

Manitoba



Industry, Economic
Development and Mines

Petroleum

360-1395 Ellice Avenue
Winnipeg MB R3G 3P2
CANADA

Phone: (204) 945-6577
Fax: (204) 945-0586

INFORMATIONAL NOTICE 04-03

Annual Report Abandonment Fund Reserve Account Fiscal Year Ending March 31, 2004

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, 2004.

Opening Balance

The opening balance of the Abandonment Fund on April 1, 2003 was **\$150,864.92**.

Deposits (April 1, 2003 to March 31, 2004)

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 2003/04 fiscal year totaled **\$105,825.55**.

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 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 \$1000 for any single well licence transfer application

In fiscal year 2003/04, the following levies were deposited into the Abandonment Fund:

Well Licences	\$23,750
Well Licence Transfers	\$ 1,950
Battery Operating Permits	\$ 0
Geophysical Licences	<u>\$ 150</u>
 Total	 \$25,850

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 2003/04 fiscal year:

Inactive Levies	\$75,000
Late payment penalties	<u>\$ 3,750</u>
Total	\$78,750

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 2003/04	\$1,225.55
---------------------------------	-------------------

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 2003/04, no monies were recovered for deposit into the Abandonment Fund.

Expenditures (April 1, 2003 to March 31, 2004)

During 2003/04, the Petroleum Branch undertook the abandonment, restoration and initial rehabilitation of a number of wells and facilities that were the subject of Ministerial Seizure Orders. This work was funded from the Abandonment Fund.

Expenditures from the Abandonment Fund in fiscal year 2003/04 totaled **\$154,668.00**.

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. After attempts to generate interest from other operators in taking over some or all of the wells and batteries were unsuccessful, it was decided to proceed with abandonment. Abandonment operations were commenced in November 2001. As of March 31, 2004, 10 wells and the two batteries had been abandoned and the sites restored. Abandonment of the last well, Oilex Ebor Unit No. 1 3-26-9-29 WPM, has been initiated but due to downhole conditions has not been completed. The abandoned well and battery sites are under active rehabilitation.

Abandonment and restoration work was financed initially through a performance deposit of \$30,000 previously filed with the Branch by Oilex and subsequently through expenditures from the Abandonment Fund. Table 2 (attached) details expenditures to date

on each well and on the 5-26 battery and salt water disposal site (including expenses not attributable to a specific well).

To date, gross expenditures from the Abandonment Fund under seizure of the Oilex properties is \$384,026.75 (net expenditures after salvage of equipment and marketing of oil recovered totals \$327,509.91).

Fawn Petroleum 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 Petroleum Ltd. on March 4, 2002. After attempts to generate interest from other operators in taking over some or all of the wells were unsuccessful, it was decided to proceed with abandonment.

As of March 31, 2004, 3 wells and the battery had been abandoned and the sites restored. The abandoned well and battery sites are under active rehabilitation.

Abandonment and restoration work was financed initially through a performance deposit of \$19,600 previously filed with the Branch by Fawn and subsequently through expenditures from the Abandonment Fund. Table 2 (attached) details expenditures to date on each well and on the battery site.

To date, gross expenditures from the Abandonment Fund under seizure of the Fawn properties is \$72,716.15 (net expenditures after salvage of equipment and marketing of oil recovered totals \$61,909.37).

SE/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/4 of Section 10-10-28 WPM. To date total expenditures from the Abandonment Fund for site clean up are \$16,455.75.

Closing Balance

The closing balance of the Abandonment Fund as at March 31, 2004 was **\$102,022.47**.

Forecast of Revenues and Expenditures

The following revenues are forecast for the Abandonment Fund during fiscal year 2004/05:

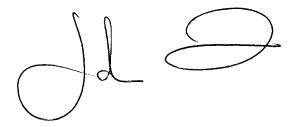
Well Licences	\$25,000
Transfer of Well Licences	\$ 3,000
Battery Operating Permits	\$ 500
Geophysical Licences	\$ 200
Inactive Well Levies	\$75,000
Interest	<u>\$ 750</u>
Total	\$104,450

In 2004/05 significant expenditures will be required to complete the abandonment of the remaining Oilex well and to continue active rehabilitation of the Oilex and Fawn sites. If the Branch is not successful in its attempts to generate interest from other operators in taking over some or all of the wells formerly operated by Mead Petroleum & Farms Ltd., which were seized pursuant to a Ministerial Seizure Order dated November 15, 2001, the wells will be abandoned. Depending on funds remaining for completion of this work, the Branch may initiate possible seizure actions against other non compliant operators. Expenditures from the Abandonment Fund in 2004/05 will be limited to ensure a minimum balance of \$50,000 is maintained.

