

# **BC Oil and Gas Commission**

## **2016/17 ANNUAL SERVICE PLAN REPORT**



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## Board Chair's Accountability Statement



The BC Oil and Gas Commission's *2016/17 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2016/17 - 2018/19 Service Plan*. I am accountable for those results as reported.

A handwritten signature in blue ink, appearing to read 'Dave Nikolejsin', written in a cursive style on a white background.

*Dave Nikolejsin*  
*Board Chair*

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## Chair/CEO Report Letter



We are pleased to present this joint letter summarizing how the BC Oil and Gas Commission (Commission) has met and exceeded the mandate set out by the Province in 2016/17. Further detailed accountabilities and actions can be found in Appendix B. The Commission continues to enjoy strong working relationships with both the Province and industry.

Over the past year, this included multiple training sessions for industry as the Commission introduced its Application Management System – part of a strategy to streamline and digitize oil and gas applications; expansion of the Aboriginal Liaison Program to the entire natural resource sector; publication of the Oil and Gas Reserves and Production Report; and, co-hosting the B.C. Unconventional Gas Technical Forum.

In addition to ongoing staff level interactions between the Commission, provincial ministries and agencies, the Commission’s Board of Directors meets on a quarterly basis and there are quarterly Executive meetings between the Ministry of Natural Gas Development and the Commission. The Commissioner and CEO also has bi-weekly meetings with the Deputy Minister and Board Chair, who in turn, regularly meets with the Minister.

New Board members continued to receive an orientation program outlining their various accountabilities, including the Taxpayer Accountability Principles. This past year, several of the Board members attended a professional development opportunity hosted by the Crown Agencies Resource Office, as well as specific training as accredited directors and auditors. This ensures ongoing leadership and a principled approach for public sector governance, as per the Taxpayer Accountability Principles.

*Dave Nikolejsin*  
*Board Chair*

*Paul Jeakins*  
*Chief Executive Officer*

## Purpose of the Organization

The Commission is the provincial, single-window regulatory agency with responsibilities for regulating oil and gas activities in British Columbia (B.C.), including exploration, development, pipeline transportation, processing and liquefaction and, ultimately reclamation. It has a legislated mandate under the [Oil and Gas Activities Act](#) (OGAA) and its strategy is aligned with provincial social and economic priorities and Government's Natural Gas and Liquefied Natural Gas Strategies. The Commission is committed to the [Taxpayer Accountability Principles](#) (TAP), as outlined by the B.C. provincial government, and strives to deliver a cost-effective, reliable and accountable service for British Columbians. More information on the Commission's structure and governance can be found here: <http://www.bcogc.ca/about/board-directors>.

More information on the Commission's Mission, Vision and Values can be found here: <http://www.bcogc.ca/about-us>.

## Strategic Direction and Context

The Commission's strategic direction from the Provincial government is outlined in the [2016/17 Minister's Mandate Letter](#). The Commission's strategic direction is also guided by the Taxpayer Accountability Principles (TAP). The TAP are reflected in the Commission's values of being accountable, respectful and having integrity as well as through its efforts to be cost conscious, provide appropriate compensation, to enhance public sector governance and increase public sector accountability to taxpayers.

The Commission's strategic context is affected substantively by North American and global natural gas markets. While British Columbia produces minimal oil, it produces almost one third of Canada's marketable natural gas. Total Canadian marketable gas production has remained relatively stable the last few years with small increases in annual production. In 2016, Canada produced approximately 5.6 Trillion cubic feet (Tcf) of marketable gas. More than 1.6 Tcf of this gas came from B.C.

Within B.C., activity and production is increasingly focused on the Montney formation stretching from the Alberta border near Dawson Creek to approximately 200 kilometres north and west of Fort St. John. As of December 2016, approximately 75 per cent of gas produced in B.C. was originating from the Montney. In the 2016/17 fiscal year, 372 wells were drilled in B.C. (rig released) of which 95 per cent targeted the Montney. Unconventional gas overall accounted for more than 85 per cent of B.C.'s production by the end of calendar 2016.

While gas production has continued to increase in B.C., the number of wells needed to deliver the recorded volumes has decreased substantially as technology and knowledge of completions in unconventional Montney wells has advanced. This fiscal year, the Commission issued 542 well authorizations – down from 699 the previous year. Increased productivity from fewer wells means that the necessary development footprint per unit of production continues to drop in B.C. resulting in less overall disturbance to the land base.

In July 2016, the Commission introduced its new Application Management System – a robust information management system which has significantly enhanced the Commission’s ability to review and process applications for oil and gas activities. As the system continues to be implemented and improved, it is expected that significant benefits will be realized with respect to cycle time for application processing as well as efficiencies for review staff within the Commission.

A number of significant changes directly affecting the Commission’s regulatory role were introduced in 2016, including B.C.’s Climate Leadership Plan (Plan) released in August 2016. The Plan has placed targets on methane emission reductions for existing and new equipment which is regulated by the Commission. A target reduction of 45 per cent of emissions from all equipment installed prior to January 1, 2015 has been established as part of the Plan. The Commission is working with the Ministries of Natural Gas Development and Environment as well as with other western oil and gas regulators in developing a comprehensive regulatory framework to deliver on the commitments in the Plan.

## **Report on Performance**

Guided by its Mission, Vision, and Values and the strategic direction provided in the Minister’s Mandate Letter, the Commission acted on the strategies outlined in its 2016/17 - 2018/19 Service Plan and as a result was able to fulfill its mandate expectations. More detail regarding specific actions is available in Appendix B.

Efficiency and effectiveness are core values of the Commission and are drivers for managing the day-to-day operations. Consequently, the Commission’s TAP evaluation plan requirements have been fulfilled by continuing to set ambitious targets for efficiency and effectiveness performance measures. These performance measures and targets were set in the Commission’s 2016/17 - 2018/19 Service Plan and the results for this year are found in this section.

## **Goals, Strategies, Measures and Targets**

### ***Goal 1: Effectively engage opportunities for productive relationships and consultations with First Nations***

This goal reflects the Commission’s ongoing engagement in respectful and effective communications with First Nations’ communities and is aligned with TAP. The goal supports the proactive engagement of First Nations by building robust relationships and partnerships, negotiating and implementing agreements and carrying out its legal obligation to consult, and to ensure opportunities for involvement in the decision-making process for resource development applications.

