

Petroleum Technology
Research Centre

2007/2008
Financial Report



ptrc
Petroleum Technology
Research Centre

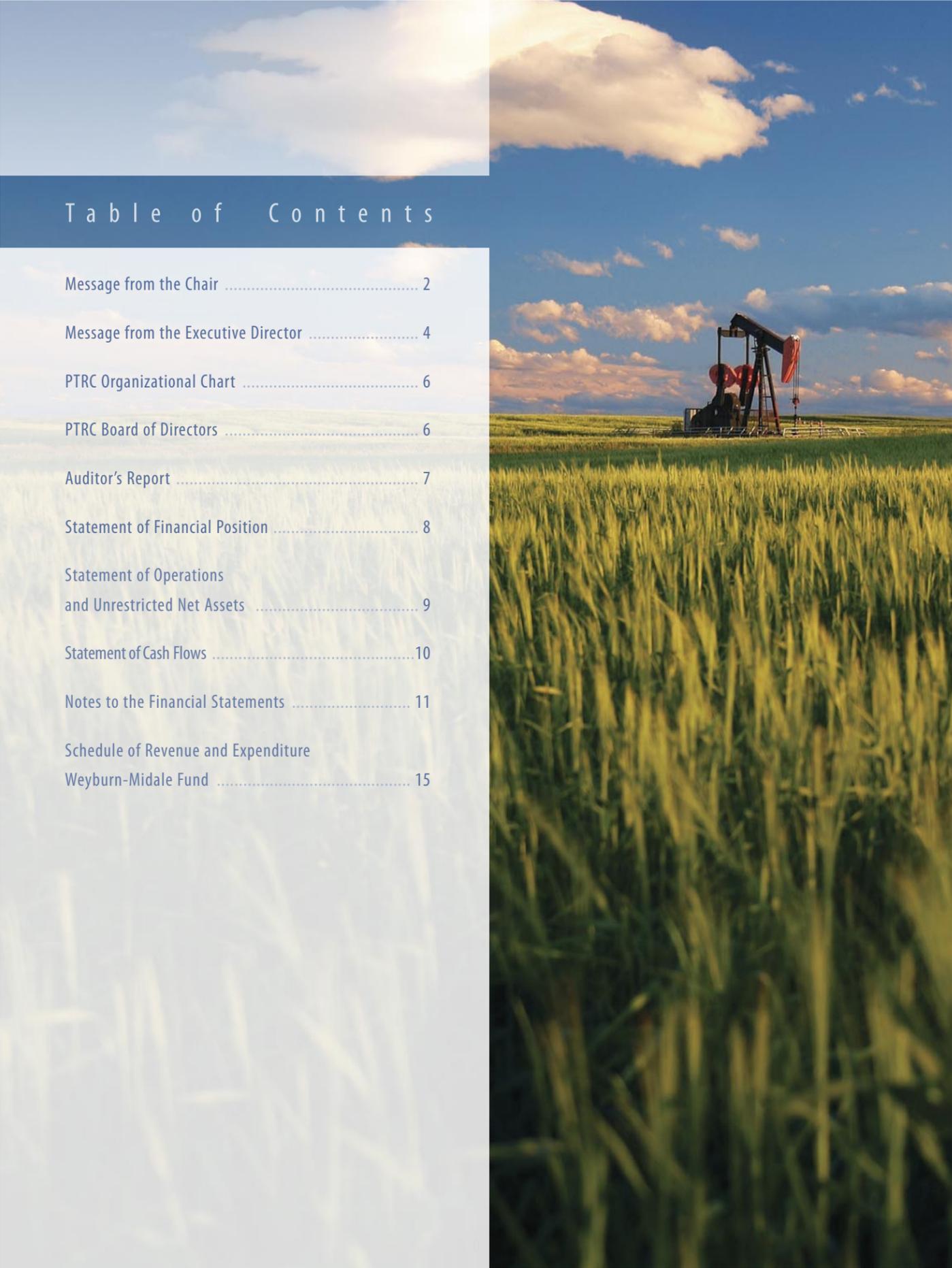


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This September, 2008, will mark the tenth anniversary of the agreement that brought about the creation of the Petroleum Technology Research Centre. That foundational moment – supported by Natural Resources Canada, Saskatchewan Energy and Mines (now Saskatchewan Ministry of Energy and Resources), Saskatchewan



Research Council, and the University of Regina – fostered optimism about the continuing progress of Saskatchewan’s petroleum industry and the vital role that the PTRC was going to play in that development.

