

## **INFORMATIONAL NOTICE 07-03**

### **Annual Report Abandonment Fund Reserve Account Fiscal Year Ending March 31, 2007**

#### **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, 2007.

##### **Opening Balance**

The opening balance of the Abandonment Fund on April 1, 2006 was **\$355,623.48**.

##### **Deposits (April 1, 2006 to March 31, 2007)**

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 2006/07 fiscal year totaled **\$221,700.00**.

## 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**

<b>Licence/Permit</b>	<b>Levy</b>
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 2006/07, the following levies were deposited into the Abandonment Fund:

Well Licences	\$122,000
Well Licence Transfers	\$ 3,450
Battery Operating Permits	\$ 1,500
Geophysical Licences	<u>\$ 300</u>
<b>Total</b>	<b><u>\$127,250</u></b>

## 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 2005/06 fiscal year:

Inactive Levies	\$94,450
Late payment penalties	<u>\$ 6,825</u>
<b>Total</b>	<b><u>\$101,275</u></b>

### **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.

<b>Accrued Interest 2006/07</b>	<b>\$3,071.22</b>
---------------------------------	-------------------

### **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 2006/07, \$42,001.10 was recovered for deposit into the Abandonment Fund.

### **Expenditures and Refunds (April 1, 2006 to March 31, 2007)**

During 2006-07, the Petroleum Branch completed the abandonment of the Tancam Consulting property seized in January 2005. The property consisted of 3 wells and one battery location. Abandonment operations on this property went smoothly experiencing no serious problems. Recovered equipment was auctioned off in Melita, MB. receiving premium used oilfield equipment prices.

Rehabilitation work was also completed by the Petroleum Branch on sites previously seized by the Branch. The Fawn Petroleum property located in the Turtle Mountain Provincial Park received the application of topsoil as an amendment to promote native grass cover.

The Petroleum Branch also abandoned two orphaned flow lines that crossed the Gopher Creek at SW 15-10-26.

Expenditures and refunds from the Abandonment Fund in fiscal year 2006/07 totaled **\$121,816.28.**

### **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 8 active Oilex sites in the rehabilitation program. To date, no COAs have been issued however the Branch is seeking landowner releases on 2 sites for possible COA issuance. Electromagnet survey and subsequent soil sampling is proposed in 2007 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 \$455,933.09 (net expenditures after salvage of equipment and marketing of oil recovered totals \$396,700.25).

### **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 expenditures are expected in 2007 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 2007.

### **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 \$133, 116.99. Of this amount \$ 53, 530.00 was recovered in performance deposit and equipment sales. These sites are currently waiting on approval to commence removal of contaminated soil and final restoration.

## Closing Balance

The closing balance of the Abandonment Fund as at March 31, 2007 was **\$507,404.52**.

## Forecast of Revenues and Expenditures

The following revenues are forecast for the Abandonment Fund during fiscal year 2007/08:

Well Licences	\$ 62,500
Transfer of Well Licences	\$ 1,500
Battery Operating Permits	\$ 500
Geophysical Licences	\$ 750
Inactive Well Levies	\$100,000
Interest	<u>\$ 1,500</u>
<b>Total</b>	<b><u>\$166,750</u></b>

In 2007/08, expenditures will be required to continue active rehabilitation of the Oilex sites. 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

Total expenditures from the Abandonment Fund in fiscal year 2007/08 are estimated at **\$103,000.00**

## 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
- (c) Bill 21 - The Oil and Gas Amendment and Oil and Gas Production Tax Amendment Act, which is awaiting proclamation, provides for two new funding sources, one statutory and one discretionary, for the Abandonment Fund,
  - i. interest on cash performance deposits held under the Act are to be directed into the Abandonment Fund; and
  - ii. up to 3% of Crown oil royalties may be directed into the Abandonment Fund.

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 2006, be delayed and reviewed again in FY 2007/08.



Keith Lowdon  
Director

**Table 2**  
**Abandonment and Rehabilitation Costs**

	Performance Deposit	Fund Expenditures					Total Expenditures	Status
		Expenditure	2002/03	2003/04	2004/05	2005/2006		
<b>A. Oilex Exploration Corporation</b>								
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	\$71,906.34	\$ -	\$ -	\$191,240.99	Abd P
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 SWD 05-26-09-29 WPM	\$ -	\$ -	\$ -	\$ -	\$ 5,185.00	\$ -	\$ 5,185.00	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
<b>Oilex Totals</b>	<b>\$ 30,000.00</b>	<b>\$265,252.15</b>	<b>\$118,774.60</b>	<b>\$71,906.34</b>	<b>\$ 5,185.00</b>	<b>\$0.00</b>	<b>\$491,118.09</b>	

**B. Fawn Petroleums Ltd.**

Fawn Lulu Lake Prov. 16-14-1-21 (battery)	\$ 325.00	\$ 8,578.17	\$ 20,867.55	\$ -	\$ -	\$ 1,279.50	\$ 31,050.22	Abd Bat
Fawn Lulu Lake Prov. 15-14-1-21 WPM	\$ 13,998.92	\$ 1,204.84	\$ -	\$ -	\$ -	\$ 1,279.50	\$ 16,483.26	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
<b>Fawn Totals</b>	<b>\$ 19,600.00</b>	<b>\$ 51,848.60</b>	<b>\$ 20,867.55</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,559.00</b>	<b>\$ 94,875.15</b>	

**C. SE/4-10-10-28 WPM**

SE/4-10-10-28 WPM	\$ -	\$ 1,429.90	\$ 15,025.85	\$ 1,110.00	\$ -	\$ -	\$ 17,565.75	Restored
<b>Totals</b>	<b>\$ -</b>	<b>\$ 1,429.90</b>	<b>\$ 15,025.85</b>	<b>\$ 1,110.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,565.75</b>	

**D. Tancam Consulting Ltd.**

Tancam Waskada SWD 01-28-01-24 WPM	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,397.05	\$ 24,397.05	Abd. P
Tancam Waskada 02-28-01-24 WPM	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 135.00	\$ 135.00	Abd. P
Tancam Waskada 02-33-01-24 WPM	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,990.13	\$ 63,990.13	Abd. P
Tancam Waskada 08-33-01-24 WPM	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,467.85	\$ 29,467.85	Abd. P
<b>Tancam Totals</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 117,990.03</b>	<b>\$ 117,990.03</b>	

**E. 3 & 4 15-10-26 WPM**

3& 4 15-10-26 WPM	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,714.55	\$ 1,714.55	
<b>Totals</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,714.55</b>	<b>\$ 1,714.55</b>	