Intended results:

- a) First Nations actively participate in consultation opportunities
- b) Commission decisions seriously consider First Nations rights and other interests
- c) The Commission ensures timely decisions on oil and gas activities through respectful working relationships with First Nations who may be affected by LNG facilities and major projects

**Strategies**

- **Engagement Approach Optimization**  
Work with First Nations to proactively put in place strategies and processes to determine the most beneficial approach to engage and consult with First Nations and support decision-making processes. The approaches are diverse and include programs such as Leader to Leader Agreements, Community Liaisons, Consultation Process Agreements, consultation on regulations and others. This will allow for prioritizing the most critical consultations at any given time and allocating resources accordingly for both Treaty 8 and non-Treaty 8 First Nations.
- **Compliance Management System Design Input**  
Design the Compliance Management System (CMS) (to be developed under Goal 2) to track issues of interest to First Nations.
- **Training on Aboriginal Law and First Nations Rights**  
Develop and implement a system to track First Nations training for statutory decision makers and their support staff.

**Performance Measure 1.1: Where the Commission determines that a duty to consult exists during the process of making decisions, the Commission will engage potentially impacted First Nations.**

Description: The Commission consults with potentially impacted First Nations on applications it receives. The Commission engages with First Nations in multiple ways including the First Nations Liaison Program, Agreements and Capacity Funding.

Performance Measure	2014/15 Baseline	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Baseline: 2014/15 results: 100%	100%	100%	100%	100%	100%	100%

Data Source: Internally monitored and tracked consultation data

Discussion

This performance measure reflects the Commission’s efforts to proactively engage First Nations and carry out its legal obligation to consult and to ensure opportunities for involvement in the decision-making process. In 2016/17, a total of 3,755 consultations were completed with First Nations with regards to 2,647 applications.

**Performance Measure 1.2: Percentage of Commission statutory decision makers and their support staff who are current in their aboriginal law and policy training.**

Description: Measures the Commission’s internal competencies in relevant policies and aboriginal law. Efforts to train in these areas will provide decision makers and their staff with the context to make well informed decisions.

Performance Measure	2014/15 Baseline	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Baseline: 2014/15 results: 62.1%	62.1%	62%	75%	100%	75%	75%

Data Source: Internally monitored and tracked training data.

**Discussion**

A variety of training sessions took place throughout the year to maintain the Commission’s internal competencies in relevant policies and aboriginal law. Commission staff attended training sessions hosted by the Ministry of Aboriginal Relations and Reconciliation, the Aboriginal Law and Litigation Group and the Ministry of Justice and Attorney General (JAG). The Commission also offered Aboriginal Law & Policy training sessions internally.

**Performance Measure 1.3: Percentage of Commission permit decisions subject to First Nation initiated Judicial Review (JR) proceedings.**

Description: Measures the Commission’s competencies in conducting and documenting consultations with First Nations with respect to determinations and other actions.

Performance Measure	2014/15 Baseline	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Baseline: 2014/15 results: 0%	0%	0%	0%	0%	0%	0%

Data Source: Internally monitored and tracked JR data.

**Discussion**

No judicial review proceeding has been initiated by any First Nation to directly challenge a Commission decision. With respect to ongoing decision making, the Commission continues efforts to fulfill obligations to consult with First Nations on determinations that have the potential to impact First Nations’ interests.

***Goal 2: Operational excellence through improved efficiency and effectiveness while maintaining optimal regulatory oversight***

This goal aims to increase efficiency and effectiveness of core processes and their enabling business systems through developing integrated systems that meet future business needs and improve services. This goal is aligned with TAP to be efficient, accountable and provide good service.

**Intended results:**

- a) Commission staff members are supported by efficient and effective processes and information systems and technology (the “right” tools)
- b) Decisions and actions are fair and timely
- c) The Commission can systematically assess compliance with all regulatory requirements
- d) Industry is fully compliant with regulatory requirements

**Strategies**

- **Design and implement the Compliance Management System (CMS)**  
 Implement a series of projects that will enhance the Commission’s ability to provide assurance that oil and gas activities are being conducted in accordance with legislation while ensuring Commission resources are used to maximum effect.
- **Implement the Business Intelligence Information (BI) System Enhancement Project**  
 Enhance the BI system to make data easier to access, put reporting and analysis tools in the hands of the business areas, enhance the interactivity of reports beyond current static reporting tools, and reduce current barriers and costs involved in report development.
- **Process Excellence & Quality Management Principles**  
 Enhance business process management capabilities and embed process quality management principles across the Commission. Early initiatives include roll-out of process improvement methodologies, empowering business areas and staff with tools and the ability to optimize their processes; development of process governance practices, roles and responsibilities; and the development of process measures for the Commission’s core business processes.

**Performance Measure 2.1: Work Engagement Survey (WES) results on having the right workplace tools to do your job.**

Description: The purpose of this measure is to evaluate whether employees believe they have both the computer based and non-computer based tools they require to help them excel in their jobs. The results based on regression analysis model by BC STATS.

Performance Measure	2013/14 Baseline	2015/16 Actual	2016/17 Target <sup>1</sup>	2016/17 Actual <sup>1</sup>	2017/18 Target	2018/19 Target
Baseline: 2013/14 results: 80	80	79	N/A	N/A	80	N/A

Data Source: The WES survey results are aggregated through a complex statistical model completed by BC Stats

<sup>1</sup> WES is conducted once every two years therefore there is no target or result for this year.

**Performance Measure 2.2: Calendar days to process new well applications.**

Description: This measure represents average number of calendar days to process new well applications.

Performance Measure	2014/15 Actual	2015/16 Actual	2016/17 Target <sup>1</sup>	2016/17 Actual	2017/18 Target	2018/19 Target
Baseline: 2001/02 results: 33	12	16	16	28	N/A	N/A

Data Source: Internally monitored and tracked application processing data.

<sup>1</sup> Due to the implementation of the Application Management System (AMS), individual application timelines are no longer possible, they have changed to bundled applications. This means instead of an individual well, applications can now include multiple wells, a pipeline and a facility. This is more efficient for industry and for the Commission’s review process.

Discussion

Mid-way through the year this measure changed to reflect the average time to process new, bundled *Oil and Gas Activities Act* (OGAA) applications, rather than the calendar days to process new well applications. The measure as modified still provides a meaningful understanding into the efficiency of the application determination process, however the target is no longer applicable.

**Performance Measure 2.3: Number of inspections completed annually.**

Description: This was a new output measure this year intended to reflect a key component of the Commission’s efforts to monitor and track industry compliance. Inspections are comprehensive in the sense they cover all regulatory requirements, as well as all permit specific requirements (conditions). Included are factors such as safety, environmental issues, accuracy of required measurements, adherence to defined standards, etc.

Performance Measure	2014/15 Baseline	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Baseline: 2014/15 results: 5,198	5,198	4,512	4,000	4,869	4,000	4,000

Data Source: Internally monitored and tracked inspection data.

Discussion

Earlier in the year a company which held assets in B.C. became insolvent. This impacted this indicator as inspectors were required to spend additional time addressing the issues associated with the insolvent company. In the face of this challenging situation, the Commission reallocated staff and experts from other areas, which resulted in additional effort to bring inspection numbers up to the targeted levels. The reallocation of effort was a success and the target was well exceeded.

