



Orphan Well Association

Alberta Oil and Gas Orphan Abandonment and Reclamation Association
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July 7, 2023

Reeve Barry Kalinski
4905-50 Avenue, Bag 1010
Bonnyville, Alberta
T9N 2J7

Dear Reeve Kalinski,

As a neighbour in Bonnyville No. 87, and a partner with Alberta businesses, I've enclosed for your information our 2022/23 Orphan Well Association (OWA) annual report. It outlines our work across Alberta in the principled, safe, efficient and environmentally responsible closure of orphaned oil and gas properties, which we have supplemented in this letter with information specifically about Bonnyville No. 87.

When a well, pipeline, facility or associated site in Alberta no longer has a legally or financially responsible party that can be held accountable, it may be designated as an orphan by the Alberta Energy Regulator (AER) and become the responsibility of the OWA. Our role is to decommission the orphans and restore the land similar to its original state. Every site that is closed is then available for farming, pastureland, wildlife habitat, recreation or a growing community.

In 2022/23, our typical cost for closing an orphan site was about \$60,000, although specific projects may vary significantly depending on technical complexity. A study by Enserva, which represents oil and gas service companies, found between 41 and 57 people are employed in the closure of a single well.

In the three fiscal years from April 1, 2020 to March 31, 2023, the OWA invested about \$3,156,000 in Bonnyville No. 87, hiring 113 vendors to safely perform a variety of activities on 177 orphan sites, ranging from inspections and decommissioning to remediation and reclamation, but also including much-needed hospitality services and other related spending.

There remain other orphan properties in Bonnyville No. 87 that are part of the overall Alberta inventory, including 31 orphan sites that require decommissioning and then reclamation, and 61 sites that require reclamation only. Of the sites that require reclamation only, we have completed our work on 22, or about 36 per cent, and are waiting on vegetation to be fully established before we apply for a reclamation certificate from the AER. Our complete inventory, updated monthly, is in the "About" section of our website at orphanwell.ca.

In addition to orphan properties, Bonnyville No. 87 also has 5,906 inactive well licenses. These properties have solvent owners and operators, and so are not the responsibility of the OWA. Some of these inactive sites with solvent operators may have participated in the Government of Alberta's Site Rehabilitation Program, which concluded earlier this year. However, the OWA's orphan inventory was not eligible for this program.

With the support of the oil and gas industry as well as provincial and federal government loans, we have decommissioned orphan wells at an accelerated rate for the past several years, putting them in a safe state for Albertans and our shared environment. The loan funding is now completely deployed for field activities, and we have already repaid nearly \$130 million of the Alberta loan from industry levies as of July 2023.

Following the surge in decommissioning, we are now seeing a larger portion of our expenditures shift toward the final stages of site closure – remediation and reclamation. This will continue to build on previous years of reclamation work, which have resulted in substantially more sites closed in the last year than any previous year of operations.

Although Alberta's energy sector has rebounded with more stable oil and gas prices, we are still feeling the impact of a years-long downturn and may see new sites added to our inventory. However, over the longer term, this should be mitigated by significant regulatory enhancements aimed at reducing the risk of future potential orphans.

For more than two decades, meeting our mandate and investing in our economy has been funded nearly entirely by the oil and gas industry. This truly takes accountability to an elevated level, with diligent and responsible operators conducting their own site closure planning, while paying to clean up orphans left by others. In 2023/24, these companies will fund our work with a levy of \$135 million, bringing the total industry contribution to \$710 million. We are reviewing the 2024 levy with the AER and expect it will be in this range for the near future, depending on various factors.

Underpinning all the OWA's efforts is our relationship with our industry partners and contractors – close to 600 large and small businesses across Alberta. They are the arms and legs of the OWA and critical to how we do our job, meet our goals and perform our mandate.

We've have had a successful year of reducing environmental liabilities, improving cost-efficiencies, supporting local communities and building our role as a trusted partner of government, industry and landowners – and we are confident we will meet the challenges ahead.

For more information, I invite you to read our annual report or contact me directly at 403-297-3398.

Yours truly,



Lars De Pauw
President
Orphan Well Association



**Orphan
Well
Association**

ANNUAL REPORT 2022/23



CONTENTS

Our Vision and Mandate	1
Highlights	2
The Year in Perspective	3
• Message from the President	3
• Regulatory Framework Highlights	6
• Message from the Chair	8
A Model Approach to Solving an Old Problem	10
Planning and Patience Key to Manyberries Project	13
Fiscal Responsibility	16
Closing a Site	20
Tackling the Infrastructure	22
Returning the Land	24
Protecting People and the Environment	26
Management's Responsibility for Financial Reporting	28
Governance	43

OUR VISION AND MANDATE

The Orphan Well Association collaborates with the Government of Alberta, the Alberta Energy Regulator and the oil and gas industry to work toward a common goal: protecting public safety and managing the environmental risks of oil and gas properties that do not have a legally or financially responsible party that can be held to account. These properties are known as “orphans”.

The mandate of the OWA is to decommission¹ Alberta’s orphan oil and gas wells, pipelines and production facilities, and restore the land similar to its original state, all in a safe, principled and cost-efficient manner. Since beginning operations in 2002, the OWA has decommissioned more than 7,000 wells, with about 1,900 sites reclaimed. This work has allowed municipalities, farmers, ranchers and recreational users to reconnect with what the landscape has to offer.

This Annual Report contains forward-looking statements based on current expectations, estimates, projections and assumptions, and certain operating and financial measures. By the nature of its mandate and work, there are potential impacts to the organization’s future operations and related finances that the OWA cannot predict. Where expressed, forward-looking statements are provided in the interest of context that stakeholders may find useful. The OWA fiscal year is from April 1 to March 31.

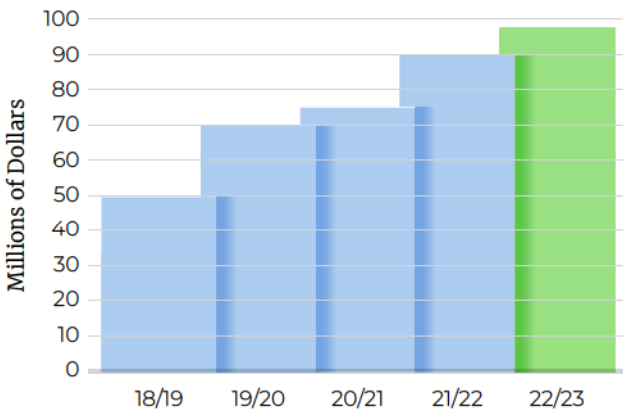
¹ The OWA Annual Report uses the term “decommission” to refer to the responsible abandonment of energy infrastructure, in a manner that ensures it will not pose a risk to the environment or the public.

