

Petroleum Technology  
Research Centre

2002/2003  
*Financial Report*



Petroleum Technology Research Centre

6 Research Drive, Regina, Saskatchewan, Canada S4S 7J7

Telephone: (306) 787-8290

Fax: (306) 787-8811

Website: [www.ptrc.ca](http://www.ptrc.ca)



In 2002-03, the Petroleum Technology Research Centre made significant strides toward our goal to become an internationally recognized petroleum research institute in Saskatchewan.

We have used our size and flexibility to solve problems in our areas of core competency:

Heavy Oil Cold Flow, Foamy Flow and Related Processes

Enhanced Waterflooding

Near Wellbore Conformance Processes

Miscible/Immiscible flooding

All four of our chosen areas of concentration have strong applicability to Saskatchewan's oil reserves and many reserves found throughout the Western Canadian Basin.

Fueling our success is the expertise gleaned from practical research by the Saskatchewan Research Council and the experience from the fundamental research done at the University of Regina. The PTRC continues to act as a facilitator for these types of complementary research to solve our clients' problems.

Another key principle of the PTRC was to ensure that we would be an industry-driven organization. We provide a forum for the oil and gas industry to exchange ideas, problems and experience with those who conduct the research. The substantial increase in industry participation, both in dollar commitments and industry expertise, has accelerated during our 2002-2003 fiscal year.

We will also continue to coordinate unique collaborative research projects such as the carbon dioxide monitoring and storage project in the EnCana fields near Weyburn. This International Energy Agency sponsored project has fueled research attention and financial support from industry, governments and researchers in Canada, Europe and the United States. Our Vapex III project that involved financial support and involvement by nine industry participants, proved so successful that a Vapex IV is planned to continue studying the use of hydrocarbon solvents for heavy oil enhanced recovery.

PTRC has proven to clients time and again that we have the expertise, integrity and determination to work with them to solve their problems. The researchers at the U of R and the SRC are now recognized internationally.

I wish to thank our Board of Directors and our founding partners for their continued support.

In addition, I want to thank Roland Moberg, who has been our General Manager since inception in 1998, and wish him the best upon his return to the operational side of the oil and gas industry.

*Frank W. Proto*

Frank Proto





*The PTRC Board of Directors from left to right:*

Mike Monea, Executive Director,  
Petroleum Technology Research Centre

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Laurier Schramm, President, Saskatchewan Research Council

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David Long, General Manager, Heavy Oil & Gas Business,  
Husky Energy

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Frank Proto, Chairman, Petroleum Technology Research Centre

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David Barnard, President, University of Regina

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Mike Langley, VP Business Development,  
North American Oil Sands Corporation

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Bob Mitchell, Vice-President, Talisman Energy Inc.

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John Zahary, President, Petrovera Resources Ltd.

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***Missing from photo:***

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Ric Cameron, Assistant Deputy Minister Energy Sector,  
Natural Resources Canada

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Carl Henneberg, President, Blacksmith Resources

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Dan O'Byrne, VP Technical Services, Nexen Inc.

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Larry Spannier, Deputy Minister,  
Saskatchewan Industry and Resources

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*To the members of Petroleum Technology Research Centre Inc.*

We have audited the statement of financial position of Petroleum Technology Research Centre Inc. as at March 31, 2003 and the statements of operations and unappropriated net assets and cash flow for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the centre as at March 31, 2003 and the results of its operations and changes in its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.



REGINA, Saskatchewan

June 26, 2003

Mintz & Wallace

Chartered Accountants

*Statement of Financial Position*  
as at March 31, 2003

	General Operating Fund	Capital Fund	Weyburn Project Fund	2003 Total	Statement A 2002 Total
					(Restated)
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 406,311	\$ -	\$ 20,786	\$ 427,097	\$ 565,186
Money market and savings	-	-	-	-	1,907,441
Accounts receivable - Note 13	294,750	-	1,685,832	1,980,582	1,033,572
Prepaid expenses	3,349	-	-	3,349	3,220
	704,410	-	1,706,618	2,411,028	3,509,419
CAPITAL ASSETS - Note 3	10,347	-	-	10,347	13,529
	\$ 714,757	\$ -	\$ 1,706,618	\$ 2,421,375	\$ 3,522,948
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 388,423	\$ -	\$ 1,727,923	\$ 2,116,346	\$ 2,275,341
<b>DUE TO (FROM) OTHER FUNDS</b>					
- Note 8	251,305	(230,000)	(21,305)	-	-
<b>DEFERRED REVENUE</b>					
- Note 4, Note 13	317,161	230,000	-	547,161	1,526,439
	956,889	-	1,706,618	2,663,507	3,801,780
<b>NET ASSETS</b>					
Appropriated for executive Compensation - Note 9	-	-	-	-	100,000
Unappropriated - Statement B	(242,132)	-	-	(242,132)	(378,832)
	(242,132)	-	-	(242,132)	(278,832)
	\$ 714,757	\$ -	\$ 1,706,618	\$ 2,421,375	\$ 3,522,948

