

# **Oil and Gas Commission**

**2018/19**

## **ANNUAL SERVICE PLAN REPORT**

**July 2019**



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## Board Chair's Accountability Statement



The Oil and Gas Commission *2018/19 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2018/19 - 2020/21 Service Plan* created in February 2018. I am accountable for those results as reported.

A handwritten signature in blue ink, appearing to read 'Dave Nikolejsin', written over a light blue grid background.

Dave Nikolejsin  
Board Chair

## Table of Contents

Board Chair's Accountability Statement .....	1
Chair/CEO Report Letter .....	3
Purpose of the Annual Service Plan Report .....	4
Purpose of the Organization.....	4
Strategic Direction .....	4
Operating Environment.....	5
Report on Performance .....	7
Goals, Objectives, Measures and Targets .....	7
Financial Report.....	13
Discussion of Results.....	13
Highlights.....	13
Resource Summary .....	14
Variance & Trend Analysis .....	15
Audited Financial Statements .....	16

## Chair/CEO Report Letter



We are pleased to report the BC Oil and Gas Commission (Commission) has had a successful year delivering on its mandate as outlined in legislation and through the [2018/19 Minister's Mandate Letter](#). It is actively developing mutually beneficial, collaborative working relationships with Indigenous communities, fully aligned to government's commitment to implement the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and the Calls to Action of the Truth and Reconciliation Commission (TRC).

The Commission established a Community Working Group in northeast B.C. that has met monthly to identify issues experienced by community members with respect to oil and gas development; finding solutions to mitigate any concerns. As it continued to enhance communications and transparency, the Commission has also held a number of public meetings and launched a webinar series on key issues of interest to land owners and the general public.

The Comprehensive Liability Management Plan has been developed, making sure 100 per cent of the cost of reclaiming oil and gas sites in B.C. continues to be paid for by industry, ensuring no direct cost to B.C. residents. Through legislative changes, the Commission has also worked on prescribed timelines for decommissioning and reclamation of inactive wells to speed up site restoration.

The Commission was also instrumental in providing its expertise through a number of staff presenting to the scientific panel reviewing hydraulic fracturing on key topics such as induced seismicity, water use, methane emissions and regulatory oversight. It is now part of a cross-government working group reviewing the panel's report and ensuring a fulsome response to the recommendations.

The Commission Board welcomed a number of new members and continued to ensure the highest accountability to the public by adhering to best practices in corporate governance including orientation and ongoing training for its members.

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Dave Nikolejsin  
Board Chair

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

Paul Jeakins  
Chief Executive Officer

## Purpose of the Annual Service Plan Report

The Annual Service Plan Report (ASPR) is designed to meet the requirements of the *Budget Transparency and Accountability Act* (BTAA), which sets out the legislative framework for planning, reporting and accountability for Government organizations. Under the BTAA, the Crown Corporation's Board is required to report on the actual results of the Crown's performance related to the forecasted targets documented in the previous years' Service Plan.

## Purpose of the Organization

Under the [Oil and Gas Activities Act](#) (OGAA), the Commission is the provincial, single-window regulatory agency with responsibilities for regulating oil and gas activities in B.C., including exploration, development, pipeline transportation and reclamation.

## Strategic Direction

The strategic direction set by Government in 2017 and expanded upon in the Board Chair's [Mandate Letter](#) from the Minister Responsible in 2018 shaped the [2018/19 Service Plan](#) and the results reported in this ASPR.

The following table highlights the key goals, objectives or strategies that support the key priorities of Government identified in the 2018/19 Commission Service Plan:

Government Priorities	Oil and Gas Commission Aligns with These Priorities By:
Delivering the services people count on	<ul style="list-style-type: none"><li>• Goal 1: Protect public safety<ul style="list-style-type: none"><li>• All oil and gas activities are conducted in accordance with all applicable legislation. (Objective 1.1)<ul style="list-style-type: none"><li>○ Compliance and Enforcement</li><li>○ Verify Integrity Management Programs</li></ul></li></ul></li><li>• Goal 2: Respect those affected by oil and gas activities<ul style="list-style-type: none"><li>• Interests of Indigenous groups are understood and considered in Commission decisions. (Objective 2.1)<ul style="list-style-type: none"><li>○ Relationships with Indigenous groups</li><li>○ Incorporate UNDRIP principles into Commission practices</li></ul></li><li>• Stakeholder and community concerns are considered in delivery of the Commission's mandate. (Objective 2.2)<ul style="list-style-type: none"><li>○ Actively engage Indigenous groups, Communities and Stakeholders</li></ul></li></ul></li><li>• Goal 4: Support responsible resource development<ul style="list-style-type: none"><li>• Potential liabilities associated with resource development are mitigated. (Objective 4.1)</li><li>• Liability management</li></ul></li></ul>

Government Priorities	Oil and Gas Commission Aligns with These Priorities By:
A strong, sustainable economy	<ul style="list-style-type: none"> <li>• Goal 3: Conserve the Environment <ul style="list-style-type: none"> <li>• Environmental values and attributes are sustained. (Objective 3.1) <ul style="list-style-type: none"> <li>○ Alignment with the Province</li> <li>○ Area Based Analysis (ABA)</li> </ul> </li> </ul> </li> <li>• Goal 5: Organizational excellence <ul style="list-style-type: none"> <li>• The Commission continuously improves. (Objective 5.1) <ul style="list-style-type: none"> <li>○ Systems and Process Improvements</li> </ul> </li> </ul> </li> </ul>

## Operating Environment

The Commission's operating environment is affected by North American and global natural gas markets. While B.C. produces small quantities of oil, it produces almost one third of Canada's marketable natural gas.