HIGHLIGHTS

The OWA's industry funding increased again in 2022/23 so that inventories can continue to be actively addressed. Expenditures are shifting toward site reclamation, as our inventory moves to this final stage of the closure process. The number of sites reclaimed and closed is increasing, as planned. We expect to see significant growth in reclamation certificates as sites revegetate over time.

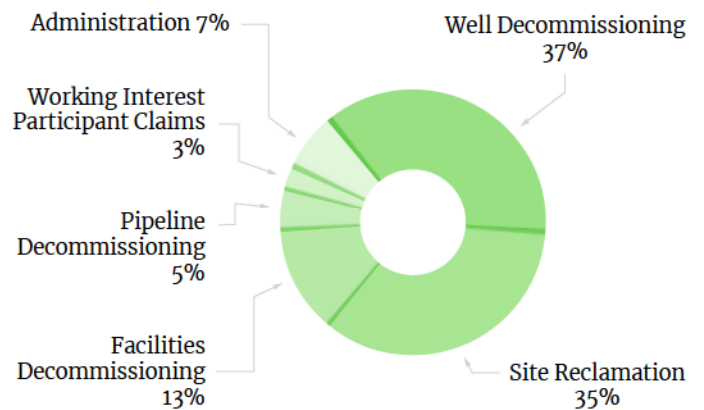
The number of wells decommissioned decreased this year, returning to more typical levels now that government loans have been utilized and are being repaid. The OWA will continue to decommission wells. There may be new wells, that would follow an insolvency process, added to the inventory in the future.

FUNDS RECEIVED*

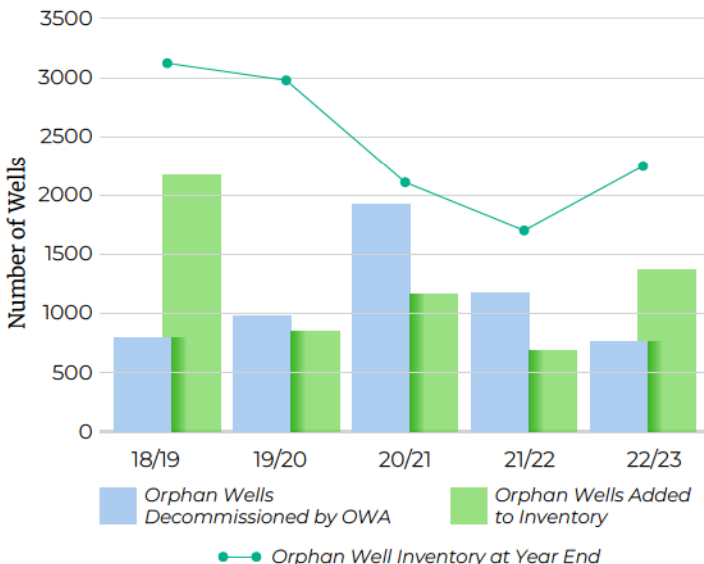


*Excluding government loans

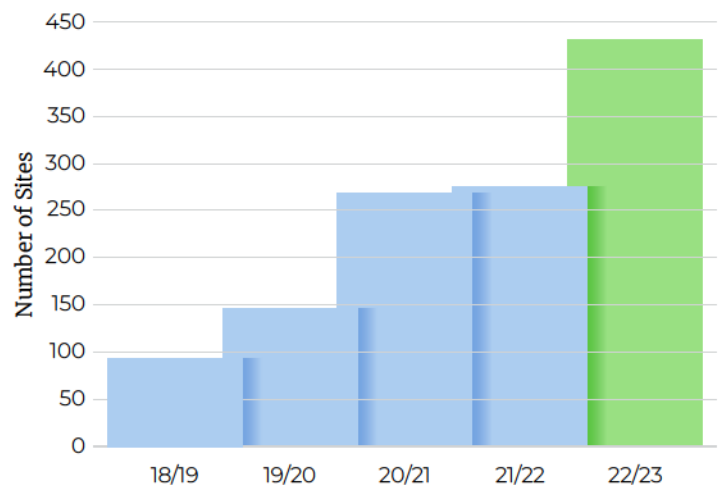
2022/23 EXPENDITURES BY CATEGORY



ORPHAN WELL INVENTORY AND WELLS DECOMMISSIONED



NUMBER OF SITES RECLAIMED AND CLOSED



THE YEAR IN PERSPECTIVE

MESSAGE FROM THE PRESIDENT

Our history of performance has led us to become a trusted partner of industry, landowners, regulators and environmental organizations, as we continue to close orphan sites – those that have no legal or financially responsible party to bring them safely to closure. As we move from a time of change and growth to more stability, it is an opportunity to reflect on where we are today and how we got here.

The Revolution

The OWA experienced a revolution of change over several years – driven both internally as we strove for excellence and externally as the context of our work changed around us. Faced with a record number of projects starting seven years ago due to a prolonged oil and natural gas commodity price drop, we accelerated our pace of activity to stay on top of the inventory. As our inventory grew, so did our funding, facilitated with loans and increasing levies. To maximize the equation of dollars to successful outcomes, we took an area-based approach, where we bundled projects regionally to drive economies of scale and maximize efficiency.

In those early days of my tenure, we focused on meeting challenges through organizational effectiveness and operational excellence. Surge funding in the form of repayable loans from the federal and provincial governments allowed us to elevate our activity to unprecedented levels. From goal setting to project debriefs,

we continually improved our “assembly line” approach to efficient decommissioning and reclamation.

While we built a core group of talented staff and contractors, including an expanded leadership team, we took on new legislative tools to perform our mandate. Reasonable Care and Measures Orders, issued by the Alberta Energy Regulator (AER), can now direct the OWA to undertake activities on a site or sites where work is immediately needed to prevent impairment or damage to the environment, human health and safety, or property.

Another significant change to our responsibilities in 2020 was the power to enter into agreements with working interest partners (WIPs) for closure activities. That means the OWA can undertake work for a WIP to increase efficiency or for those that may not have closure experience, leveraging our expertise and scale of area-based closure operations to save money and mitigate costs to industry, who ultimately pay the bill. The closure activity on

these sites is also tracked in our inventory under Working Interest Participant Agreements (WIPAs). We expect we will see an increase in WIPA sites in the coming years.

With updated legislation, changes to the bylaws that govern our organization and regulatory enhancements in the AER’s *Directive o88: Licensee Life-Cycle Management*, including industry mandatory spend targets, the OWA finds itself now shifting from a time of extraordinary change to more of a steady-state operation.

The OWA is becoming more focused on environmental operations.

