

Annual Report 2002



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The Oil, Gas & Salt Resources Trust was formed by the Ontario Ministry of Natural Resources (MNR), pursuant to the Oil, Gas & Salt Resources Act RSO 1990.

A Trust Agreement, dated February 16, 1998, was signed with the Original Trustee, the Ontario Oil, Gas & Salt Resources Corporation (OOGSRC). The Ontario Petroleum Institute (OPI) is the sole shareholder in the OOGSRC.





Industry Input

Requirements for a Trust Advisory Committee (TAC) exist within the Oil, Gas & Salt Resources Act and the Trust Agreement. Members of the TAC are industry representatives who are appointed by the Trustee for a two year term. The TAC meets on a quarterly basis to advise the Trustee on the setting of operating budgets and directing policy with respect to expenditures. A representative from the Ontario Ministry of Natural Resources meets with the TAC in an advisory capacity.

Trust Purposes

The funding of information management relating to oil, gas and salt resources;

The funding of research, surveys and laboratory facilities and operations relating to:

- oil or gas exploration, drilling or production;
- storage of oil, gas and other hydrocarbons in geological formations;
- disposal of oil field fluids in geological formations; and,
- solution mining of salt.

Such other matters as may be specified by the Minister.



Board of Directors

President

Peter Rowe
2018251 Ontario Inc.

First Vice President

Tony Steele
Polishuk, Camman and Steele

Second Vice President

Jack Norman
Elexco Limited

Treasurer

Ray Neal
Chartered Accountant

Secretary

Bill Fay
Union Gas Limited

Trust Advisory Committee

Oil and Gas

Claudia Cochran (chair)
Cairnlins Resources Limited

Michael Barnes

Canadian Natural Resources Limited

Dale Norman

Elexco Limited

Ron Stinson

Talisman Energy Inc.

Natural Gas Storage

Peter Johnson
Union Gas Limited

Hydrocarbon Cavern Storage

Neil MacDougall
Bayer Inc

Solution Mining

Mike Learn
The Canadian Salt Company

Activity in 2002

82 wells drilled

169 wells plugged

57,640 metres drilled

1,200 producing oil wells

1.347 million barrels of oil produced

83.5 million barrels of cumulative oil production

1,167 producing natural gas wells

14.8 billion cubic feet of natural gas produced

1.2 trillion cubic feet of cumulative natural gas production

236.2 billion cubic feet of natural gas storage capacity in 30 reservoirs

(information as of June 6, 2003)

2. Financial instruments

(a) Fair value of financial instruments

The fair values of accounts receivables, inventory, prepaid expenses, accounts payable, accrued liabilities, and payable to the Province of Ontario are assumed to approximate their carrying value because of their short term to maturity.

(b) Financial risk

The Company is exposed to financial risk with respect to foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(c) Credit risk

The Company is exposed to credit risk with respect to its accounts receivable. However, this is minimized by the Company’s small balance in accounts receivable. The Company performs initail credit evaluations of its potential customers and limits the amount of credit extended when deemed necessary. The Company maintains provisions for potential credit losses, and any such losses to date have been within management’s expectations.

3. Capital assets

			2002	2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	\$ 30,233	\$ 14,642	\$ 15,591	\$ 16,339
Computer equipment	20,072	14,543	5,529	10,713
	<u>\$ 50,305</u>	<u>\$ 29,185</u>	<u>\$ 21,120</u>	<u>\$ 27,052</u>

4. Commitments

Pursuant to a lease agreement in respect of its business premises, the Trust is contractually obligated to lease payments in the amount of \$5,198 monthly as at December 31, 2002. The minimum annual lease payments due to the expiry of this lease in March 2006 are as follows:

2003	\$ 62,379
2004	62,379
2005	62,379
2006	15,594
	<u>\$ 202,731</u>

The Honourable Jerry Ouellette
Minister of Natural Resources
90 Wellesley Street West
6th Floor, Whitney Block, Room 6630
Toronto, ON M7A 1W3

Dear Mr. Ouellette,

It is my pleasure to submit the 2002 Annual Report of the Ontario Oil, Gas & Salt Resources Trust.

2002 has been a very active year for the Trust. We continue to invest heavily in converting the well data housed in the Oil, Gas & Salt Resources Library to a more modern digital format. We are now well over half way through this five year project – a project that is already revolutionizing the way industry explores for and produces Ontario’s petroleum and natural gas resources.