See accompanying notes

Approved by the Board

 Director

 Director

*Statement of Operations  
and Unappropriated Net Assets*  
For the year ended March 31, 2003

	General Operating Fund	Capital Fund	Weyburn Project Fund	2003 Total	Statement B 2002 Total
<b>REVENUE</b>					
<b>Annual Funding</b>					
- Saskatchewan Industry & Resources	\$ 250,000	\$ -	\$ -	\$ 250,000	\$ 250,000
- Natural Resources Canada	875,811	-	-	875,811	890,344
<b>Project Funding</b>					
- Saskatchewan Industry & Resources - Note 10	-	855,000	-	855,000	-
- Natural Resources Canada	-	-	1,583,333	1,583,333	1,920,703
- Natural Resources Canada and US Department of Energy	-	-	1,949,597	1,949,597	-
- Industry	969,278	-	825,000	1,794,278	1,616,860
<b>Interest</b>	25,048	-	838	25,886	50,598
<b>Other</b>	650	-	-	650	4,939
	2,120,787	855,000	4,358,768	7,334,555	4,733,444
<b>OPERATING EXPENSES</b>					
Advertising and promotion	26,559	-	-	26,559	9,355
Amortization	3,182	-	-	3,182	4,233
Bank charges and interest	1,260	-	-	1,260	540
Conferences	8,219	-	-	8,219	8,199
Consulting fees	261,784	-	-	261,784	39,501
Dues and subscriptions	2,271	-	-	2,271	1,833
Insurance	6,671	-	-	6,671	6,310
Legal and accounting	17,014	-	-	17,014	32,688
Miscellaneous	7,618	-	-	7,618	14,533
Office	49,911	-	-	49,911	19,708
Rent	48,566	-	-	48,566	53,769
Salaries and benefits	278,578	-	-	278,578	212,200
Supplies	4,911	-	-	4,911	4,963
Travel	16,309	-	-	16,309	33,402
	732,853	-	-	732,853	441,234
<b>PROJECT EXPENSES - Note 5</b>	1,351,234	855,000	4,358,768	6,565,002	4,679,591
<b>EXCESS OF REVENUE (EXPENSES)</b>	36,700	-	-	36,700	(387,381)
<b>NET ASSETS - beginning of year</b>	(378,832)	-	-	(378,832)	8,549
<b>APPROPRIATIONS - REVERSAL</b>					
- Note 9	100,000	-	-	100,000	-
<b>NET ASSETS - end of year</b>					
- Statement A	\$ (242,132)	\$ -	\$ -	\$ (242,132)	\$ (378,832)

See accompanying notes

*Statement of Cash Flow*  
For the year ended March 31, 2003

	2003	Statement C 2002
<b>OPERATING ACTIVITIES</b>		
Excess of revenue (expenses)	\$ 36,700	\$ (387,381)
Item which does not affect cash outlay: - amortization	3,182	4,233
	39,882	(383,148)
Net change in non-cash current assets	960,302	2,310,462
Net change in non-cash current liabilities	(158,995)	(625,700)
Net change in non-cash deferred revenue	(979,278)	(883,110)
Net cash from operating activities	(138,089)	418,504
<b>(DECREASE) INCREASE IN CASH RESOURCES</b>	(138,089)	418,504
CASH - beginning of year	565,186	146,682
CASH - end of year	\$ 427,097	\$ 565,186
<b>REPRESENTED BY:</b> Cash balance in chequing accounts	\$ 427,097	\$ 565,186

See accompanying notes



## 1. NATURE OF ORGANIZATION

The Centre is an internationally recognized innovative leader in the petroleum research and development area that delivers world class basic and applied research for the benefits of the people of Saskatchewan, Canada and their customers around the globe. The Centre is incorporated under the Canada Business Corporations Act as a non-profit corporation and is exempt from income taxes on its income.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and the most significant policies are as follows:

### Fund Accounting

The accounts of the Centre are maintained in accordance with the principles of fund accounting. For financial reporting purposes, accounts with similar characteristics have been combined into the following major funding groups:

#### i) General Operating Fund

The operating fund reflects the primary operations of the Centre including revenues received from Saskatchewan Industry & Resources and the Department of Natural Resources Canada to fund its daily operations and administration activities.