**Performance Measure 2.4: Inspection compliance rate (to evaluate industry compliance).**

Description: This was a new outcome measure intended to reflect industry’s compliance to the Commission’s regulatory framework. The Commission ensures compliance and the measure reflects the first follow up compliance rate results. In the event of non-compliance, the Commission works with companies to make the necessary changes to become compliant with all regulatory requirements. If compliance is not achieved during prescribed response times, the Commission has the ability to move these issues to a formal enforcement process.

Performance Measure	2014/15 Baseline	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Baseline: 2014/15 results: 97.59%	97.59%	98.42%	98.50%	97.63%	98.50%	98.50%

Data Source: Internally monitored and tracked compliance rate data.

Discussion

Earlier in the year a company which held assets in B.C. became insolvent. This event negatively impacted this indicator as there were significant compliance issues that needed to be addressed in a timely fashion. In the face of this challenging situation, the Commission reallocated staff and experts from other areas which resulted in additional effort to sustain the inspection compliance at the targeted levels. This reallocation of effort

was a success as the results were within 1 per cent of the target, including the insolvent company's results. Results excluding this company would be 98.78 per cent.

***Goal 3: Have the right workforce to deliver on our mandate in a changing environment***

The goal enables the Commission to actively anticipate labour, demographic and industry activity levels to ensure the workforce is successfully aligned to meet workload demands, with the expertise to handle all regulatory requirements of a LNG industry, related major projects and other emerging industry trends. The goal is aligned with TAP to offer compensation that adheres to government principles and is respectful of the taxpayer.

Intended results:

- a) An engaged workforce with the knowledge, skills and abilities to carry out the Commission's work
- b) As an employer of choice, there is an enhanced ability to attract the right people
- c) Staff have the change management support required to perform well during ongoing change activity within the Commission
- d) The Commission is organized in a structure that is responsive not only to its core responsibilities but also to a changing operating environment

**Strategies**

- **Activity Forecasting**  
 Conduct labour market and industry related research.  
 Produce current and predicted annual internal workforce analytics.  
 Update and implement the upstream activity forecast and major projects analysis.
- **Change Management Framework**  
 Implement a change management framework to support the process of change for staff and the overall organization as the Business Transition Strategy (BTS) moves into the implementation phase and the impact of LNG on the organization becomes clear. Implementation will include the governance process, which includes establishing process owners, identifying who is responsible, accountable, consulted and informed. Policies will also be developed for process management to reduce disruption of process change, and define roles and expectations.
- **Employer of Choice Initiative**  
 To enhance its competitiveness as an employer, this strategic initiative will be completed to investigate top employer options for the Commission.

**Performance Measure 3.1: Voluntary turnover rate.**

Description: The annual turnover rate reflects the amount of internal churn of employees and is calculated based on the number of separations divided by the average number of employees multiplied by 100.

Performance Measure	2014/15 Baseline	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Baseline: 2014/15 results: 12.5%	12.5%	10.69%	12%	11.62%	12%	12%

Data Source: Human resources data is monitored and tracked internally.

Discussion

The year end results met the target for the year of 12 per cent and are within the Commission’s annual turnover tolerance. The Commission closely monitors its turnover and holds exit interviews to understand the rationale for voluntary exits. Some of the voluntary exits were for opportunities in industry and others were for opportunities in government. The Commission regularly has proactive discussions at the executive level on budget impacts and status of vacant critical positions.

**Performance Measure 3.2: Employee Engagement result per bi-annual WES.**

Description: This measure is intended to reflect the Commission’s ability to develop and sustain an engaging work environment. The results based on a regression analysis model by BC STATS.

Performance Measure	2008/09 Baseline	2015/16 Actual	2016/17 Target <sup>1</sup>	2016/17 Actual <sup>1</sup>	2017/18 Target	2018/19 Target
Baseline: 2008/09 results: 69	69	70	N/A	N/A	70	N/A

Data Source: The WES survey results are aggregated through a complex statistical model completed by BC Stats

<sup>1</sup> WES is conducted once every two years therefore there is no target or result for this year.

**Performance Measure 3.3: Job Suitability result per bi-annual WES.**

Description: This measure is intended to reflect the Commission’s ability to have the right people in the right positions. The results based on a regression analysis model by BC STATS.

Performance Measure	2012/13 Baseline	2015/16 Actual	2016/17 Target <sup>1</sup>	2016/17 Actual <sup>1</sup>	2017/18 Target	2018/19 Target
Baseline: 2012/13 results: 79	79	74	N/A	N/A	80	N/A

Data Source: The WES survey results are aggregated through a complex statistical model completed by BC Stats

<sup>1</sup> WES is conducted once every two years therefore there is no target or result for this year.

***Goal 4: Enhance trust and credibility of the Commission through programs of public awareness***

This goal supports the Commission taking a leadership role in fostering positive working relationships with a broad cross-section of stakeholders including landowners, academia, interest groups, all levels of government, the public, industry, and other rights holders to build trust, credibility and understanding in the organization, and fulfill its mandate as the regulator of oil and gas activities for British Columbia. The goal is aligned with TAP to be accountable and to engage in equitable and respectful communications with stakeholders and to develop a strategic engagement plan.

Intended results:

- a) The education and outreach program is extended to improve understanding of the regulatory process
- b) Ministries and partner agencies are involved to ensure the regulatory process is aligned and upholds all applicable legislation
- c) Municipal staff and local leaders across the province are engaged with fostering a better understanding of the Commission’s role as the oil and gas regulator

d) British Columbians believe the Commission is achieving the right balance between protecting public safety, conserving the environment, respecting those affected by oil and gas activities, and supporting resource development

**Strategies**

- **Develop and implement the Strategic Engagement Plan**  
 This initiative focuses on identifying opportunities to enhance relationships with:
  - Local governments and Chambers of Commerce
  - Landowners and other rights holders
  - Provincial and federal levels of government
  - The public
  
- **Survey development and distribution**  
 This initiative develops and rolls out an annual survey to assess British Columbians’ perspectives on the Commission. The results of the survey will inform the Commission’s efforts to engage and educate the public as effectively as possible.
  
- **Develop and implement a public education program**  
 This initiative involves ongoing outreach to educate the public on the Commission’s approach for regulating oil and gas on behalf of British Columbians.
  
- **Website redevelopment**  
 This initiative results in updates to the website to make it more user-friendly.

**Performance Measure 4.1: Number of individuals engaged.**

Description: This is a new output measure for this year intended to reflect the Commission’s ability to engage broadly across the province.

