

Petroleum Technology
Research Centre

2006/2007
Financial Report



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Petroleum Technology
Research Centre

This year, more than ever before, there is an appetite for the type of research the PTRC is leading on a global scale: new technologies that help us to meet our energy needs, with a reduced impact on the environment. With industry support continuing to grow and renewed commitment from both provincial and federal levels of government, the PTRC is coming into its own as it enters its tenth year.

The Petroleum Research Fund, encompassing PTRC's basic and applied research efforts, invests in a number of collaborative programs and projects managed by PTRC with technical oversight from North American industry clients. The research conducted within this fund is distinguished by its visible path to field application and low environmental footprint, while maintaining its sights on the economic viability of the resulting technology.

Within this fund, the newly branded Enhanced Oil Recovery Research Program (formerly the Core Research Program) continues to be a leader in its field of enhanced oil recovery technology, drawing industry clients from around the world to participate in the development of innovative, field-ready research to improve production. The EOR Research Program has five focus areas that drive towards practical application

of technologies for economic enhanced oil recovery. Heavy Oil Post Cold Production looks at optimizing primary production by understanding the impact of wormholes and other reservoir-specific conditions.

Enhanced Waterflooding takes a closer look at the physical and chemical mechanisms that underscore a secondary recovery technique commonly used in the Western Canadian Sedimentary Basin. Considered an economically and environmentally advantageous alternative to thermal recovery processes, the PTRC is investigating

Solvent Vapour Extraction – the injection of gaseous solvents into an oil reservoir to dilute oil and drive it towards production wells. PTRC's investigations into Gas Flooding (Miscible/Immiscible) continue to look at the impact of using CO₂, flue gas and other solvents to improve production in light to heavy oil reservoirs. Our newest initiative, Improving Heavy Oil Predictability, will characterize and correlate heavy oil properties such as solvent solubility that are critical for the success of EOR applications.

Also within the Petroleum Research Fund are two other significant collaborative projects that have received outstanding industry support. The Viking



Continued next page

Project, which is moving into its second phase, has greatly enhanced technical knowledge for industry clients active in this mid-west Saskatchewan reservoir. The Water Assisted Pipeline Transportation project, soon to be completing its third year, has received accolades for its practical research results. Clients in this project are recommending that a field trial of the technology will be the next logical step.

The PTRC's JIVE (Joint Implementation of Vapour Extraction) Program is taking off and beginning to gain recognition as a tipping point in heavy oil recovery techniques. This research program involves implementing field pilots jointly with three industry champions — Husky, CNRL and Nexen — to prove solvent vapour extraction processes. With two of our pilot solvent projects up and running and a third on the way, JIVE is on track to dramatically change the way heavy oil is recovered here in Saskatchewan, and around the world. The technology developed in the JIVE Program will open up the vast, underexploited heavy oil reserves in western Canada, sparking an incredible economic boom in Saskatchewan, while reducing the environmental impact of every barrel produced.

With global interest in climate change mitigation rising, the International Energy Agency Greenhouse Gas