More and more, the Library is seen as a valuable and unique resource centre for the study of Ontario’s geological subsurface, not only for existing operators, but for potential new companies looking to invest in the Province of Ontario. Once seen as a patch with crude and limited data, Ontario is now viewed as a model as to how government and industry can work together to manage and distribute its data resources.

2003 will continue to see more activity as digital data becomes available on-line and the development of more digital data products.

Sincerely,



Steve Fletcher
Managing Director
Ontario Oil, Gas & Salt Resources Corporation

Highlights in 2002

Oil and Gas Industry Activity

Oil and gas drilling activity slowed in 2002 due to a lowering of prices late in 2001, which extended into the early part of the year. Prices for both oil and natural gas increased considerably late in the year, due to rapid draw-down of natural gas storage levels in North America as a result of cold winter temperatures, and uncertainties about crude oil supplies due to the strike by oil workers in Venezuela and the possibility of war in Iraq. With the decreased activity in the oil and gas industry, approximately 10% fewer invoiced requests for research, sample processing fees, and annual production and well fees were completed by the OGSR Library.

Digital Well Data

Well location and data verification continued aggressively to update the Ministry of Natural Resources' (MNR) database with digitized well information. Three temporary employees spent approximately 3,476 man-hours inputting and verifying data on a county-by-county basis. The results of this effort has produced completely updated and verified digital data for Brant, Bruce, Dufferin, Elgin, Essex, Kent, Lake Erie, Lake St. Clair, Huron, Oxford, Perth, Waterloo and Wellington counties. Basic data for these counties can now be downloaded free of charge from the OGSR Library website or accessed from the database in the Library.

The Trust concluded its negotiations with the Ontario government to make the Province's Digital Base Maps available to Corporate Members of the OGSR Library, allowing users to plot well locations on seamless digital maps. These files greatly enhance the value and the Library's digital data.

Publications

The Trust compiled and published a 12-year summary of oil, gas, and salt resources exploration, drilling, production and storage in Ontario. The Trust also published Version 2.0 of the Oil, Gas and Salt Resources of Ontario, Provincial Operating Standards, and made the file a free download off of its website to encourage industry to understand its compliance obligations.

Well Cutting Sample Processing

For a second year, a summer student was hired in 2002 to concentrate on reducing the number of backlogged sample washings. Drill cutting samples for 166 wells, representing over 122,000 metres, were washed, vialled and permanently stored in the OGSR Library warehouse.

Website

Revisions to the OGSR Library website, our portal to world, were ongoing during 2002. New additions included the posting of more free digital well data from verified counties, updated geological maps and reports, and enhanced marketing of the Library's mapping and digital products inventory. The weekly new licence reports and monthly activity reports remain very popular pages, provided much needed industry information in an instant. Hits to the Library site doubled in 2002.

Notes to the Financial Statements

December 31, 2002

1. Summary of significant accounting policies

(a) Organization

Pursuant to the Oil, Gas & Salt Resources Act, RSO 1990, the Trust was formed by the Ontario Ministry of Natural Resources. A Trust Agreement, dated February 16, 1998, was signed with the Original Trustee, the Ontario Oil, Gas and Salt Resources Corporation. The purpose of the Trust is to provide for the funding of research, surveys and laboratory facilities relating to the oil and gas industry. As indicated in the Trust Agreement, the net assets of the Trust accrue to the benefit of the Province of Ontario.

(b) Revenue recognition

Fees and other revenue received in advance are deferred and recognized as income at the time the related expenditures are incurred. Members' fees as set by the Board of Directors are recognized as revenue on a fiscal year basis.

(c) Inventories

Inventories are valued at the lower of cost and current replacement value. Cost is determined on a specific item basis.

(d) Amortization

It is the Trust's policy to provide for amortization of capital assets on the following basis:

Furniture and fixtures	20% declining balance
Computer hardware	3 years, straight-line
Computer software	100%

(e) Foreign currency translation

Current assets and current liabilities denominated in foreign currencies are translated at the year-end exchange rate. Expenses are recorded at average rates of exchange. Translation gains and losses are included in earnings.

(f) Cash and term deposits

Cash and term deposits include cash on hand, balances with banks and short term deposits with original maturities of one year or less.