<b>Performance Measure</b>	<b>2014/15 Baseline</b>	<b>2015/16 Actual</b>	<b>2016/17 Target</b>	<b>2016/17 Actual</b>	<b>2017/18 Target</b>	<b>2018/19 Target</b>
Baseline: 2014/15 results: 722	722	614	625	929	625	625

Data Source: Estimated number engaged through the Community Relations and Compliance and Enforcement teams, the Communications team through external engagements and industry training attendees. The data is monitored and tracked internally.

**Discussion**

The Commission interacts with a wide variety of stakeholders and this measure includes elected officials, land owners, other agencies, academia and industry. This measure was chosen to reflect the breadth of the Commission’s outreach through engagement activities. The 2016/17 target was exceeded. The Commission led and took part in a number of engagements throughout the year which included meetings with Mayors, MLAs, and Peace Communications Network, interactions with landowners and through community open houses and tradeshow and a major component of this was the AMS training that took place with industry.

**Performance Measure 4.2: Survey results on stakeholders’ perspectives of the Commission.**

Description: This is a new outcome measure intended to reflect key stakeholders’ perspectives of the Commission. 2016/17 was the first year of distributing this survey.

<b>Performance Measure</b>	<b>2016/17 Baseline</b>	<b>2015/16 Actual</b>	<b>2016/17 Target</b>	<b>2016/17 Actual</b>	<b>2017/18 Target</b>	<b>2018/19 Target</b>
Baseline: 2016/17 results: 74.3%	74.3%	N/A	65%	74.3%	65%	65%

Data Source: Survey results will be tracked and analyzed internally.

**Discussion**

The measure was developed through an annual survey of stakeholders which started this year. Stakeholders surveyed including municipal and provincial elected officials, industry, land owners and academics. This focused stakeholder survey was developed and administered with UBC with 69.2 per cent participation. Results to the question “Overall, I am satisfied with how the Commission engages with me.” include: Strongly agree (31.1 per cent); Agree (29.7 per cent); and Somewhat agree (13.5 per cent).

## Financial Report

### Discussion of Results and Financial Report Summary Table

The financial position of the Commission at the end of fiscal 2016/17 is discussed here in conjunction with the appended financial statements and related notes for the fiscal year ending March 31, 2017. The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

The Commission realized an operating surplus of \$5.9 million and a net deficit of \$10.6 million after accounting for the Orphan Site Reclamation Fund (OSRF) compared to an overall budgeted surplus of \$0.3 million in the 2016/17 Service Plan. Total revenue from operations was \$52.9 million, compared to the budget of \$45.7 million. The increase over budget is a result of an unanticipated increase in production levies, an additional annual pipeline levy on major projects implemented in the current year to balance the user pay model, and a grant received from the Province to further facilitate ongoing negotiations with First Nations.

The net deficit from the OSRF is due to the bankruptcy of a medium sized regulated company triggered by the economic downturn in the oil and gas sector. The OSRF is disclosed separately to show that normal operations continue to avoid an annual deficit.

OSRF revenues are from a production tax levy legislated through the *Oil and Gas Activities Act* (OGAA) and is administered by the Commission and considered part of the entity for financial statement purposes. The OSRF funds are restricted in use for the remediation of orphaned sites.

Total Commission operating expenses were \$46.9 million compared to \$45.7 million budgeted, and \$48.0 million in the prior year. The 2016/17 expenses for salaries and benefits were slightly under the Service Plan budget of \$25.4 million.

Investments in tangible capital assets during the year were \$5.1 million, primarily related to the development of new business applications.

The Commission has no debt.

In addition to actual results for the past year, financial outlook information is provided below. Forecast information is subject to a number of risks and uncertainties as discussed in the preceding report on strategic and operational drivers. The key assumptions used for estimates are provided and compared to actual results where possible.

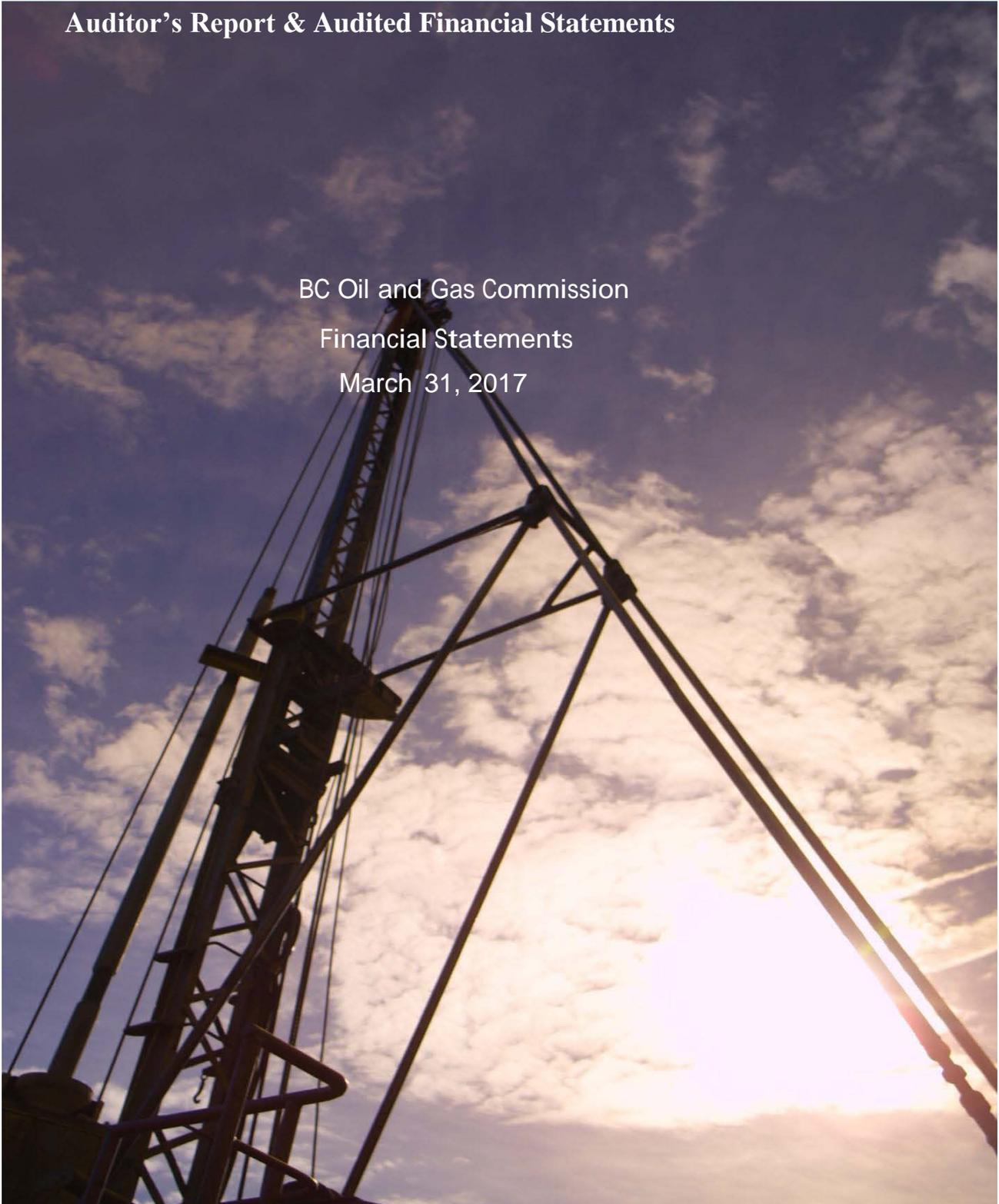
The Commission has no major capital projects in excess of \$50 million as defined by the *Budget Transparency and Accountability Act* and therefore there are none reported here under this requirement of the Act.

