BC Oil and Gas Commission

2019/20
Annual Service Plan Report

BRITISH
COLUMBIA

For more information on the BC Oil & Gas Commission contact:

PO Box 9331,
Stn Prov Govt,
Victoria, B.C.,
V8W 9N3

Telephone: 250-794-5200

Or visit our website at

www.bcogc.ca

Published by the BC Oil & Gas Commission

Board Chair's Accountability Statement

The BC Oil and Gas Commission *2019/20 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2019/20 – 2021/22 Service Plan* created in February 2019. I am accountable for those results as reported.

Fazil Milhar
Board Chair
June 23, 2020

Table of Contents

Letter from the Board Chair & CEO

The BC Oil and Gas Commission (Commission) has successfully delivered on its mandate as defined through legislation and in the 2019/20 Minister's Mandate Letter. Further, as the fiscal year drew to a close, it demonstrated its effectiveness as it successfully transitioned its staff to working remotely as the province coped with the world wide COVID-19 pandemic.

As per the Mandate Letter, the Commission has built and strengthened respectful relationships with Indigenous peoples through continued involvement in the Aboriginal Liaison Program; grants to universities for Indigenous education programs; partnerships with First Nations on restoration projects; and helping deliver on, and ensuring alignment with, government's *Declaration on the Rights of Indigenous Peoples Act*.

Implementation of the Comprehensive Liability Management Plan was accelerated, with considerable progress made on increasing the pace of restoration, including required timelines for closure of inactive sites. The Commission also advanced the decommissioning and restoration of existing orphan sites and implemented the new levy for orphan site restoration.

The Commission wrapped up a successful year-long Community Working Group pilot project in northeast B.C., which built trust and working relationships with many local residents and resulted in regulatory improvement. Engagement efforts continue with land owners and local governments, opening up lines of communication and channels for ongoing dialogue. A new post-permit mediation service also provides an additional level of support for land owners.

The Commission has participated in a cross-government working group to review the Scientific Review Panel's Hydraulic Fracturing Report. While some of the Report's recommendations are already underway or have been completed (including publishing of the Surface Casing Vent Flow database and updating the Comprehensive Liability Management Plan), the Commission continues to work collaboratively with other government agencies to address the outstanding activities.

As we write this, the Commission is proactively dealing with the COVID-19 pandemic and has initiated its business continuity plan, along with its Emergency Operations Centre. The organization has a dedicated team to ensure coordination of regulatory approaches, alignment with the provincial government response, and consideration of matters affecting the economic situation. Despite challenges posed by the pandemic, we are confident the Commission is well positioned to continue delivering on its mandate – upholding public safety and safeguarding the environment.

Fazil Milhar
Board Chair

Paul Jeakins
Chief Executive Officer

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), 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 2019/20 and expanded upon in the Board Chair's Mandate Letter from the Minister Responsible in 2019 shaped the 2019/20 BC Oil and Gas Commission Service Plan and results reported in this annual report.

The BC Oil and Gas Commission is aligned with the Government's key priorities:

Government Priorities	BC Oil and Gas Commission aligns with these priorities by:

Delivering the services people count on	• Goal 1: Protect public safety
	  o Public safety related issues are understood and mitigated to prevent incidents. (Objective 1.1)
	    ▪ Continually enhance the Compliance Management System
	    ▪ Compliance and enforcement operations, ensuring all oil and gas activities are conducted in accordance with B.C.'s regulatory framework
	• Goal 2: Respect those affected by energy resource development
	  o Indigenous peoples' rights are constitutionally respected and interests are considered and incorporated in Commission decisions and programs. (Objective 2.1)
	    ▪ Maintain and strengthen relationships with Indigenous groups
	    ▪ Implement the Draft 10 Principles that Guide the Province of British Columbia's Relationship with Indigenous Peoples
	    ▪ Support the implementation of the *Declaration on the Rights of Indigenous Peoples Act*, the Truth and Reconciliation Commission's Calls to Action, and established court decisions
	  o Land owner interests in respect of their property are valued, understood and considered in Commission decisions and programs. (Objective 2.2)
	    ▪ Actively engage communities and land owners
	• Goal 4: Support responsible resource development
	  o Potential liabilities associated with resource development are mitigated. (Objective 4.1)
	    ▪ Comprehensive Liability Management Plan and Orphan Fund
	    ▪ Support the Scientific Review on Hydraulic Fracturing

A strong, sustainable economy	• Goal 3: Safeguard the Environment o Environmental values and attributes are sustained. (Objective 3.1) ▪ Align with the Province ▪ Conduct Area-Based Analysis (ABA)

Operating Environment

The Commission's operating environment was 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[1]. Total Canadian marketable gas production has remained relatively stable over the last few years with small increases in annual production. Two Major Projects, LNG Canada and its associated Coastal GasLink (CGL) pipeline continue construction.