Ongoing Evolution

With the OWA’s enhanced organizational capacity, new responsibilities, and all government loans spent and in the process of being repaid, we find ourselves shifting from revolution into continual evolution as we manage the province’s inventory of orphan and WIPA sites. We have matured as an organization and have systems in place to ensure the safe, principled and cost-efficient closure of orphans and WIPAs, managed by an experienced team. We worked hard to scale up; now we are flexible in our operations and have a management model that can scale up or down, as required.

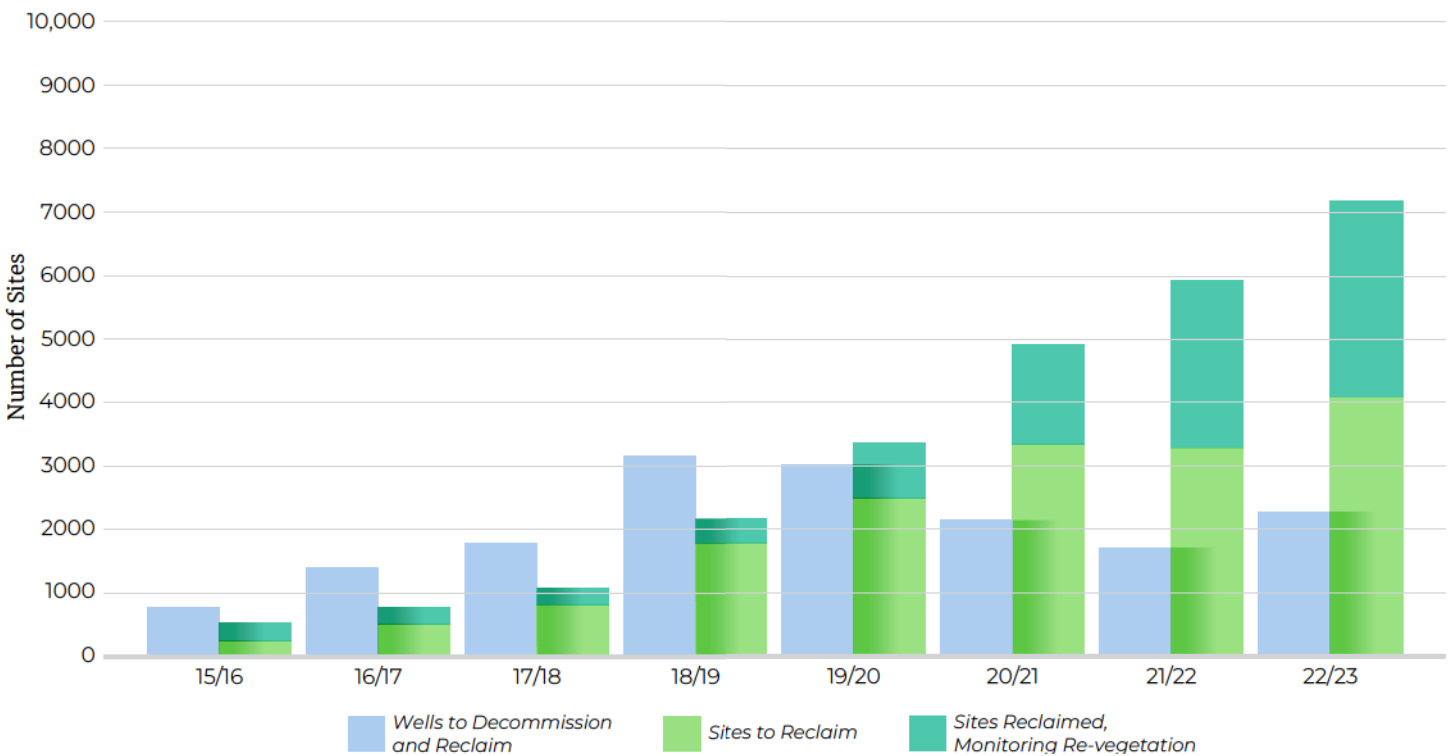
The OWA is becoming more focused on environmental operations. After several years of record-high decommissioning, the final phases of the closure process – remediation and reclamation – are taking on a greater portion of our inventory, as shown in the graph below. After we complete our reclamation activities, there is a waiting period while we monitor the growing vegetation. Once the land has been returned to a natural or productive state, we apply to the AER for a reclamation certificate using the same process industry follows. We received a record number of reclamation certificates this year, the result of work performed years ago. This is because, while

decommissioning a site can take days or weeks, confirming vegetation is established and the reclamation process is complete can take years: two to three for most cultivated or pasture sites, while forested and native prairie locations can take much longer.

As we repay government loans, we have returned to receiving our funding solely from industry, which has increased substantially over time. The Orphan Fund Levy provided about \$72 million in 2022/23, while the levy for 2023/24 was issued at \$135 million. We expect to maintain this funding level over the next several years, which will support the ongoing transition of sites from decommissioning to reclamation certificate, as potential new insolvencies may create new orphans.

We are finding innovative ways to augment the industry levy. For example, during the closure of the Mazeppa Gas Plant south of Calgary, our team marketed and sold a significant amount of reusable equipment, including a working power plant that was on site, partially covering the costs to decommission the entire site. This is an unusually significant sale of salvaged equipment, but our increased capability and focus on the smaller and more typical sales adds up. In 2022/23, we generated \$11.6 million in salvage sales, which then adds to our capacity to close more orphan sites.

ORPHAN INVENTORY





As opposed to increasing our funds, we can also work to have orphans leave our inventory. Regulator Directed Transfers (RDTs) allow an eligible licensee to transfer a license from a defunct licensee to themselves – a program that has reduced the estimated liability that we must manage by almost \$8 million this year.

When it comes to our day-to-day work, safety of the public and our contractors is our number one priority. The OWA uses the safety benchmark of Total Recordable Injury Frequency (TRIF) to measure field safety performance of our contractors relative to the number of hours worked. In 2022/23 our TRIF continue to improve to 0.45 per 200,000 hours worked based on an estimated 886,000 contractor hours. This was an area where we have worked hard as an organization over the last two years to reverse a trend of decreasing safety performance. I would like to thank my colleagues, prime contractors and subcontractors for their vigilance in this critical aspect of our work.

For a greater understanding of the work ahead, many stakeholders ask about the OWA's estimated total remaining closure cost. We have historically used this estimate to inform and consult key stakeholders on the

recommendation for the annual Orphan Fund Levy on oil and gas producers, who will continue to shoulder the costs.

As of March 31, 2023, the total remaining closure cost on sites managed by the OWA (orphan and WIPA) is estimated to be about \$890 million, with new sites added to the inventory as existing sites have been closed. Our closure cost estimates are a blend of site-specific evaluations and estimates based on our extensive historical experience working in Alberta. The closure estimate is obviously a large number, but we still have substantial access to funds, and we are confident that we will be able to significantly reduce the closure liability over the next three to five years.