## Financial Resource Summary Table

\$ thousands	2013/14 Actual	2014/15 Actual	2015/16 Actual (restated)	2016/17 Budget	2016/17 Actual	2016/17 Budget Variance	2015/16 – 16/17 Variance
<b>Operating Revenue</b>							
Production Levies	27,962	29,857	31,304	32,493	34,258	1,765	2,954
Pipeline Levies	2,314	2,356	2,399	2,433	3,928	1,495	1,529
Fees from Oil and Gas Applications	13,960	22,199	13,761	10,348	11,024	676	(2,737)
Grant from Province	-	600	1,560	-	2,975	2,975	1,415
Miscellaneous	821	874	821	418	672	254	(149)
<b>Total revenue from operations</b>	<b>45,057</b>	<b>55,886</b>	<b>49,845</b>	<b>45,692</b>	<b>52,857</b>	<b>7,165</b>	<b>3,012</b>
<b>Operating expenses</b>							
Salaries and Benefits	21,398	25,815	26,928	25,455	25,271	184	1,657
Other Operating & First Nations Expenses	17,374	23,826	17,373	15,775	17,619	(1,844)	(246)
Capital Assets Amortization	2,380	2,914	3,723	4,519	4,033	549	(246)
<b>Total expenses from operations</b>	<b>41,152</b>	<b>52,555</b>	<b>48,024</b>	<b>45,749</b>	<b>46,923</b>	<b>(1,111)</b>	<b>1,165</b>
<b>Net surplus from operations</b>	<b>3,905</b>	<b>3,331</b>	<b>1,821</b>	<b>(57)</b>	<b>5,934</b>	<b>6,054</b>	<b>4,177</b>
OSRF levies	1,253	1,358	1,422	1,378	1,454	76	32
Remediation recoveries and interest	8	346	76	-	1,028	1,028	952
OSRF expenses	3,097	3,649	841	1,000	19,043	(14,543)	(14,802)
<b>Net surplus (deficit) from OSRF</b>	<b>(1,836)</b>	<b>(1,945)</b>	<b>657</b>	<b>378</b>	<b>(16,561)</b>	<b>(13,439)</b>	<b>(13,818)</b>
<b>Annual surplus (deficit)</b>	<b>2,069</b>	<b>1,386</b>	<b>2,478</b>	<b>321</b>	<b>(10,627)</b>	<b>(7,385)</b>	<b>(9,641)</b>
<b>Accumulated surplus</b>	<b>31,816</b>	<b>33,202</b>	<b>35,680</b>	<b>36,101</b>	<b>25,153</b>	<b>(7,385)</b>	<b>(7,063)</b>
Capital Expenditures	7,033	7,719	9,296	6,762	5,075	1,687	4,221
Total Liabilities	32,916	45,234	37,881	43,500	61,378	(17,878)	(23,497)

**Auditor's Report & Audited Financial Statements**

BC Oil and Gas Commission  
Financial Statements  
March 31, 2017





**Statement of Management Responsibility**

The financial statements of the BC Oil and Gas Commission (Commission) for the year ended March 31, 2017 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

A handwritten signature in black ink, appearing to read "Paul Jeakins", written over a horizontal line.

**Paul Jeakins**  
**Commissioner**  
**May 31, 2017**

A handwritten signature in black ink, appearing to read "Len Dawes", written over a horizontal line.

**Len Dawes CPA, CA**  
**Executive Vice President, Chief Financial Officer**



## **INDEPENDENT AUDITOR'S REPORT**

*To the Board of Directors of the 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, 2017, and the statement of operations and 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***

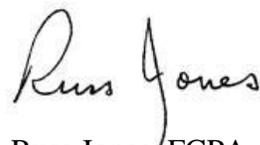
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 the Oil and Gas Commission as at March 31, 2017, 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, FCPA, FCA  
Deputy Auditor General

Victoria, British Columbia  
June 4, 2017

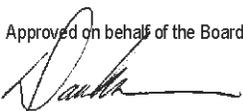


OFFICE OF THE  
**Auditor General**  
of British Columbia

	Note	March 31 2017	March 31 2016 as restated
<b>Financial assets</b>			
Cash		10,760	6,288
Investments	3,4	36,000	27,000
Accounts receivable	5	13,239	11,392
Due from government	6	3,898	3,916
		<u>63,897</u>	<u>48,596</u>
<b>Liabilities</b>			
Accounts payable & accrued liabilities	7	3,559	3,833
Employee future benefits	8	257	239
Due to First Nations	9	338	175
Due to government		219	137
Deferred revenue	10	1,503	1,715
Deferred lease inducements		150	214
Liability for orphan sites	11	21,965	3,489
Security deposits	4	33,387	24,579
		<u>61,378</u>	<u>34,381</u>
<b>Net financial assets</b>		<u>2,519</u>	<u>14,215</u>
<b>Non-financial assets</b>			
Tangible capital assets	12	21,930	20,889
Prepaid expenses		704	676
		<u>22,634</u>	<u>21,565</u>
<b>Accumulated surplus</b>			
		<u>25,153</u>	<u>35,780</u>
Contractual obligations	13		
Contingent liabilities	14		
Measurement uncertainty	16		

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board



Dave Nikolejsin, Board Chair



Paul Jeakins, Commissioner



Doug Wilkes, CPA, CA, Audit Committee Chair

	Note	Budget 2017	March 31 2017	March 31 2016 as restated
		(Note 18)		
<b>Revenues</b>				
Production levies	16	32,493	34,258	31,304
Orphan site reclamation fund levies		1,378	1,454	1,422
Annual pipeline levies		2,433	3,928	2,399
Fees		10,348	11,024	13,761
Grant from province		-	2,975	1,560
Interest		375	636	617
Remediation recoveries	4	-	952	76
Other revenue		43	112	204
		<u>47,070</u>	<u>55,339</u>	<u>51,343</u>
<b>Expenses</b>				
	17			
Oil and gas activities regulation		45,749	46,923	48,024
Orphan site remediation		1,000	19,043	841
		<u>46,749</u>	<u>65,966</u>	<u>48,865</u>
<b>Annual (deficit) surplus</b>		<u>321</u>	<u>(10,627)</u>	<u>2,478</u>
<b>Accumulated surplus beginning of year</b>		35,780	35,780	29,702
<b>Effect of prior period adjustment</b>	21	-	-	3,600
<b>Accumulated surplus, beginning of year, as restated</b>		<u>35,780</u>	<u>35,780</u>	<u>33,302</u>
<b>Accumulated surplus end of year</b>		<u><b>36,101</b></u>	<u><b>25,153</b></u>	<u><b>35,780</b></u>

The accompanying notes are an integral part of these statements.

