

BC Oil and Gas Commission

2020/21 Annual Service Plan Report



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Board Chair's Accountability Statement



The *BC Oil and Gas Commission 2020/21 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2020/21 – 2022/23 Service Plan* created in February 2020. I am accountable for those results as reported.

A handwritten signature in black ink, appearing to read 'Fazil Mihlar', written in a cursive style.

Fazil Mihlar
Board Chair
July 16, 2021

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Letter from the Board Chair & CEO

We are pleased to present the 2020/21 Service Plan Annual Report and commend the BC Oil and Gas Commission (Commission) for its resilience and innovation as it delivered on its strategic goals and maintained all operations and emergency services despite the challenges posed by the COVID-19 pandemic.

In the 2020/21 fiscal year, the Commission built and strengthened relationships with Indigenous Nations by working with Indigenous communities on reclamation and restoration activities in northeast B.C. This included working with First Nations and Indigenous service providers to identify and restore orphan sites and engaging on restoration guideline development. Funding of the Indigenous Education Program (IEP) also continued, which is a partnership with Indigenous peoples, industry, and post-secondary and training institutions, providing opportunities to build skills and knowledge through a variety of programming.

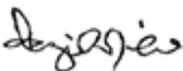
Under the Comprehensive Liability Management Plan, the pace of restoration continued to accelerate with closure activities occurring at over 2,100 sites. A new corporate health model was introduced early in 2020 to be responsive to changing industry risks and ensure operators have the financial means to complete restoration. The Commission also advanced the decommissioning and restoration of orphan sites – wells, facilities, pipelines and associated areas where an oil and gas company is declared bankrupt, or cannot be located – with a three-fold increase in spending over previous years, and 117 orphan sites now substantially restored.

The Commission enhanced its engagement activities as directed by the Mandate Letter, establishing a Regional Networking Group in June 2020 where information is shared, and feedback encouraged with a range of northeast stakeholders. Regular webinars were conducted for the public on a range of timely topics specific to the oil and gas sector and there was ongoing and active outreach to land owners, and local and regional governments. A new bi-annual newsletter “The Community Connector” was launched in June 2020, and provides updates on some of the key happenings around the Commission direct to land owners. All of these initiatives build trust and ensured the sharing of relevant information on matters affecting stakeholders.

Finally – the Commission, as part of the B.C. Oil and Gas Methane Emissions Research Collaborative, established a two-year plan to advance research on methane emissions from oil and gas activity. The joint initiative with industry, government, the regulator and non-profits supports B.C.’s methane emission reduction targets.

These are just some of the highlights from a productive year the Commission had as it adapted to a new working model, demonstrating its effectiveness during a time of unprecedented change precipitated by the pandemic. We are proud of the work of these public servants who are entrusted to provide safe and responsible energy resource development for British Columbia.

Fazil Mihlar



Board Chair
July 16, 2021

Paul Jeakins



Chief Executive Officer
July 16, 2021

Purpose of the Annual Service Plan Report

The Annual Service Plan Report 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 year's Service Plan.

Purpose of the Organization

Under the [Oil and Gas Activities Act](#) (OGAA), and the [Geothermal Resources Act](#) (GRA), the BC Oil and Gas Commission is a single-window regulatory agency with responsibilities for overseeing oil, gas and geothermal operations in British Columbia. The Commission oversees activities from exploration and development, to pipeline transportation and reclamation.

Strategic Direction

The strategic direction set by government in 2017, and expanded upon in the [2020 Mandate Letter](#) from the Minister of Energy, Mines and Low Carbon Innovation (EMLI), shaped the goals, objectives, performance measures and financial plan outlined in the [2020/21 BC Oil and Gas Commission Service Plan](#) and actual results reported in this annual report.

The global COVID-19 pandemic resulted in many shifts in priorities, structures and operations across the public sector. Any changes to BC Oil and Gas Commission goals, objectives, performance measures or financial plan to align with the strategic direction established by government in late 2020 are presented in the 2021/22 Service Plan.

Operating Environment

The Commission regulates a diverse set of activities at over 35,000 site locations in B.C. During the fiscal year, the Commission approved over 600 applications that included new activities to be developed and the inventory of primary activities being regulated grew by 310 wells, 171 km of pipeline, and seven major facilities. During 2020/21, interest in geothermal energy development advanced, with expressions of interest in new (Clarke Lake, Ladyfern) and previously known geothermal areas (Meager Creek). As the scope of activity regulated grew, the Commission continued to advance key strategic initiatives focused on protecting public safety, safeguarding the environment, supporting responsible resource development, and respecting those affected.

The Commission – like all individuals and organizations – faced the challenges presented by the COVID-19 pandemic during 2020/21. Leveraging existing and new technology solutions, the Commission quickly shifted its workforce to 'work from home' and adjusted field operations to ensure adequate safety and social distancing. Direct engagement with industry was heightened to ensure public and environmental safety were paramount and uncompromised. New practices were adopted to ensure field operations continued (e.g. using remote field inspections via video conferencing and drone technology) and the Commission supported the Provincial pandemic response by conducting inspections at work camps on behalf of the Ministry of Health.

The industries the Commission regulates were also forced to adapt operations – navigating restrictions on worker travel, maintaining operations and work camps safely and socially distanced, as well as facing continued volatility in energy markets. Although the pandemic affected workforce deployment, construction continued on the LNG Canada facility and the associated Coastal GasLink (CGL) pipeline.

Energy markets impact industry activity levels, which in turn affect Commission operations through application and industry activity volumes, among other factors. Although the general trend of market volatility continued, North American natural gas prices strengthened over the fiscal year linked to reduced associated natural gas production from U.S. oil wells due to lower oil prices early in 2020/21. The first half of 2020/21 saw B.C. natural gas drilling activity decline, reflecting a decrease in new well completion due to COVID-19 restrictions and softening demand. However, B.C. drilling and production increased over the latter half of the year, with production on pace for new record levels.