#### ii) Capital Fund

The capital fund reflects the commitment of the Government of Saskatchewan to assist in funding a Petroleum Research Building on the campus of the University of Regina as well as the acquisition of equipment to be used by the University of Regina, the Saskatchewan Research Council and the Centre. While the Centre does have access to the use of the equipment and building, they do not maintain ownership rights and all acquisitions are expensed in the year incurred.

The Government of Saskatchewan provided this funding through Saskatchewan Industry & Resources, formerly Saskatchewan Economic and Co-operative Development.

#### iii) Weyburn Fund

The Weyburn fund reflects the funding received from government and industry and expenditures made for the IEA Weyburn CO<sub>2</sub> monitoring project.

#### Revenue Recognition

The Centre follows the deferral method of accounting for contributions. Restricted contributions related to general operations are recognized as revenue of the operating fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

Unrestricted contributions are recognized as revenue of the operating fund in the year they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

#### Short Term Investments

Short term investments consist of money market mutual funds. They are stated at cost which approximates their fair market value.

#### Capital Assets

The capital assets are stated at cost and are amortized using the declining balance method at the rates indicated in Note 3. One-half year's amortization is recognized in the year of acquisition.

#### Taxation

The Corporation is incorporated under the Canada Business Corporations Act as a non-profit corporation and is not subject to income taxes on its net income.

### 3. CAPITAL ASSETS

	2003 Cost	2003 Accumulated Amortization	2003 Net Book Value	2002 Net Book Value	Rates
Computers	\$ 11,223	\$ 7,889	\$ 3,334	\$ 4,763	30%
Office furniture	12,175	5,162	7,013	8,766	20%
	\$ 23,398	\$ 13,051	\$ 10,347	\$ 13,529	

#### 4. DEFERRED REVENUE

The Centre receives contributions from government and industry for specific projects. These funds are restricted in use as directed by the external sponsors. The Centre recognizes revenue for these projects on the same basis as expenditures are incurred. Any excess revenue in the year is deferred and recognized in future years as expenditures are incurred.

The Capital Fund reflected the commitment of the Government of Saskatchewan to assist in the funding of a Petroleum Research Building on the campus of the University of Regina. Of the \$3,000,000 received, \$2,600,000 was designated for equipment purchases and \$400,000 was designated to partially fund building construction of the PTRC building (completed in 2000 - 01).

During the year, the Centre funded capital equipment expenditures of \$855,000 (2002 - \$0). At March 31, 2003 the balance of the Capital Fund - Deferred Revenue was \$230,000 (2002 - \$1,000,000).

The Centre received project funding for Innovation and Incubation projects during the year. As at March 31, 2003 the General Operating Fund - Deferred Revenue was \$317,161 (2002 - \$526,439).

#### 5. PROJECT EXPENSES

During the year, the General Operating Fund incurred expenses of \$1,351,234 (2002 - \$1,044,702).

	2003	2002
Equipment projects	\$ 127,065	\$ -
Innovation projects	1,168,159	1,003,253
Incubation projects	56,010	41,449
	\$ 1,351,234	\$ 1,044,702

Equipment projects expenditures are related to the purchase of new equipment for research providers that are involved in Innovation or Incubation projects for the Centre.

Innovation projects are designed to refine research output into actual field applications that may be used by the petroleum industry. These are usually medium to large sized projects with a timeline of more than one year.

Incubation projects are projects aimed at determining if a specific area of research has relevant applications in the petroleum industries. These projects are relatively small with a short time frame.

The Capital Fund expended \$855,000 (2002 - \$0) on funding equipment purchases for research providers to enhance core capabilities.

For details of the Weyburn Project Expenses, please refer to Schedule 1 of the financial statements.

## 6. MAJOR PROJECTS – ACTUAL RESULTS

The cumulative results of the Centre's major projects since their inception are as follows:

### IEA Weyburn CO<sub>2</sub> Project - Schedule 1

	Cumulative Actual 2003	Current Activity 2003	Cumulative Actual 2002
Revenue	\$ 10,775,190	\$ 4,358,768	\$ 6,416,422
Expenses	10,775,190	4,358,768	6,416,422
Fund Balance	\$ -	\$ -	\$ -

Phase I of this project is ongoing.

### Vapex III Project

	Cumulative Actual 2003	Current Activity 2003	Cumulative Actual 2002
Revenue	\$ 375,000	\$ -	\$ 375,000
Expenses	386,041	60,891	325,150
Fund Balance	\$ (11,041)	\$ (60,891)	\$ 49,850

This project was completed during the year.