Now, almost ten years on, it’s difficult to imagine that those founding partners could have foreseen the scale and range of the PTRC’s research, development and deployment activities. The reach of the PTRC’s influence, through collaborative private and public consortiums such as the Joint Implementation of Vapour Extraction (JIVE) and IEA GHG Weyburn-Midale CO₂ Monitoring and Storage Projects, has led to Regina and Saskatchewan becoming the focal point of global interest in CO₂ sequestration and innovative oil recovery techniques.

These consortia, which link laboratory research with vigorous and on-going demonstration of new processes in the field by different oil companies, act as models for research elsewhere in Canada and the world. In the past year, Shell and Saudi Aramco both joined the Weyburn-Midale consortium, and interest continues to be expressed by multinationals and international research centres in North America, Europe and Asia.

The PTRC’s longest standing research program (Enhanced Oil Recovery), operated in partnership with the University of Regina, Saskatchewan Research

Council and other research organizations, aside from furthering the field trials currently underway in the consortium projects, has also helped identify the gaps in research that need to be addressed in order to assure Saskatchewan’s plentiful but difficult-to-access petroleum assets are economically and environmentally developed.

The EOR program continues to foster significant industry support, and its findings have helped the PTRC identify new, exciting consortia in its second decade, including an important deep saline aquifer program for CO₂ storage, and the field application of solvent extraction technology to Saskatchewan’s significant but shallow oil sands reserves. Industry interest in participating in these new projects is strong, and is a reflection of the potential global impact of the PTRC’s research in a world that is increasingly reliant on unconventional oil supplies.

As the Board looks forward to the exciting research prospects ahead, it continues to ensure that the financial and governance model it has in place maintains the stability of the PTRC and allows for growth and advancement. With world oil prices continuing to rise and opportunities presented from the private and public sectors to develop Saskatchewan’s and Canada’s petroleum supplies, it is important to recognize that

economic and environmental drivers will shape that research, but are easily susceptible to change. The Board is committed to constancy in its direction and development of the PTRC’s research, and is committed to the accountability and stability of the organization. This Financial Report is a reflection of that commitment.

As Chairman of the Board of Directors, I would like to take this opportunity to thank the members of the Board, who continue to donate their time and efforts in oversight of the PTRC, and to thank our new Executive Director, Carolyn Preston, and her staff for an excellent and exciting year of growth and research success. Thanks, too, to the Governments of Canada and Saskatchewan for their continuing support of the PTRC as it strives to advance research, and develop and deploy economically, environmentally sound technology to petroleum resources in Saskatchewan and around the globe.

A handwritten signature in blue ink that reads "J. Zahary". The signature is fluid and cursive.

John Zahary

I am pleased to be able to present my first Financial Report as the new Executive Director of the Petroleum Technology Research Centre, and to talk about the exciting prospects for the future of this world-class organization and the continuing consortium building that has marked its success since 1998.



Where many research organizations specialize in bench-scale and laboratory-driven technology development, the PTRC is unique for the degree and extent of the field application of its research on a large scale; no fewer than four of our five existing and new research programs involve budgets of over 40 million dollars, and include industry-led field deployment of technologies hand-in-hand with extensive laboratory research activities. This collaborative approach to applied research weds both economic and environmental advancements, and assures fast deployment of those improvements in the field.

The PTRC continues to see the success of its three main research programs. The Enhanced Oil Recovery Program (EOR) held its annual meeting in Calgary in May 2008 to report 2007-08 results to industry partners, and significant advances were reported in our well-bore integrity and database research. There was an unprecedented level of participation in that event with more than 50 professionals in attendance, principally from our industry partners. The IEA GHG Weyburn-Midale CO₂ Monitoring and Storage Project continues to move forward on the development of a "Best Practices Manual", and welcomed Saudi Aramco, OMV Austria, Schlumberger and Shell to its consortium. The Joint Implementation of Vapour Extraction (JIVE) Project is

moving into another phase, with at least one of the industry partners (Husky) applying CO₂-solvent vapour extraction to a second oil field in western Saskatchewan.

Most excitingly, the PTRC will be moving forward in the coming year with two new consortium projects. In July 2008, we learned that 5 million dollars in funding had been granted from Sustainable Development Technology Canada (SDTC) to begin the 100 million dollar Aquistore Project (deep saline aquifer storage). Aquistore, which will take CO₂ (500-1000 tonnes/day) captured from the Consumers' Co-operative Refineries Limited's upgrader in Regina and store it deep underground in a nearby saline aquifer, includes partners Enbridge, Schlumberger, SaskEnergy, and the Saskatchewan Ministry of the Environment. Additional sponsors are also being sought. This important five-year project, only the third of its kind on the planet, is crucial to understanding the viability of reducing greenhouse gases through storage and monitoring of CO₂ underground, and will also develop a research program that will lead to best practices for aquifer storage.