Challenging economic times, like those presented by the pandemic and volatile energy markets, can present risks to operator financial health. In 2020/21 the Commission continued its multifaceted Comprehensive Liability Management Plan strategic initiative, which is focused on mitigating public and environmental risks associated with aging infrastructure, operator insolvencies and orphaned sites. Implementation of the 2019 Dormancy and Shutdown Regulation continued to be a key initiative. The regulation imposes timelines for the restoration of oil and gas wells and both restoration activity and restoration timelines have accelerated as a result. At the end of fiscal year 2020/21, there were approximately 8,491 dormant sites in the province, of which 2,706 are at different phases of closure by operators. These changes have also resulted in a record number of abandonment programs being undertaken by operators to ensure wells are safely shut in.

Due to operator insolvencies during the fiscal year, the population of orphan sites increased by 413 to 769 in 2020/21, of which 117 are substantially restored. The new Orphan Site Restoration Levy, which is funded by operators and used to restore orphan wells and operating areas, was in its second year of a three-year phase in, in 2020/21. Orphan wells in the province make up just over one per cent of all oil and gas wells in B.C. Supported by federal stimulus funding during the COVID-19 pandemic, the Commission received an additional \$15 million to implement the Orphan Site Supplemental Reclamation Program. This additional one-time funding meant the Commission was able to oversee the restoration of 61 orphan sites in 2020/21, 36 above the target of 25.

Public interest in all aspects of the Commission’s business continued to rise. The Commission worked to ensure Indigenous communities, stakeholders and the public were aware of, had confidence in, and were provided opportunities to engage in the work of the Commission. Through the Stakeholder Relations strategic initiative, significant effort was dedicated to public engagement through direct outreach to land owners and local governments, webinars and other communication efforts. Advancing the Indigenous Relations strategic initiative is a top priority for the Commission. Through this work the organization has continued to strengthen its partnership approach with Indigenous communities in many areas of its operations, including

restoration, compliance management and incident response. The Commission was fully engaged with and proactively supported the Province on the implementation of the *Declaration on the Rights of Indigenous Peoples Act* (DRIPA).

Protecting the environment and mitigating climate impacts is of paramount importance. The Commission has forged numerous working relationships with government ministries and agencies on several environmental initiatives including methane reduction and research initiatives, implementation planning for legacy sites restoration, and provision of ongoing support for evolving provincial land use planning and protected area initiatives (e.g., the Regional Strategic Environmental Assessment project, and Legacy Sites Restoration Memorandum of Understanding). The Commission worked closely with both the Climate Action Secretariat and the Ministry of Energy, Mines and Low Carbon Innovation to implement sector specific actions to ensure alignment with CleanBC, including regulatory enhancements and targeted compliance programs.

The rate of innovation within the Commission's mandate remained constant, leading to changes in the activities and practices being regulated. As a learning organization, the Commission continued to focus on ensuring its professional workforce and regulatory framework adapt and stay ahead of advances in industry practices. The Commission kept current by working closely with other regulatory bodies and industry standards development organizations, including the Western Regulators' Forum, the Interstate Oil and Gas Compact Commission, the International Standards Organization and the Canadian Standards Association, among others.

Report on Performance: Goals, Objectives, Measures and Targets

Goal 1: Protect Public Safety

Objective 1.1: Public safety related issues are understood and mitigated to prevent incidents

Key Highlights

- Successfully created and implemented COVID-19 safety protocols for field work and developed remote inspection and emergency management exercise evaluation capabilities for use when travel to sites was not possible due to COVID-19.
- Inspected oil and gas industrial camps for compliance with COVID-19 safety requirements on behalf of the Ministry of Health.
- As part of enhancement of the corporate Compliance Management System, developed and implemented a new information system to support enforcement case file management.
- 100 per cent of high priority corrective actions identified by integrity management program audits were addressed and closed out within the fiscal year.
- Enhanced public access and transparency to compliance and enforcement information through posting all Commission actions to the Natural Resources Compliance and Enforcement Database and the Commission's website.

Performance Measure(s)	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
1.1a Minimum number of inspections completed annually	4,723	4,450	4,947	4,450	4,450
1.1b Overall inspection compliance rate	99.7%	100%	99.3%	100%	100%

Data source: Internally monitored and tracked inspection and compliance rate data.

Discussion of Results

The target for measure 1.1a was exceeded and reflects the Commission's efforts to inspect industry and ensure activities are done in compliance with regulations. Inspections cover aspects of the regulatory framework, 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 in fiscal year 2020/21 benefited from enhanced inspection resources associated with the Commission's implementation of the Dormant Sites Regulation.

The target for measure 1.1b was substantially met, with a slight variance of 0.7 per cent due to deficiencies that were outstanding at the end of the fiscal year. The overall inspection compliance rate incorporates all compliant inspections plus inspections with deficiencies corrected within the required timelines. This combined rate provides a comprehensive indicator of the overall effectiveness of the Commission's compliance management functions. Where

deficiencies exist, the Commission takes enforcement action to achieve compliance in a manner consistent with the regulatory framework.

Objective 1.2: The public is safe from harm should an incident occur

Key Highlights

- Implemented an online tool for remote evaluation of permit holder emergency response exercises for COVID-19 safety.
- In partnership with Emergency Management BC, continued to support enhanced emergency response capacity within Indigenous communities that have Commission-regulated activities nearby.
- Implemented enhanced incident communications process for Indigenous nations, building on the Aboriginal Liaison Program.
- Participated in federal cyber incident training and exercise opportunities to support identifying and mitigating risks to industry operations.

Performance Measure(s)	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
1.2a Per cent of active companies with complete Emergency Response Plans	99.5%	100%	100%	100%	100%

Data source: Internally monitored and tracked company filing data.

Discussion of Results

The performance target for measure 1.2a was achieved. As of the end of the fiscal year, all permit holders have complete emergency response plans (ERP) on file with the Commission. All active companies are required to have an ERP on file and the Commission assesses each for completeness and compliance with regulations of the *Oil and Gas Activities Act*. Having an ERP in place enables the company to work through and plan for situations which, if not addressed quickly and methodically, could have an impact on the safety of its employees and the public who live around its area of operations.

Goal 2: Respect those affected by energy resource development

Objective 2.1: Indigenous peoples' and their governments' rights are respected and interests are considered and incorporated in Commission decisions and programs

Key Highlights

- The Orphan Site Reclamation Program provided economic opportunities for Indigenous businesses and as of the end of fiscal 2020/21, standing offers have been developed with northeast B.C. Treaty 8 First Nations-owned companies, allowing for direct opportunities to work on orphan sites.