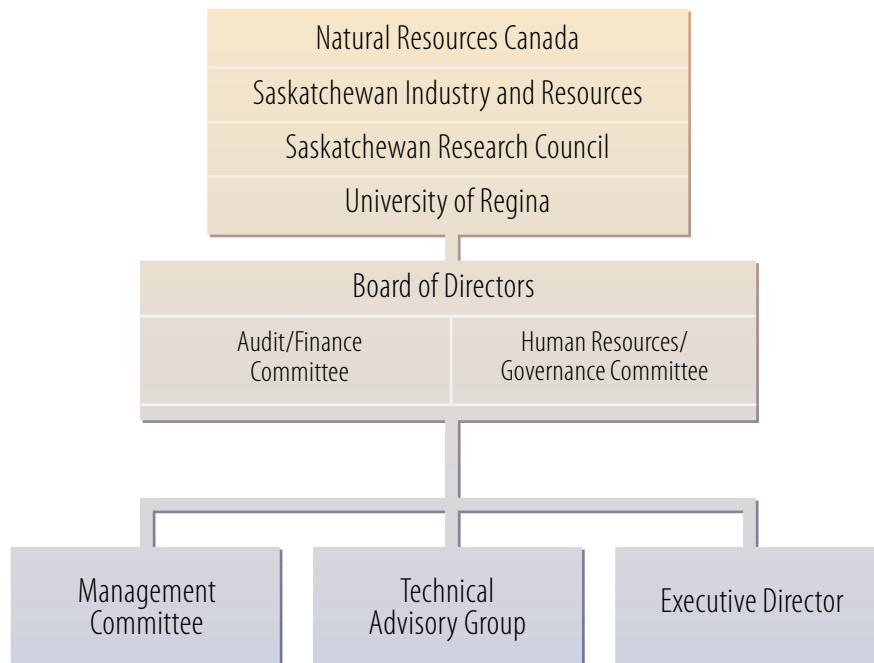
Weyburn-Midale CO₂ Monitoring & Storage Project has brought top industry sponsors on board. Aramco Services Company, a wholly owned subsidiary of Saudi Aramco (Saudi Arabia), came to the PTRC in Regina to learn more about carbon storage and they confirmed their joint sponsorship of the project's final phase. Aramco, along with other international and domestic industry participants, will work with the PTRC and government sponsors to expand the largest field pilot of geological carbon storage in the world and develop a Best Practices Manual for carbon storage in conjunction with enhanced oil recovery.

In closing, on behalf of the PTRC, I would like to thank the PTRC staff and board members for their part in making this past year a success. I would also like to welcome Carolyn Preston, P.Eng, Ph.D, who is joining the PTRC team as Executive Director in August 2007. I believe that great things are in store for the PTRC, under her accomplished leadership.



John Zahary, Acting Chair

Organization Chart



The PTRC Board of Directors, as of March 31st, 2007:

Philip Chan, Sr. Manager, Petroleum Engineering
Talisman Energy Inc.

Bill Jackson, Manager, Joint Venture, Apache Canada Ltd.

Patrick Jamieson, General Manager, Technology & Reservoir
Evaluation, Nexen Inc.

Brian McConnell, VP Exploration, Tundra Oil & Gas Ltd.

Margaret McCuaig-Johnston, (non-voting observer)
Assistant Deputy Minister, Energy Technology and Programs Sector,
Natural Resources Canada

Garry Mihaichuk, VP, Heavy Oil, Heavy Oil and Gas Business
Husky Energy Inc.

Dr. R.W. Mitchell, Independent Director

Michael Monea, Vice President, Oil & Gas Operation
Canada Capital Energy Corporation

David Payne, Vice President, Exploitation – East
Canadian Natural Resources Limited

Laurier Schramm, President & CEO
Saskatchewan Research Council

Glen Veikle, Associate Deputy Minister, IRREP
Saskatchewan Industry and Resources

Lorraine Whale, Research Consultant, Shell Canada Limited

Malcolm Wilson, Director, Office of Energy and Environment
University of Regina

John Zahary, (Acting Chair), President & CEO, Harvest Energy Trust

Auditors' Report

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, 2007, and the statements of operations and unrestricted net assets (deficit) and cash flows 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, 2007, and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

REGINA, Saskatchewan
May 09, 2007

Virtus Group LLP

Chartered Accountants

Statement of Financial Position
as at March 31

	Petroleum Research Fund	JIVE Fund	Weyburn- Midale Fund	2007 Total	Statement A 2006 Total
ASSETS					
CURRENT ASSETS					
Cash	\$ 1,349,933	\$ -	\$ 873,104	\$ 2,223,037	\$ 369,470
Accounts receivable	1,271,916	207,459	535,029	2,014,404	1,866,547
Prepaid expenses	33,608	-	-	33,608	42,461
	2,655,457	207,459	1,408,133	4,271,049	2,278,478
PROPERTY, PLANT & EQUIPMENT - Note 3					
	411,486	-	-	411,486	585,633
	\$ 3,066,943	\$ 207,459	\$ 1,408,133	\$ 4,682,535	\$ 2,864,111
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 548,841	\$ 55,133	\$ 56,282	\$ 660,256	\$ 1,569,777
DUE TO (FROM) OTHER FUNDS					
- Note 8	1,473,130	(1,497,826)	24,696	-	-
DEFERRED REVENUE					
- Note 4	916,129	1,650,152	1,327,155	3,893,436	1,448,793
	2,938,100	207,459	1,408,133	4,553,692	3,018,570
NET ASSETS (DEFICIT)					
Internally restricted - Note 9	-	-	-	-	48,750
Unrestricted - Statement B	128,843	-	-	128,843	(203,209)
	128,843	-	-	128,843	(154,459)
	\$ 3,066,943	\$ 207,459	\$ 1,408,133	\$ 4,682,535	\$ 2,864,111