A second consortium, SOLVE, sees the PTRC partnering with StatoilHydro to use steam-solvent vapour extraction in formations that will tell us much about the technology's potential for application to Saskatchewan's significant but thinly layered,

discontinuous oil sands deposits. This modified SAGD process uses less steam and emits far less CO₂ than existing oil sands in-situ processes. Additional consortium partners, and a concomitant extensive research program with Saskatchewan Research Council, Alberta Research Council, and the Universities of Regina, Alberta and Calgary, will mean that the commercial and environmentally responsible development of Saskatchewan's oil sands is not far off.

As Executive Director, I am committed to seeing the PTRC flourish as the premium petroleum research and development company in Saskatchewan, and Canada. Our name is now trusted and appreciated by the private sector as a leader in consortium research management and development. As we reach the end of ten years of research, the staff of the PTRC is pleased to provide this 2007-08 Financial Report as a commitment to our fiscal and corporate accountability, and we look forward to a coming year that will maintain that trust as we see the sustained growth of both our research and the petroleum industry in Saskatchewan.

A handwritten signature in blue ink that reads "Carolyn". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Carolyn Preston

Organization Chart



The PTRC Board of Directors, as of March 31st, 2008:

John Zahary, Chair, Board of Directors, President & CEO
Harvest Energy Trust

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

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

Pat Jamieson, Vice Chair, Chief of Technology, Nexen Inc.

Margaret McCuaig-Johnston (non-voting observer)
Assistant Deputy Minister, Natural Resources Canada

Dr. R. W. Mitchell (Ret.), Independent Director

Michael Monea, Senior Vice President,
International Development, Canada Capital Energy Corporation

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

Laurier Schramm, President, Saskatchewan Research Council

Glen Veikle, Associate Deputy Minister,
Saskatchewan Industry and Resources

Brian Watt, Operations Engineering Manager, Husky Energy

Lorraine Whale, Research Consultant, Shell Canada Limited

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

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, 2008 and the statements of operations and unrestricted net assets 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, 2008 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 07, 2008

Virtus Group LLP

Chartered Accountants

*Statement of Financial Position
as at March 31*

			Statement A		
	Petroleum Research Fund	JIVE Fund	Weyburn- Midale Fund	2008 Total	2007 Total
ASSETS					
CURRENT ASSETS					
Cash	\$ 2,322,410	\$ -	\$ 2,003,816	\$ 4,326,226	\$ 2,223,037
Accounts receivable	1,889,966	164,909	1,424,285	3,479,160	2,014,404
Prepaid expenses	30,318	-	-	30,318	33,608
	4,242,694	164,909	3,428,101	7,835,704	4,271,049
PROPERTY, PLANT & EQUIPMENT - Note 3					
	303,859	-	-	303,859	411,486
	\$ 4,546,553	\$ 164,909	\$ 3,428,101	\$ 8,139,563	\$ 4,682,535
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 2,072,435	\$ -	\$ 102,152	\$ 2,174,587	\$ 660,256
DUE TO (FROM) OTHER FUNDS					
- Note 8	1,249,815	(1,670,749)	420,934	-	-
DEFERRED REVENUE					
- Note 4	1,095,146	1,835,658	2,905,015	5,835,819	3,893,436
	4,417,396	164,909	3,428,101	8,010,406	4,553,692
NET ASSETS					
Unrestricted - Statement B	129,157	-	-	129,157	128,843
	\$ 4,546,553	\$ 164,909	\$ 3,428,101	\$ 8,139,563	\$ 4,682,535