The Commission has continued its partnership approach with Indigenous communities and is fully engaged with the Province on the implementation of the *Declaration on the Rights of Indigenous Peoples Act* (DRIPA). The Commission continues to actively engage with local communities. In 2019 a community working group successfully engaged land owners to provide on-the-ground perspectives and solutions in a local area. Using an interest-based approach, land owners, industry, and the Commission were able to make measurable progress and improvements on many quality of life issues that have been applied both locally and industry-wide. This included new seismic monitoring plans, noise controls and order, a Noise Control Best Practices Guideline, plus the launch of a mediation service.

May 30, 2019, the Commission passed a new Dormancy and Shutdown Regulation, making B.C. the first province in Western Canada to impose in law timelines for the restoration of oil and gas wells. As of March 31, 2020, there were 357 wells designated as orphan, of which 56 are substantially restored, and 301 are yet to be restored. While orphan wells in the province make up just over one per cent of all oil and gas wells in B.C., the goal is to clean up and restore all orphan wells within 10 years of receiving an orphan designation. The Commission's Comprehensive Liability Management Plan enhances stringent checks of each company's financial health and history with the continued goal to mitigate liability risk and minimize pressure on the Orphan Site Reclamation Fund.

The Commission has forged numerous working relationships with government ministries and agencies to develop a number of new initiatives that are incorporated within the oil, gas and geothermal regulatory framework. This includes an action plan to address the findings from the scientific review of hydraulic fracturing, and a new methane reduction regulation and research plan – with provincial agencies and stakeholders – to manage and reduce the release of methane from oil and gas operations and meet or exceed provincial and federal methane reduction targets.

The rate of technological innovation within the Commission's mandate is constantly changing. As a learning organization, the Commission keeps current by working with other regulatory bodies such as the Western Regulators' Forum and Interstate Oil and Gas Compact Commission.

[1] In 2018, Canada produced approximately 16.15 billion cubic feet per day (Bcf/d) of marketable natural gas. Almost 30 per cent of this gas came from B.C. Source: Canadian Energy Regulator

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

- Increased inspection capacity dedicated to compliance oversight of major projects.
- Implemented a new safety monitoring and check-in system (Blackline), substantially improving safety of staff conducting Commission work in the field.
- Expanded integrity management program audits to include damage prevention.
- Implemented an external audit program to assess permit holder emergency management programs.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
1.1a Number of inspections completed annually[1]	4,516	4,400	4,723	4,450	4,450
1.1b Overall inspection compliance rate[2]	99.7%	100.0%	99.74%	100.0%	100.0%

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

Discussion of Results

The target for Measure 1.1a was exceeded, demonstrating the Commission's ongoing significant commitment and allocation of resources to ensure compliance of oil and gas activities.

The target for measure 1.1b was substantially met, with a slight variance of 0.26 per cent due to outstanding deficiencies that have not yet been addressed by permit holders. Where deficiencies exist, the Commission takes enforcement action to achieve compliance, in a manner consistent with the regulatory framework.

Objective 1.2: Should an incident occur, the public is safe from harm

Key Highlights

- Continued partnership with Emergency Management BC (EMBC) to support enhanced emergency response capacity in First Nations communities that have nearby oil / gas developments, including Lheidli T'Enneh First Nation, McLeod Lake Indian Band, Prophet River First Nation and Saulteau First Nations.
- Continued development of Commission capacity for incident response, through improved staff access to EMBC's community-based training.
- Most regulated companies have complete emergency response plans, with only one very small operator not having a complete plan in place.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
1.2a Per cent of active companies with complete Emergency Response Plans	99.0%	100%	99.5%	100%	100%

Data Source: Internally monitored and tracked company filing data.

Discussion of Results

The target for measure 1.2a was substantially met, with a small variance of 0.5 per cent related to one very small permit holder – one suspended well – that does not have a complete emergency response plan on file with the Commission. An enforcement case is currently in progress to address the outstanding plan.