I am confident that as new orphan sites are designated to our inventory, we will continue to safely and efficiently perform our mandate, closing sites in a timely and principled manner.

Lars De Pauw
President

REGULATORY FRAMEWORK HIGHLIGHTS

Alberta has a comprehensive regulatory system that includes proactive requirements and processes to substantially reduce the probability that a site will be orphaned, and an industry-funded backstop to close orphaned sites in a timely and efficient manner, when they occur. For a complete description of all elements of the system, visit aer.ca under the tab Regulating Development, Project Closure.

Proactive rules and process

PREVENTING ORPHANS



Holistic Licensee Assessment looks at several factors to understand the ability and commitment of a company to close its sites responsibly, outlined in AER Directive 088: *Licensee Life-Cycle Management*.



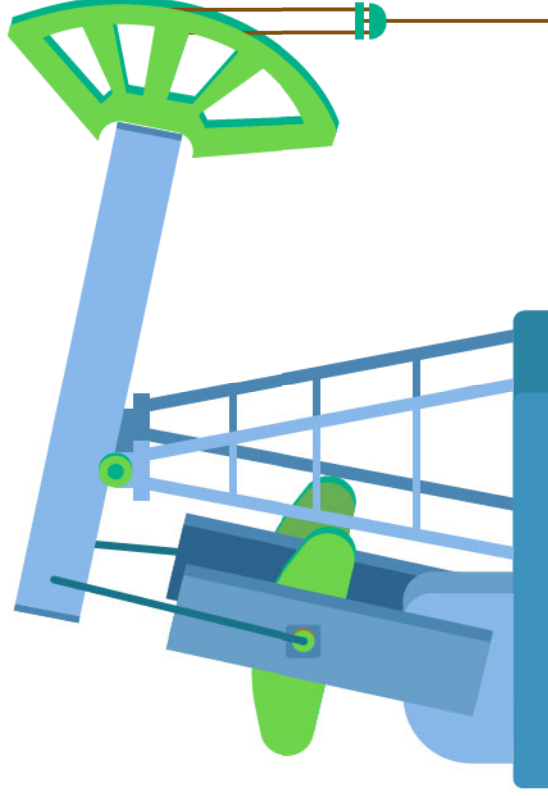
Liability management programs and processes include tools from education to compliance measures to encourage and require companies to address their liabilities appropriately.



Inventory Reduction Program requires mandatory spending on closure, with a process for eligible parties to nominate sites for closure.



IF A SITE IS DESIGNATED ORPHAN



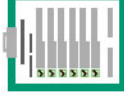
When a licensee is unable or unwilling to operate a site responsibly, the AER may require the OWA to provide **Reasonable Care and Measures** to protect public safety and the environment, on behalf of the licensee.

Reactive system

THE BACKSTOP FOR CLOSING ORPHANS

The OWA conducts risk assessments to prioritize sites and closes them using an area-based approach for efficiency.

The OWA also has three additional tools.



Manage, maintain and operate for a limited time.



Apply to **appoint a Receiver** to assist in transitioning productive assets to new responsible parties, with AER approval.

Work on behalf of remaining Working Interest

Participants, who reimburse the OWA for costs, for sites under an AER Closure Order.



MESSAGE FROM THE CHAIR

When some observers look at the work of the OWA, they comment that Alberta seems to have a lot of orphan oil and gas sites. The fact is that every jurisdiction has many orphan sites from industrial and commercial operations, whether they are oil and gas sites, derelict buildings or infrastructure that has fallen into disuse and decay. An important difference is that the Alberta oil and gas industry provides visibility to the challenge, including an inventory report that is publicly updated monthly by the OWA, and funds the solution.

For people who are familiar with the industry – policymakers, regulators and companies – comments are more often about the efficiency and funding of our model, one that strives to work in the best interests of everyone affected by orphans. To cite an example of differences, in 2022 the United States government announced a program to decommission and reclaim orphan wells on federal lands. Projections put the average cost at an equivalent of about \$160,000 CAD per well. This struck me as significant for two reasons. First, while I recognize these are often older and technically complex wells that can be difficult to decommission, the OWA's average cost of about \$60,000 to close a well compares very favourably. And second, while the

U.S. program is taxpayer funded, the cost of the OWA's work is borne nearly entirely by the Alberta oil and gas industry.

This model of efficiency and accountability has grown over more than two decades, punctuated by significant change over the past several years. We have seen the evolution of the regulations that govern industry liability to reduce the risk of future orphans and an increase in industry levies from less than \$20 million in 2017/18 to more than \$135 million in 2023/24. Importantly, we've also seen a shift in how we work, leveraging the expertise and innovation of our team to wring the most value out of every dollar spent.

What hasn't changed as the organization has matured is its fundamental mandate – protecting people and our shared environment, whether farmland, forest or community.

What has also been consistent is our ability to harness the skills of Albertans and put people to work when it is needed most. By our nature, the work we do is countercyclical. Higher oil and gas prices support employment and stable balance sheets in the industry, while sustained lower prices lead to an increased risk of insolvencies that can create orphan sites and hurt the energy services sector and the communities that depend on it. In these times, the OWA has truly been a bastion of strength for the



services sector. For the OWA, many of the same skills that support a growing industry can also support our critical work in decommissioning and reclamation. And, as we've demonstrated recently with the surge of funding from repayable government loans, we can rapidly scale up work with contractors across the province.

With the government loans completely utilized and well on the path to being repaid through industry levies, our work in the near- to mid-term is expected to remain fairly steady, with sustainable funding to continue our pace of decommissioning and reclamation. Over the longer term, we are confident that we will continue to bend the curve toward closures outpacing new inventory.

There are three main reasons for this outlook. First, regulations designed to reduce the risk of new orphans and provide more tools for effective closure have been enhanced. Connected to this is the constant march of technologies and practices that aim to reduce environmental impacts from the very start of activities. Simply put, the more recently a well site was developed, the more likely it is to be easily decommissioned and reclaimed. The consideration and planning for the lifecycle of a well drilled in the last decade is very different than a well drilled

in the last century, like the West Castle wells described in these pages. And finally, programs such as the Alberta Site Rehabilitation Program have reduced the risk of inactive wells becoming future orphans, while the provincial and federal government loans have greatly helped reduce the current orphan inventories.


Reflecting on what's been accomplished over the last several years, I'd like to sincerely thank OWA leadership, employees and contractors. They have both seamlessly scaled up their work and found new ways to work effectively through the myriad challenges, not least of which has been COVID and public health measures. It's work we can be proud of.

As Chair of the OWA, I work with many of the stakeholders who have an interest in the safe, principled and cost-efficient management of Alberta's orphan oil and gas sites. And I share their confidence in the OWA to continue to be a global leader in this critical work.