Approved by the Board

 Director
 Director

See accompanying notes

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

			Statement B		
	Petroleum Research Fund	JIVE Fund	Weyburn- Midale Fund	2008 Total	2007 Total
REVENUE					
Annual Funding					
- Saskatchewan Energy & Resources	\$ 1,306,000	\$ -	\$ -	\$ 1,306,000	\$ 1,274,784
- Natural Resources Canada	911,000	-	-	911,000	869,000
- Western Economic Diversification Canada	-	-	-	-	262,985
Project Funding					
- Saskatchewan Energy & Resources	714,963	412,020	33,305	1,160,288	328,433
- Western Economic Diversification Canada	63,021	-	-	63,021	87,053
- Natural Resources Canada	-	928,395	380,000	1,308,395	35,000
- Natural Resources Canada and US Department of Energy	-	-	400,000	400,000	274,801
- Industry, other leveraged sources	920,016	1,059,481	185,398	2,164,895	1,612,801
Other	72,802	-	70,632	143,434	17,906
	3,987,802	2,399,896	1,069,335	7,457,033	4,762,763
OPERATING EXPENSES					
Amortization	27,988	-	-	27,988	18,755
Consulting	80,997	-	-	80,997	101,107
Financial systems support	99,185	-	24,000	123,185	133,118
Legal, audit and insurance	36,108	140	16,084	52,332	98,879
Publications and promotion	63,903	-	-	63,903	11,261
Rent, office and administration	90,791	-	62,765	153,556	156,615
Salaries and benefits	78,835	-	44,526	123,361	126,520
Travel and conferences	118,602	-	6,893	125,495	94,881
	596,409	140	154,268	750,817	741,136
PROJECT EXPENSES - Notes 3, 5	3,391,079	2,399,756	915,067	6,705,902	3,738,325
EXCESS OF REVENUE	314	-	-	314	283,302
UNRESTRICTED NET ASSETS (DEFICIT)					
- beginning of year	128,843	-	-	128,843	(203,209)
RESTRICTIONS - Note 9	-	-	-	-	48,750
UNRESTRICTED NET ASSETS					
- end of year					
- Statement A	\$ 129,157	\$ -	\$ -	\$ 129,157	\$ 128,843

See accompanying notes

	2008	Statement C 2007
OPERATING ACTIVITIES		
Excess of revenue	\$ 314	\$ 283,302
Item that does not affect cash:		
- amortization - Notes 3, 5	139,715	178,365
	140,029	461,667
Net change in current assets	(1,461,466)	(139,004)
Net change in current liabilities	1,514,331	(909,521)
Net change in deferred revenue	1,942,383	2,444,643
Net cash from operating activities	2,135,277	1,857,785
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(32,088)	(4,218)
Net cash (used by) investing activities	(32,088)	(4,218)
INCREASE IN CASH RESOURCES	2,103,189	1,853,567
CASH - beginning of year	2,223,037	369,470
CASH - end of year	\$ 4,326,226	\$ 2,223,037

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 Energy & Resources (SER), 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 collaborative project entitled Joint Implementation of Vapour Extraction. This multi-year project is funded by a consortium that includes Saskatchewan Energy & Resources (SER), 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

Foreign currency

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the statement of financial position date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in other revenue.

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

	2008		2007	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computers	\$ 42,515	\$ 11,801	\$ 30,714	\$ 28,115
Office furniture	29,919	17,471	12,448	10,947
Subtotal	72,434	29,272	43,162	39,062
Research assets	532,034	271,337	260,697	372,424
Total	\$ 604,468	\$ 300,609	\$ 303,859	\$ 411,486

Research asset amortization of \$111,727 (2007 - \$159,610) is included in project expenses.

The Centre's net investment in property, plant and equipment represents \$43,162 (2007 - \$39,062) of net unrestricted assets, calculated as total net book value less deferred revenue related to research assets.

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.

4. DEFERRED REVENUE (continued)

As at March 31, 2008, deferred revenue of \$1,095,146 (2007 - \$916,129) was held in the Petroleum Research Fund to be matched with future project expenditures and asset amortization.

As at March 31, 2008, deferred revenue of \$1,835,658 (2007 - \$1,650,152) was held in the JIVE Fund to be matched with future project expenditures.

As at March 31, 2008, deferred revenue of \$2,905,015 (2007 - \$1,327,155) was held in the Weyburn-Midale Fund to be matched with future project expenditures.

5. PROJECT EXPENSES

During the year, the Petroleum Research Fund incurred project expenses of \$3,391,079 (2007 - \$3,132,267).

	2008	2007
EOR Research Program	\$ 1,949,318	\$ 1,967,222
Other Research	1,257,149	459,044
Other Business	184,612	706,001
	\$ 3,391,079	\$ 3,132,267

The annual EOR Research Program is a collaborative petroleum research program designed to develop innovative technologies for improved oil production. This program attracts both domestic and international industry funding. The Other Research category is comprised of smaller collaborative research projects, incubation projects and equipment projects. The Other Business category contains projects designed to enhance the Centre's research and engineering capacity.