## 7. ECONOMIC DEPENDENCE

The Centre has received funding commitments from the Department of Natural Resources Canada and Saskatchewan Industry & Resources for the years 2004 through 2007 for its operating and research projects:

### Funding

- Department of Natural Resources Canada 2003 - 2004 - \$ 900,000
- Saskatchewan Industry & Resources 2003 - 2004 - \$ 500,000

An agreement has been reached with the Department of Natural Resources Canada and Saskatchewan Industry & Resources for additional funding of the Centre for the next four years. The Centre is also seeking additional funding for its research projects from the Petroleum Industry.

## **8. DUE TO (FROM) OTHER FUNDS**

The Centre combined the cash and investments of all General and Capital Fund operations for efficiency of operations. As at March 31, 2003, there were no separate investments of cash for the Capital Fund. The balance of \$230,000 is owing to the Capital Fund from the General Operating Fund.

## **9. APPROPRIATED FOR EXECUTIVE COMPENSATION**

The former General Manager's contract contained a clause for a compensation payout in the event that the Centre was unable to attract funding and the Centre ceased operations. Because the former General Manager resigned at fiscal year-end, this appropriation was no longer required and reversed.

## **10. SASKATCHEWAN INDUSTRY & RESOURCES FUNDING**

During the year, the Centre recognized \$855,000 of revenue in the Capital Fund that it had received from Saskatchewan Economic and Co-operative Development (now amalgamated in Saskatchewan Industry & Resources). The Centre funded \$855,000 of equipment purchases for research providers working with the Centre to enhance the expertise and capabilities for petroleum research in Saskatchewan.

## **11. MEASUREMENT UNCERTAINTY**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

## **12. FINANCIAL INSTRUMENTS**

### **Fair Value of Financial Instruments**

The carrying amount of cash, current receivables and payables approximates their fair market value because of the short-term maturities of these items.

### **Credit Risk**

The Centre does not believe it is subject to any significant concentration of credit risk on any of its customers.

## **13. PRIOR YEAR'S FIGURES**

The 2002 financial statements understated the balance of both accounts receivable and deferred revenue by \$332,996 each. The comparative numbers for 2002 have been restated to correct for this understatement.

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

*Cumulative Schedule of  
IEA Weyburn CO<sub>2</sub> Project Fund  
as at March 31, 2003*

	Schedule 1		
	2003 Total Actual	2003 Current Activity	2002 Total Actual
<b>CUMULATIVE REVENUES</b>			
<b>Funders</b>			
Natural Resources Canada	\$ 4,484,245	\$ 1,583,333	\$ 2,900,912
Natural Resources Canada and US Department of Energy	1,949,597	1,949,597	-
	6,433,842	3,532,930	2,900,912
<b>Industry</b>			
Alberta Environment	150,000	75,000	75,000
Alberta Science and Research Authority	150,000	75,000	75,000
Chevron Texaco	75,000	75,000	-
Engineering Advancement Association of Japan	225,000	75,000	150,000
PTRC (General Fund)	105,000	-	105,000
EnCana	100,000	-	100,000
Saskatchewan Industry & Resources	105,000	-	105,000
SaskPower	225,000	75,000	150,000
BP (Amoco)	229,186	75,000	154,186
Transalta Utilities	225,000	75,000	150,000
Nexen Inc.	225,000	75,000	150,000
Dakota Gassification Company	225,000	150,000	75,000
Saskatchewan Petroleum Research Incentive	2,062,720	-	2,062,720
Total (Totalfinal)	225,000	75,000	150,000
	4,326,906	825,000	3,501,906
Interest	14,442	838	13,604
	\$ 10,775,190	\$ 4,358,768	\$ 6,416,422
<b>CUMULATIVE EXPENDITURES</b>			
<b>Cumulative expenditures by task</b>			
Task 1 – Collection of Field Data and Samples	\$ 2,112,136	\$ 561,860	\$ 1,550,276
Task 2 – Geoscience Framework	1,193,916	964,512	229,404
Task 3 – Geochemical Sampling, Monitoring & Prediction	1,039,326	508,565	530,761
Task 4 – Seismic Surveys	3,933,991	962,672	2,971,319
Task 5 – Sequestration Engineering	1,440,664	823,427	617,237
Task 6 – CO <sub>2</sub> Storage Economics	61,074	49,689	11,385
Task 7 – Project Control	994,083	488,043	506,040
	\$ 10,775,190	\$ 4,358,768	\$ 6,416,422
<b>ENDING FUND BALANCE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

This schedule shows the cumulative funding and expenditures for the IEA Weyburn CO<sub>2</sub> Project since its inception. The Natural Resources Canada (NRCan) and US Department of Energy (US DOE) funding is a funding mechanism that is designed to cover expenses not funded by NRCan or industry resources. At year-end, the balance of unfunded expenditures is accrued as Accounts Receivable based on the contractual agreement with NRCan and US DOE.