Goal 2: Respect those affected by energy resource development

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

Key Highlights

- Formal cultural awareness training provided to more than 50 per cent of Commission staff.
- Supported Indigenous opportunities in education through various post-secondary institutions across the Province, including University of Northern B.C. (UNBC) with the Traditional Ecological Knowledge training and Land Reclamation Certificate programs; and various scholarships through Northern Lights College, College of New Caledonia, Coast Mountain College, UNBC and Vancouver Island University.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 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]	N/A	86%	75%	N/A	87%

[1] Data Source: Internally monitored and tracked consultation data.
[2] Data Source: Survey of Indigenous groups throughout the province, conducted every other year by an external third party. The results are tracked and analyzed internally.

Discussion of Results

The target for measure 2.1a was met. During fiscal year 2019/20, there was no decision of a court or administrative tribunal finding that the Commission failed to meet a duty to consult with Indigenous peoples. However, there is one legal proceeding outstanding, initiated in 2019 by an Indigenous group, challenging a post-application decision made by the Commission and the

Province, which is out of scope for this measure. We expect this matter to be heard by the Court in 2020.

The target for measure 2.1b was not met. The BC Oil and Gas Commission has conducted a biennial First Nations Engagement Survey since 2017. The purpose of the 2019 survey was to report on performance for the Commission's Service Plan, and to support the Commission's commitments to implement the *United Nations Declaration on the Rights of Indigenous Peoples* the *Draft Principles that Guide British Columbia's Relationship with Indigenous Peoples*, and the *Truth and Reconciliation Commission of Canada: Calls to Action.* Forty-four First Nation communities, across five regions of British Columbia, whom are affected by Commission-regulated oil and gas activities were surveyed. Overall, 75 per cent of respondents were very satisfied, satisfied or neutral with how the Commission engaged with their community. Respondents provided both positive and constructive feedback for the Commission in four key areas: community engagement, cultural sensitivity, relationship-building programs, and awareness of Commission regulatory roles and responsibilities. The feedback and results from the survey are used to inform Commission plans, including the organization's current Service Plan.

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

Key Highlights

- Continued to advance work on stakeholder engagement in 2019/20 including the successful conclusion of a one-year pilot project of a community working group in northeast B.C. that built trust and relationships helping to address issues experienced by rural communities.
- Public information sessions were held with local land owners and webinars were held on key topics related to the oil and gas industry and how itis regulated;
- Continuation of a mediation service which is an additional support for land owners and companies.
- Finalized the installation of nine additional public seismic stations bringing the total number of public stations in Northeast B.C. to 22, and extended our strategic research partnership with McGill University to September 2021, which involved the addition of 6 research seismic stations, bringing the total number of research stations in Northeast B.C. to 15.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
2.2a Per cent of operations which cause seismic events with a magnitude of 3.0 or higher which are immediately suspended[1]	100%	100%	100%	100%	100%
2.2b Satisfaction level on how well the Commission is engaging Stakeholder groups[2]	76%	86%	88%	87%	87%

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

[2] 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 target for measure 2.2a was met. There were two magnitude ≥3.0seismic events in October 2019 within the KSMMA that were linked to hydraulic fracturing from a single well pad. When the initial seismic event occurred, the well pad was immediately suspended. A second aftershock event occurred while the well was still suspended, which is not unusual as pressure dissipates from the area being completed. There were no other seismic events magnitude ≥3 within the KSMMA, and no events exceeded the provincial threshold of ≥4.0 magnitude in fiscal year 2019/20.

The target for measure 2.2b was exceeded. 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

- The Commission supported Government policy development to ensure environmental values are defined and incorporated into the Commission’s regulatory framework, such as work to establish regulatory process and mechanisms that support reclamation offsetting requirements that may be applicable to provincial caribou recovery efforts
- New methane reduction regulations were implemented January 1, 2020, including the development of guidance to support the new regulations.
- The Commission worked with government to investigate options for implementing Offsite Environmental Mitigation (OEM) as part of Bill 56.

- Commission subject matter experts collaborated with staff from the Ministry of Energy, Mines and Petroleum Resources (EMPR) and other natural resource sector ministries to identify actions to address recommendations outlined in the February 2019 report of the Scientific Hydraulic Fracturing Review Panel. The Commission is part of a cross-government team that met regularly throughout the year. Some actions already delivered on include:
    - Publishing the Surface Casing Vent Flow database on the Commission website.
    - Updating the Comprehensive Liability Management Plan and integrating the Liability Management Rating program.
    - Initiating and providing technical support for a number of academic research initiatives to advance water knowledge in Northeast BC.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target[2]	2021/22 Target[3]
3.1a Per cent of well and facility permits issued in environmentally sensitive areas[1]	0.6%	<2%	0%	<2%	<2%
3.1b Per cent of available freshwater withdrawn for oil and gas activities[2]	0.2%	<5%	0.02%	<5%	<5%

[1] Data Source: Internal land use and monitoring data through ABA is used as part of the permitting process. The ABA system geographic information systems data is continuously updated by the Commission, ministry databases and partner agencies and updates 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 Government water allocation policy.

