

Petroleum Technology  
Research Centre

2005/2006  
*Financial Report*



**ptrc**

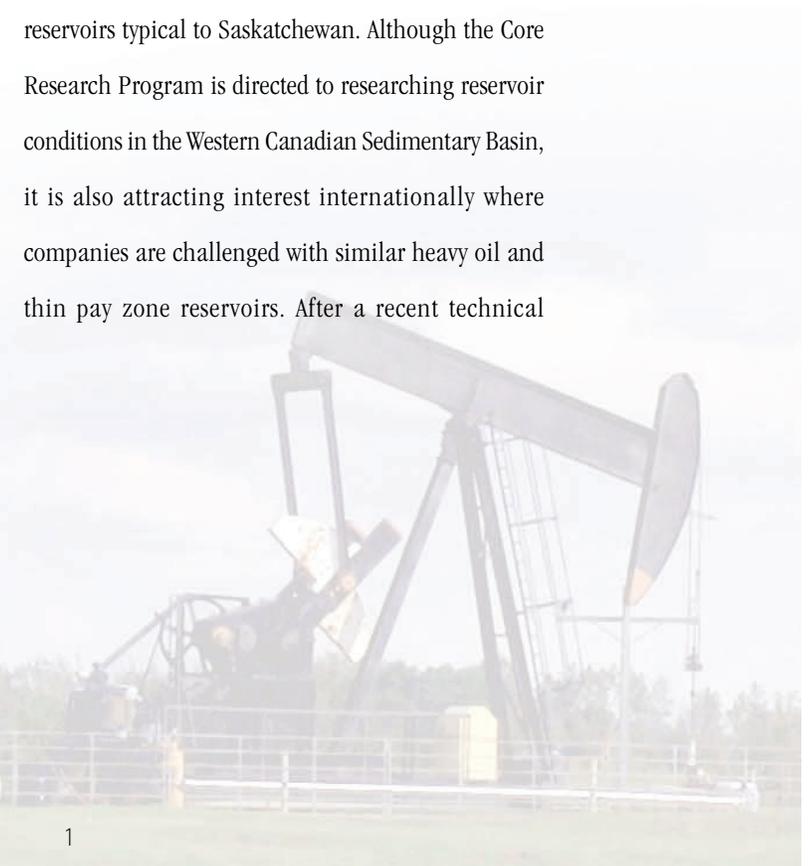
Petroleum Technology  
Research Centre

**P**TRC's enthusiasm for advancing the technology of oil recovery and carbon dioxide (CO<sub>2</sub>) storage is greater than ever. In 2005-06, we saw the PTRC's relationships with industry, both domestic and international, strengthen and expand. We saw a surge of enthusiasm for our "made in Canada" research programs that move petroleum companies towards greater oil recovery. Environmentally attuned and fiscally responsible, PTRC research continues to attract world-wide interest.

The caliber of our work is being acknowledged by many parties. The U.S. Secretary of Energy, Samuel Bodman, in his keynote speech at the Fifth Annual Conference on Carbon Capture and Sequestration, singled out the PTRC-led IEA GHG Weyburn CO<sub>2</sub> Monitoring and Storage Project as a touchstone for proving the feasibility of geological storage of greenhouse gases. Now proceeding into its final phase

and with the addition of the Apache Midale field to the real-life laboratory setting, this project will build the most scrutinized data set in the world and outline policy issues that affect CO<sub>2</sub> injection and storage.

PTRC's interaction with Canadian petroleum companies has moved to a higher level, with the redefinition of a technical advisory group comprised of key industry partners. By helping PTRC set the strategic direction for oil production research, these advisors have strengthened the focus of the Core Research Program which enhances the cost-effective, environmentally friendly oil production and recovery techniques for reservoirs typical to Saskatchewan. Although the Core Research Program is directed to researching reservoir conditions in the Western Canadian Sedimentary Basin, it is also attracting interest internationally where companies are challenged with similar heavy oil and thin pay zone reservoirs. After a recent technical



presentation in Calgary, an international client called the presentations some of the best he had ever seen. Oilpatch players are recognizing that they need to improve their assets and that PTRC's expertise and strategic direction align well with these requirements.

