



Natural Resources and Northern Development
Regulatory Services | Petroleum
360-1395 Ellice Ave, Winnipeg, MB R3G 3P2
T 204-945-6577 F 204-945-0586
www.manitoba.ca

INFORMATIONAL NOTICE 22-03

ANNUAL REPORT ABANDONMENT FUND RESERVE ACCOUNT Fiscal year ending March 31, 2017

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, 2017.

Opening Balance:

The opening balance of the Abandonment Fund on April 1, 2016 was **\$1,752,453**.

Deposits (April 1, 2016 to March 31, 2017):

Deposits into the Abandonment Fund comprises 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 2016/17 fiscal year totaled **\$369,171**.

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

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

In fiscal year 2016/17, the following levies were deposited into the Abandonment Fund:

Well Licences	\$38,250
Well Licence Transfers	3,500
Geophysical Licences	<u>350</u>
Total	<u>\$42,100</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 2016/17 fiscal year:

Inactive Levies	\$316,104
Late payment penalties	<u>613</u>
Total	\$316,717

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 2016/17	\$10,354
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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. In previous years, the Petroleum unit 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 2016/17, no recoveries of this nature were made for the Abandonment Fund.

Expenditures and Refunds

Expenditures and refunds from the Abandonment Fund in fiscal year 2016/17 totaled **\$142,266**. Pursuant to a Ministerial Seizure Order dated February 3rd, 2014, the Director executed seizure of three wells licensed to Canada West Resources Inc. July 31st, 2015. In 2016 the three Canada West wells were abandoned by the Petroleum unit. These sites have been restored and are currently being monitored.


Well abandonment costs	\$134,266
Surface lease rentals for seized wells	<u>8,000</u>
Total	\$142,266

Closing Balance:

The closing balance of the Abandonment Fund as at March 31, 2017 was **\$1,979,358**.

Recommendation:

The Abandonment Fund balance is currently adequate for the Department to take escalating enforcement action against delinquent operators in a timely manner.


Tafa Kennedy
Director Mining, Oil and Gas