140
Balance at end of year	370	364

Future Retirement Allowance Liability (continued)

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

	<u>2014</u>	<u>2013</u>
Discount rate	4.00%	3.15%
Wages and salary escalation	2.00%	1.70%

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, 2014.

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.

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	551	13,529	(12,107)	1,973

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. Currently there are 40 (2013: 38) sites designated as orphan sites, 10 which have been substantially restored, with the remainder undergoing restoration at various stages.

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

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2014
(in \$000s)

13. Tangible Capital Assets

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

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

Included in the net book value of business systems development are assets not being amortized of \$1,092 (2013: \$759) 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.

2015	2016	2017	2018	2019	Thereafter
3,516	3,312	3,312	3,441	3,402	22,647

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

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2014
(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 2014	March 31 2013
Revenues:		
Contract recoveries	136	38
Miscellaneous	182	333
	318	371
Expenses:		
Salaries and benefits	574	647
Building occupancy	840	1,033
Professional services and training	359	314
Grants	1,013	250
Telecommunications and information systems	122	145
Travel and vehicle costs	93	66
Office supplies and equipment	69	26
	3,070	2,481

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2014
(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
Revenues			
Production levies	29,215	29,190	29,240

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	5,214	4,146	6,922
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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 2014	March 31 2013
Salaries and benefits	21,398	-	21,398	20,039
First Nations	6,396	-	6,396	7,054
Building occupancy	4,143	-	4,143	2,581
Professional services and training	1,889	-	1,889	1,951
Amortization	2,381	-	2,381	1,945
Travel and vehicle costs	1,573	-	1,573	1,415
Telecommunications and information systems	1,615	-	1,615	1,484
Grants	1,097	-	1,097	331
Orphan site reclamation	-	3,097	3,097	4,825
Office supplies and equipment	630	-	630	486
Miscellaneous	30	-	30	93
	41,152	3,097	44,249	42,204

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 16, 2013.

20. Comparative note

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