Another of our multi-million dollar collaborations with industry and research partners is the Joint Implementation of Vapour Extraction (JIVE), a three-year field demonstration to assess solvent vapour extraction (SVX) technologies in the Western Canadian Sedimentary Basin. Supported by three key industry partners and two levels of government, this project is anticipated to produce the next significant step-change in heavy oil recovery techniques. International companies are watching this eagerly and PTRC anticipates that an international program may be feasible within a few years.

Canadian and international recognition of PTRC's expertise has created impressive opportunities for

collaboration, such as the effort to establish the world's first "expert centre" for CO<sub>2</sub> capture and storage. This centre would create a dynamic research environment where CO<sub>2</sub> capture technologies would link with CO<sub>2</sub> storage research, hastening the practical implementation of the knowledge. We expect that this research could lead to extending development of storage sites to include essentially limitless saline aquifers. The U.S. Department of Energy and a major international oil company have expressed strong interest in supporting such a venture.

In addition, we would like to extend our gratitude to the former Chairman of the PTRC Board of Directors, Frank Proto, for his mentorship and insightful counsel during his years at the helm. From the inception of the PTRC in 1998 to January 2006, Frank Proto was a driving force in the evolution of the PTRC.



Mike Monea, Executive Director

*Organization Chart*



*The PTRC Board of Directors, as of March 31st, 2006:*

John Zahary, Acting Chairman, President & CEO,  
Harvest Energy Trust

Allan Cahoon, VP Research & International, University of Regina

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

Judy Fairburn, VP Weyburn Business Unit, EnCana Corporation

Pat Jamieson, Chief of Technology, Nexen Inc.

Mike Langley, VP Business Development,  
North American Oil Sands Corp.

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

Margaret McCuaig-Johnston, Assistant Deputy Minister,  
Energy Technology and Programs Sector, Natural Resources Canada

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

Bob Mitchell, Retired VP, Talisman Energy Inc.

Laurier Schramm, President and CEO,  
Saskatchewan Research Council

Mike Singleton, Director, Technology Planning & Integration,  
Suncor Energy Inc.

Glen Veikle, Associate Deputy Minister, Resource & Economic  
Policy, Saskatchewan Industry & Resources

# *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, 2006 and the statements of operations and unrestricted net 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, 2006 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 11, 2006

*Virtus Group LLP*

Chartered Accountants

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

	General Operating Fund	Weyburn- Midale Fund	2006 Total	Statement A 2005 Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 253,088	\$ 116,382	\$ 369,470	\$ 47,279
Accounts receivable	498,789	1,367,758	1,866,547	1,550,265
Prepaid expenses	42,461	-	42,461	56,040
	794,338	1,484,140	2,278,478	1,653,584
<b>PROPERTY, PLANT &amp; EQUIPMENT - Note 3</b>	585,633	-	585,633	1,223,829
	\$ 1,379,971	\$ 1,484,140	\$ 2,864,111	\$ 2,877,413
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 795,520	\$ 774,257	\$ 1,569,777	\$ 1,969,570
<b>DUE TO (FROM) OTHER FUNDS</b>				
- Note 8	47,514	(47,514)	-	-
<b>DEFERRED REVENUE</b>				
- Note 4	691,396	757,397	1,448,793	1,464,433
	1,534,430	1,484,140	3,018,570	3,434,003
<b>NET ASSETS (DEFICIT)</b>				
Internally restricted - Note 9	48,750	-	48,750	48,750
Unrestricted - Statement B	(203,209)	-	(203,209)	(605,340)
	(154,459)	-	(154,459)	(556,590)
	\$ 1,379,971	\$ 1,484,140	\$ 2,864,111	\$ 2,877,413