Recommendation

It is anticipated that for the third year in a row expenditures from the Abandonment Fund will exceed revenue. In order to maintain a minimum balance of \$50,000 in the Abandonment Fund, the Petroleum Branch will have to delay escalating enforcement action against some non compliant operators. Therefore it is recommended that current levies for inactive wells and batteries be doubled. The proposed levy increase would apply to wells and batteries designated inactive for calendar year 2004. Levies were last increased in 2001.

Given significant potential expenditures from the Abandonment Fund during 2004/05 and beyond, the Branch has also proposed amendments to The Oil and Gas Act that would provide additional sources of revenue to the Abandonment Fund. It is uncertain when these amendments will be considered by the Legislature.



John N. Fox, P.Eng.
A/Director

Table 2**Abandonment and Rehabilitation Costs**

	Performance Deposit Expenditure	Fund Expenditures		Total Expenditures	Status
		2002/03	2003/04		
A. Oilex Exploration Corporation					
Oilex Daly 5-26-9-29WPM (battery and general)	\$ 979.00	\$ 33,705.84	\$ 25,239.97	\$ 59,924.81	Abd Bat
Oilex CNWE et al Daly 15-19-9-29 WPM	\$ -	\$ 17,323.78	\$ -	\$ 17,323.78	Abd P
Oilex Daly 2-26-9-29 WPM	\$ -	\$ 23,485.47	\$ -	\$ 23,485.47	Abd P
Oilex Ebor Unit No. 1 3-26-9-29 WPM	\$ 6,935.23	\$ 19,723.54	\$ 92,675.88	\$ 119,334.65	Standing
Oilex Ebor Unit No. 1 4-26-9-29 WPM	\$ 12,483.74	\$ 4,982.72	\$ -	\$ 17,466.46	Abd P
Oilex Ebor Unit No. 1 6-26-9-29 WPM	\$ 162.13	\$ 20,489.95	\$ -	\$ 20,652.08	Abd P
Oilex Daly Prov. 9-26-9-29 WPM	\$ 162.13	\$ 70,685.76	\$ 429.38	\$ 71,277.27	Abd P
Oilex Daly Prov. 10-26-9-29 WPM	\$ 162.14	\$ 14,125.99	\$ 429.37	\$ 14,717.50	Abd P
Oilex Ebor Unit No. 1 11-26-9-29 WPM	\$ 162.13	\$ 17,264.55	\$ -	\$ 17,426.68	Abd P
Oilex Ebor Unit No. 1 12-26-9-29 WPM	\$ 8,629.23	\$ 762.23	\$ -	\$ 9,391.46	Abd P
Oilex Daly 13-26-9-29 WPM	\$ 162.13	\$ 20,098.09	\$ -	\$ 20,260.22	Abd P
Oilex Daly 14A-26-9-29 WPM	\$ 162.14	\$ 22,604.23	\$ -	\$ 22,766.37	Abd P
Oilex Totals	\$ 30,000.00	\$265,252.15	\$ 118,774.60	\$ 414,026.75	
B. Fawn Petroleums Ltd.					
Fawn Lulu Lake Prov. 16-14-1-21 (battery)	\$ 325.00	\$ 8,578.17	\$ 20,867.55	\$ 29,770.72	Abd Bat
Fawn Lulu Lake Prov. 15-14-1-21 WPM	\$ 13,998.92	\$ 1,204.84	\$ -	\$ 15,203.76	Abd. P
Fawn Lulu Lake Prov. 16-14MZ-1-21 WPM	\$ -	\$ 30,369.44	\$ -	\$ 30,369.44	Abd. P
Fawn Lulu Lake Prov. 2-23-1-21 WPM	\$ 5,276.08	\$ 11,696.15	\$ -	\$ 16,972.23	Abd. P
Total Costs	\$ 19,600.00	\$ 51,848.60	\$ 20,867.55	\$ 92,316.15	
C. SE/4-10-10-28 WPM					
SE/4-10-10-28 WPM	\$ -	\$ 1,429.90	\$ 15,025.85	\$ 16,455.75	Restored
Total Costs	\$ -	\$ 1,429.90	\$ 15,025.85	\$ 16,455.75	