Brad Herald
Chair, OWA





A MODEL APPROACH TO SOLVING AN OLD PROBLEM

IN CASTLE WILDLAND PROVINCIAL PARK,
A TEAM EFFORT TACKLES A RELIC FROM A
BYGONE ERA

A typical orphan well you might see is on forested or agricultural land, away from sensitive ecosystems. Having usually been drilled within the last 40 years, the location is well-documented with an existing access road. Surface concerns around wildlife, livestock, and vegetation and sediment control are very often familiar and predictable.

The West Castle wells, located in the southwest corner of the province, were anything but typical. Drilled between 1907 and 1910 by the Canada West Oil Company of Victoria B.C., they represent some of the oldest wells in Alberta and far predate the stoppage in 2015 of any new industrial leases in Castle Wildland Provincial Park.

In fact, the two West Castle wells predate reliable recordkeeping and first came to the attention of regulators when reported by a local recreational trail user. This was the catalyst for a unique collaboration among conservation advocates, provincial and federal environmental experts, industry regulators and the OWA.

“The early involvement of so many interested stakeholders put a different lens on the work,” says Dave Marks, who manages land and stakeholder relations for the OWA. “We started from a point of ‘join us and let’s collaborate and do this right’ before we even got into the regulatory process.”

A working committee was assembled involving representation from the Alberta Energy Regulator, Alberta Environment and Protected Areas (EPA); Fisheries and Oceans Canada; Castle-Crown Wilderness Coalition; the OWA; and our prime contractor, Vertex Resource Group. Collaboration was constant.

“Everyone was fully invested in getting it right,” says Wonnita Andrus, a land-use planning ecologist with EPA. “It was a great experience to see everyone care so much about this beautiful and sensitive space.”

There were many considerations around this sensitive local habitat. It supports a vast array of wildlife, as well as being part of the critical watershed for downstream communities. Of particular concern was the spawning grounds for Bull and Westslope Cutthroat Trout, two “Species at Risk” and in a federally designated “Critical Habitat”.

The timing of the work was important. Fisheries regulation meant that the most intense work needed to be completed in a short window between restricted spawning periods. And, the entire project had to be completed within a space of two months before expected heavy snows, for which the Castle area is famous.



“Everybody was able to come together with their best recommendations—when work could and couldn’t be done and ensuring appropriate placement of equipment and structures,” says Wonnita.

The first step in an area accessible only by a footbridge and trails was to create access for machinery in early August 2022.

“When these wells were drilled, they would have brought in a rig with horses,” says Brad Malley, OWA Director of Operations. “That wasn’t an option for modern equipment and would have been a major disturbance to the river.”

The solution was to move the footbridge and place two temporary bridges, with the first spanning more than 25 metres. The bridges needed to be placed carefully to minimize disturbance to the riverbank and be set well back from trout spawning areas surveyed by EPA and Fisheries and Oceans Canada. A counterweighted design was used to lower each bridge into place so that supports weren’t required in the river or near the banks.

Once the site was accessible, nearly 800 interlocking wood mats were laid down to protect the surface soils and vegetation so that work could begin. Subsurface water leaks from the well furthest from the river underlined the importance of getting the decommissioning done as soon as possible, while extra care and containment was needed for the well closest to the river, which was just one metre from the bank. In fact, Brad notes that tangled driftwood and debris indicate that at some point, the well was in the river.

With emergency spill response equipment on standby at the site, wellheads were installed on both wellbores and monitored for several days by the OWA team to better understand the characteristics of each well prior to decommissioning. After cutting the well nearest the river below the surface, a special cap was installed in case of flooding.

After the wells were decommissioned, the crew backed out of the site. Mats were removed allowing vegetation to spring back, temporary bridges were lifted from the banks and the footbridge was returned to its place. As an added

benefit, the recreational access road was greatly improved with redistribution of materials from the project. Under the watchful guidance of the working committee, the land was opened again for recreational use by the end of September.

Wonnita and Dave agree: “This was a model” for decommissioning projects in sensitive environments.



PLANNING AND PATIENCE KEY TO MANYBERRIES PROJECT

The OWA often finds itself working with legacy infrastructure and historical construction practices, but the work in the Manyberries area demands a different approach. We have undertaken a huge effort to close orphan sites in this area in a manner that supports the federal and provincial efforts for the recovery of the endangered greater sage-grouse and other species deep within the heart of southeastern Alberta.

Manyberries is a hamlet about 85 km south of Medicine Hat – and a hotbed for Species at Risk. The greater sage-grouse, greater short-horned lizard, burrowing owl, ferruginous hawk, swift fox and other sensitive amphibians, reptiles and native vegetation live in this unique area. But, it's the endangered greater sage-grouse, with only three remaining mating grounds, and less than 100 birds in Alberta, that are the subject of a Government of Canada Emergency Protection Order to address imminent threats to their

survival and recovery. Key to stabilizing their population is decommissioning and reclaiming orphan sites back to a state that is equivalent to native prairie land, including islands of plentiful silver sagebrush. This hearty plant offers the primary source of food, protection from predators and a place to nest, and therefore cannot be killed or moved without an approved permit under the Protection Order.

The OWA received about 250 orphan sites in Manyberries, including wells, facilities and hundreds of kilometers of pipelines that needed to be decommissioned within brief, annual work windows, in alignment with provincial regulations. “The OWA was quick to adapt their strategies and timing to ensure the work was completed during the restricted timing window, which minimizes disturbance to greater sage-grouse and other endangered species in the area,” says Mecah Klem, Priority Species Biologist with Alberta Environment and Protected Areas (EPA).



The OWA decommissioned 90 per cent of the sites within two years, turning them over to our environmental team.

“Reclamation takes planning and patience,” says Samantha Price, an OWA environmental planner. “Native grasses and plants take five to ten years to grow in the soil of this dry climate.”

The OWA team has advanced over half the sites through the environmental assessment stages, so that they are ready for reclamation activities in the field. Over the more than 30 years since the sites were constructed, vegetation has slowly grown and encroached on the leases to the edge of teardrop drilling pads. However, the silver sagebrush has proven to be a miraculous plant. Requiring only a small amount of soil to germinate and driving its root system through clay, this plant started the reclamation process early, on its own. Knowing this plant is vital to the survival

of the greater sage-grouse, balanced reclamation efforts are necessary to maintain current plant density while meeting reclamation goals across each site.

Samantha says, “With four regulatory bodies providing guidelines and oversight, engagement has been critical for this program.”