- In 2020, Indigenous communities had the ability to identify orphan and inactive well sites for priority reclamation. The Commission provided a user-friendly online nomination portal that identified all dormant and orphan sites in the province and received almost 1,742 nominations from 14 different Indigenous groups.
- Implemented the new Regulatory Affairs Quarterly newsletter, which provided information and invited Indigenous peoples to engage in a dialogue on regulatory improvement.
- With funding from Geoscience BC, initiated a program in December 2020 to study water quality in the Peace Region. The program is being conducted in partnership with Treaty 8 Nations and will include an invite for the participating First Nations to share their Traditional Knowledge at each site.
- In collaboration with Indigenous and academic partners, coordinated COVID-19 recovery funding to develop and deliver two fully funded environmental technician training programs for Indigenous students, with a focus on supporting employment opportunities in the growing restoration economy and COVID-19 recovery.

Performance Measure(s)	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
2.1a Per cent of applications where the duty to consult is met ¹	100%	100%	100%	100%	100%
2.1b Satisfaction level on how well the Commission is engaging Indigenous groups ²	75%	N/A	N/A	87%	N/A

¹ Data Source: Internally monitored and tracked consultation data. Performance is assessed against a judicial review process.

² Data Source: The surveys are given to a wide range of Indigenous groups throughout the province and are conducted by an external third party every other year. The results are tracked and analyzed internally.

Discussion of Results

The target for measure 2.1a was met. This measure reflects the Commission’s ability to fulfill the legal obligations of the Crown (Government) when Aboriginal interests (rights and title) may be adversely affected by a Crown decision. During fiscal year 2020/21, there was no court decision or administrative tribunal finding that the Commission failed to meet a duty to consult with Indigenous peoples. There was one legal proceeding initiated in 2019 by an Indigenous group challenging a post-application decision made by the Commission and the Province, which was not finalized by the end of 2020/21.

The survey for measure 2.1b is conducted bi-annually and will next be conducted in fiscal year 2021/22. This measure reflects the effectiveness of the Commission’s engagement efforts with Indigenous Groups. Results of the 2019/20 survey, along with direct follow up with 44 participating Nations, indicated improved communication and continued funding are required to support community capacity in the areas of education, self-governance, and economic equity. During fiscal year 2020/21, the Commission supported opportunities for Indigenous participation in compliance and monitoring, expanded partnerships in restoration of oil and gas infrastructure, and continued to provide capacity funding to support application assessment, regulation and

policy development, education and training opportunities, and joint knowledge and culture sharing programs.

Objective 2.2: Land owner interests in respect of their property are valued, understood and considered in Commission decisions and programs

Key Highlights

- Further enhanced stakeholder engagement through launching the Regional Networking Group and the Community Connector newsletter, and continuing quarterly webinars on topics that relate to the oil, gas, and geothermal industries and how they are regulated.
- Expanded the Commission’s mediation service to include ‘nearby’ land owners. This service is an additional support for land owners and companies to resolve issues related to proposed activities prior to Commission decision on applications.
- Released an updated Light Control Best Practices Guideline, with improvements based on discussions and input from land owners affected by oil and gas activities.
- Initiated the Tower Lake seismicity study - working with Natural Resources Canada and a private Canadian company - to collect high detail data on an upcoming hydraulic fracturing operation in the Tower Lake area.
- Implemented enhancements to the Consultation and Notification Regulation with improvements to land owner engagement on proposed oil and gas projects that were identified by the community working group pilot in northeast B.C.

Performance Measure(s)	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
2.2a Per cent of operations which cause seismic events with a magnitude of 3.0 or higher ¹ which are immediately suspended ²	100%	100%	100%	100%	100%
2.2b Satisfaction level on how well the Commission is engaging Stakeholder groups ³	76%	87%	95%	87%	88%

¹ The >3.0 magnitude seismic threshold applies to activities within the Kiskatinaw Seismic Monitoring and Mitigation Area (KSMMA). Outside of the KSMMA, the provincial seismic threshold is >4.0 magnitude.

² Data Source: Seismic event data is obtained from the Natural Resources Canada (NRCan) earthquake database. Operational data, including suspension data, is obtained from internal Commission databases.

³ Data Source: Survey of a wide range of stakeholders throughout the province, conducted every year by an external third party. The results are tracked and analyzed internally.

Discussion of Results

The fiscal year target of 100 per cent was achieved for measure 2.2a. This measure reflects the Commission’s commitment to suspend operations that have an impact on the public when significant seismic events occur as a result of operations. Activity has shifted primarily to target areas and formations that have lower seismic risk. As such, seismic frequency and magnitude have been lower this fiscal year than previous years. This trend is expected to continue through to fiscal 2021/22.

The target for measure 2.2b was exceeded. Engaging with stakeholders, particularly those directly affected by regulated activities, is a key aspect of the Commission’s work and this measure reflects the effectiveness of those efforts. 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.

Goal 3: Safeguard the environment

Objective 3.1: Environmental values and attributes are sustained

Key Highlights

- Supported government policy development to ensure environmental values are defined and incorporated into the Commission’s regulatory framework, such as improvements to conservation priority species listing, the application of the environmental mitigation hierarchy, and cumulative effects considerations.
- Compiled 2019 methane inspections data to meet reporting obligations to the federal government under the Federal Equivalency Agreement respecting the release of methane from the oil and gas sector.
- Created new data submission systems and guidance and provided industry education and support respecting new data reporting requirements for enhanced methane leak detection and repair requirements that came into force on Jan. 1, 2020.
- Continued to support water-related research, working with B.C. universities and funding agencies. A publication from one of the studies yielded practical insights for environmental monitoring at wells with gas migration¹.
- Continued work and cross-government engagement through fiscal year 2020/21 respecting recommendations from the February 2019 report of the Scientific Hydraulic Fracturing Review Panel.

¹ Gas migration occurs at energy wells when natural gas from the deep subsurface does not remain isolated at depths due to compromised integrity of the cement well casing. Gas, which is buoyant, migrates upward through small openings in the geology outside the well toward the ground surface. It is reported to occur in <1% of oil and gas wells in B.C. and must be repaired at the time of abandonment. Research supported by the Commission is focused on understanding the geological and well factors that can cause gas migration, frequency of gas migration occurrence, potential gas migration effects on groundwater aquifers, and emissions due to efflux of gas through the ground surface around a well to the atmosphere.

