

INFORMATIONAL NOTICE 13-01

ANNUAL REPORT ABANDONMENT FUND RESERVE ACCOUNT

Fiscal year ending March 31, 2012

Abandonment Fund Reserve Account:

The Abandonment Fund Reserve Account (“the Abandonment Fund”) is established under Section 172 of The Oil and Gas Act (“the Act”). The Abandonment Fund may be used as a source of funds to operate or abandon a well or facility that is non compliant with the Act where the licensee or permittee of the well or facility fails to comply. The Abandonment Fund may also be used to rehabilitate the site of an abandoned well or facility or to address any adverse effect on property caused by a well or facility. Expenditure from the Abandonment Fund on behalf of a licensee or permittee automatically creates a debt of the licensee or permittee to the Crown.

Annual Review of Abandonment Fund :

Section 54.1 of the Drilling and Production Regulation (“the Regulation”) under the Act provides as follows:

Account reviewed annually:

54.1

The Director shall conduct an annual review of the Abandonment Fund Reserve Account and shall make a recommendation as to whether the amount of the non-refundable levy should be changed having regard to the account balance and the anticipated deposits to and expenditures from the account.

This is the Director’s report, as required by the Regulation, for the fiscal year ending March 31, 2012.

Opening Balance:

The opening balance of the Abandonment Fund on April 1, 2011 was **\$1,160,199.33**.

Deposits (April 1, 2011 to March 31, 2012):

Deposits into the Abandonment Fund are comprised of levies charged on issuance or transfer of certain licences and permits issued under the Act as well as annual levies for inactive wells and

batteries. Accrued interest earned by the Abandonment Fund is also deposited. Deposits to the Abandonment Fund may also include recoveries of previous expenditures made from the Abandonment Fund.

Deposits into the Abandonment Fund during the 2011/12 fiscal year totaled **\$331,250.00**.

Levies on Licences and Permits:

Levies for deposit in the Abandonment Fund are established by regulation.

The Drilling and Production Regulation provides for levies on well licences issued or transferred, battery operating permits issued and wells and batteries designated by the Director as inactive. The Geophysical Regulation provides for a levy on geophysical licences issued. Table 1 shows the levies charged under these regulations.

Table 1 – Regulatory Levies

Licence/Permit	Levy
Well Licence	\$ 250
Transfer of Well Licence	50 *
Battery Operating Permit	250
Geophysical Licence	50

* Subject to a maximum of \$1,000.00 for any single well licence transfer application

In fiscal year 2011/12, the following levies were deposited into the Abandonment Fund:

Well Licences	\$167,000.00
Well Licence Transfers	11,100.00
Battery Operating Permits	1,500.00
Geophysical Licences	<u>2,350.00</u>
Total	<u>\$181,950.00</u>

Inactive Well and Battery Levies and Penalties :

The Regulation provides for an annual levy on each well and battery that is designated by the Director as inactive. The following levies apply:

Class 1	a well that has not been operated for 5 years or less	\$150
Class 2	a well that has not been operated for more than 5 consecutive years but fewer than 10 consecutive years	500
Class 3	a well that has not been operated for 10 consecutive years or more	1,000
Class 4	an inactive battery	500

Prior to April 30 of each year, the Director advises operators of wells and batteries that have been designated as inactive for the previous calendar year including the inactive levy due for each well or battery. The operator is required to pay the inactive levy prior to July 31 of the same year unless the well or battery has been abandoned prior to that date. If the operator fails to pay the inactive levy prior to July 31, a penalty equal to 25%

of the outstanding levy is assessed. Failure to pay the inactive levy and penalty, prior to October 31 of the same year, results in an additional penalty equal to 50% of the outstanding levy.

The following inactive well and battery levies and associated penalties were deposited into the Abandonment Fund during the 2011/12 fiscal year:

Inactive Levies	\$149,300.00
Late payment penalties	<u>750.00</u>
Total	<u>\$ 150,050.00</u>

Accrued Interest

Interest earned on the balance in the Abandonment Fund, at a rate prescribed by the Department of Finance, is deposited into the Abandonment Fund as provided for in the Act.

Accrued Interest 2011/12	\$9,362.32
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Recovery of Expenditures :

Under the Act, where an expenditure is made from the Abandonment Fund on behalf of a licensee or permittee, that expenditure creates a debt of the licensee or permittee to the Crown. The Petroleum Branch has been successful in partial recovery of expenditures from the Abandonment Fund through marketing of oil recovered and salvage of equipment under Ministerial Seizure Orders and other collection initiatives. Any monies realized through these activities are deposited into the Abandonment Fund.

During 2011/12, \$0.00 was recovered for deposit into the Abandonment Fund.