Natural gas production has continued to increase in B.C., focused almost entirely on the Montney formation stretching from the Alberta border near Dawson Creek to approximately 150 kilometers north and west of Fort St. John.

In October 2018, LNG Canada and Coastal Gas Link approved the construction of a LNG export facility and a 670 kilometer long pipeline that will deliver gas from the Montney to the LNG plant in Kitimat. Once in operation, the plant will require inlet gas volumes of approximately 1.9 Billion cubic feet per day (Bcf/day) on start up with a potential second phase which could take capacity to approximately 3.8 Bcf/day. For perspective, in 2017 the marketable gas production for B.C. averaged 4.5 Bcf/day.

Insolvencies and orphan assets continue to be a primary focus of the Commission as the number of orphan sites in B.C. has increased from 220 wells in March 2017 to 346 wells in March 2019. A major driver of this increase has been extremely low gas prices coupled with historical business practices around asset sales and transfers. In April, 2018, the Provincial Government passed the *Energy, Mines and Petroleum Resources Amendment Act* (Bill 15) enabling a number of improvements to the regulatory framework in B.C. for the management of liabilities and funding for orphan site management and reclamation.

The Commission has been completing a series of projects and initiatives to manage associated risks, including the modernization of the Liability Management Rating (LMR) program, new funding for the Orphan Site Reclamation Fund (OSRF), implementing Bill 15, and the development of restoration deadlines for inactive/dormant sites. Together, these actions should collectively enhance the Commission's ability to respond to orphaned sites and insolvencies as they occur.

The Commission has been working closely with Government in the implementation of UNDRIP, the TRC Calls to Action and relevant case law. The Commission is also working with Government to operationalize the Draft 10 Principles that Guide the Province of British Columbia's Relationship

with Indigenous Peoples. In addition to fulfilling the Commission's duty to consult on applications, the Commission is committed to establishing long-term, respectful relationships with Indigenous communities and ensuring traditional knowledge informs the Commission's activities throughout the regulatory cycle. Significant progress has been made in this area through the introduction of shared demonstration projects such as reclamation and emergency management and through the continued support of the Aboriginal Liaison Program under the Ministry of Forests, Lands, Natural Resource Operations and Rural Development.

## Report on Performance

### *Goals, Objectives, Measures and Targets*

#### Goal 1: Protect Public Safety

##### **Objective 1.1: All oil and gas activities are conducted in accordance with all applicable legislation.**

###### **Key Highlights:**

- Exceeded annual target for number of inspections completed annually
- Overall inspection compliance rate improved from last year's results
- Integrity Management Programs have increased the depth of audits to prevent incidents by focusing on key areas of needed improvement, and following through on corrective actions

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
1.1a Number of inspections completed annually <sup>1</sup>	4,869	4,691	4,400	4,516	4,400	4,450
1.1b Overall inspection compliance rate <sup>2</sup>	97.6%	97.0%	100%	99.7%	100%	100%

<sup>1</sup> Data Source: Internally monitored and tracked inspection data.

<sup>2</sup> Data Source: Internally monitored and tracked compliance rate data. This reflects companies who are either compliant, are in their required timeframe to still address any compliance issues or have addressed deficiencies.

## Discussion

The first measure exceeded its 2018/19 target. The second measure did not achieve its target due to deficiencies that have not been addressed by two permit holders. Where deficiencies exist, the Compliance and Enforcement Team takes enforcement action as per the regulatory framework.

##### **Objective 1.2: Impacts of safety events are mitigated.**

###### **Key Highlights:**

- Ongoing emergency management work was completed with Indigenous and non-Indigenous communities affected by energy development activities
- All but two permit holders have complete Emergency Response Plans (ERP) on file and the remaining two are coming into compliance

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
1.2a Per cent of active companies with complete Emergency Response Plans <sup>1</sup>	100%	100%	100%	99.0%	100%	100%

<sup>1</sup> Data Source: Internally monitored and tracked company filing data.

## Discussion

The 2018/19 target was not met, as two companies did not meet the ERP requirements. The Commission is actively working with these two companies to bring them into compliance.

## Goal 2: Respect those affected by Oil and Gas Activities

### Objective 2.1: Interests of Indigenous groups are understood and considered in Commission decisions.

#### Key Highlights:

- Programs to increase cultural awareness were delivered internally and with other Ministries

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
2.1a Per cent of applications where the duty to consult is met <sup>1</sup>	100%	100%	100%	100%	100%	100%

<sup>1</sup> Data Source: Internally monitored and tracked consultation data.