Performance Measure(s)	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
3.1a Per cent of well and facility permits issued in environmentally sensitive areas ¹	0%	1%	0%	1%	1%
3.1b Per cent of available freshwater withdrawn for oil and gas activities ²	0.003% ³	1%	0.004%	1%	1%

¹ Data Source: Internal land use and monitoring data through Area Based Analysis (ABA) is used as part of the permitting process. The ABA geographic information systems data is continuously updated by the Commission, ministry databases and partner agencies based on areas that are or become environmentally sensitive.

² Data Source: Data is determined by the Commission through water withdrawals reported by permit or licence holders relative to the total volume of water available in northeast B.C. as per the [government environmental flow needs policy](#).

³ Data Source: There was an error in calculation methodology used in 2019/20. The previously reported 0.02 per cent has been updated consistent with the correct methodology for this performance measure, which calculates the per cent of available freshwater withdrawn for oil and gas activities relative to the total volume of annual run off in northeast B.C. and is consistent with past reporting prior to 2019/20.

Discussion of Results

The target for measure 3.1a was exceeded. This measure reflects the Commission’s commitment to safeguarding the environment, particularly in sensitive areas, through its regulatory scope. Environmentally sensitive areas are identified based upon definitions within the Environmental Protection and Management Regulation and broader B.C. government policy. These areas include wildlife habitat areas, ungulate winter ranges, old-growth management areas, and cultural resources. Activities may be permitted in environmentally sensitive areas in accordance with the regulatory framework and subject to additional protections and other factors. The per cent of well and facility permits issued in environmentally sensitive areas for 2020/21 (0 per cent) is the result of no applications being submitted in these areas. This suggests the pre-development planning afforded by the Commission’s area-based analysis approach and tools ensures proponents were able to consider the location of environmentally sensitive areas and avoid them as they finalized their development plans.

The target for measure 3.1b was exceeded. This measure reflects both industry operational water use needs and the Commission’s efforts to mitigate the impact of industry activity on fresh water sources. As part of these efforts, the Commission encourages industry to use alternative water sources such as recycled and saline water. Surface water allocation is guided by the provincial policy to protect and maintain environmental values. Annual variation in water use is expected as companies can use water stored from previous years or increase recycling rates rather than withdrawing additional fresh water.

Goal 4: Support Responsible Resource Development

Objective 4.1: Potential liabilities associated with resource development are mitigated

Key Highlights

- The Orphan Liability Levy, which went into effect April 1, 2019 was in the second year of a three-year phase-in, to ensure adequate restoration funding for orphan sites. For fiscal year 2020/21 the orphan liability levy collected from industry was \$11.25 million.
- On Feb. 1, 2021, the Commission implemented the Permittee Capability Assessment, a new corporate health model for liability management that is responsive to changing industry risks and is used for reviewing security requirements and permit transfers.
- Under the Dormancy and Shutdown Regulation, two Liability Reductions Plans were approved and over 2,100 sites had restoration work undertaken.

Performance Measure(s)	2019/20 Actuals	2020/21 Target	2020/21 Actuals	2021/22 Target	2022/23 Target
4.1a Number of orphan sites restored ¹	22	25	61	30	35

Data Source: Internally monitored and tracked liability and asset management data. Note currently restoration work is underway at hundreds of sites and the number here only reflects the number of sites with restoration work being completed within the fiscal year.

Discussion of Results

The target for measure 4.1a was exceeded, with 61 sites substantially restored for a cumulative total of 117 sites out of 769 (15 per cent). The Commission benefited from the one-time COVID-19 federal stimulus funding for site restoration received in 2020/21. This measure reflects the management and completion of the restoration of orphan sites, which, when designated, become an accounting liability for the Commission and a potential liability for the Province.

Financial Report

For the auditor's report and audited financial statements, see [Appendix B](#). These can also be found on the [BC Oil and Gas Commission website](#).

Discussion of Results

The Commission had an annual surplus from operations of \$2.6 million, and an overall surplus of \$1.5 million after accounting for accrued liabilities for the Orphan Site Reclamation Fund (OSRF).

Application fee revenues were greater than budget, offsetting a slight decline in anticipated industry levies. Commission operating expenses of \$54.7 million were \$2.6 million under budget. This was due to measures taken to mitigate possible economic impacts on the Commission's budget from the COVID-19 pandemic.

The Commission received an unbudgeted \$15 million in federal government funding to clean up orphan and inactive wells across the province. The funding came through the Ministry of Energy, Mines and Low Carbon Innovation and was directed to a new Orphan Sites Supplemental Reclamation Program and is included in the OSRF. Reclamation work on orphan sites during the year allowed the Commission to reduce its orphan liability by net \$16.5 million.

Capital spending during the year was \$4 million compared to a budget of \$5 million, as some projects were deferred due to the COVID-19 pandemic.

Highlights

- Operating surplus of \$2.6 million, overall surplus of \$1.5 million after accounting for the OSRF.
- Operating revenue was on budget.
- Operating expenses were \$2.6 million lower than budget due to COVID-19 mitigation measures.

Financial Summary

(\$000)	2019/20 Actual	2020/21 Budget	2020/21 Actual	2020/21 Variance
OPERATIONS				
Operating Revenue				
Industry Levies	43,385	47,580	46,545	(1,035)
Application Fees and Miscellaneous	15,907	9,760	10,790	1,030
Total Revenue from Operations	59,292	57,340	57,335	(5)
Operating Expenses				
Salaries and Benefits	31,482	32,000	31,585	(415)
Other Operating	19,130	20,340	18,457	(1,883)
Amortization	4,729	5,000	4,669	(331)
Total Expenses from Operations	55,341	57,340	54,711	2,629
Net Surplus from Operations	3,951	-	2,624	2,624
ORPHAN SITE RECLAMATION FUND (OSRF)				
OSRF Revenue				
Industry Levies	15,339	15,000	14,791	(209)
Security Deposits, Interest	14,744	300	469	169
Government Transfers	-	-	13,626	13,626
Total Revenue from OSRF	30,083	15,300	28,886	13,586
OSRF Expenses				
Orphan Designations and Administration	48,206	3,300	8,178	4,878
Reclamation	9,998	12,000	21,879	9,879
Total Expenses from OSRF	58,204	15,300	30,057	14,757
Net deficit from OSRF	(28,121)	-	(1,171)	(1,171)
Annual Consolidated Surplus / (Deficit)	(4,138)	-	1,453	1,453
Additional Information				
Capital Expenditures	4,241	5,000	4,017	(983)
Total Liabilities	119,402	120,000	115,030	(4,970)
Accumulated Surplus (Deficit)	(5,873)	(16,450)	(4,420)	12,030

Note 1: The above financial information was prepared based on current Generally Accepted Accounting Principles.