Expenditures and Refunds (April 1, 2011 to March 31, 2012) :

Expenditures and refunds from the Abandonment Fund in fiscal year 2011/12 totaled
\$13,064.81

Norcoul:

Pursuant to a Ministerial Seizure Order dated June 18, 2007, the Director executed seizure of the Norcoul Virden 10-15-10-26 WP1 battery on August 15, 2007. \$80,613.95 was spent on abandonment and reclamation of this site during 2009/10.

Oilex Exploration Ltd.:

Pursuant to a Ministerial Seizure Order dated September 28, 2001, the Director executed seizure of 11 wells and 2 batteries licensed or permitted to Oilex Exploration Ltd. on November 19, 2001. Currently there are 6 active Oilex sites in the rehabilitation program. To date, 5 COAs have been issued. Electromagnet survey and subsequent soil sampling is proposed in 2008 on two locations pending Director approval of expenditure from the Abandonment Fund.

To date, gross expenditures from the Abandonment Fund under seizure of the Oilex properties equal \$492,224.59 (net expenditures after salvage of equipment and marketing of oil recovered totals \$431,885.15).

Fawn Petroleums Ltd.:

Pursuant to a Ministerial Seizure Order dated December 19, 2001, the Director executed seizure of three wells and one battery licensed or permitted to Fawn Petroleums Ltd. on March 4, 2002. As of March 2007, the Branch has issued one COA to Fawn Lulu Lake Prov. 2-23-1-21 leaving two active Fawn rehab sites remaining. These sites include the abandoned well and battery at 16-14-1-21 and the abandoned well site at 15-14-1-21. Rehabilitation procedures took place on these active sites in 2006 amounting to \$2,112.50. No significant expenditures are expected in 2010/11 as these sites will be monitored.

To date, gross expenditures from the Abandonment Fund under seizure of the Fawn properties are \$94,427.65 (net expenditures after salvage of equipment and marketing of oil recovered totals \$51,231.43).

SE 1/4 of Section 10-10-28 WPM:

Under the authority of the Minister, the Branch excavated and disposed of oil and salt water contaminated soil from an earthen pit on an old abandoned battery site in the SE 1/4 of Section 10-10-28 WPM. To date, total expenditures from the Abandonment Fund for site clean up are \$17,565.75. This location remains in active rehab but will not require expenditures in 2010/11.

Tancam Consulting Ltd.:

Pursuant to a Ministerial Seizure Order dated January 31, 2005, the Director executed seizure of three wells and one battery licensed or permitted to Tancam Consulting Ltd. on June 1, 2005. In the fall of 2006, the three Tancam wells and one battery site were abandoned by the Petroleum Branch at a cost of \$235,120.39. \$53,530.46 was recovered in performance deposit and equipment sales. These sites are currently in process and will have final restoration completed in 2010/11.

Gale Force Petroleum Inc.:

Pursuant to a Ministerial Seizure Order dated September 20, 2011, the Director executed seizure of seven wells licensed to Gale Force Petroleum Inc on October 18, 2010. The Branch will develop abandonment programs and abandonment of these wells will begin in 2012/13.

Closing Balance:

The closing balance of the Abandonment Fund as at March 31, 2012 was **\$1,488,496.84.**

Forecast of Revenues and Expenditures :

The following revenues are forecast for the Abandonment Fund during fiscal year 2012/13:

Well Licences	\$160,000
Transfer of Well Licences	20,000
Battery Operating Permits	1,750
Geophysical Licences	750
Inactive Well Levies	149,000
Interest	<u>1,500</u>
Total	<u>\$333,000</u>

In 2012/13, no expenditures will be required to continue abandonment, restoration and rehabilitation of the Norcoul Virden 10-15-10-26 Battery as the Ministerial Order of June 18, 2007 was executed by the Director on August 15, 2007. Pursuant to a Ministerial Seizure Order dated January 31, 2005, the Director executed seizure of three wells and one battery licensed or permitted to Tancam Consulting Ltd. on June 1, 2005. The Branch was not successful in its attempts to generate interest from other operators in taking over some or all of the wells formerly operated by Tancam Consulting; the wells will have been abandoned and have a remaining rehabilitation cost of \$93,000. Expenditures related to the abandonment work to be done in 2012/13 on the Gale Force Petroleum Inc. wells is estimated at \$500,000.00

Total expenditures from the Abandonment Fund in fiscal year 2012/13 are estimated at \$500,000.00.

Recommendation:

A number of factors have combined to reduce funding pressure on the Abandonment Fund:

- (a) increased oil and gas activity has increased levies deposited into the Abandonment Fund;
- (b) increased oil prices have resulted in the assets of some insolvent operators being sold and the wells reactivated; and

The current Abandonment Fund balance is adequate for the Department to take escalating enforcement action against delinquent operators in a timely manner. It is therefore recommended that previously proposed levy increases for wells and batteries designated inactive for calendar year 2011, be delayed and reviewed again in FY 2012/13.