## Discussion

The Commission reviews all applications for OGAA and consultation and notification requirements as part of its legislative mandate and commitment to incorporate UNDRIP into the Commission's programs. The Commission undertook 2,191 consultations with Indigenous groups in relation to 702 applications for permits, approvals, and amendments that were approved by the Commission during the 2018/19 fiscal year. Each consultation may include multiple communications by email, phone, meetings, and/or field visits. No application determination was found by a Court or Independent Tribunal to have been made in breach of the Commission's duty to consult with First Nations.

## Objective 2.2: Stakeholder and community concerns are considered in delivery of the Commission’s mandate.

### Key Highlights:

- There was significant progress on stakeholder engagement in 2018/19 including the establishment of a community working group in northeast B.C. to address issues experienced by rural communities
- Public information sessions were held with local land owners; webinars held on key topics related to the oil and gas industry and how it’s regulated; and introduction of a mediation service which aims to resolve issues between land owners and companies
- All activities that caused seismic events with a magnitude of at least 4.0+ were immediately suspended

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
2.2a Per cent of operations which caused seismic events with a magnitude of 4.0 or higher, which were immediately suspended <sup>1</sup>	100%	100%	100%	100%	100%	100%
2.2b Satisfaction level on how well the Commission is engaging stakeholders and Indigenous groups <sup>2</sup>	74.3%	85%	75%	76%	75%	75%

<sup>1</sup> Data Source: Seismic events are from the Natural Resources Canada (NRCAN) earthquake database. Suspended activities are tracked internally.

<sup>2</sup> Data Source: The surveys are given to a wide range of stakeholders throughout the province and are conducted and rolled out by an external third party. The results are tracked and analyzed internally.

### Discussion

Both targets for 2018/19 were achieved under Objective 2.2. With regards to the first measure, note there were two magnitude 4.0+ events on the same day in November, 2018 that were related to one well pad. The well was immediately suspended following the first event and the second event occurred after the suspension.

Regarding the second measure, a new, expanded survey was used and focused on northeast and northwest B.C. land owners, which has impacted the 2018/19 results achieved relative to 2017/18. The response scale in both surveys was the same. The result is an average of those rating the Commission as “excellent/good” for being polite and respectful, communicating in a way those surveyed understood, addressing their questions or concerns in a timely manner and providing them with accurate information. The Indigenous Groups survey will be a separate undertaking in 2019/20 to allow for more specific questions.

## Goal 3: Conserve the Environment

### Objective 3.1: Environmental values and attributes are sustained.

#### Key Highlights:

- Government policy development has been supported by the Commission to make sure environmental values are defined and incorporated into the Commission's regulatory framework
- The framework for Geothermal Operations Regulation was improved
- OGAA was amended with Bill 56 to improve Offsite Environmental Mitigation (OEM) and create a public complaint mechanism for Methane
- Provided expertise to the scientific panel reviewing hydraulic fracturing

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
3.1a Per cent of designated riparian, old growth and wildlife species areas meeting intactness targets for their ecosystem values <sup>1</sup>	87%	87%	87%	86%	90%	91%
3.1b Surface water withdrawn as a per cent of total water used in hydraulic fracturing <sup>2</sup>	35%	55%	35%	47%	35%	35%

<sup>1</sup> Data Source: Internal land use and monitoring data through Area-based Analysis (ABA). The ABA system geographic information systems data is continuously updated by the Commission, Ministry databases and partner agencies. Riparian ecosystems include the space around water sources, old growth ecosystems include trees that are more than 100 years old, and wildlife ecosystems include areas identified by government as requiring customized operations.

<sup>2</sup> Data Source: Data is reported by the industry to the Commission. The numerator includes total surface fresh water withdrawn under licenses and permits in northeast B.C. (NEBC), for oil and gas related activities. The majority of water withdrawn is utilized for hydraulic fracture stimulation; however, use may also include limited volumes for hydro pressure testing, waterflood oil recovery, etc. The denominator includes the total water utilized for hydraulic fracture stimulation in NEBC. Hydraulic fracture water sources include: surface fresh water, deep saline sourced water, shallow fresh water wells, municipal grey water, and recycled hydraulic fracture fluid held at surface and 3rd party water purchase.

## Discussion

The two measures under Goal 3 were not achieved. With regards to the first measure, the level of intactness is calculated for each individual riparian area, old growth management area and wildlife area, and used to adjudicate the potential impact of additional disturbance associated with a permit application. While the Commission makes efforts to limit oil and gas activity levels in areas not meeting intactness targets for their ecosystem values, this performance measure also captures industrial disturbances approved by other Ministries beyond the Commission's control. As such,

this performance measure was redefined in the 2019/20 – 2021/22 Service Plan to focus solely on activities for which the Commission is accountable and as a result, the forward looking targets reflect improvements over time.