Approved by the Board

 Director

 Director

See accompanying notes

*Statement of Operations
and Unrestricted Net Assets (Deficit)*
For the year ended March 31

	Petroleum Research Fund	JIVE Fund	Weyburn- Midale Fund	2007 Total	Statement B 2006 Total
REVENUE					
Annual Funding					
- Saskatchewan Industry & Resources	\$ 1,274,784	\$ -	\$ -	\$ 1,274,784	\$ 1,500,000
- Natural Resources Canada	869,000	-	-	869,000	1,000,000
- Western Economic Diversification Canada	262,985	-	-	262,985	237,015
Project Funding					
- Saskatchewan Industry & Resources	186,212	49,459	92,762	328,433	485,277
- Western Economic Diversification Canada	87,053	-	-	87,053	384,578
- Natural Resources Canada	-	-	35,000	35,000	1,045,000
- Natural Resources Canada and US Department of Energy	-	-	274,801	274,801	574,517
- Industry, other leveraged sources	1,273,488	96,142	243,171	1,612,801	636,719
Other	14,218	-	3,688	17,906	224
	3,967,740	145,601	649,422	4,762,763	5,863,330
OPERATING EXPENSES					
Amortization	18,755	-	-	18,755	19,181
Consulting	201,107	-	-	201,107	185,261
Financial systems support	109,118	-	24,000	133,118	126,936
Legal, audit and insurance	52,751	-	46,128	98,879	76,968
Publications and promotion	11,261	-	-	11,261	30,337
Rent, office and administration	88,719	-	67,896	156,615	152,657
Salaries and benefits	182,318	-	44,202	226,520	282,757
Travel and conferences	88,142	-	6,739	94,881	90,135
	752,171	-	188,965	941,136	964,232
PROJECT EXPENSES - Notes 3, 5	2,932,267	145,601	460,457	3,538,325	3,746,967
TRANSFER OF ASSETS	-	-	-	-	750,000
EXCESS OF REVENUE	283,302	-	-	283,302	402,131
UNRESTRICTED NET DEFICIT					
- beginning of year	(203,209)	-	-	(203,209)	(605,340)
RESTRICTIONS - Note 9	48,750	-	-	48,750	-
UNRESTRICTED NET ASSETS (DEFICIT) - end of year					
- Statement A	\$ 128,843	\$ -	\$ -	\$ 128,843	\$ (203,209)

See accompanying notes

Statement of Cash Flows
For the year ended March 31

	2007	Statement C 2006
OPERATING ACTIVITIES		
Excess of revenue	\$ 283,302	\$ 402,131
Items that do not affect cash:		
- amortization - Notes 3, 5	178,365	19,181
- transfer of assets	-	750,000
	461,667	1,171,312
Net change in current assets	(139,004)	(302,703)
Net change in current liabilities	(909,521)	(399,793)
Net change in deferred revenue	2,444,643	(15,640)
Net cash from operating activities	1,857,785	453,176
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,218)	(130,985)
Net cash (used by) investing activities	(4,218)	(130,985)
INCREASE IN CASH RESOURCES	1,853,567	322,191
CASH - beginning of year	369,470	47,279
CASH - end of year	\$ 2,223,037	\$ 369,470
REPRESENTED BY: Cash balance in chequing accounts	\$ 2,223,037	\$ 369,470

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 benefit 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 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) Petroleum Research Fund