Approved by the Board

 Director  
 Director

See accompanying notes

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

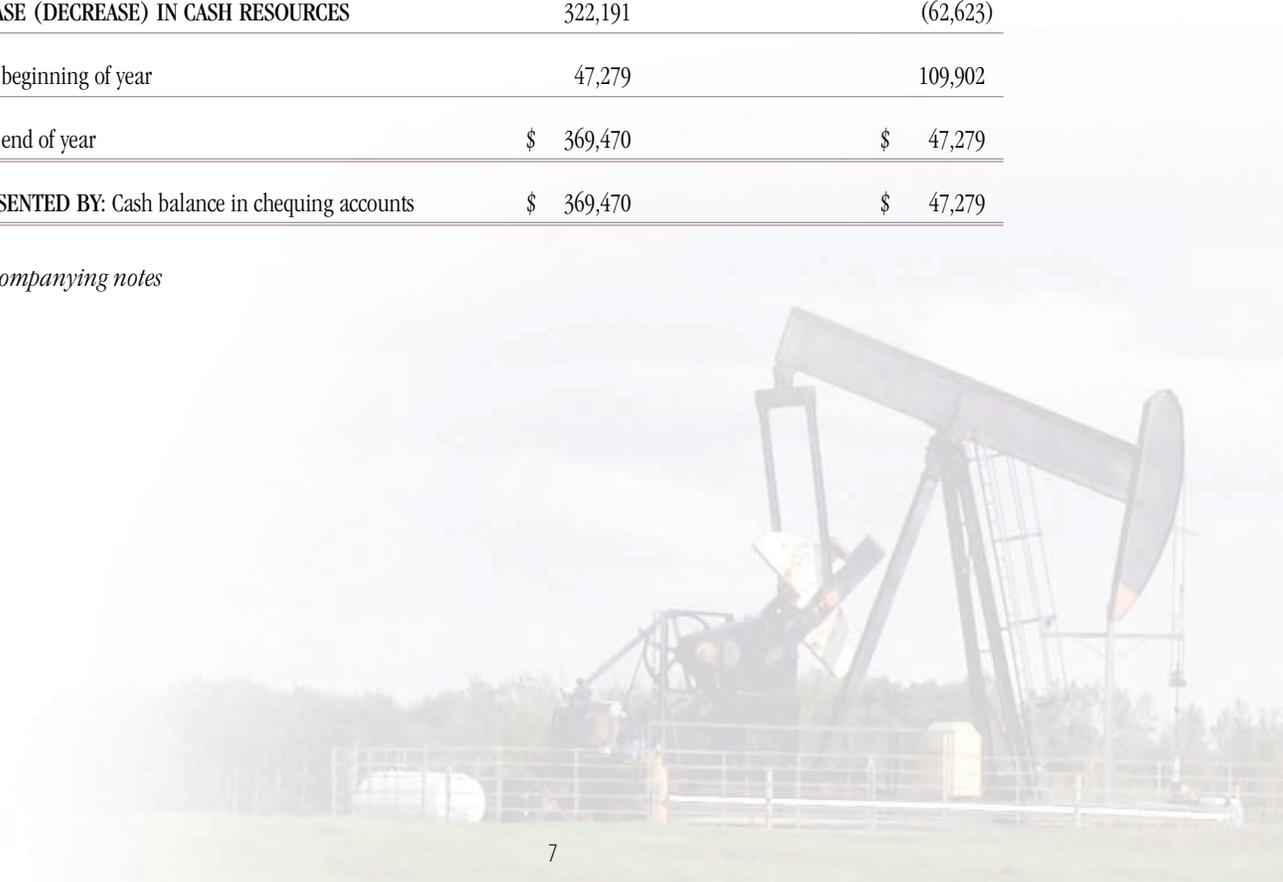
	General Operating Fund	Weyburn- Midale Fund	2006 Total	Statement B 2005 Total
<b>REVENUE</b>				
<b>Annual Funding</b>				
- Saskatchewan Industry & Resources	\$ 1,500,000	\$ -	\$ 1,500,000	\$ 1,250,000
- Natural Resources Canada	1,000,000	-	1,000,000	1,000,000
- Western Economic Diversification Canada	237,015	-	237,015	250,000
<b>Project Funding</b>				
- Saskatchewan Industry & Resources	485,277	-	485,277	371,601
- Western Economic Diversification Canada	384,578	-	384,578	160,000
- Natural Resources Canada	-	1,045,000	1,045,000	120,000
- Natural Resources Canada and US Department of Energy	449,625	124,892	574,517	927,474
- Industry	636,719	-	636,719	563,009
<b>Interest</b>	224	-	224	1,616
<b>Other</b>	-	-	-	750
	4,693,438	1,169,892	5,863,330	4,644,450
<b>OPERATING EXPENSES</b>				
Amortization	19,181	-	19,181	15,168
Consulting	185,261	-	185,261	87,437
Financial systems support	112,936	14,000	126,936	132,868
Legal, audit and insurance	38,069	38,899	76,968	23,316
Office, administration and supplies	30,316	27,854	58,170	114,103
Publications and promotion	30,337	-	30,337	34,013
Rent	94,487	-	94,487	66,243
Salaries and benefits	274,826	7,931	282,757	223,742
Travel and conferences	89,953	182	90,135	158,036
	875,366	88,866	964,232	854,926
<b>PROJECT EXPENSES - Note 5</b>	2,665,941	1,081,026	3,746,967	4,251,137
<b>TRANSFER OF ASSETS - Notes 3, 4</b>	750,000	-	750,000	-
<b>EXCESS OF REVENUE (EXPENSES)</b>	402,131	-	402,131	(461,613)
<b>UNRESTRICTED NET DEFICIT</b>				
- beginning of year	(605,340)	-	(605,340)	(143,727)
<b>UNRESTRICTED NET DEFICIT</b>				
- end of year - Statement A	\$ (203,209)	\$ -	\$ (203,209)	\$ (605,340)