In the year, Other Research project expense contains a one-time investment of \$600,000 (2007 - \$0) in the University of Regina Petroleum Systems Engineering program. Other Business project expense includes \$111,727 (2007 - \$159,610) for amortization of research assets.

Project expenditures for the JIVE Fund are reported in detail to the funding organizations.

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, 2008 to support the Joint Implementation of Vapour Extraction project (\$5,100,000 remaining until June 30, 2009) and the Final Phase of the IEA GHG Weyburn-Midale CO₂ Monitoring and Storage Project (\$8,100,000 remaining until March 31, 2010).

7. ECONOMIC DEPENDENCE

Funding commitments from Natural Resources Canada and Saskatchewan Energy & Resources for research projects and operations ended as of March 31, 2008. Terms and conditions for future funding are being negotiated with these organizations. A funding agreement with Western Economic Diversification for \$1,000,000 over a three-year period ending March 31, 2011 was executed on April 1, 2008.

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, 2008, the Petroleum Research Fund owed the JIVE Fund \$1,670,749 (2007 - \$1,497,826).

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, 2008, the Weyburn-Midale Fund owed \$420,934 (2007 - \$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-2008 and the Centre ceased operations. As at March 31, 2007, the terms of employment for the Executive Director no longer include a compensation payout clause, thus the net asset restriction is now nil.

10. FINANCIAL INSTRUMENTS

Effective April 1, 2007, the Centre adopted Canadian Institute of Chartered Accountants ("CICA") Section 3855, "Financial Instruments – Recognition and Measurement". This adoption had no impact on the Centre's opening net assets.

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Centre's designation of such instruments. The standards require that all financial instruments, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as Hold to Maturity (HTM), and Available for Sale (AFS) financial assets that do not have quoted market prices in an active market. Financial assets are classified as held-for-trade or loans and receivables. Cash is designated as held-for-trade and is carried at fair value. All receivables are designated as loans and receivables and are accounted for at amortized cost.

Financial liabilities are classified as other liabilities and are accounted for at amortized cost with gains and losses reported in excess of revenue in the period that the liability is derecognized.

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. COMPARATIVE FIGURES

Certain of the 2007 financial statement balances have been reclassified to conform to the current year's presentation.

	2008 Cumulative Project-to-Date	2008 Annual Activity	Schedule 1 2007 Annual Activity
REVENUE			
Government Funding			
Natural Resources Canada	\$ 1,580,000	\$ 380,000	\$ 35,000
Natural Resources Canada and US Department of Energy	1,249,318	400,000	274,801
Saskatchewan Energy and Resources	800,000	400,000	400,000
Alberta Innovation and Science	300,000	-	-
	3,929,318	1,180,000	709,801
Industry Funding			
Aramco Services	477,979	72,547	405,432
Chevron Energy Technology Company	218,210	99,290	-
Nexen Inc.	97,998	97,998	-
OMV Austria	424,189	424,189	-
Research Institute of Innovative Technology for the Earth	308,865	92,602	107,589
SaskPower	327,673	105,200	(7,330)
Shell Exploration and Production Company	504,737	504,737	-
	2,359,651	1,396,563	505,691
Other Revenue	74,320	70,632	3,688
Revenue Deferred for Future Use	(2,905,015)	(1,577,860)	(569,758)
Total Revenue	\$ 3,458,274	\$ 1,069,335	\$ 649,422
EXPENSES			
Technical Program			
Theme 1 - Site Characterization	\$ 195,216	\$ 17,953	\$ (573)
Theme 2 - Wellbore Integrity	361,833	73,104	43,746
Theme 3 - Distribution & Fate of CO ₂	664,892	141,236	67,545
Theme 4 - Performance Assessment	163,636	154,251	-
Theme 5 - Shared Data Environment	235,477	82,465	37,383
Information Integration	478,648	176,423	18,024
Project Control	794,801	237,849	247,024
Sponsorship Campaign	23,657	1,144	1,480
Promotional Travel	29,202	14,195	15,007
Non-Technical Program			
Policy & Regulation	47,680	16,447	30,821
Subtotal Project Expenses	2,995,042	915,067	460,457
Administrative and Overhead	463,232	154,268	188,965
Total Expenses	\$ 3,458,274	\$ 1,069,335	\$ 649,422
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 planning activities began in January, 2004 as well as the annual activity for the years ended March 31, 2008 and March 31, 2007. In-kind services provided by industry partners are not reflected in this schedule.



6 Research Drive, Regina, SK, Canada S4S 7J7 Ph: 306-787-7497 Fax: 306-787-8811 • info@ptrc.ca • www.ptrc.ca