The Petroleum Research Fund reflects the primary operations of the Centre including revenues received from Saskatchewan Industry & Resources (SIR), Natural Resources Canada (NRCan), Western Economic Diversification Canada (WD) and industry to fund its petroleum research operations.

ii) JIVE Fund

The JIVE Fund reflects the operations for the newly established collaborative program entitled Joint Implementation of Vapour Extraction. This multi-year program is funded by a consortium that includes Saskatchewan Industry & Resources (SIR), Sustainable Development Technology Canada (SDTC) and three industry participants: Nexen Inc., Canadian Natural Resources Limited and Husky Oil Operations Ltd.

iii) Weyburn-Midale Fund

The Weyburn-Midale Fund reflects the operations for the multi-year collaborative project entitled Final Phase of the IEA GHG Weyburn-Midale CO₂ Monitoring and Storage 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 Petroleum Research Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund in the year that related expenditures are incurred. Unrestricted contributions are recognized as revenue of the Petroleum Research Fund in the year they are received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

Assets of the Centre are stated at cost and are amortized over the estimated useful life of the assets, applying the following annual rates:

Computers	30% Declining balance method
Furniture and other equipment	20% Declining balance method
Research assets	30% Declining balance method

Use of Estimates

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. Since actual results may differ from the estimates, these estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

3. PROPERTY, PLANT AND EQUIPMENT

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computers	\$ 58,977	\$ 30,862	\$ 28,115	\$ 39,915
Office furniture	25,819	14,872	10,947	13,684
Subtotal	84,796	45,734	39,062	53,599
Research assets	532,034	159,610	372,424	532,034
Total	\$ 616,830	\$ 205,344	\$ 411,486	\$ 585,633

Research asset amortization of \$159,610 (2006 - \$0) is included in project expenses.

4. DEFERRED REVENUE

The Centre receives contributions from government and industry for specific projects or programs. 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. Funding for research assets and prepaid maintenance contracts are also recorded as deferred revenue until such time as the related assets are put in use and amortized.

As at March 31, 2007, deferred revenue of \$916,129 (2006 - \$691,396) was held in the Petroleum Research Fund to be matched with future project expenditures and asset amortization.

4. DEFERRED REVENUE (continued)

As at March 31, 2007, deferred revenue of \$1,650,152 (2006 - \$0) was held in the JIVE Fund to be matched with future project expenditures.

As at March 31, 2007, deferred revenue of \$1,327,155 (2006 - \$757,397) was held in the Weyburn-Midale Fund for funding contributions to be matched with future project expenditures.

5. PROJECT EXPENSES

During the year, the Petroleum Research Fund incurred project expenses of \$2,932,267 (2006 - \$2,665,941).

	2007	2006
Innovation projects	\$ 2,883,543	\$ 2,580,909
Incubation projects	30,161	45,555
Equipment projects	18,563	39,477
	<u>\$ 2,932,267</u>	<u>\$ 2,665,941</u>

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. Within the innovation project category, the Centre incurred expenditures of \$1,767,222 (2006 - \$1,762,790) for the annual Core Research Program, a collaborative petroleum research program that attracts both domestic and international industry funding. Also included in the innovation project category is \$159,610 (2006 - \$0) for amortization of research assets.

Incubation projects are 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.

Equipment project expenditures are related to the purchase of new equipment for research providers involved in innovation or incubation projects for the Centre.

Project expenditures for the Weyburn-Midale Fund are detailed in Schedule 1 of the financial statements.

6. SIGNIFICANT AGREEMENTS

The Centre has funding agreements in place at March 31, 2007, to support the Joint Implementation of Vapour Extraction program (\$6,750,000 over 3 years) and the Final Phase of the IEA GHG Weyburn-Midale CO₂ Monitoring and Storage Project (\$9,600,000 over 4 years).

7. ECONOMIC DEPENDENCE

Funding commitments from Natural Resources Canada, Western Economic Diversification Canada and Saskatchewan Industry & Resources for research projects and operations ended as of March 31, 2007. Terms and conditions for future funding are being negotiated with these organizations.