Keith Lowdon

	Expenditure	Deposit								Total Expenditures
		2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011		
A. Oilex Exploration Corporation										
Oilex Daly 5-26-9-29WPM (battery and general)	\$ 59,924.81	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,924.81
Oilex CNWE et al Daly 15-19-9-29 WPM	\$ 17,323.78	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,323.78
Oilex Daly 2-26-9-29 WPM	\$ 23,485.47	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,485.47
Oilex Ebor Unit No. 1 3-26-9-29 WPM	\$91,014.55	\$71,906.34	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162,920.89
Oilex Ebor Unit No. 1 4-26-9-29 WPM	\$ 17,466.46	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,466.46
Oilex Ebor Unit No. 1 6-26-9-29 WPM	\$ 20,652.08	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,652.08
Oilex Daly SWD 05-26-09-29 WPM	\$ -	\$ -	\$ 5,185.00	\$ -	\$ -	\$ 1,439.42	\$ -	\$ -	\$ -	\$ 6,624.42
Oilex Daly Prov. 9-26-9-29 WPM	\$ 71,277.27	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 71,277.27
Oilex Daly Prov. 10-26-9-29 WPM	\$ 14,717.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,717.50
Oilex Ebor Unit No. 1 11-26-9-29 WPM	\$ 17,426.68	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,426.68
Oilex Ebor Unit No. 1 12-26-9-29 WPM	\$ 9,391.46	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,391.46
Oilex Daly 13-26-9-29 WPM	\$ 20,260.22	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,260.22
Oilex Daly 14A-26-9-29 WPM	\$ 22,766.37	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,766.37
Other	\$ (58,196.74)	\$ (2,714.00)		\$ (2,559.60)						\$ (63,470.34)
Oilex Totals	\$327,509.91	\$ 69,192.34	\$ 5,185.00	\$ (2,559.60)	\$ 0.00	\$ 1,439.42	\$ 0.00	\$ 0.00	\$ 0.00	\$ 400,767.07
B. Fawn Petroleums Ltd.										
Fawn Lulu Lake Prov. 16-14-1-21 (battery)	\$ 29,770.72	\$ -	\$ -	\$ 1,056.25	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,826.97
Fawn Lulu Lake Prov. 15-14-1-21 WPM	\$ 15,203.76	\$ -	\$ -	\$ 1,056.25	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,427.01
Fawn Lulu Lake Prov. 16-14MZ-1-21 WPM	\$ 10,768.44	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,768.44

	Expenditure	Deposit								Total Expenditures
		2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011		
Fawn Lulu Lake Prov. 2-23-1-21 WPM	\$ 16,972.23	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,972.23
OTHER	\$(31,631.43)									\$ 31,631.43)
Fawn Totals	\$ 41,083.72	\$ 0.00	\$ 0.00	\$ 2,112.50	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 43,196.22
C. SE/4-10-10-28 WPM										
SE/4-10-10-28 WPM	\$ 16,455.75	\$ 1,110.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,565.75
Totals	\$ 16,455.75	\$ 1,110.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 17,565.75
D. Tancam Consulting Ltd.										
Tancam Waskada SWD 01-28-01-24	\$ -	\$ -	\$ -	\$ 24,397.05	\$ 2,550.02	\$ 1,740.00	\$ -	\$ -	\$ -	\$ 28,687.07
Tancam Waskada 02-28-01-24 WPM	\$ -	\$ -	\$ -	\$ 135.00	\$ -	\$ 615.00	\$ -	\$ -	\$ -	\$ 750.00
Tancam Waskada 02-33-01-24 WPM	\$ -	\$ -	\$ -	\$ 63,990.13	\$ 3,000.02	\$ 221,220.39	\$ -	\$ -	\$ -	\$ 288,210.54
Tancam Waskada 08-33-01-24 WPM	\$ -	\$ -	\$ -	\$ 29,467.85	\$ 2,550.02	\$ 1,545.00	\$ -	\$ -	\$ -	\$ 33,562.87
OTHER								\$ 10,800.00		\$ 10,800.00
Tancam Totals	\$ 0.00	\$ 0.00	\$ 0.00	\$ 117,990.03	\$ 8,100.06	\$ 225,120.39	\$ 0.00	\$ 10,800.00	\$ 0.00	\$ 362,010.48
E. 3 & 4 15-10-26 WPM										
3 & 4 15-10-26 WPM	\$ -	\$ -	\$ -	\$ 1,714.55	\$ -	\$ 1,525.00	\$ -	\$ -	\$ -	\$ 3,239.55
Norcoul Virden 10-15-10-26 WPM (battery)	\$ -	\$ -	\$ -	\$ -	\$ 2,343.00	\$ 61,311.05	\$ 17,777.90	\$ 0.00	\$ 0.00	\$ 82,956.95
Norcoul Totals	\$ 0.00	\$ 0.00	\$ 0.00	\$ 1,714.55	\$ 2,343.00	\$ 62,836.05	\$ 17,777.90	\$ 0.00	\$ 0.00	\$ 84,671.50