Note 2: Government Transfers includes federal funding received through the Ministry of Energy, Mines and Low Carbon Innovation to fund the Orphan Supplemental program. A total of \$15 million in funding was approved and work will be completed in fiscal 2021/22.

Variance and Trend Analysis

Gas production volumes were up three per cent over last year and are expected to continue to show steady growth. Well applications also showed growth in 2020/21.

Federal funding provided to the OSRF which was not in the Commission's budget allowed for increased reclamation of orphan well sites. In future years, OSRF program costs are expected to return to normal level of expenditures, balanced to funds raised by the orphan liability levy.

Risks and Uncertainties

The Commission's main exposure is due to the risk of insolvencies in the industry. As required by provincial legislation, the Commission's budget is set on a break-even basis. If there are more insolvencies in industry than the budgeted OSRF revenues can absorb, then a deficit will be incurred. The accounting requirement to recognize the liability of orphan sites up front can impact the Commission's ability to balance its budget on an annual basis, however, industry funding through the liability levy is expected to be sufficient to fund future OSRF costs.

The Commission monitors industry market forces and permittee financial health to determine whether the risk of a deficit exists. Orphan liability costs are estimated and measurement uncertainty in the amount recorded is noted in the Commission's financial statements.

Risk in the operating budget is mainly from industry market forces on production volumes and well applications. The ability of the Commission to set levy rates, within an approved range, reduces the risk that regulatory costs will exceed industry revenues.

Appendix A: Additional Information

Organizational Overview

The [BC Oil and Gas Commission](#) is a single-window regulatory agency with responsibilities for overseeing oil, gas and geothermal operations in British Columbia. The Commission oversees activities from exploration and development, to pipeline transportation and reclamation.

The Commission was created as a Crown corporation through the enactment of the *Oil and Gas Commission Act* and in October 2010, transitioned to the *Oil and Gas Activities Act*. Regulatory responsibility is delegated to the Commission through the *Oil and Gas Activities Act* and includes specified enactments under the *Forest Act*, *Heritage Conservation Act*, *Land Act*, *Environmental Management Act*, and *Water Sustainability Act*.

With more than 20 years' dedicated service, the Commission is committed to ensuring safe and responsible energy resource development for British Columbia.

The Commission's mission is to ensure responsible energy resource development by protecting public safety, safeguarding the environment and respecting those affected. The Commission's core roles include reviewing and assessing applications for industry activity, consulting and engaging with Indigenous nations, land owners and rights holders and ensuring industry complies with provincial legislation. The Commission's regulatory responsibility extends from the exploration and development phases, through operation and ultimately decommissioning. It is charged with balancing a broad range of environmental, economic and social considerations.

The cost of operating the Commission is funded through the collection of industry fees and production levies.

It is accountable to the provincial legislature and the public through the Minister of Energy, Mines and Low Carbon Innovation. This is demonstrated in three-year service plans issued annually, quarterly reports on financial performance, and the Annual Service Plan Report summarizing achievements during the year and comparing performance results to targets.

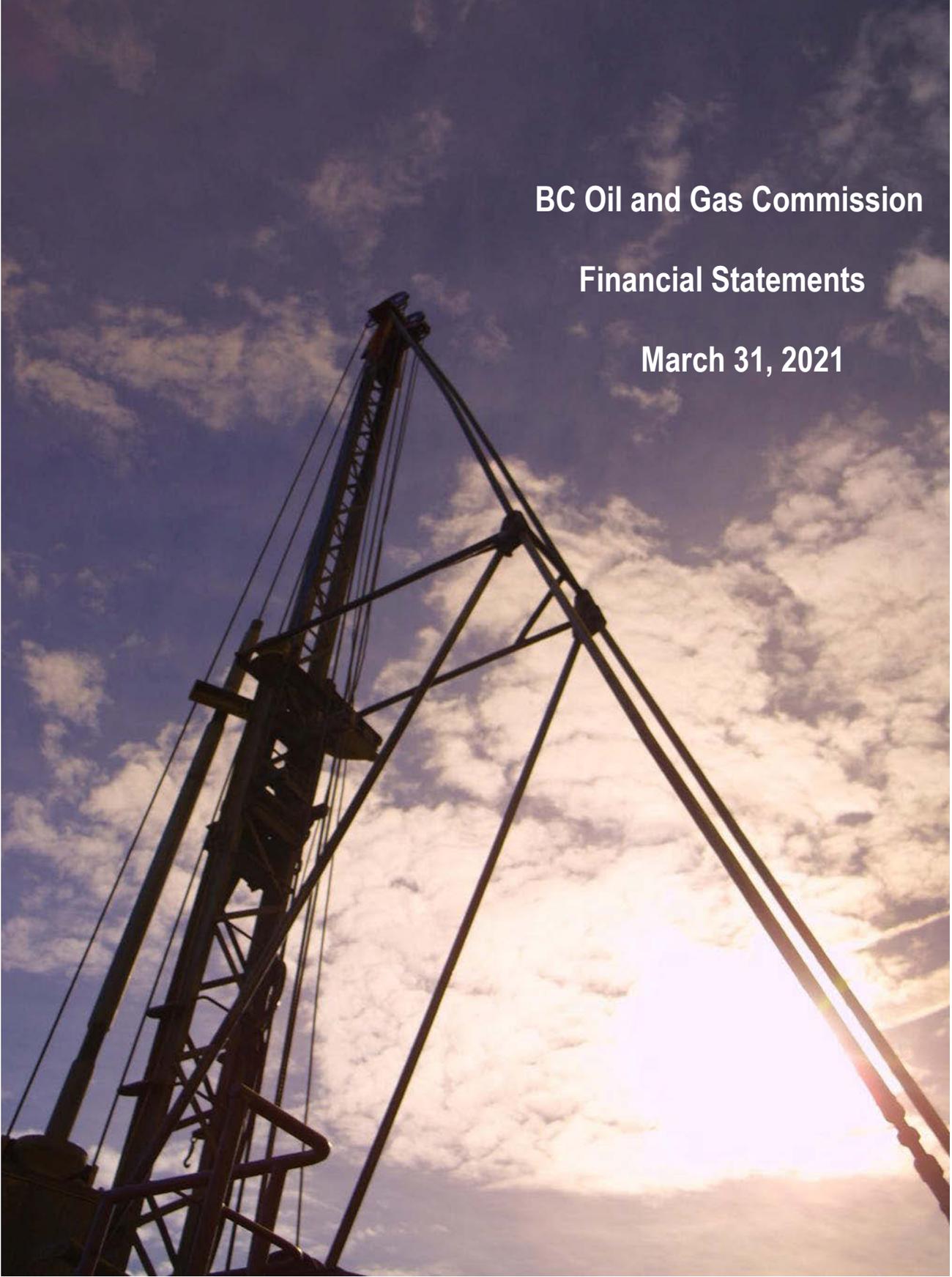
Each year the Minister of Energy, Mines and Low Carbon Innovation sets out the priorities of the Commission in a Mandate Letter. This letter is signed by the Commission Chair and members of the Board.