Discussion of Results

The target for measure 3.1a was exceeded. The per cent of well and facility permits issued in environmentally sensitive areas for 2019/20 (0 per cent) is the result of no applications being submitted in these areas. This suggests the pre-development planning afforded by Area-based analysis 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. The fresh water use performance measure is based on the calendar year. The total freshwater water used by industry for 2019 was 0.02 per cent of the 15 per cent of water available in northeast B.C. as guided by Government water allocation policy.

[2] The Commission has adjusted its 2020/21 and 2021/22 targets for performance measures 3.1a and 3.1b in its 2020/21 Service Plan to one per cent.
[3] The Commission has adjusted its 2020/21 and 2021/22 targets for performance measures 3.1a and 3.1b in its 2020/21 Service Plan to one per cent.

Goal 4: Support Responsible Energy Resource Development

Objective 4.1: Potential liabilities associated with resource development are mitigated

Key Highlights

- The Commission created the Orphan Liability Levy, which went into effect April 1, 2019 and is being phased in over three years, to ensure adequate restoration funding for orphan sites.
- In April 2019 The Commission initiated development of a new corporate health model for liability management that will be responsive to changing industry risks and will be used for reviewing security requirements and permit transfers.
- The Dormancy and Shutdown Regulation was implemented May 31, 2019 and over 1,600 sites were scheduled for restoration work in the first year by industry.
- The Commission developed and implemented the Comprehensive Liability Management Plan on May 31, 2019 to address orphan sites, improve the restoration of inactive sites, and to modernize liability management.
- An updated liability model was implemented on March 1, 2020 to ensure liability is more accurately tracked across the lifecycle of oil and gas activities.

Performance Measure(s)	2018/19 Actuals	2019/20 Target	2019/20 Actuals	2020/21 Target	2021/22 Target
4.1a Number of orphan sites restored[1]	4	15	22	20	25

Data Source: Internally monitored and tracked liability and asset management data. Note that 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 year.

[1] Targets for 2020/21 and 2021/22 were revised to 25 and 30, respectively, in the 2020/21 – 22/23 Service Plan.

Discussion of Results

The target for measure 4.1 was exceeded, as 22 sites were restored. As of March 31, 2020, there were 357 wells designated as orphan, of which 56 are substantially restored and restoration work is well underway on an additional 70 sites.

Financial Report

The Commission is reporting an annual surplus from operations of $4.0 million, but an overall deficit of $24.2 million after accounting for accrued liabilities for the Orphan Site Reclamation Fund (OSRF).

Production revenues continue to show steady growth, with gas production volume up 1% over last fiscal year. The increase in operating revenues is due to an unbudgeted $1.9 million in remediation recoveries and increases to application fee and levy revenue.

Commission operating expenses of $55.3 million were $0.7 million under budget despite incurring an unbudgeted $1.9 million in remediation costs outside of the OSRF, due to lower than budgeted operating costs across the board.

The large net deficit was due to a contingent liability accrual of over 400 sites which increased the liability for orphan sites from $40.6 million to $81.2 million. Despite the increase, the Commission continues to work towards reclaiming orphan sites within 10 years of orphan declaration, funded entirely from industry.

Capital spending during the year was $4.2 million compared to a budget of $5.2 million, as some projects were delayed or deferred.

Highlights

- Operating Surplus of $4.0 million, overall deficit of $24.2 million after accounting for the OSRF.
- Operating revenue was $3.3 million more than budget due to higher than anticipated application fees, levies and partial recoveries of security deposits.
- Operating expenses were $0.7 million lower than budget due to overall reduction in operating costs.