Individuals from regulators with different skillsets, combined with industry reclamation experts, have come together with a common vision: the recovery and survival of the greater sage-grouse and the other species at risk across the area. EPA Species at Risk biologists have been particularly supportive of the OWA. They understood the needs of future reclamation before these sites were designated by the AER as orphans for the OWA. Through the Environment and Climate Change Canada annual grant application process, EPA obtained funding four years in a row to harvest silver sagebrush seeds.

Volunteers spend an afternoon harvesting native silver sagebrush seed to ensure the habitat can return to a natural state.



With the OWA beginning so much reclamation work in the coming year, EPA's seed bank is expected to deplete and could limit our ability to continue our expedited reclamation work. We were quick to follow EPA's lead with seed harvesting initiatives, turning the need into an educational opportunity for environmental sciences students at Lethbridge College. OWA's main reclamation prime contractor for the area, Jorgensen Land Management, took the lead in organizing the first annual event. Many keen volunteers from the EPA, AER, OWA and another prime contractor, Terralogix Solutions, joined the OWA-sponsored initiative. We had a spectacular day and picked three large bags of native silver sagebrush seed. Laboratory testing proved an 86 per cent viability rating – an excellent indicator of future germination. We look forward to providing this unique hands-on educational opportunity to more students in coming years while benefiting from their hard work to accomplish this meticulous work.

While it is just the start of the OWA's journey in the reclamation challenges ahead at Manyberries, we are grateful for the support of all stakeholders involved and the many passionate professionals who work with us in setting a trajectory for the land to return to established native prairie.

“Staff have shown great interest in working with our agency towards recovery of habitat for the critically endangered greater sage-grouse,” says Joel Nicholson, Senior Wildlife Biologist with EPA. “I have been impressed with the rapid action and efficiency of the OWA reclamation program. They have made significant progress in reclamation of the Manyberries oilfield while adapting to work in a very sensitive habitat area. This work will be a key action that should allow sage grouse to persist on the Alberta landscape.”



FISCAL RESPONSIBILITY

Funding the OWA

Not including government loans, funding for the OWA increased 11% to \$98.4 million in 2022/23, from \$88.9 million the year before. Regular OWA funding is provided from the Orphan Fund Levy, the Large Facility Levy, salvage sales and other sources.

The collected Orphan Fund Levy increased 3% to \$72.0 million in 2022/23, from \$69.8 million the year before. The goal of the Orphan Fund Levy is to provide funding to the OWA so it can ensure public safety and manage the overall inventory at an acceptable pace. The levy is based on the expected costs of our activities for the upcoming fiscal year, including the estimated cost of decommissioning, reclamation and other activities, such as reimbursing Working Interest Participant (WIP) claims and funding the administration of receiverships. (See Orphans, WIPs and WIPAs, page 18.)

The collected Large Facility Levy increased 71% to \$6.0 million in 2022/23, from \$3.5 million the year before. The Large Facility Levy funds the Large Facility Liability Management Program (LFP), as defined under AER *Directive 024: Large Facility Liability Management Program*, a separate program the OWA manages in addition to the original Orphan Well Program. The LFP includes very specific facilities, including sulphur recovery plants and in situ oil sands processing facilities.

Salvage sales increased 30% to \$11.6 million, from \$9.0 million the year before, driven by sales of parts from decommissioned wells.

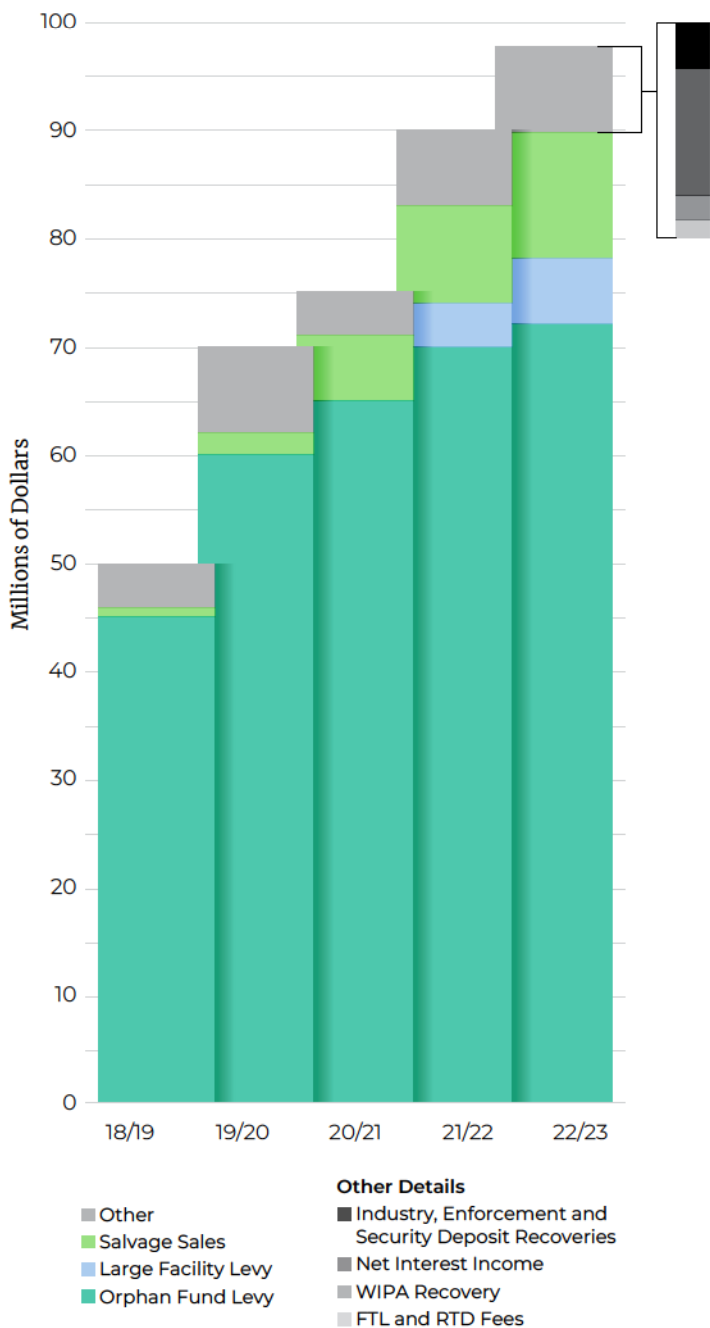
Funding from industry, enforcement and security deposit recoveries decreased 51% to \$1.9 million, from \$3.8 million the year before. The “industry” category includes reimbursement for work the OWA performed on behalf of others, including land developers. “Enforcement” refers to reimbursement for work the OWA performed on behalf of the defunct company, if the company chooses to revive operations. AER security deposit recoveries include any funds held by the AER from operators that are defunct, that the OWA may apply to receive. The OWA did not apply for security deposits this year, as we are working with the AER on a new streamlined process for the next fiscal year.