(g) Use of estimates

In preparing the Trust's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

Balance Sheet

As At December 31	2002	2001
	Assets	
Current Assets		
Cash and term deposits	\$ 154,696	\$ 267,815
Accounts receivable	4,260	9,162
Inventory of supplies	13,817	11,289
Prepaid expenses	5,562	–
	<u>178,335</u>	<u>288,266</u>
Capital Assets (Note 3)	21,120	27,052
	<u>\$ 199,455</u>	<u>\$ 315,318</u>
Commitments (Note 4)		
	Liabilities	
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,133	\$ 68,038
Payable to the Province of Ontario	197,322	247,280
Total liabilities	<u>199,455</u>	<u>315,318</u>
	Equity	
Retained Earnings	–	–
	<u>\$ 199,455</u>	<u>\$ 315,318</u>

Statement of Cash Flows

Years Ended December 31	2002	2001
Increase (decrease) in cash and term deposits		
Operating		
Cash received from customers	\$ 190,273	\$ 210,255
Cash payments to suppliers for goods and services	(186,958)	(63,768)
Cash payments to employees	(122,675)	(141,200)
Interest received	10,250	15,389
	<u>(109,110)</u>	<u>20,676</u>
Investing		
Purchase of capital assets	<u>(4,009)</u>	<u>(11,380)</u>
Change in cash and term deposits	(113,119)	9,296
Cash and term deposits, beginning of year	<u>267,815</u>	<u>258,519</u>
Cash and term deposits, end of year	<u>\$ 154,696</u>	<u>\$ 267,815</u>

see accompanying notes to the financial statements

Future Directions

The Ontario Oil, Gas & Salt Resources Library continues to pursue improvements to its facilities, operations and data. In addition, the following projects and initiatives will be undertaken in 2003:

Digital Well Database

The Trust will continue working in partnership with the Ontario Ministry of Natural Resources (MNR) to build, maintain and market a digital database of geological and engineering information on wells drilled in Ontario through the MNR’s Ontario Petroleum Data System (OPDS). By the end of 2003, data and location verification for over three quarters of the known wells in the province will have been verified and published. The balance of the province will be completed by 2004.

Sale of value-added data from OPDS by the Library is targeted to begin in early 2003. Data will consist of geological formation tops, logging records, and oil/gas/water interval records. Petroleum GIS software, developed with MNR, will be made available with the subsurface data which allows for the extraction of geological formation tops for digital mapping.

Access to digital data will help to encourage the sustainable development of Ontario’s resources by existing industry participants, as well as attracting new investment to the province.



Digital Logs

The Trust is working with a variety of vendors to digitally capture the paper well bore logs housed in the Library. This will provide long term back up of a fragile resource, and like the digital well data project, the digital logs are more useful and productive resources for industry and academic users.

Research

The Trust has established a research budget and has begun working with industry and academia to identify and undertake research projects relevant to the Trust Purposes.

Grant Thornton LLP
Chartered
Accountants
Canadian Member Firm of
Grant Thornton International



Auditor’s Report

To the Members of Oil, Gas & Salt Resources Trust

We have audited the balance sheet of the Oil, Gas & Salt Resources Trust as at December 31, 2002 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Trustee. 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 the organization, 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 Oil, Gas & Salt Resources Trust as at December 31, 2002 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.


Chartered Accountants

London, Ontario
February 21, 2003

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Statement of Earnings and Retained Earnings

Years Ended December 31	2002	2001
Revenue		
Well licence fees	\$ 127,034	\$ 128,149
Sample processing fees	38,685	56,323
Photocopying	14,415	9,327
Memberships	4,998	5,915
Lab user fees	1,513	3,695
Maps	2,854	6,282
Interest and foreign exchange	6,929	11,814
	<u>196,428</u>	<u>221,505</u>
Expenses		
Wages and employee benefits	85,048	77,563
Contract and co-op wages	37,627	63,637
Processing supplies	13,935	18,513
Waste removal	531	509
Sundry	5,651	7,479
Trustee management fee	5,000	5,000
Trust services fee	5,000	5,000
Professional fees	2,798	5,702
Office expenses	6,115	6,589
Postage and telephone	3,074	5,173
Insurance	2,835	1,831
Travel	547	2,064
Rent	66,897	46,785
Database management	580	15,706
Bad debts	807	458
Map expenses	–	2,476
Amortization	9,941	8,749
	<u>246,386</u>	<u>273,234</u>
Earnings (loss) before allocation	<u>(49,958)</u>	<u>(51,729)</u>
Allocation to the Province of Ontario	<u>49,958</u>	<u>51,729</u>
Net earnings	\$ –	\$ –
Retained earnings, beginning of year	\$ –	\$ –
Net earnings	\$ –	\$ –
Retained earnings, end of year	<u>\$ –</u>	<u>\$ –</u>

see accompanying notes to the financial statements