Financial Summary

($000)	2018/19 Actual	2019/20 Budget	2019/20 Actual	2019/20 Variance
OPERATIONS				
Operating Revenue				
Industry Levies	43,476	43,000	43,385	385
Application Fees and Miscellaneous	16,420	13,000	15,907	2,907
Total Revenue From Operations	**59,896**	**56,000**	**59,292**	**3,292**
Operating Expenses				
Salaries and Benefits	28,191	31,000	31,482	482
Other Operating	18,234	19,300	19,130	(170)
Amortization	4,293	5,700	4,729	(971)
Total Expenses From Operations	**50,718**	**56,000**	**55,341**	**(659)**
Net Surplus From Operations	**9,178**	**0**	**3,951**	**3,951**
ORPHAN SITE RECLAMATION FUND (OSRF)				
OSRF Revenue				
Industry Levies	5,633	15,000	15,339	339
Security Deposits, Interest	2,061	200	14,744	14,544
Total Revenue From OSRF	**7,694**	**15,200**	**30,083**	**14,883**
OSRF Expenses				
Orphan designations and administration	11,424	7,200	48,206	41,006
Reclamation	9,586	8,000	9,998	1,998
Total Expenses from OSRF	**21,010**	**15,200**	**58,204**	**43,004**
Net surplus / (deficit) from OSRF	**(13,316)**	**0**	**(28,121)**	**(28,121)**
Annual Consolidated Surplus / (Deficit)	**(4,138)**	**0**	**(24,170)**	**(24,170)**
Additional Information				
Capital Expenditures	**6,578**	**5,200**	**4,241**	**(959)**
Total Liabilities	**93,910**	**90,235**	**119,402**	**(29,167)**
Accumulated surplus (deficit)	**18,297**	**14,090**	**(5,873)**	**(19,963)**

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

Variance and Trend Analysis

Total revenue from operations was $59.3 million, compared to the budget of $56 million. The increase over budget is a result of an unbudgeted $1.9 million in remediation recoveries, an increase of $1.0 million in application fee revenues and $0.4 million in industry levies. Gas production continued to show steady growth and volumes were up by 1% over 2018/19.

The Commission implemented an industry orphan liability levy in 2019/20 which is being phased in over three years, along with a phasing out of the orphan production levy. In 2019/20 $7.5 million was raised through the liability levy and $7.8 million from the production levy to fund OSRF costs.

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.