The second measure was not achieved, however it should be noted that the percentages shown are a proxy and do not account for storage or recycling and is not representative of the amount of freshwater used in fracturing operations. This measure was replaced in the 2019/20-2021/22 Service Plan by one that is more accurate and meaningful “Per cent of available freshwater withdrawn for oil and gas activities”.

## **Goal 4: Support Responsible Resource Development**

### **Objective 4.1: Potential liabilities associated with resource development are mitigated.**

#### **Key Highlights:**

- The Commission developed the regulatory framework for orphaned sites and end of life obligations pursuant to Bill 15
- The Commission created the Orphan Levy to bring OGAA amendments into effect
- A new Orphans and Liabilities work unit was established and is dedicated to liability management, orphans and insolvencies and has been part of the interprovincial liabilities working group

<b>Performance Measure(s)</b>	<b>2016/17 Actuals</b>	<b>2017/18 Actuals</b>	<b>2018/19 Target</b>	<b>2018/19 Actuals</b>	<b>2019/20 Target</b>	<b>2020/21 Target</b>
4.1a Number of orphan sites restored <sup>1</sup>	2	6	3	4	15	20

<sup>1</sup> Data Source: Internally monitored and tracked liability and asset management data.

## **Discussion**

As of March 31, 2019, four sites were restored to meet the required restoration standards with work on a number of other sites well underway. The targets are increasing in the following years as work on the targeted sites is well underway. The cost to restore sites varies greatly from \$30,000 to upwards of \$250,000 depending on site condition and status of restoration work completed. A wellsite that requires abandonment and restoration work near Fort St. John may cost approximately \$130,000.

## Goal 5: Organizational Excellence

### Objective 5.1: The Commission continuously improves.

#### Key Highlights:

- A Leadership Development Framework was developed and implemented to grow leadership capabilities and promote staff development
- A Management Accountability Framework was implemented to streamline internal reporting and assist with business planning and prioritizing
- Employees continued to have access to opportunities to grow through internal promotions (33 per cent of vacancies were filled by internal staff), training and development
- Amendments to the Drilling and Production Regulation and Fee Levy Security Regulation were made to support the implementation of Petrinex (integrated database)

Performance Measure(s)	2016/17 Actuals	2017/18 Actuals	2018/19 Target	2018/19 Actuals	2019/20 Target	2020/21 Target
5.1a Per cent of stakeholders who agree that when they access the Commission's website, they can find the information they are looking for	53%	72%	65%	67%	75%	85%

<sup>1</sup> Data Source: The surveys are conducted and rolled out by an external third party and the results are tracked and analyzed internally.

#### Discussion

This performance measure was achieved and future targets have increased as minor improvements to the Commission's website have been made. The results are based on the new, expanded survey (with the same rating scale) focused on northeast and northwest B.C. land owners, which has impacted the 2018/19 results achieved relative to 2017/18. The results reflect the percentage of those who rated us "excellent/good" that when visiting the website, it was easy to find the information they were looking for.

## **Financial Report**

### **Discussion of Results**

The Commission is reporting an annual surplus from operations of \$9.2 million, but an overall deficit of \$4.1 million after accounting for estimated accrued liabilities for the Orphan Site Reclamation Fund (OSRF).

The net deficit from the OSRF is due to an additional 29 sites being added to the fund, which increased the year over year liability for orphan sites by \$7.5 million from \$33.1 million to \$40.6 million. As of March 31, 2019, there were 346 orphan sites. Additional liability included an increase in security from industry, held by the Commission to fund potential orphan sites. The Commission continues to apply industry levy funding and security towards reclaiming orphan sites within 10 years.

Capital spend during the year was \$6.6 million versus budget of \$7.4 million, as some projects were delayed or deferred.

### **Highlights**

- Operating Surplus of \$9.2 million, \$1.4 million more than budget
- Revenue was \$1.1 million more than budget
- Operating expenses were \$300,000 less than budget
- \$13 million OSRF deficit, \$5.2 million more than budget
- Increased industry production levy to help offset Orphan site costs