Net interest income increased 220% to \$5.3 million in 2022/23, from \$1.6 million the year before due to increasing interest rates and interest recoveries from GST.

Working Interest Participant Agreement (WIPA) recoveries increased 32% to \$1.0 million, from \$770,000 the year before. The OWA expects this portion of its funding to continue to grow as this type of work increases.

First Time Licensee (FTL) and Regulator Directed Transfer (RDT) fees increased 53% to \$669,000 in 2022/23, from \$436,000 the year before. An FTL fee of \$10,000 is required by the AER from companies applying for eligibility to hold an energy license and approval. The AER may collect RDT fees from active companies that acquire properties licensed to a defunct company, and then remits these fees to the OWA. Through the RDT program, the OWA reduces its estimated liability that must be paid through the orphan fund. In the 2022/23 fiscal year, 263 orphan licenses were acquired, reducing the OWA’s estimated liability by \$8 million.

See note 6 in the Financial Statements for further explanation of government loans.



See notes 3, 4 and 6 in the Financial Statements for further explanation of net interest income.

THE HISTORY OF GOVERNMENT LOANS

The OWA received government loans as part of plans to provide support for the service sector during the economic downturn, but also to expedite our decommissioning and reclamation work, with the expectation of full repayment. These loans have been fully spent and are now being repaid.

The Government of Alberta loaned the OWA a total of \$335 million, and the Government of Canada loaned \$200 million. These loans are interest-free to the OWA. As of May 2023, over \$121 million of the Alberta loan was repaid. With ongoing industry levies, the OWA will pay back the total provincial loan by October 2031. Following that, the federal loan will be repaid from industry levies.

These loans are not part of a separate initiative of the Government of Canada to support Alberta’s Site Rehabilitation Program (SRP) with a \$1.0 billion grant. The SRP, which closed in February 2023, decommissioned and reclaimed sites outside of the OWA’s inventory, so we were not eligible for these funds. However, some receiverships we funded, such as SanLing Energy, did access SRP grants to close inactive wells.

ORPHANS, WIPS AND WIPAS: WHO CLOSES A DEFUNCT SITE?

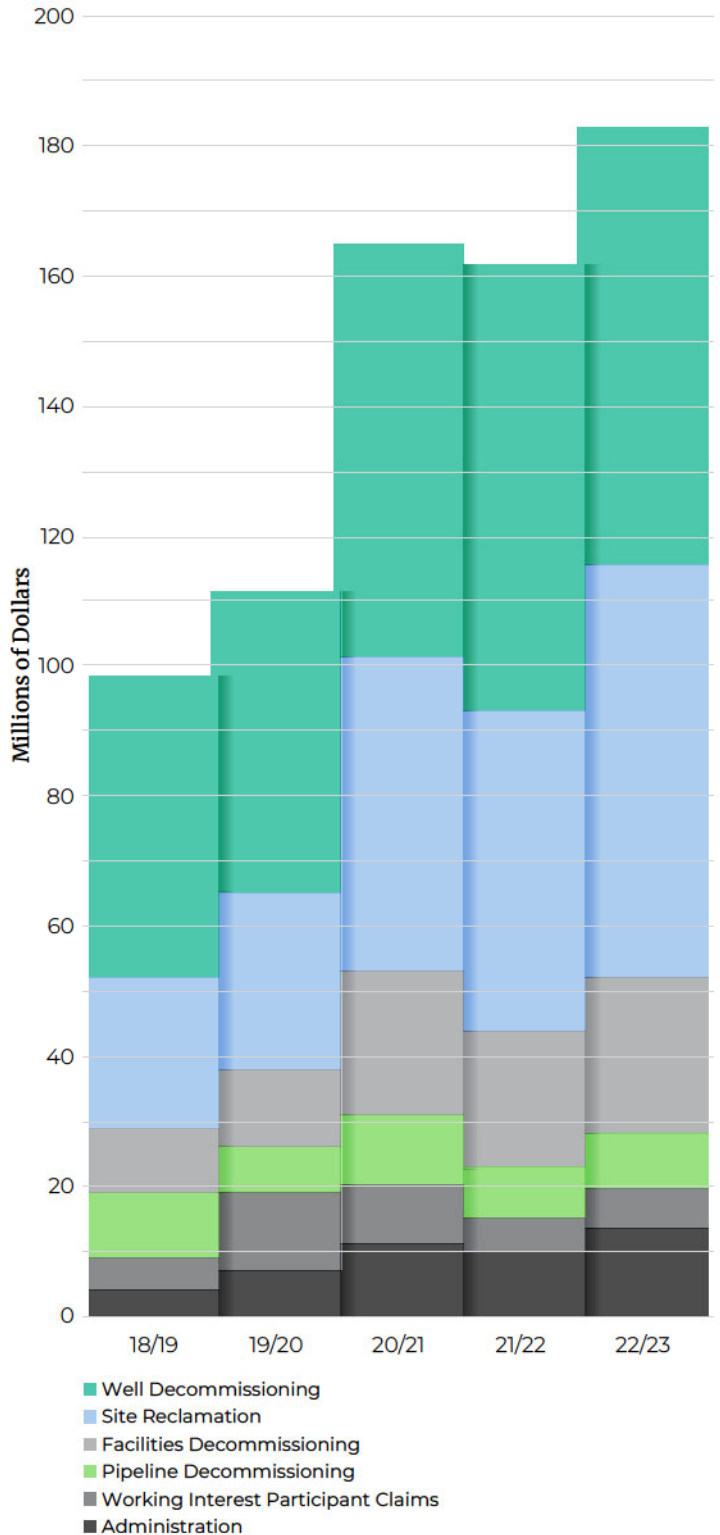
There are generally three ways a well licensed to a defunct company can be decommissioned and reclaimed. When there is no legally responsible party to look after an asset, in other words the company is 100 per cent defunct, the AER may designate it as an orphan, and the OWA undertakes the closure work with the entire cost an OWA expenditure.

If the well licensed to a defunct company has a minority interest owned by an active company, known as a Working Interest Partner or WIP, then the WIP can manage the closure of the site and make a claim to the OWA to be reimbursed for the defunct company's portion of the decommissioning and reclamation activities. These claims are captured as expenditures on the OWA Statement of Operations (working interest claims).

Starting in 2021/22, Working Interest Participant Agreements (WIPA) allow the OWA to close a site that is licensed to a defunct company when there is an active company with a working interest in the site, as if it were an orphan site. The OWA closes the site and pays the costs for that work, and the working interest participant reimburses the OWA for their portion of the costs. These reimbursements are captured as revenue on the OWA Statement of Operations (WIPA recoveries).