See accompanying notes

*Statement of Cash Flows*  
For the year ended March 31

	2006	2005
<b>Statement C</b>		
<b>OPERATING ACTIVITIES</b>		
Excess of revenue (expenses)	\$ 402,131	\$ (461,613)
Items that do not affect cash:		
- amortization	19,181	15,168
- transfer of assets - Notes 3, 4	750,000	-
	1,171,312	(446,445)
Net change in current assets	(302,703)	728,584
Net change in current liabilities	(399,793)	(480,225)
Net change in deferred revenue	(15,640)	1,356,415
<b>Net cash from operating activities</b>	<b>453,176</b>	<b>1,158,329</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(130,985)	(1,220,952)
<b>Net cash (used by) investing activities</b>	<b>(130,985)</b>	<b>(1,220,952)</b>
<b>INCREASE (DECREASE) IN CASH RESOURCES</b>	<b>322,191</b>	<b>(62,623)</b>
CASH - beginning of year	47,279	109,902
CASH - end of year	\$ 369,470	\$ 47,279
<b>REPRESENTED BY: Cash balance in chequing accounts</b>	<b>\$ 369,470</b>	<b>\$ 47,279</b>

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) General Operating Fund

The General Operating 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 and administration activities. The Capital Fund was wound down during the year and all Capital Fund operations, assets and liabilities were transferred to the General Operating Fund.

#### ii) Weyburn-Midale Fund

The Weyburn-Midale Fund reflects the operations for the newly established multi-year collaborative project entitled *Final Phase of the IEA GHG Weyburn-Midale CO<sub>2</sub> Monitoring and Storage Project*. Although funding receipts attributable to this project date back to December 2004, project operations did not commence until September 1, 2005.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue Recognition

The Centre follows the deferral method of accounting for contributions. Restricted contributions related to general operations are recognized as revenue of the General 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 General 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.

### 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

### 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

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computers	\$ 66,643	\$ 26,728	\$ 39,915	\$ 44,504
Office furniture	25,819	12,135	13,684	19,467
Subtotal	92,462	38,863	53,599	63,971
Research assets	532,034	-	532,034	1,159,858
Total	\$ 624,496	\$ 38,863	\$ 585,633	\$ 1,223,829

Research assets with a net book value of \$750,000 were transferred to the Saskatchewan Research Council for zero proceeds during the current year. The remaining research assets were not yet ready for use and have not been amortized.

### 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. 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, 2006, deferred revenue of \$691,396 (2005 - \$1,222,713) was held in the General Operating Fund to be matched with future project expenditures and asset amortization. During the year, recognition of \$750,000 deferred revenue is attributable to research assets transferred to the Saskatchewan Research Council. This funding was provided jointly by Saskatchewan Industry & Resources and Western Economic Diversification Canada in prior years.

As at March 31, 2006, deferred revenue of \$757,397 (2005 - \$241,720) was held in the Weyburn-Midale Fund for funding contributions to be matched with future project expenditures.

## 5. PROJECT EXPENSES

During the year, the General Operating Fund incurred project expenses of \$2,665,941 (2005 - \$3,161,763).