The Centre seeks additional funding for its research projects from other federal sources and from the petroleum industry.

8. DUE TO (FROM) OTHER FUNDS

The Petroleum Research Fund holds the cash and makes all payments on behalf of the JIVE Fund. As of March 31, 2007, the Petroleum Research Fund owed the JIVE Fund \$1,497,826 (2006 - \$0).

The cash of the Weyburn-Midale Fund is segregated from the Petroleum Research Fund; payments are, however, made from one fund on behalf of the other occasionally. As of March 31, 2007, the Weyburn-Midale Fund owed \$24,696 to the Petroleum Research Fund.

9. NET ASSETS RESTRICTED FOR EXECUTIVE COMPENSATION

The former Executive Director's terms of employment contained a clause for a compensation payout in the event that the Centre was unable to attract funding post-2007 and the Centre ceased operations. As at March 31, 2007, the terms of employment for the acting Executive Director do not include a compensation payout clause, thus the net asset restriction of \$48,750 has been reversed.

10. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The carrying amount of cash, accounts receivable and accounts payable approximates their fair market value because of the short-term nature 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.

11. FUTURE ACCOUNTING POLICY CHANGES

The Canadian Institute of Chartered Accountants has issued new accounting standards including Handbook Section 3855, Financial Instruments - Recognition and Measurement. These standards will be effective on April 1, 2007.

Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net excess of revenues over expenditures. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gain and losses recognized in net assets. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition. The estimated impact to net assets effective April 1, 2007 as a result of applying the new financial instruments accounting standards is not considered to be significant.

12. COMPARATIVE FIGURES

Certain of the 2006 financial statement balances have been reclassified to conform to the current year's presentation.

*Schedule of Revenue and Expenditure
Weyburn-Midale Fund
as at March 31*

	2007 Cumulative Project-to-Date	2007 Annual Activity	Schedule 1 2006 Annual Activity
REVENUE			
Government Funding			
Natural Resources Canada	\$ 1,080,000	\$ 35,000	\$ 1,045,000
Natural Resources Canada and US Department of Energy	399,693	274,801	124,892
Saskatchewan Industry and Resources	400,000	400,000	-
Alberta Innovation and Science	300,000	-	300,000
	2,179,693	709,801	1,469,892
Industry Funding			
Aramco Services	405,432	405,432	-
Chevron/Texaco	118,920	-	-
Research Institute of Innovative Technology for the Earth	216,263	107,589	108,674
SaskPower	222,473	(7,330)	107,003
	963,088	505,691	215,677
Interest Revenue	3,688	3,688	-
Revenue Deferred for Future Use	(1,327,155)	(569,758)	(515,677)
Total Revenue	\$ 1,819,314	\$ 649,422	\$ 1,169,892
EXPENSES			
Technical Program			
Theme 1 - Site Characterization	\$ 177,263	\$ (573)	\$ 177,836
Theme 2 - Wellbore Integrity	174,931	43,746	131,185
Theme 3 - Distribution & Fate of CO ₂	353,022	67,545	285,476
Theme 4 - Performance Assessment	9,385	-	9,385
Theme 5 - Shared Data Environment	138,251	37,383	100,868
Information Integration	236,316	18,024	218,292
Project Control	383,562	247,024	136,539
Sponsorship Campaign	22,513	1,480	21,033
Promotional Travel	15,007	15,007	-
Non-Technical Program			
Theme 8 - Policy & Regulation	31,233	30,821	412
Subtotal Project Expenses	1,541,483	460,457	1,081,026
Administrative and Overhead	277,831	188,965	88,866
Total Expenses	\$ 1,819,314	\$ 649,422	\$ 1,169,892
EXCESS OF REVENUE	\$ -	\$ -	\$ -

This schedule shows the cumulative revenue, deferred revenue and expenses for the IEA GHG Weyburn-Midale CO₂ Monitoring and Storage Project since its inception as well as the annual activity for the years ended March 31, 2007 and March 31, 2006. Certain industry funding was received in advance of the project start date of September 1, 2005. In-kind services provided by industry partners are not reflected in this schedule.