

OIL AND GAS ORPHAN FUND

FINANCIAL STATEMENTS

For The Year Ended March 31, 2014



INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Oil and Gas Orphan Fund, which comprise the statement of financial position as at March 31, 2014, and the statement of operations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for Treasury Board's approval, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Oil and Gas Orphan Fund as at March 31, 2014, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Judy Ferguson, FCA
Acting Provincial Auditor

Regina, Saskatchewan
July 24, 2014

**OIL AND GAS ORPHAN FUND
STATEMENT OF FINANCIAL POSITION
As at March 31**

	<u>2014</u>	<u>2013</u>
FINANCIAL ASSETS		
Due from General Revenue Fund (Note 4)	\$ 10,768,241	\$ 8,990,522
Interest Receivable	38,083	31,971
LIABILITIES		
Accounts Payable	<u>69,027</u>	<u>----</u>
Net Financial Assets and Accumulated Surplus (Statement 2) (Note 3)	<u>\$ 10,737,297</u>	<u>\$ 9,022,493</u>

(See accompanying notes to the financial statements)

**OIL AND GAS ORPHAN FUND
STATEMENT OF OPERATIONS
Year Ended March 31**

	<u>Budget</u>	<u>Actual</u>	
	<u>2013</u> (Note 6)	<u>2014</u>	<u>2013</u>
Revenues:			
Levies (Note 5)	\$2,910,000	\$ 2,270,048	\$ 1,002,801
License Application Fees (Note 5)	90,000	240,000	410,000
Forfeited Security Deposits	----	345,712	130,000
Interest (Note 4 & 5)	<u>55,000</u>	<u>143,710</u>	<u>119,461</u>
	<u>3,055,000</u>	<u>2,999,470</u>	<u>1,662,262</u>
Total Revenues			
Expenses:			
Abandonment and Reclamation	3,000,000	1,180,924	518,864
Administration Costs	<u>55,000</u>	<u>103,742</u>	<u>---</u>
Total Expenses	<u>\$3,055,000</u>	<u>1,284,666</u>	<u>518,864</u>
Annual Surplus		1,714,804	1,143,398
Net Financial Assets, beginning of year		<u>9,022,493</u>	<u>7,879,095</u>
Net Financial Assets, end of year – to Statement 1		<u>\$10,737,297</u>	<u>\$ 9,022,493</u>

(See accompanying notes to the financial statements)

**OIL AND GAS ORPHAN FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2014**

1. Authority

The Oil and Gas Environmental Fund (fund) was established on May 17, 1989, pursuant to Section 18.2 of *The Oil and Gas Conservation Regulations, 1985* (Regulations). The fund originated through a one-time assessment of \$100 per well to a maximum of \$20,000 per operator.

In June 2007, an amendment was made to the *Oil and Gas Conservation Act (Act)* that provided for the continuance of the existing Oil and Gas Environmental Fund as the Oil and Gas Orphan Fund (Order in Council #442/2007). The purpose of the fund is to address the issue of abandonment of wells, decommissioning of facilities, and clean-up of those wells and facilities where the obligations of the person responsible for carrying out those activities are not being met.

2. Significant Accounting Policies

Pursuant to Canadian public sector accounting standards, the fund is classified as an other government organization. These financial statements are prepared in accordance with Canadian public sector accounting standards. These financial statements do not present a statement of cash flows because this information is readily apparent from the statement of operations. In addition, the financial statements do not present a statement of changes in net financial assets as the fund does not hold any non-financial assets.

- a) The fund recognizes the orphan fund fees as revenue when received with the accompanying first-time license application.
- b) The fund recognizes orphan fund levies as revenue when the levies are assessed.
- c) The fund recognizes security deposits as revenue when the Minister declares them forfeited to the Crown in the right of Saskatchewan.
- d) The fund recognizes any unused forfeited security deposits as an expense when the Minister approves their return to the depositor.
- e) Interest is recorded as revenue when earned.

3. Net Financial Assets

The net financial assets, together with any future recoveries of well site restoration costs, are available to provide for expenditures under section 18.4 of the Regulations related to the:

- a) abandonment of wells and restoration of abandoned well sites, as a result of disappearance or insolvency of the well owner or operator.

- b) containment or clean-up of major environmental problems arising from oil and gas exploration, development, production or transportation operations.

4. Related Party Transactions

Included in these financial statements are transactions with the government ministries and agencies related to the fund by virtue of common control or significant influence by the Government of Saskatchewan.

The fund's money is deposited in the cobbled account of the province's General Revenue Fund (GRF) as a short term investment strategy and the account is receiving interest quarterly. A cobbled account means the money remains in a separate bank account at all times, and is fully under the fund's control and participation in the cobbled arrangement means that the interest on the bank account comes from the GRF rather than from a financial institution. That interest, although coming from the GRF, is based on the government's 30 day average interest rate, which is calculated and paid by Cash and Debt Management Branch in the Ministry of Finance.

The fund has not been charged with any administrative costs and no provision for such costs is reflected in these statements. These costs are borne by the Ministry of the Economy.

5. Fees, Levies and Security Deposits

Section 16(2) of the Regulations requires all first-time applicants for a well or upstream facility licensee to pay a one-time fee of \$10,000 which is deposited into the Oil and Gas Orphan Fund.

The primary purpose of the Saskatchewan Oil and Gas Orphan Fund is to prevent the occurrence of orphan wells and facilities in Saskatchewan. However, there are many wells and facilities that have previously been identified as orphans and others that are newly identified each year. These wells and facilities will require abandonment and the sites will require reclamation.

In order to pay for these costs, the Saskatchewan Orphan Fund Levy (the "orphan fund levy") was established. Each licensee in the province is levied, in accordance with the Regulations, on an annual basis to pay a percentage of a budget to carry out an annual orphan abandonment and reclamation program. Section 119 of the Regulations provides the details of how the levy is calculated for each licensee.

In addition, under the Licensee Liability Rating Program, the Minister in accordance with the Act and Regulations may require irrevocable security deposits from holders of oil and gas licenses for the purpose of ensuring that they can meet their obligations with respect to suspension, abandonment, restoration, remediation, or reclamation of wells and upstream facilities and sites.

At March 31, 2014, the fund held security deposits from the holders of oil and gas licenses consisting of \$38,746,889 (2013 - \$58,948,358) in irrevocable letters of credit and \$5,673,203 (2013 - \$2,821,164) in cash. Since the security deposits are

held on behalf of holders of oil and gas licenses, they are not included in the financial statements of the fund.

As a Licensee's Liability Rating improves the cash may be refunded to the licensee. The licensees were notified in writing that interest will not be calculated or paid on security deposits.

6. Budget

The budget for the fund is included with the Ministry of the Economy budget submission to Treasury Board. Treasury Board approves the fund's budget annually.

7. Comparative Figures

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

8. Future Change in Accounting Policy

PS 3260 Liability for contaminated sites

The standard is effective for fiscal years beginning on or after April 1, 2014 and establishes how to account for and report a liability associated with the remediation of contaminated sites. The fund's adoption of the standard in fiscal year 2014-15 will have no impact on the fund's financial statements.