## Resource Summary

\$ thousands	2017/18 Actual	2018/19 Budget	2018/19 Actual	2018/19 Variance
<b>Operations</b>				
<b>Operating revenue</b>				
Industry Levies	39,495	43,800	43,476	(324)
Application Fees and Misc.	21,736	15,000	16,420	1,420
<b>Total revenue from operations</b>	<b>61,231</b>	<b>58,800</b>	<b>59,896</b>	<b>1,096</b>
<b>Operating expenses</b>				
Salaries and Benefits	26,086	27,400	28,191	791
Other Operating	20,788	18,600	18,234	(366)
Amortization	4,166*	5,000	4,293	(707)
<b>Total expenses from operations</b>	<b>51,040</b>	<b>51,000</b>	<b>50,718</b>	<b>(282)</b>
<b>Net surplus from operations</b>	<b>10,191</b>	<b>7,800</b>	<b>9,178</b>	<b>1,378</b>
<b>Orphan Site Reclamation Fund (OSRF)</b>				
<b>OSRF revenue</b>				
Industry Levies	1,521	1,500	5,633	4,133
Security Deposits, Interest	2,503	200	2,061	1,861
<b>Total revenue from OSRF</b>	<b>4,024</b>	<b>1,700</b>	<b>7,694</b>	<b>5,994</b>
<b>OSRF expenses</b>				
<b>Orphan designations and admin</b>	<b>14,741</b>	<b>500</b>	<b>11,424</b>	<b>10,924</b>
<b>Reclamation</b>	<b>2,288</b>	<b>9,000</b>	<b>9,586</b>	<b>586</b>
<b>Total expenses from OSRF</b>	<b>17,029</b>	<b>9,500</b>	<b>21,010</b>	<b>11,510</b>
<b>Net deficit from OSRF</b>	<b>(13,005)</b>	<b>(7,800)</b>	<b>(13,316)</b>	<b>(5,516)</b>
<b>Annual Consolidated Deficit</b>	<b>(2,814)</b>	<b>-</b>	<b>(4,138)</b>	<b>(4,138)</b>
<b>Additional Information</b>				
<b>Capital Expenditures</b>	<b>4,086</b>	<b>7,400</b>	<b>6,579</b>	<b>(821)</b>
<b>Total Liabilities</b>	<b>79,430</b>	<b>70,000</b>	<b>93,911</b>	<b>23,911</b>
<b>Accumulated surplus</b>	<b>22,435*</b>	<b>16,088</b>	<b>18,297</b>	<b>2,209</b>

\*Restated

## **Variance & Trend Analysis**

Total revenue from operations was \$59.9 million, compared to the budget of \$58.8 million. The increase over budget is a result of increased in application fee volume.

Commission operating expenses were \$50.7 million, slightly less than \$51.0 million budgeted due to operating and amortization savings.

The requirement to recognize the liability at the time orphan sites are declared results in OSRF expenses continuing to impact the Commission's ability to balance its budget. The deficit from the OSRF in 2018/19 is due to the bankruptcy of three companies.

The Commission raised the industry gas and oil production levy in October 2018 to raise funds OSRF, accounting for the budget variance in industry levies revenue.

The OSRF 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 or reclamation of orphaned sites.



**Audited Financial Statements**  
**March 31, 2019**



## Statement of Management Responsibility

The financial statements of the BC Oil and Gas Commission (the “Commission”) for the year ended March 31, 2019 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 Office of 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**

July 24, 2019

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 Energy, Mines and Petroleum Resources, Province of British Columbia*

### ***Opinion***

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, 2019, and the statements of operations and accumulated surplus, changes in net debt and cash flows, and a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at March 31, 2019, and the results of its operations, change in its net debt, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards (PSAS).

### ***Basis for Opinion***

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the entity in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### ***Other Accompanying Information***

Management is responsible for the other information. The other information comprises the information included in the Oil and Gas Commission 2018/19 Annual Service Plan Report, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information accompanying the financial statements and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information that I have obtained prior to the date of my auditor's report and, in doing so,

consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained during the audit or otherwise appears to be materially misstated. Prior to the date of my auditor's report, I obtained the Oil and Gas Commission 2018/19 Annual Service Plan Report. If, based on the work I have performed on this other information, I conclude that there is a material misstatement therein, I am required to report that fact in this auditor's report. I have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements.***

Those charged with governance are responsible for the oversight of the financial reporting process. Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting when the entity will continue its operations for the foreseeable future.

### ***Auditor's Responsibilities for the Audit of Financial Statements***

My objectives are to obtain reasonable assurance about whether the entity's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of



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

expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Stuart Newton, CPA, CA  
Deputy Auditor General


Victoria, British Columbia, Canada  
July 25, 2019

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

	Note	March 31 2019	March 31 2018 as restated (Note 2)
<b>Financial assets</b>			
Cash		\$ 12,962	\$ 5,509
Investments	3,4	54,828	51,219
Accounts receivable	5	16,272	15,617
Due from government	6	3,121	6,981
		<u>87,183</u>	<u>79,326</u>
<b>Liabilities</b>			
Accounts payable & accrued liabilities	7	3,944	3,148
Employee future benefits	8	693	605
Due to Indigenous communities	9	220	115
Due to government		594	319
Deferred revenue	10	1,559	1,907
Deferred lease inducements		488	87
Liability for orphan sites	11, 15	40,588	33,054
Security deposits	4	45,824	40,195
		<u>93,910</u>	<u>79,430</u>
<b>Net financial debt</b>		<u>(6,727)</u>	<u>(104)</u>
<b>Non-financial assets</b>			
Tangible capital assets	12	24,110	21,825
Prepaid expenses		914	714
		<u>25,024</u>	<u>22,539</u>
<b>Accumulated surplus</b>		<u>\$ 18,297</u>	<u>\$ 22,435</u>
Contractual obligations	13		
Contingent liabilities	14		
Measurement uncertainty	15		

The accompanying notes are an integral part of these statements.