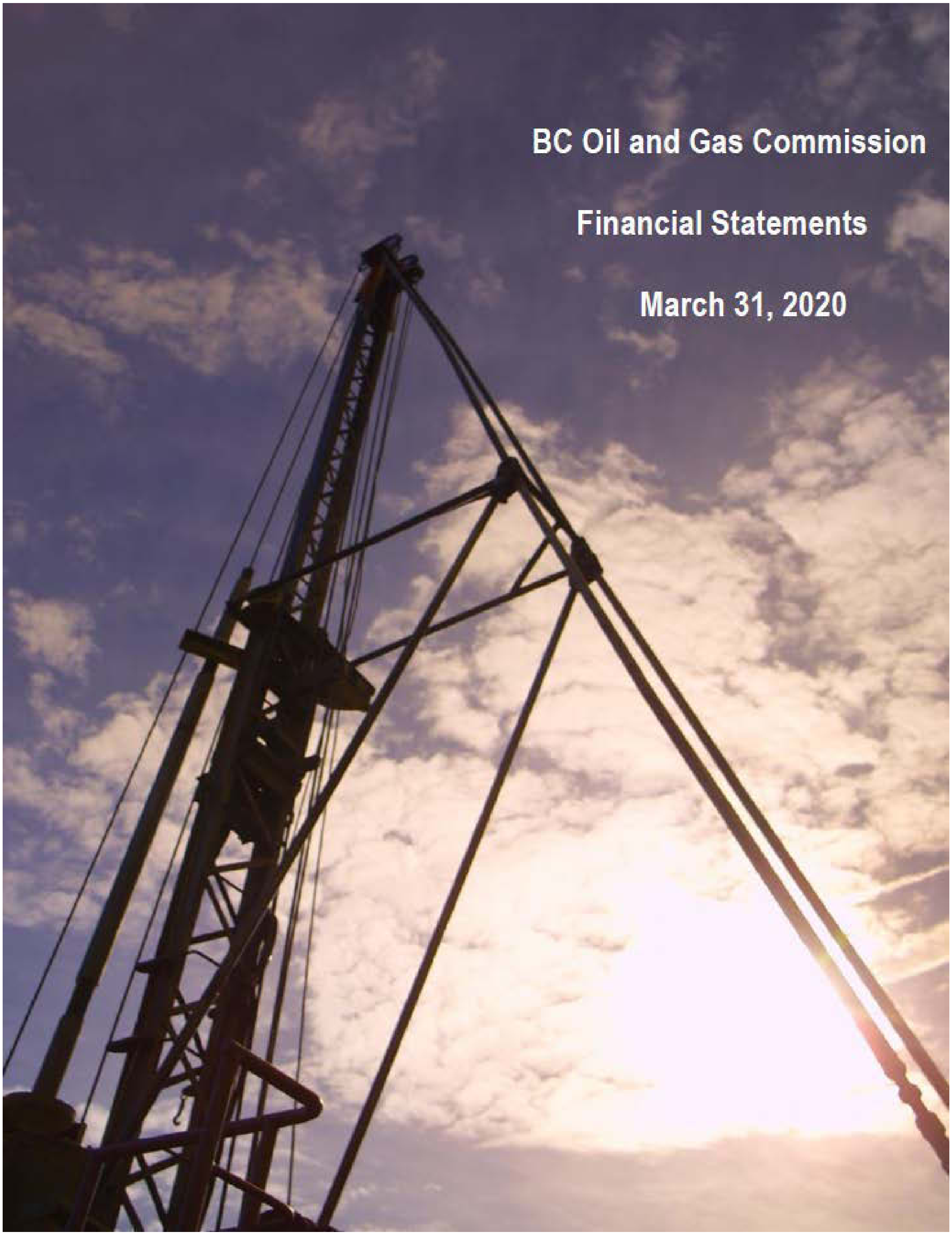
Risks and Uncertainties

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 contaminated orphan sites up front continues to impact the Commission's ability to balance its budget on an annual basis. However, industry funding through the liability and production levies continues to be sufficient to fund these future expenditures and ensures there is no taxpayer cost. The deficit from the OSRF in 2019/20 is due to the unbudgeted receivership of one large permit holder.

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. The ability of the Commission to set levy rates, within an approved range, reduces the risk that regulatory costs will exceed industry revenues. Application fee revenues and interest income offset the levy rate required and are generally consistent on a yearly basis.

Audited Financial Statements



Statement of Management Responsibility

The financial statements of the BC Oil and Gas Commission (the "Commission") for the year ended March 31, 2020 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

Paul Jeakins
Commissioner

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

June 30, 2020

OFFICE OF THE
Auditor General
of British Columbia

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, 2020, and the statements of operations and accumulated surplus, changes 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, 2020, 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 2019/20 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 2019/20 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 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
Assistant Auditor General

Victoria, British Columbia, Canada
July 2, 2020

OFFICE OF THE
Auditor General
of British Columbia

BC Oil and Gas Commission Statement of Financial Position (in $000s)	Note	March 31 2020	March 31 2019
Financial assets			
Cash		$ 11,317	$ 12,962
Investments	3,4	59,147	54,828
Accounts receivable	5	13,800	16,272
Due from government	6	4,667	3,121
		88,931	87,183
Liabilities			
Accounts payable & accrued liabilities	7	8,580	3,944
Employee future benefits	8	761	693
Due to Indigenous communities	9	139	220
Due to government		989	594
Deferred revenue	10	1,032	1,559
Deferred lease inducements		497	488
Liability for orphan sites	11, 15	81,197	40,588
Security deposits	4	26,207	45,824
		119,402	93,910
Net financial debt		(30,471)	(6,727)
Non-financial assets			
Tangible capital assets	12	23,504	24,110
Prepaid expenses		1,094	914
		24,598	25,024
Accumulated (deficit)/surplus		**$ (5,873)**	**$ 18,297**
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 Surplus (in $000s)	Note	Budget 2020	March 31 2020	March 31 2019
		(Note 19)		
Revenues				
Production levies		$ 46,450	$ 47,280	$ 43,733
Orphan site restoration levy & tax		7,500	7,504	1,688
Annual pipeline levies		3,750	3,940	3,688
Fees		10,900	12,459	14,993
Interest		1,638	1,574	1,436
Remediation recoveries		15,600	16,432	1,871
Other revenue		-	186	181
		85,838	89,375	67,590
Expenses				
Oil and gas activities regulation	17	70,638	55,341	50,718
Orphan site reclamation fund	17	49,281	58,204	21,010
		119,919	113,545	71,728
Annual deficit		(34,081)	(24,170)	(4,138)
Accumulated surplus, beginning of year		18,297	18,297	22,435
Accumulated (deficit)/surplus, end of year		$ (15,784)	$ (5,873)	$ 18,297

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 2020	March 31 2020	March 31 2019
	(Note 19)		
Annual deficit	$ (34,081)	$ (24,170)	$ (4,138)
Acquisition of tangible capital assets	(4,390)	(4,241)	(6,578)
Disposals of tangible capital assets	-	118	-
Amortization of tangible capital assets	5,100	4,729	4,293
	710	606	(2,285)
Acquisition of prepaid expense	-	(180)	(200)
Decrease in net financial assets	(33,371)	(23,744)	(6,623)
Net financial (debt)/assets, beginning of year	(6,727)	(6,727)	(104)
Net financial (debt), end of year	**$ (40,098)**	**$ (30,471)**	**$ (6,727)**

The accompanying notes are an integral part of these statements.