Corporate Governance

The Commission is governed by a [Board of Directors](#) that sets the strategic direction, ensuring organizational performance is in line with strategic priorities and establishing appropriate accountability and transparency mechanisms. Assisted by a group of expert consultants, the Board factors corporate risks into the strategic planning process.

Under the *Oil and Gas Activities Act*, the Deputy Minister for the Ministry of Energy, Mines and Low Carbon Innovation is the Board Chair, the Commissioner and CEO is the Vice Chair, and a third independent Board member is appointed by the Lieutenant Governor in Council. The Board, under OGAA, has powers to make regulations respecting aspects of carrying out oil and gas activities.

Appendix B: Auditor's Report and Audited Financial Statements



BC Oil and Gas Commission

Financial Statements

March 31, 2021



Statement of Management Responsibility

The financial statements of the BC Oil and Gas Commission (the “Commission”) for the year ended March 31, 2021 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'.

Paul Jeakins, Commissioner

May 26, 2021

A handwritten signature in black ink, appearing to read 'Len Dawes'.

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



INDEPENDENT AUDITOR'S REPORT

*To the Board of Directors of the BC Oil and Gas Commission, and
To the Minister of Energy, Mines and Low Carbon Innovation, Province of British Columbia*

Opinion

I have audited the accompanying financial statements of the BC Oil and Gas Commission (“the entity”) which comprise the statement of financial position at March 31, 2021, and the statements of operations and accumulated deficit, change in net debt and cash flows, for the year then ended 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, 2021, 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.

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 (PSAS), 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 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.

A handwritten signature in black ink, appearing to read "Stuart Newton". The signature is fluid and cursive, with the first name "Stuart" and last name "Newton" clearly distinguishable.

Stuart Newton, CPA, CA
Assistant Auditor General

Victoria, British Columbia, Canada
June 21, 2021



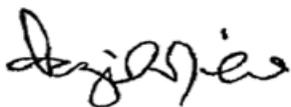
BC Oil and Gas Commission

**Statement of Financial Position
(in \$000s)**

	Note	March 31 2021	March 31 2020
Financial assets			
Cash		\$ 5,419	\$ 11,317
Investments	3,4	60,223	59,147
Accounts receivable	5	15,009	13,800
Due from government	6	5,464	4,667
		<u>86,115</u>	<u>88,931</u>
Liabilities			
Accounts payable & accrued liabilities	7	18,958	8,580
Employee future benefits	8	875	761
Due to Indigenous communities	9	129	139
Due to government		1,843	989
Deferred revenue	10	2,423	1,032
Deferred lease inducements		392	497
Liability for orphan sites	11, 15	64,718	81,197
Security deposits	4	25,692	26,207
		<u>115,030</u>	<u>119,402</u>
Net financial debt		<u>(28,915)</u>	<u>(30,471)</u>
Non-financial assets			
Tangible capital assets	12	22,687	23,504
Prepaid expenses		1,808	1,094
		<u>24,495</u>	<u>24,598</u>
Accumulated deficit		<u>\$ (4,420)</u>	<u>\$ (5,873)</u>
Contractual obligations	13		
Contingent liabilities	14		
Measurement uncertainty	15		

The accompanying notes are an integral part of these statements.

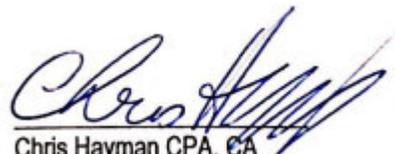
Approved on behalf of the Board



Fazil Mihlar, Board Chair



Paul Jeakins, Commissioner



Chris Hayman CPA, CA
Audit Committee Chair

BC Oil and Gas Commission

Statement of Operations and Accumulated Deficit

(in \$000s)

	Note	Budget 2021	March 31 2021	March 31 2020
		(Note 19)		
Revenues				
Production levies		\$ 40,941	\$ 44,152	\$ 47,280
Infrastructure levies		5,992	\$ 5,936	3,940
Orphan site restoration levy		11,250	11,248	7,504
Fees		6,900	9,757	12,459
Interest		1,614	1,072	1,574
Government transfers	17	15,000	13,862	45
Remediation recoveries		-	100	16,432
Other revenue		-	94	141
		81,697	86,221	89,375
Expenses				
Oil and gas activities regulation	18	51,697	54,711	55,341
Orphan site reclamation fund	18	30,000	30,057	58,204
		81,697	84,768	113,545
Annual surplus (deficit)		-	1,453	(24,170)
Accumulated (deficit) surplus, beginning of year		(5,873)	(5,873)	18,297
Accumulated deficit, end of year		\$ (5,873)	\$ (4,420)	\$ (5,873)

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 2021	March 31 2021	March 31 2020
	(Note 19)		
Annual surplus/(deficit)	\$ -	\$ 1,453	\$ (24,170)
Acquisition of tangible capital assets	(4,671)	(4,017)	(4,241)
Disposals of tangible capital assets	-	165	118
Amortization of tangible capital assets	5,700	4,669	4,729
	1,029	817	606
Acquisition of prepaid expense	-	(714)	(180)
Increase (decrease) in net financial assets	1,029	1,556	(23,744)
Net financial debt, beginning of year	(30,471)	(30,471)	(6,727)
Net financial debt, end of year	\$ (29,442)	\$ (28,915)	\$ (30,471)

The accompanying notes are an integral part of these statements.