	2006	2005
Equipment projects	\$ 39,477	\$ 145,254
Innovation projects	2,580,909	3,001,427
Incubation projects	45,555	15,082
	<u>\$ 2,665,941</u>	<u>\$ 3,161,763</u>

Equipment project 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.

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

## 6. SIGNIFICANT AGREEMENTS

The Centre's agreements with Saskatchewan Industry & Resources and Western Economic Diversification Canada for funding within the Western Economic Partnership Agreement (WEPA) were concluded during the current fiscal year. WEPA is a joint federal/provincial initiative designed to fund projects that will stimulate economic activity in Saskatchewan.

## 7. ECONOMIC DEPENDENCE

The Centre has received funding commitments from Natural Resources Canada, Western Economic Diversification Canada and Saskatchewan Industry & Resources for the years 2004 through 2007 for research projects and operations:

Natural Resources Canada	\$4,000,000 over 4 years
Western Economic Diversification Canada	\$1,000,000 over 4 years
Saskatchewan Industry & Resources	\$5,000,000 over 4 years

The Centre seeks additional funding for its research projects from other federal sources and from the petroleum industry. Additionally, Saskatchewan Industry & Resources has committed to match approved supplemental federal funding up to a maximum of \$1,000,000 over the same time frame.

## 8. DUE TO (FROM) OTHER FUNDS

Cash for the General Operating Fund is segregated from the Weyburn-Midale Fund; payments are, however, made from one fund on behalf of the other occasionally. As of March 31, 2006, \$47,514 is owed to the Weyburn-Midale Fund from the General Operating Fund.

## 9. NET ASSETS RESTRICTED FOR EXECUTIVE COMPENSATION

The Executive Director's terms of employment contain a clause for a compensation payout in the event that the Centre is unable to attract funding post-2007 and the Centre ceases operations. This date coincides with the time frame for the firm funding commitments listed in Note 7.

A restriction of net assets has been made of \$48,750 to represent the potential risk-assessed cost. This assessment of risk and the calculation of the restriction will be reviewed by management on an annual basis.

## 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. COMPARATIVE FIGURES

Certain of the 2005 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*

	2006 Cumulative Project-to-Date	2006 Annual Activity	Schedule 1 2005 Annual Activity
<b>REVENUE</b>			
<b>Government Funding</b>			
Natural Resources Canada	\$ 1,045,000	\$ 1,045,000	\$ -
Natural Resources Canada and US Department of Energy	124,892	124,892	-
	1,169,892	1,169,892	-
<b>Industry Funding</b>			
Alberta Innovation and Science	300,000	300,000	-
Chevron/Texaco	118,920	-	118,920
Research Institute of Innovative Technology for the Earth	108,674	108,674	-
SaskPower	229,803	107,003	122,800
	757,397	515,677	241,720
Revenue deferred for future use	(757,397)	(515,677)	(241,720)
<b>Total Revenue</b>	<b>\$ 1,169,892</b>	<b>\$ 1,169,892</b>	<b>\$ -</b>
<b>EXPENDITURES</b>			
<b>Technical Program</b>			
Theme 1 - Site Characterization	\$ 177,836	\$ 177,836	\$ -
Theme 2 - Wellbore Integrity	131,185	131,185	-
Theme 3 - Distribution & Fate of CO <sub>2</sub>	285,476	285,476	-
Theme 4 - Performance Assessment	9,385	9,385	-
Theme 5 - Information Integration	147,490	147,490	-
Theme 6 - Project Control	397,075	397,075	-
Theme 7 - Sponsorship Campaign	21,033	21,033	-
<b>Non-Technical Program</b>			
Theme 8 - Policy & Regulation	412	412	-
<b>Total Expenditures</b>	<b>\$1,169,892</b>	<b>\$1,169,892</b>	<b>\$ -</b>
<b>EXCESS OF REVENUE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

This schedule shows the cumulative revenue, deferred revenue and expenditures for the IEA GHG Weyburn-Midale CO<sub>2</sub> Monitoring and Storage Project since its inception as well as the annual activity for the years ended March 31, 2006 and March 31, 2005. Certain industry funding was received in advance of the project start date of September 1, 2005. Total current year expenditures include both project expenses (\$1,081,026) and operating expenses (\$88,866). In-kind services provided by industry partners are not reflected in this schedule.

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