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

	Budget 2017	March 31 2017	March 31 2016 as restated
	(Note 18)		
Annual surplus (deficit)	322	(10,627)	2,478
Acquisition of tangible capital assets	(6,762)	(5,075)	(9,296)
Disposals of tangible capital assets	-	-	201
Amortization of tangible capital assets	4,518	4,033	3,722
	(2,244)	(1,042)	(5,373)
Use of prepaid expense	100	(28)	207
Decrease in net financial assets	(1,822)	(11,697)	(2,688)
Net financial assets at beginning of year	14,215	14,215	16,903
Net financial assets at end of year	<b>12,393</b>	<b>2,518</b>	<b>14,215</b>

	March 31 2017	March 31 2016 as restated
<b>Operating transactions</b>		
<b>Cash generated from:</b>		
Production levies	34,982	32,917
Annual pipeline levies	2,387	2,357
Fees	10,894	12,649
Interest	611	705
Grant from province	2,975	1,560
Miscellaneous and recoveries	1,451	88
Security deposits	13,511	4,191
	<u>66,811</u>	<u>54,467</u>
<b>Cash used for:</b>		
Salaries and benefits	(25,098)	(26,820)
Payments to First Nations	(5,640)	(8,597)
Operating expenses	(11,391)	(11,025)
Orphan site reclamation	(1,413)	(2,408)
Security deposits refunded	(4,703)	(5,480)
	<u>(48,245)</u>	<u>(54,330)</u>
<b>Cash from operating activities</b>	<u>18,566</u>	<u>137</u>
<b>Capital transactions</b>		
Cash used to acquire tangible capital assets	(5,094)	(8,667)
<b>Investing transactions</b>		
Change in portfolio investments	(9,000)	9,000
<b>(Decrease) increase in cash</b>	4,472	470
<b>Cash beginning of year</b>	6,288	5,818
<b>Cash end of year</b>	<u>10,760</u>	<u>6,288</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, 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%
Vehicles	20%
Application Management System	10%
Business Systems - Other	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.

### Revenues

#### Production levies and Orphan Site Reclamation Fund levies

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. Orphan site reclamation fund levies are internally restricted by legislation for the remediation of orphaned sites.

#### Annual pipeline levies

Annual pipeline levies are billed and recognized based on length and size of pipe owned at March 31 of the applicable fiscal year.

#### Application Fees

General application fees are billed upon submission while amendment application fees are billable upon completion of the review process. Fees for major projects are billable in installments. All application fee revenue is recognized in the period it is earned.

### 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. Remediation costs are estimated and accrued when determinable.

### Prepaid Expenses

Prepaid expenses include 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

The Commission and its employees contribute to the Public Service Pension Plan in accordance with the Public Service Pension Plans Act. Defined contribution plan accounting is applied because sufficient information is not available to apply defined benefit accounting. Contributions are expensed as they become payable.

### 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. 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. An orphan site is designated by the Commissioner when a permit holder is insolvent or cannot be located or identified.

### 3. Investments

	March 31 2017	March 31 2016
Security deposits - Liability Management Rating program (note 4)	33,000	24,000
Orphan site reclamation fund (note 11)	3,000	3,000
	<b>36,000</b>	<b>27,000</b>

### 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 \$100,166 in security deposits, of which \$33,387 (2016: \$24,579) is held in cash and/or investments and \$66,779 (2016: \$28,967) 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 2017, the Commission recovered \$952 (2016: \$76) from security deposits to satisfy remediation obligations of permit holders for specific sites.

### 5. Accounts Receivable

	March 31 2017	March 31 2016
Production levies receivable	8,709	8,328
Annual pipeline levies receivable	3,917	2,414
Fees	335	385
Other receivables	278	265
	<b>13,239</b>	<b>11,392</b>

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 which is included in Production levies receivable, and a portion is payable by the Province which is included in Levies collected. See note 6.

### 6. Due from Government

	March 31 2017	March 31 2016
Levies collected	3,712	3,363
Recoveries and other	186	553
	<b>3,898</b>	<b>3,916</b>

## 7. Accounts Payable and Accrued Liabilities

	March 31 2017	March 31 2016
Accounts payable and accrued liabilities	1,213	1,594
Salaries and benefits payable	2,346	2,239
	<b>3,559</b>	<b>3,833</b>

### Employee Leave Entitlements

As of March 31, 2017, 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 \$879 (2016: \$741). This amount is included in salaries and benefits payable.

## 8. Employee Future Benefits

### Employee Benefit Plan

The Commission and its employees contribute to the Public Service Pension Plan, a jointly trustee pension plan. The Public Service Pension Plan 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. Basic pension benefits are based on a formula. The Plan has about 57,700 active plan members, 44,800 retired plan members and 16,400 inactive members.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the funding. The latest actuarial valuation as at March 31, 2014, indicated a funding surplus of \$194 million for basic pension benefits. Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, and therefore there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan.

The total amount paid into this pension plan by The Commission for the year ended March 31, 2017 for employer contributions was \$2,042 (2016: \$2,110).