BC Oil and Gas Commission Statement of Cash Flows (in \$000s)	March 31 2021	March 31 2020
Operating transactions		
Cash generated from:		
Production levies	\$ 56,751	\$ 54,633
Infrastructure levies	3,940	\$ 3,688
Fees	11,236	13,316
Interest	1,072	1,574
Government transfers	13,862	-
Miscellaneous and recoveries	(1,255)	16,563
Security deposits	2,938	553
	<u>88,544</u>	<u>90,327</u>
Cash used for:		
Salaries and benefits	(32,273)	(31,565)
Payments to Indigenous communities	(6,276)	(5,393)
Operating expenses	(2,370)	(7,599)
Orphan site reclamation	(44,978)	(18,685)
Security deposits refunded	(3,352)	(3,738)
Security deposits transferred to revenue	(100)	(16,432)
	<u>(89,349)</u>	<u>(83,412)</u>
Cash from operating activities	<u>(805)</u>	<u>6,915</u>
Capital transactions		
Cash used to acquire tangible capital assets	(4,017)	(4,241)
Investing transactions		
Investments in portfolio investments	(1,076)	(4,319)
Decrease in cash	(5,898)	(1,645)
Cash beginning of year	11,317	12,962
Cash end of year	<u>\$ 5,419</u>	<u>\$ 11,317</u>

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 from fees charged in respect of permit applications, transfers and amendments and through industry levies against permit holders on:

- Oil and gas production;
- Infrastructure, such as pipelines and Class C LNG facilities; and
- Total liability.

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

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. This revenue source is calculated based on production of oil and gas, and is also recognized as revenue at point of production. Production levies can be used to fund operations or orphaned sites.

Infrastructure levies

Infrastructure levies are billed to permit holders of pipelines and Class C LNG Facilities owned at March 31 of the applicable fiscal year.

Annual orphan liability levies

Annual orphan liability levies are billed and recognized based on a permit holder's deemed liability for permitted wells and facilities as at April 1 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.

Employee future benefits – future retirement allowance liability

The Commission accrues for future retirement allowances as provided under the collective agreements and terms of

2. Significant accounting policies (continued)

employment. The accrual as at March 31, 2021 is 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. Uncertainty of a potential liability for orphan sites may exist when there are ongoing insolvency or court proceedings. The Commission may recognize a contingent liability prior to formal designation of an orphan site where the outcome of proceedings is assessed to likely result in sites becoming orphaned.

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 cost.

Investment funds are pooled from the following sources:

	March 31 2021	March 31 2020
Operations	\$ 16,871	\$ 11,234
Orphan site reclamation fund (note 11)	17,560	21,706
Security deposits - Liability Management Rating program (note 4)	25,792	26,207
	\$ 60,223	\$ 59,147

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, regularly assesses security deposit requirements. The Commission holds \$170,575 (2020: \$144,674) in security deposits, of which \$25,792 (2020: \$26,207) is held in cash and/or investments and \$144,782 (2020: \$118,467) 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 2021, the Commission recovered \$ 100 (2020: \$16,432) from security deposits to help satisfy restoration obligations of permit holders.

5. Accounts receivable

	March 31 2021	March 31 2020
Production levies receivable	\$ 7,560	\$ 8,602
Infrastructure levies receivable	5,936	3,940
Fees	505	593
Other receivables	1,008	665
	\$ 15,009	\$ 13,800

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 2021	March 31 2020
Levies collected	\$ 3,771	\$ 4,080
Recoveries and other	1,693	587
	\$ 5,464	\$ 4,667

7. Accounts payable and accrued liabilities

	March 31 2021	March 31 2020
Accounts payable and accrued liabilities	\$ 15,766	\$ 5,644
Salaries and benefits payable	3,192	2,936
	\$ 18,958	\$ 8,580

Employee leave entitlements

As of March 31, 2021, 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 \$1,247 (2020: \$950). 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 64,300 active plan members, 49,500 retired plan members, and 18,800 inactive members.

8. Employee future benefits (continued)

Employee benefit plan (continued)

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, 2020, indicated a funding surplus of \$2.7 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, 2021 for employer contributions was \$2,583 (2020: \$2,450).

Future retirement allowance liability

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

	March 31 2021	March 31 2020
Accrued retirement obligation		
Balance at beginning of year	\$ 761	\$ 693
Current benefit cost	67	66
Interest	28	31
Amortization of actuarial loss	19	25
Benefits paid	-	(54)
Balance at end of year	\$ 875	\$ 761
Actuarial retirement obligation		
Accrued benefit obligation	\$ 875	\$ 761
Unamortized actuarial loss	175	335
Balance at end of year	\$ 1,050	\$ 1,096

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

	2021	2020
Discount rate	3.08%	2.45%
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, 2021 (2020: 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.

10. Deferred revenue

Deferred revenue consists of unearned application fees, major projects application fees and other revenues. 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 and other	\$ 1,032	15,868	(14,477)	\$ 2,423

11. Liability for Orphan Sites

The Commission administers the Orphan Site Reclamation Fund (OSRF) which 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 orphan site restoration levies, production levies and security deposits.

The OSRF has assets of \$18,240 (2020: \$23,904) to pay for costs associated with orphan sites. During the year, the number of designated orphan sites increased from 357 to 770 (413 of which were accrued for in 2020). Of the designated sites, 117 (2020: 56) have been substantially restored, with the remainder to undergo restoration as resources permit. The Commission continues to monitor other potential orphan sites.

The Commission has recognized a contingent liability related to an insolvent permit holder. Commission management has determined that it is likely the insolvency process will conclude with 21 sites becoming orphaned with an estimated obligation of \$1,974. Security of \$100 exists to offset the future costs.