Approved on behalf of the Board

  
Dave Nikolejsin, Board Chair

  
Paul Jeakins, Commissioner

  
Chris Hayman CPA, CA  
Audit Committee Chair

BC Oil and Gas Commission			March 31	March 31
Statement of Operations and Accumulated Surplus			2019	2018
(in \$000s)				as restated
	Note	Budget 2019		(Note 2)
		(Note 18)		
<b>Revenues</b>				
Production levies		\$ 40,200	\$ 43,733	\$ 35,861
Orphan site restoration tax		1,700	1,688	1,521
Annual pipeline levies		3,600	3,688	3,634
Fees		14,000	14,993	17,545
Grants from province		-	-	3,215
Interest		900	1,436	983
Remediation recoveries		-	1,871	2,372
Other revenue		100	181	124
		60,500	67,590	65,255
<b>Expenses</b>				
Oil and gas activities regulation	17	51,000	50,718	51,040
Orphan site reclamation fund	17	9,500	21,010	17,029
		60,500	71,728	68,069
<b>Annual deficit</b>				
		-	(4,138)	(2,814)
<b>Accumulated surplus, beginning of year</b>				
		22,435	22,435	25,249
<b>Accumulated surplus, end of year</b>				
		\$ 22,435	\$ 18,297	\$ 22,435

The accompanying notes are an integral part of these statements.

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

	Budget 2019	March 31 2019	March 31 2018
	(Note 18)		
Annual deficit	\$ -	\$ (4,138)	\$ (2,814)
Acquisition of tangible capital assets	(7,400)	(6,578)	(4,086)
Disposals of tangible capital assets	-	-	119
Amortization of tangible capital assets	5,000	4,293	4,166
	(2,400)	(2,285)	199
Acquisition of prepaid expense	-	(200)	(10)
Decrease in net financial assets	(2,400)	(6,623)	(2,625)
Net financial (debt)/assets, beginning of year	(104)	(104)	2,519
Net financial (debt), end of year	<u>\$ (2,504)</u>	<u>\$ (6,727)</u>	<u>\$ (104)</u>

The accompanying notes are an integral part of these statements.

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

	March 31 2019	March 31 2018
<b>Operating transactions</b>		
<b>Cash generated from:</b>		
Production levies	\$ 46,701	\$ 35,993
Annual pipeline levies	3,634	3,917
Fees	14,028	16,811
Interest	1,436	983
Grant from province	-	175
Miscellaneous and recoveries	4,648	2,320
Security deposits	9,098	20,318
	<b>79,545</b>	<b>80,517</b>
<b>Cash used for:</b>		
Salaries and benefits	(28,087)	(26,205)
Payments to Indigenous communities	(5,837)	(4,549)
Operating expenses	(11,366)	(16,508)
Orphan site reclamation	(13,146)	(5,691)
Security deposits refunded	(1,598)	(11,138)
Security deposits transferred to revenue	(1,871)	(2,372)
	<b>(61,905)</b>	<b>(66,463)</b>
<b>Cash from operating activities</b>	<b>17,640</b>	<b>14,054</b>
<b>Capital transactions</b>		
Cash used to acquire tangible capital assets	(6,578)	(4,086)
<b>Investing transactions</b>		
Investments in portfolio investments	(3,609)	(15,219)
<b>Increase (decrease) in cash</b>	<b>7,453</b>	<b>(5,251)</b>
<b>Cash beginning of year</b>	<b>5,509</b>	<b>10,760</b>
<b>Cash end of year</b>	<b>\$ 12,962</b>	<b>\$ 5,509</b>

The accompanying notes are an integral part of these statements.

## 1. The Oil and Gas Commission

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

The Commission is funded through:

- Levies on oil and gas production;
- Fees charged in respect of permit applications, transfers and amendments; 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 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%
Business systems development	10% - 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.

### Production levies and Orphan Site Restoration tax

All production levy and Orphan Site Restoration tax 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. These revenue sources are calculated based on production of oil and gas, and are also recognized as revenue at point of production.

Revenue from the Orphan Site Restoration tax is internally restricted by legislation for the restoration of orphaned sites. Production levies can be used to fund operations or orphaned sites.

### Annual pipeline levies

Annual pipeline levies are billed and recognized based on length and diameter 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. 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 benefits – employee benefit plan

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.

## 2. Significant accounting policies (continued)

### Employee future benefits – 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, 2019 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.

### 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 restoration of contaminated sites is recognized when the Commission accepts responsibility for the restoration 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.

### Change in accounting policy

Previously, the Commission amortized other business systems development on a straight-line basis over a three year useful life.

However, the Commission has increased the useful life of other business systems development to five years. Certain legacy systems due for replacement will continue to be amortized over a three year useful life. Management has determined this change will better reflect the expected useful life of the assets. The change in accounting policy is applied retrospectively and there was an effect on the statement of financial position as at March 31, 2018 and the statement of operations and accumulated surplus for the financial year then ended.