### 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, 2017 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 2017	March 31 2016
<b>Accrued retirement obligation</b>		
Balance at beginning of year	239	285
Current benefit cost	46	38
Interest	19	13
Amortization of actuarial loss	21	9
Benefits paid	(68)	(106)
<b>Balance at end of year</b>	<b>257</b>	<b>239</b>
<b>Actuarial retirement obligation</b>		
Accrued benefit obligation	257	239
Unamortized actuarial loss	284	305
<b>Balance at end of year</b>	<b>541</b>	<b>544</b>

### 8. Employee Future Benefits (continued)

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

	2017	2016
Discount rate	3.50%	3.50%
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 15 years at March 31, 2017

### 9. 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 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.

### 10. 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 the year	Transferred to revenue	Balance end of year
Application Fees	1,715	10,812	(11,024)	1,503

### 11. 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 remediation and restoration of orphaned oil and gas sites and for related costs. Revenue for the OSRF is derived from production levy as established by the Act. The OSRF has assets of \$5,329 to pay for costs associated with orphan sites. During the 2016/17 fiscal year, the number of designated orphan sites increased from 45 to 220 largely as a result of the insolvency of one company. 135 of these sites were designated April 6th, 2017 and are disclosed and included with the fiscal year 2016/17 designations as the event that gave rise to these designations existed at March 31st 2017. Of the designated sites, 17 have been fully restored, with the remainder to undergo remediation as resources permit. During the fiscal year, the Commission determined the liability for orphan sites based on the Commission's obligation to ensure public and environmental safety. The current year liability of \$21,965 reflects the costs required to bring the site up to a standard where the environment and the public are protected. Liability for known orphan sites is estimated using expected abandonment and remediation costs for these specific sites, under expected conditions based on known characteristics of each site. The estimation of the current year liability does not include discretionary reclamation costs, contingencies for delays due to weather, problematic plugging activities, or unforeseen sources of contamination. Full reclamation costs for designated orphan sites is estimated to be in the range of \$40,000 to \$60,000. Additional potential liability for orphan sites resulting from these factors are estimated based on site characteristics and are disclosed in the measurement uncertainly note. The Commission continues to monitor other potential orphan sites. Estimated costs have not been net present valued as the related costs are not expected to occur over an extended long term period.

## 12. Tangible Capital Assets

March 31, 2017

	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Vehicles	Other Business Systems	Application Management System	Computer Software	Total 2017
<b>Cost</b>									
Opening	7,001	3,591	3,293	1,489	1,500	3,028	11,308	885	32,095
Additions	7	15	442	-	167	1,137	3,307	-	5,075
Disposals	(819)	(438)	(1,700)	(343)	-	(1,516)	-	(195)	(5,011)
<b>Closing</b>	<b>6,189</b>	<b>3,168</b>	<b>2,035</b>	<b>1,146</b>	<b>1,667</b>	<b>2,649</b>	<b>14,615</b>	<b>690</b>	<b>32,159</b>
<b>Accumulated Amortization</b>									
Opening	4,132	1,466	2,191	554	277	1,836	213	537	11,206
Amortization	587	317	703	123	138	980	1,038	147	4,033
Disposals	(819)	(438)	(1,700)	(343)	-	(1,516)	-	(195)	(5,011)
<b>Closing</b>	<b>3,900</b>	<b>1,345</b>	<b>1,194</b>	<b>334</b>	<b>415</b>	<b>1,300</b>	<b>1,251</b>	<b>489</b>	<b>10,228</b>
<b>Net book value</b>	<b>2,289</b>	<b>1,823</b>	<b>841</b>	<b>812</b>	<b>1,252</b>	<b>1,349</b>	<b>13,364</b>	<b>201</b>	<b>21,930</b>

March 31, 2016

	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Vehicles	Other Business Systems	Application Management System	Computer Software	Total 2016
<b>Cost</b>									
Opening	6,683	3,511	3,078	1,264	1,321	5,780	4,146	793	26,576
Additions	330	80	679	225	580	59	7,162	181	9,296
Disposals	(12)	-	(464)	-	(401)	(2,811)	-	(89)	(3,777)
<b>Closing</b>	<b>7,001</b>	<b>3,591</b>	<b>3,293</b>	<b>1,489</b>	<b>1,500</b>	<b>3,028</b>	<b>11,308</b>	<b>885</b>	<b>32,095</b>
<b>Accumulated Amortization</b>									
Opening	3,543	1,150	1,843	418	351	3,244	32	479	11,060
Amortization	601	316	812	136	126	1,403	181	147	3,722
Disposals	(12)	-	(464)	-	(200)	(2,811)	-	(89)	(3,576)
<b>Closing</b>	<b>4,132</b>	<b>1,466</b>	<b>2,191</b>	<b>554</b>	<b>277</b>	<b>1,836</b>	<b>213</b>	<b>537</b>	<b>11,206</b>
<b>Net book value</b>	<b>2,869</b>	<b>2,125</b>	<b>1,102</b>	<b>935</b>	<b>1,223</b>	<b>1,192</b>	<b>11,095</b>	<b>348</b>	<b>20,889</b>

Included in the net book value of other systems development are assets not being amortized of \$101 as they have not yet been completed or put into use.

## 13. 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.

2018	2019	2020	2021	2022	Thereafter
4,277	5,051	4,135	3,617	3,629	24,013

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

#### 14. 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 11 regarding potential remediation costs related to the Orphan Site Reclamation Fund.

#### 15. 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 2017	March 31 2016
<b>Revenues:</b>		
Recoveries	2,988	1,560
Miscellaneous	143	180
	<b>3,131</b>	<b>1,740</b>
<b>Expenses:</b>		
Salaries and benefits	805	977
Building occupancy	173	229
Professional services and training	486	309
Grants	24	33
Telecommunications and information systems	232	120
Travel and vehicle costs	22	(83)
Office supplies and equipment	34	54
	<b>1,776</b>	<b>1,639</b>

## 16. 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. Significant areas requiring the use of management estimates relate to levy production volumes, revenue deferrals, rates for amortization, estimated orphan remediation and estimated employee future benefits. Actual results could differ from these estimates.

	Reported	Low	High
Production Levies	34,258	33,573	34,943

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 2% 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	21,965	17,636	28,491

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. The cost estimates for orphan sites designated in previous years are more certain because Environmental Standard Assessments have been completed. For these sites, the current liability is \$3.3 million with a low estimate of \$2.7 million and high estimate of \$4.2 million.

## 17. Expense by Object

	Oil and Gas Activities Regulation	Orphan Site Reclamation Fund	March 31 2017	March 31 2016 as restated
Salaries and benefits	25,271	-	25,271	26,928
First Nations	5,688	-	5,688	7,165
Building occupancy	4,476	-	4,476	4,374
Professional services and training	1,171	-	1,171	1,701
Amortization	4,033	-	4,033	3,723
Travel and vehicle costs	1,244	-	1,244	1,360
Telecommunications and information systems	2,157	-	2,157	1,871
Grants	1,593	-	1,593	243
Orphan site reclamation	839	19,043	19,882	841
Office supplies and equipment	393	-	393	570
Miscellaneous	58	-	58	89
	<b>46,923</b>	<b>19,043</b>	<b>65,966</b>	<b>48,865</b>

## 18. 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 13, 2016.

## 19. 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. Should the Commission require funding, the Commission has access to Provincial Government and/or Bank LOC/Loans.