The Commission is monitoring four insolvent permit holders in receivership proceedings. The associated permits hold estimated restoration liabilities of \$16,000. However, the Commission is not able to reasonably estimate the associated liability for orphan sites, if any, as the outcome of receivership proceedings is not determinable at this time. Accordingly, no provision has been made in these financial statements.

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 uncertainly note.

The estimation of the liability does not include discretionary reclamation costs. Full reclamation costs for orphan sites is estimated to be in the range of \$113,000 to \$184,000.

Net present value has not been used since the estimated costs are not expected to occur over an extended long term period.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2021
(in \$000s)

12. Tangible capital assets

March 31, 2021									
	Tenant		Computer	Operating		Other	Application	Computer	
	Improvements	Furniture	Hardware	Equipment	Vehicles	Business	Management	Software	Total
						Systems	System		
Cost									
Opening balance	\$ 6,410	\$ 4,075	\$ 3,658	\$ 1,833	\$ 2,102	\$ 7,537	\$ 18,707	\$ 823	\$ 45,145
Additions	93	-	337	11	245	2,848	483	-	4,017
Disposals	-	-	-	-	(325)	-	-	-	(325)
Closing balance	\$ 6,503	\$ 4,075	\$ 3,995	\$ 1,844	\$ 2,022	\$ 10,385	\$ 19,190	\$ 823	\$ 48,837
Accumulated amortization									
Opening balance	\$ 4,138	\$ 2,383	\$ 2,873	\$ 874	\$ 660	\$ 3,421	\$ 6,504	\$ 788	\$ 21,641
Amortization	384	361	463	231	149	1,077	1,972	32	4,669
Disposals	-	-	-	-	(160)	-	-	-	(160)
Closing balance	\$ 4,522	\$ 2,744	\$ 3,336	\$ 1,105	\$ 649	\$ 4,498	\$ 8,476	\$ 820	\$ 26,150
Net book value	\$ 1,981	\$ 1,331	\$ 659	\$ 739	\$ 1,373	\$ 5,887	\$ 10,714	\$ 3	\$ 22,687
March 31, 2020									
	Tenant		Computer	Operating		Other	Application	Computer	
	Improvements	Furniture	Hardware	Equipment	Vehicles	Business	Management	Software	Total
						Systems	System		
Cost									
Opening balance	\$ 6,404	\$ 4,045	\$ 3,203	\$ 1,681	\$ 1,741	\$ 5,396	\$ 17,831	\$ 815	\$ 41,116
Additions	6	30	455	153	528	2,147	876	46	4,241
Disposals	-	-	-	(1)	(167)	(6)	-	(38)	(212)
Closing balance	\$ 6,410	\$ 4,075	\$ 3,658	\$ 1,833	\$ 2,102	\$ 7,537	\$ 18,707	\$ 823	\$ 45,145
Accumulated amortization									
Opening balance	\$ 3,530	\$ 2,008	\$ 2,279	\$ 661	\$ 609	\$ 2,580	\$ 4,605	\$ 734	\$ 17,006
Amortization	608	375	594	213	133	841	1,899	55	4,718
Disposals	-	-	-	-	(82)	-	-	(1)	(83)
Closing balance	\$ 4,138	\$ 2,383	\$ 2,873	\$ 874	\$ 660	\$ 3,421	\$ 6,504	\$ 788	\$ 21,641
Net book value	\$ 2,272	\$ 1,692	\$ 785	\$ 959	\$ 1,442	\$ 4,116	\$ 12,203	\$ 35	\$ 23,504

Included in the net book value of other systems development are assets not being amortized of \$1,296 (2020: \$1,661) 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.

	2022	2023	2024	2025	2026	Thereafter
\$	4,417	\$ 4,419	\$ 4,476	\$ 4,034	\$ 2,331	\$ 10,425

The Commission is also committed to make certain payments under Indigenous capacity agreements.

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.

	<u>Reported</u>	<u>Low</u>	<u>High</u>
Liability for orphan sites	\$64,718	\$47,000	\$94,000

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 2021	March 31 2020
Revenues:		
Government transfers	\$ 13,862	\$ 45
Interest	60	185
	\$ 13,922	\$ 230
Expenses:		
Salaries and benefits	\$ 1,438	\$ 1,253
Building occupancy	150	153
Professional services and training	514	823
Telecommunications and information systems	101	120
Travel and vehicle costs	31	17
Office supplies and equipment	27	37
	\$ 2,261	\$ 2,403
Tangible capital assets		
Additions	\$ 427	\$ 628

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. During the year, grants of \$2,000 (2020: \$ nil) were provided to 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. Government transfers

Government transfers includes funding received from the Ministry of Energy, Mines and Low Carbon Innovation through the Government of Canada to clean up of orphan and inactive oil and gas wells across the province under the Orphan Sites Supplemental Reclamation Program (the "Program"). The Program will be completed by March 31, 2022.

18. Expense by Object

	Oil and Gas Activities Regulation	Orphan Site Reclamation Fund	March 31 2021	March 31 2020
Salaries and benefits	31,585	1,058	32,643	32,098
Indigenous communities	6,266	-	6,266	5,312
Building occupancy	4,286	-	4,286	4,452
Professional services and training	1,889	1	1,890	2,476
Amortization	4,669	-	4,669	4,729
Travel and vehicle costs	576	1	577	1,855
Telecommunications and information systems	2,221	-	2,221	2,365
Grants	2,453	-	2,453	45
Reclamation	-	28,499	28,499	59,294
Office supplies and equipment	644	-	644	612
Bad debts	122	498	620	307
	\$ 54,711	\$ 30,057	\$ 84,768	\$ 113,545

19. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the final budget approved by the Board of Directors on May 21, 2020. Amounts may differ from the budget prepared earlier for the purposes of the Annual Service Plan.

20. Comparative figures

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

21. 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 and irrevocable letters of credit are held with Schedule I, II or III banks; Canadian credit unions; and government owned financial institutions. 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.

COVID-19 - The Provincial Health Officer declared a public health emergency on March 17, 2020 in response to the COVID-19 pandemic. The Commission has taken steps to protect its staff, maintain operations and continue relations with stakeholders and Indigenous communities. Management identified no significant risks to operations during the pandemic.