BC Oil and Gas Commission Statement of Cash Flows (in $000s)	March 31 2020	March 31 2019
Operating transactions		
Cash generated from:		
Production levies	$ 54,633	$ 46,701
Annual pipeline levies	3,688	3,634
Fees	13,316	14,028
Interest	1,574	1,436
Miscellaneous and recoveries	16,563	4,648
Security deposits	553	9,098
	90,327	79,545
Cash used for:		
Salaries and benefits	(31,565)	(28,087)
Payments to Indigenous communities	(5,393)	(5,837)
Operating expenses	(7,599)	(11,366)
Orphan site reclamation	(18,685)	(13,146)
Security deposits refunded	(3,738)	(1,598)
Security deposits transferred to revenue	(16,432)	(1,871)
	(83,412)	(61,905)
Cash from operating activities	6,915	17,640
Capital transactions		
Cash used to acquire tangible capital assets	(4,241)	(6,578)
Investing transactions		
Investments in portfolio investments	(4,319)	(3,609)
Increase (decrease) in cash	(1,645)	7,453
Cash beginning of year	12,962	5,509
Cash end of year	**$ 11,317**	**$ 12,962**

The accompanying notes are an integral part of these statements.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

1. The Oil and Gas Commission

The Commission was established under the *Oil and Gas Commission Act* on July 30, 1998 to regulate 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;
- Annual pipeline levies; and
- Annual orphan liability 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%.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

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.

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.

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.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

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, 2020 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 the lower of cost or market value.

Investment funds are pooled from the following sources:

	March 31 2020	March 31 2019
Operations	$ 11,234	$ 4,884
Orphan site reclamation fund (note 11)	21,706	4,120
Security deposits - Liability Management Rating program (note 4)	26,207	45,824
	$ 59,147	**$ 54,828**

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 $144,674 (2019: $140,634) in security deposits, of which $26,207 (2019: $45,825) is held in cash and/or investments and $118,467 (2019: $94,809) 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 2020, the Commission recovered $16,432 (2019: $1,871) from security deposits to satisfy restoration obligations of permit holders.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

5. Accounts receivable

	March 31 2020	March 31 2019
Production levies receivable	$ 8,602	$ 9,768
Annual pipeline levies receivable	3,940	3,688
Fees	593	1,977
Other receivables	665	839
	$ 13,800	**$ 16,272**

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 2020	March 31 2019
Levies collected	4,080	2,763
Recoveries and other	587	358
	$ 4,667	**$ 3,121**

7. Accounts payable and accrued liabilities

	March 31 2020	March 31 2019
Accounts payable and accrued liabilities	5,644	1,473
Salaries and benefits payable	2,936	2,471
	$ 8,580	**$ 3,944**

Employee leave entitlements

As of March 31, 2020, 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 $950 (2019: $870). 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 trusteed 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.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

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, 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, 2020 for employer contributions was $2,450 (2019: $2,282).

Future retirement allowance liability

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

	March 31 2020	March 31 2019
Accrued retirement obligation		
Balance at beginning of year	$ 693	$ 605
Current benefit cost	66	58
Interest	31	30
Amortization of actuarial loss	25	24
Benefits paid	(54)	(24)
Balance at end of year	**$ 761**	**$ 693**
Actuarial retirement obligation		
Accrued benefit obligation	$ 761	$ 693
Unamortized actuarial loss	335	284
Balance at end of year	**$ 1,096**	**$ 977**

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

	2020	2019
Discount rate	2.45%	3.10%
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, 2020 (2019: 14 years).

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

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 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	$ 1,559	11,932	(12,459)	$ 1,032

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, orphan liability levies 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 $23,904 (2019: $7,895) to pay for costs associated with orphan sites. During the year, the number of designated orphan sites increased from 346 to 357. Of the designated sites, 56 (2019: 22) 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 ongoing receivership proceedings of a major permit holder. Commission management has determined that it is likely the receivership process will conclude with 401 sites becoming orphaned with an estimated obligation of $53,100. Security of $13,735 exists to offset the future costs. Subsequent to the date of the financial statements the receivership process concluded and the 401 sites were formally designated.

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 $133,000 to $217,000.