**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.

## 20. Comparative note

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

## 21. Restatement of prior year

Due to a change in circumstances this fiscal, management changed its policy when estimating the orphan liability to reflect remediation costs per Handbook 3260. This resulted in the need to adjust the liability of orphan sites from previous years which included full reclamation costs. The following table sets out the previously reported figures, the adjustments made and the restated amounts.

	<b>As previously reported</b>	<b>Adjustment</b>	<b>As restated</b>
Liability for orphan sites	(6,989)	3,500	(3,489)
Orphan site remediation	741	100	841
Annual (deficit) surplus	2,578	(100)	2,478
Opening accumulated surplus beginning of year	29,702	3,600	33,302

## **Appendix A – Additional Information**

### ***Corporate Governance***

A Board of Directors governs the Commission by setting strategic direction, ensuring organizational performance is in line with strategic priorities, and establishing appropriate accountability and transparency mechanisms. Under OGAA, the Deputy Minister for the Ministry of Natural Gas Development (MNGD) is the Board Chair, the Commissioner is Vice Chair, and a third independent member is appointed by the Lieutenant Governor in Council. The Board approves the Commission's budget, Service Plan, and Annual Service Plan Report. Under OGAA, the Board has the powers to make regulations respecting aspects of carrying out oil and gas activities. Governance principles and practices are described in the Board's Mandate and Charter and are disclosed on the Commission's website at [www.bcogc.ca](http://www.bcogc.ca).

Assisted by a group of expert consultants, the Board factors corporate risks into the strategic planning process. Integrating risk management and strategic planning ensures the Commission's long term objectives are consistent with direction from government, and take into consideration stakeholder needs, and optimal resource allocation. Board consultants further contribute to Commission governance by serving on the Board committees (outlined below).

The Commission's governance policies and practices comply with the Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations (Best Practice Guidelines) issued by the Board Resourcing and Development Office. The Commission's accountability framework is consistent with the accountability requirements established for provincial Crown corporations. Its policy direction is derived from the Minister's Mandate Letter and is aligned with government's strategic priorities. Accountability is delivered through three-year service plans issued every year, quarterly reports on financial performance, and the Annual Service Plan Report summarizing achievements during the year and comparing performance results to Service Plan targets.

Strategy implementation and management of day-to-day operations are the responsibility of the Commissioner, the executive and the senior leadership team.

### **Board of Directors**

- Dave Nikolejsin, Deputy Minister, Ministry of Natural Gas Development (Chair)
- Paul Jeakins, Commissioner & Chief Executive Officer (Vice Chair)
- Graeme McLaren, Independent Member, appointed by the Lieutenant Governor in Council

### **Audit Committee**

Responsible for financial reporting and disclosure, risk management, and compliance with applicable laws, regulations and government policy.

- Doug Wilkes, Chair
- Al Hurd, Board Consultant
- Chris Hayman, Board Consultant
- Margie Parikh, Board Consultant

### **Governance & Human Resources Committee**

Responsible for executive appointment, performance, succession and compensation, and for trade union negotiations and compensation structure.

- Al Hurd, Chair
- Graeme McLaren, Independent Member, appointed by the Lieutenant Governor in Council
- Doug Wilkes, Board Consultant
- Don Avison, Board Consultant
- Chris Hayman, Board Consultant
- Margie Parikh, Board Consultant

### **Regulatory Committee**

Responsible for legislation and regulation matters, policies, procedures and systems appropriate for an effective regulatory framework.

- Don Avison, Chair
- Paul Jeakins, Commissioner & Chief Executive Officer
- Graeme McLaren, Independent Member, appointed by the Lieutenant Governor in Council

### **Executive Team Members**

- Paul Jeakins, Commissioner & Chief Executive Officer
- Len Dawes, Executive Vice President, Chief Financial Officer
- Mayka Kennedy, Executive Vice President, Chief Engineer
- Ken Paulson, Executive Vice President, Chief Operating Officer
- Trevor Swan, Executive Vice President, Chief Legal and Regulatory Officer

## Appendix B – Crown Corporations Mandate and Actions Summary

In the 2016/17 Mandate Letter from the minister responsible, the BC Oil and Gas Commission received direction on strategic priorities for the 2016/17 fiscal year. These priorities and the Commission's resulting actions are summarized below:

Mandate Letter Direction	Crown Corporation's Action
1. Align the Commission's activities to support the BC Jobs Plan and British Columbia's Natural Gas Strategy, and deliver on actions specific to the Commission.	<p>The Commission has:</p> <ul style="list-style-type: none"> <li>• Published the Hydrocarbon and By-Product Reserves in British Columbia report.</li> <li>• Co-hosted the BC Unconventional Gas Technical Forum.</li> <li>• Contributed expert knowledge towards implementation of various recommendations in the Human Health Risk Assessment report.</li> <li>• Expanded the FracFocus.ca registry to include a French version.</li> </ul>
2. Implement the Business Transition Strategy to optimize the regulatory structure and increase the efficiency and effectiveness of the Commission's core processes.	<p>The Commission has:</p> <ul style="list-style-type: none"> <li>• Successfully implemented its Business Transition Strategy with the launch of the Application Management System on July 11, 2016, which includes ePayment and eSubmission.</li> <li>• Continued to refine the system, engaging with industry and hosting numerous training sessions to ensure a seamless transition.</li> </ul>
3. The Commission will ensure a coordinated and value-based approach to natural resource development and management by engaging and supporting other Government agencies, and collaborating with professional organizations and learning centers.	<p>The Commission worked closely with other ministries, agencies and academia throughout the year, including:</p> <ul style="list-style-type: none"> <li>• The BC Safety Authority and Ministry of Natural Gas Development in clarifying responsibilities for pipeline and natural gas facilities with Royal Assent provided to Bill 13 the Safety Standards Amendment Act, in May 2016.</li> <li>• The University of British Columbia Okanagan, by providing a lecturer for the senior Engineering class.</li> </ul> <p>Ongoing interactions with various ministries (including Environment; Aboriginal Relations and Reconciliation; Natural Gas Development) from the staff to executive level.</p>
4. Develop new regulations to ensure British Columbia maintains a safe, effective and competitive oil and gas regulatory framework with respect to emerging areas of oversight such as value added products (including methanol, and gas to liquids in 2016 and subsequently, oil refining).	<p>The Commission has:</p> <ul style="list-style-type: none"> <li>• Developed a discussion paper and is undertaking targeted consultations with industry for a results-based regulatory framework to regulate new petroleum refineries and natural gas manufacturing plants.</li> <li>• Introduced new permit conditions June 1, 2016 to obtain ground motion values within certain oil and gas development areas.</li> <li>• Changed Crown land application requirements for freshwater storage sites and clarified industry requirements to the Dam Safety Regulation on August 3, 2016.</li> </ul>