	Previously stated March 31, 2018	Adjustment	Restated March 31, 2018
<b>Statement of Financial Position</b>			
Non-financial assets			
Tangible capital assets	\$ 21,688	\$ 137	\$ 21,825
Accumulated surplus	22,298	137	22,435
<b><u>Statement of Operations and Accumulated Surplus</u></b>			
Amortization	4,207	(41)	4,166

### 3. Investments

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

Investment funds are pooled from the following sources:

	March 31 2019	March 31 2018
Security deposits - Liability Management Rating program (note 4)	\$ 50,708	\$ 39,219
Orphan site reclamation fund (note 11)	4,120	12,000
	<b>\$ 54,828</b>	<b>\$ 51,219</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 \$140,634 (2018: \$136,321) in security deposits, of which \$45,825 (2018: \$40,195) is held in cash and/or investments and \$94,809 (2018: \$96,037) 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 restoration obligations. In fiscal 2019, the Commission recovered \$1,871 (2018: \$2,373) from security deposits to satisfy restoration obligations of permit holders for orphan sites.

### 5. Accounts receivable

	March 31 2019	March 31 2018
Production levies receivable	\$ 9,768	\$ 10,074
Annual pipeline levies receivable	3,688	3,634
Fees	2,090	1,473
Other receivables	726	436
	<b>\$ 16,272</b>	<b>\$ 15,617</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, and a portion is payable by the Province (note 6).

## 6. Due from Government

	March 31 2019	March 31 2018
Levies collected	2,763	3,737
Recoveries and other	358	3,244
	<b>\$ 3,121</b>	<b>\$ 6,981</b>

## 7. Accounts payable and accrued liabilities

	March 31 2019	March 31 2018
Accounts payable and accrued liabilities	1,473	1,022
Salaries and benefits payable	2,471	2,126
	<b>\$ 3,944</b>	<b>\$ 3,148</b>

### Employee leave entitlements

As of March 31, 2019, 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 \$870 (2018: \$811). 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 benefits. Basic pension benefits are based on a formula. The plan has approximately 61,900 active plan members, 47,900 retired plan members, and 17,500 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, 2017, indicated a funding surplus of \$1.896 billion 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, 2019 for employer contributions was \$2,282 (2018: \$2,298).

## 8. Employee future benefits (continued)

### Future retirement allowance liability

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

	March 31 2019	March 31 2018
<b>Accrued retirement obligation</b>		
Balance at beginning of year	\$ 605	\$ 257
Current benefit cost	58	48
Interest	30	20
Amortization of actuarial loss	24	21
Plan amendment	-	259
Benefits paid	(24)	-
<b>Balance at end of year</b>	<b>\$ 693</b>	<b>\$ 605</b>
<b>Actuarial retirement obligation</b>		
Accrued benefit obligation	\$ 693	\$ 605
Unamortized actuarial loss	284	294
<b>Balance at end of year</b>	<b>\$ 977</b>	<b>\$ 899</b>

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

	2019	2018
Discount rate	3.10%	3.30%
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 14 years at March 31, 2019 (2018: 14 years).

#### **9. Due to Indigenous communities**

Due to Indigenous communities includes management's best estimate of expected liability to a number of Indigenous communities. The Commission works closely with Indigenous communities and negotiates consultation agreements and Memoranda of Understanding to establish formal consultation processes for oil and gas activities. These agreements provide resources for Indigenous communities' 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 Indigenous communities.

## 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 year	Transferred to revenue	Balance at end of year
Fees	\$ 1,907	14,645	(14,993)	\$ 1,559

## 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 restoration of orphaned oil and gas sites and for related costs. Revenue for the OSRF is derived from production levies, the Orphan Site Restoration tax and security deposits. Effective April 1, 2019, Bill 15 (Energy, Mines and Petroleum Resources Statutes Amendment Act, 2018, S.B.C 2018 c.15, ("the Act")), was enacted and the Oil and Gas Activities Act was amended to provide the ability to secure funds for orphan site restoration, when and as they are required, by replacing the orphan site restoration tax with a levy to be paid by BC regulated companies based on their share of the potential restoration costs in the province.

The OSRF has assets of \$7,895 (2018: \$13,326) to pay for costs associated with orphan sites. During the year, the number of designated orphan sites increased from 307 to 346 as a result of the insolvency of three companies. Of the designated sites, 21 have been fully restored, with the remainder to undergo restoration as resources permit. The Commission continues to monitor other potential orphan sites.

The Commission determined the liability for orphan sites based on the Commission's obligation to ensure public and environmental safety. The liability reflects the costs required to bring the sites up to a standard where the environment and the public are protected. The 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. Additional potential liability for orphan sites could result from contingencies for delays due to weather, problematic plugging activities, or unforeseen sources of contamination. These factors are estimated based on site characteristics and are disclosed in the measurement uncertainty note.

The estimation of the liability does not include discretionary reclamation costs. Full reclamation costs for designated orphan sites is estimated to be in the range of \$74,000 to \$107,000.