Estimated costs have not been net present valued as the related costs are not expected to occur over an extended long term period.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

12. Tangible capital assets

March 31, 2020	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Vehicles	Other Business Systems	Application Management System	Computer Software	Total
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**

March 31, 2019	Tenant Improvements	Furniture	Computer Hardware	Operating Equipment	Vehicles	Other Business Systems	Application Management System	Computer Software	Total
Cost									
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)	-	-	0	0	-	-	-	(1,491)
Closing balance	**$ 6,404**	**$ 4,045**	**$ 3,203**	**$ 1,681**	**$ 1,741**	**$ 5,396**	**$ 17,831**	**$ 815**	**$ 41,116**
Accumulated amortization									
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)	-	-	-	0	-	-	-	(1,491)
Closing balance	**$ 3,530**	**$ 2,008**	**$ 2,279**	**$ 661**	**$ 609**	**$ 2,580**	**$ 4,605**	**$ 734**	**$ 17,006**
Net book value	**$ 1,882**	**$ 1,550**	**$ 713**	**$ 916**	**$ 1,068**	**$ 1,546**	**$ 13,764**	**$ 249**	**$ 24,110**

Included in the net book value of other systems development are assets not being amortized of $1,661 (2019: $216) as they have not yet been completed and put into use.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

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.

2021	2022	2023	2024	2025	Thereafter
$ 7,872	$ 4,374	$ 4,375	$ 4,429	$ 3,988	$ 12,756

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.

	Reported	Low	High
Liability for orphan sites	$81,197	$60,000	$116,000

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.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

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 2020	March 31 2019
Revenues:		
Recoveries	$ 45	$ 80
Miscellaneous	185	165
	$ 230	**$ 245**
Expenses:		
Salaries and benefits	$ 1,253	$ 916
Building occupancy	153	189
Professional services and training	823	490
Telecommunications and information systems	120	189
Travel and vehicle costs	17	25
Office supplies and equipment	37	33
	$ 2,403	**$ 1,842**
Tangible capital assets		
Additions	**$ 628**	**$ 188**

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.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

17. Expense by Object

	Oil and Gas Activities Regulation	Orphan Site Reclamation Fund	March 31 2020	March 31 2019
Salaries and benefits	31,482	616	32,098	28,520
Indigenous communities	5,312	-	5,312	5,942
Building occupancy	4,452	-	4,452	5,004
Professional services and training	2,475	1	2,476	2,181
Amortization	4,729	-	4,729	4,293
Travel and vehicle costs	1,818	37	1,855	2,237
Telecommunications and information systems	2,365	-	2,365	2,186
Grants	45	-	45	77
Reclamation	1,923	57,371	59,294	20,680
Office supplies and equipment	611	1	612	546
Bad debts	129	178	307	62
	$ 55,341	**$ 58,204**	**$ 113,545**	**$ 71,728**

18. Subsequent events

After the date of these financial statements, three permit holders have indicated they are preparing for creditor protection. Under the Commission's Liability Management Rating (LMR) program security of $2.2 million is held from these permit holders and the permit holders have been calculated to hold deemed liabilities of $9.0 million. The LMR program is used by the Commission in determining security requirements of permit holders. The Commission is not able to reasonably estimate the associated liability for orphan sites, if any, as the outcome of creditor protection actions is not determinable at this time. Calculated deemed liabilities under the LMR program are provided in this note as a proxy estimate only and may not reflect the extent of potential financial impacts. Since these events occurred after the date of the financial statements no accrual for potential orphan designations has been included.

On April 17, 2020, the Government of Canada announced funding to support clean up of orphan and inactive oil and gas wells across the Province of British Columbia. Funds totalling $15 million will be transferred to the Commission's Orphan Fund to carry out an Orphan Sites Supplemental Reclamation Program (the "Program") for the restoration of orphan sites that is incremental to existing funding paid by BC regulated companies. The Program will be completed by March 31, 2022.

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 March 7, 2019. 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.

BC Oil and Gas Commission
Notes to the Financial Statements March 31, 2020
(in $000s)

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, stakeholders and Indigenous communities, while maintaining operations. Risks to the Oil and Gas industry, which the Commission regulates and receives its funding from, include low market prices and a tightened ability to obtain financing. The impact of those risks on the Commission's financial statements are not measurable at this time. Commission management will continue to monitor the impact of the pandemic on its operations and the industry it regulates.

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 First 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 Petroleum Resources. 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 Petroleum Resources 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* (OGAA), the Deputy Minister for the Ministry of Energy, Mines and Petroleum Resources 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.