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, 2019**

	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Vehicles	Other Business Systems	Application Management System	Computer Software	Total
<b>Cost</b>									
Opening balance	\$ 6,275	\$ 3,212	\$ 2,526	\$ 1,447	\$ 1,541	\$ 3,608	\$ 16,605	\$ 815	\$ 36,029
Additions	1,620	833	677	234	200	1,788	1,226	-	6,578
Disposals	(1,491)	-	-	-	-	-	-	-	(1,491)
Closing balance	\$ 6,404	\$ 4,045	\$ 3,203	\$ 1,681	\$ 1,741	\$ 5,396	\$ 17,831	\$ 815	\$ 41,116
<b>Accumulated amortization</b>									
Opening balance	\$ 4,393	\$ 1,662	\$ 1,813	\$ 476	\$ 473	\$ 1,925	\$ 2,841	\$ 621	\$ 14,204
Amortization	628	346	466	185	136	655	1,764	113	4,293
Disposals	(1,491)	-	-	-	-	-	-	-	(1,491)
Closing balance	\$ 3,530	\$ 2,008	\$ 2,279	\$ 661	\$ 609	\$ 2,580	\$ 4,605	\$ 734	\$ 17,006
Net book value	\$ 2,874	\$ 2,037	\$ 924	\$ 1,020	\$ 1,132	\$ 2,816	\$ 13,226	\$ 81	\$ 24,110

**March 31, 2018**

	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Vehicles	Other Business Systems	Application Management System	Computer Software	Total
<b>Cost</b>									
Opening balance	\$ 6,189	\$ 3,168	\$ 2,035	\$ 1,146	\$ 1,667	\$ 2,649	\$ 14,615	\$ 690	\$ 32,159
Additions	130	44	491	302	43	959	1,990	125	4,084
Disposals	(44)	-	-	(1)	(169)	-	-	-	(214)
Closing balance	\$ 6,275	\$ 3,212	\$ 2,526	\$ 1,447	\$ 1,541	\$ 3,608	\$ 16,605	\$ 815	\$ 36,029
<b>Accumulated amortization</b>									
Opening balance	\$ 3,900	\$ 1,345	\$ 1,194	\$ 279	\$ 415	\$ 1,204	\$ 1,251	\$ 545	\$ 10,133
Amortization	505	317	619	197	141	721	1,590	76	4,166
Disposals	(12)	-	-	-	(83)	-	-	-	(95)
Closing balance	\$ 4,393	\$ 1,662	\$ 1,813	\$ 476	\$ 473	\$ 1,925	\$ 2,841	\$ 621	\$ 14,204
Net book value	\$ 1,882	\$ 1,550	\$ 713	\$ 916	\$ 1,068	\$ 1,546	\$ 13,764	\$ 249	\$ 21,825

Included in the net book value of other systems development are assets not being amortized of \$216 (2018: \$309) as they have not yet been completed and 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.

	2020	2021	2022	2023	2024	Thereafter
\$	4,606	\$ 4,030	\$ 3,931	\$ 3,937	\$ 3,967	\$ 16,731

The Commission is committed under Indigenous communities agreements to make certain payments in the coming years 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 Note 11 regarding potential reclamation costs related to the Orphan Site Reclamation Fund.

### 15. 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 restoration and estimated employee future benefits. Actual results could differ from these estimates.

	Reported	Low	High
<b>Liability for orphan sites</b>	40,588	32,847	52,011

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.

## 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.

The financial statements include the following transactions with related parties of the Province of British Columbia:

	March 31 2019	March 31 2018
<b>Revenues:</b>		
Recoveries	\$ 80	\$ 3,215
Miscellaneous	165	149
	<b>\$ 245</b>	<b>\$ 3,364</b>
<b>Expenses:</b>		
Salaries and benefits	\$ 916	\$ 878
Building occupancy	189	238
Professional services and training	490	855
Grants	-	3
Telecommunications and information systems	189	209
Travel and vehicle costs	25	-
Office supplies and equipment	33	68
	<b>\$ 1,842</b>	<b>\$ 2,252</b>

In addition, the Commission is related to the BC Oil and Gas Research and Innovation Society (BC OGRIS) by virtue of a member of the Commission's senior management serving on the board of directors of BC OGRIS.

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**17. Expense by Object**

	Oil and Gas Activities Regulation	Orphan Site Reclamation Fund	March 31 2019	March 31 2018 as restated (Note 2)
Salaries and benefits	28,191	329	28,520	26,334
Indigenous communities	5,942	-	5,942	4,326
Building occupancy	5,004	-	5,004	4,522
Professional services and training	2,181	-	2,181	1,919
Amortization	4,293	-	4,293	4,166
Travel and vehicle costs	2,237	-	2,237	1,714
Telecommunications and information systems	2,186	-	2,186	2,126
Grants	77	-	77	5,579
Orphan site reclamation	-	20,680	20,680	16,780
Office supplies and equipment	546	-	546	514
Miscellaneous	61	1	62	89
	<b>\$ 50,718</b>	<b>\$ 21,010</b>	<b>\$ 71,728</b>	<b>\$ 68,069</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 February 28, 2018.

**19. Comparative figures**

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

**20. Financial risk management**

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

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

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

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

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

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