Expenditures

OWA expenditures² increased 13% to \$183.6 million in 2022/23, from \$161.8 million the year before. After a substantial ramp-up of activity in 2020/21 with the influx of government loans, the OWA spent the remaining government loans and industry levies to effectively and cost-efficiently reduce the inventory of orphans.



DETAILED EXPENDITURES:

- Well decommissioning decreased 1% to \$67.0 million, from \$67.7 million the year before.³
- Site reclamation increased 31% to \$63.4 million, from \$48.5 million the year before.⁴
- Facilities decommissioning increased 14% to \$24.2 million, from \$21.0 million the year before.
- Pipeline decommissioning decreased 3% to \$8.3 million, from \$8.6 million the year before.
- WIP reimbursements increased 31% to \$6.1 million, from \$4.7 million the year before.
- Administration increased by 30% to \$14.3 million from \$11.0 million the year before. 80% of the increase was due to receivership costs.

Detailed expenditures show that spending is shifting from well decommissioning to site reclamation as sites move from one inventory to the other. Reclamation work will continue to utilize the majority of total funds in future years as more sites move to this last phase of the closure process.

Starting in 2021/22, facilities decommissioning includes two categories: sites we have historically focused on and the Mazeppa Gas Plant under the LFP, described in the *Funding the OWA* section.

OWA administration includes receiverships, legal fees and fund administration. The OWA funded several receiverships during the fiscal year to support liquidation sales processes and access to funds under the SRP program, which reduced the cost to close those sites.

Canada Revenue Agency (CRA) reversed its previous position and will now allow the OWA to claim Input Tax Credits (ITC) for GST paid. This means the OWA was able to recover GST that it paid to contractors since 2014, resulting in \$11.8 million in GST and interest recoveries being credited back to the OWA. Under accounting rules, the GST reimbursed is shown on the Statement of Operations as a credit under expenditures and the interest recoveries are shown under revenue interest. The OWA, CRA and AER have not fully resolved the GST and ITC issue and will continue to report GST in this manner until the issue is closed.

² Not including GST. See *Financial Statements* for details.

³ Well decommissioning includes all aspects of work conducted on orphan wells, including inspections and long-term management.

⁴ Site reclamation includes environmental site assessments, remediation and reclamation.

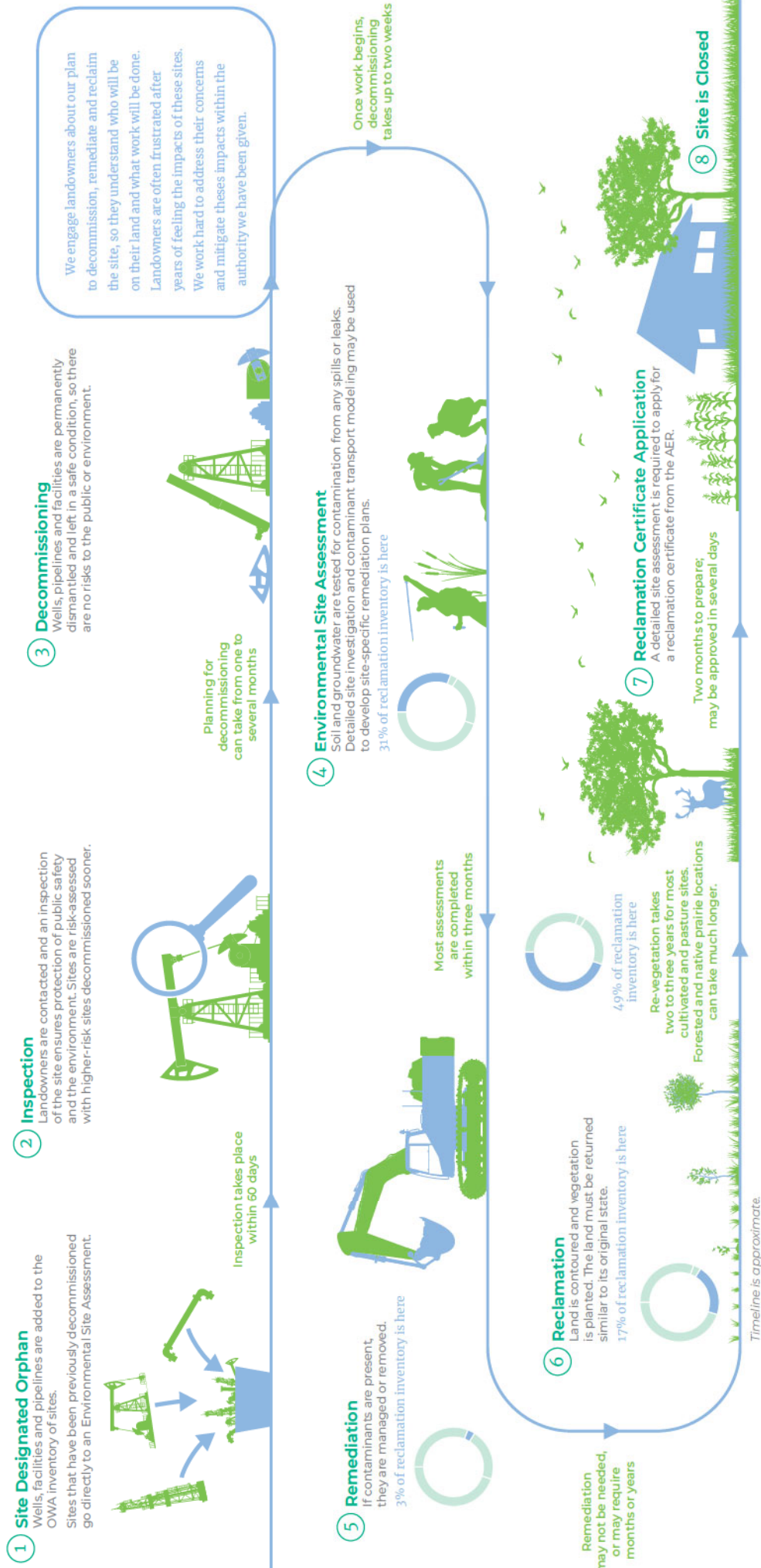


AVERAGE COSTS

We work hard to ensure the funds we receive have the greatest impact. Our average costs to decommission a well and reclaim a site fluctuate over time, but generally the average costs have remained consistent. The average cost of decommissioning a well in 2022/23 was \$35,000, with most in the range of \$9,000 to \$100,000. The average cost of reclaiming a site in 2022/23 was \$24,000, with most ranging between \$2,300 to \$88,000. The upper end of the ranges has increased as we are addressing more complex sites than in previous years. These numbers reflect a sample of sites that were addressed by the OWA during the fiscal year and may not be representative of all sites in the OWA inventory or those across the industry.

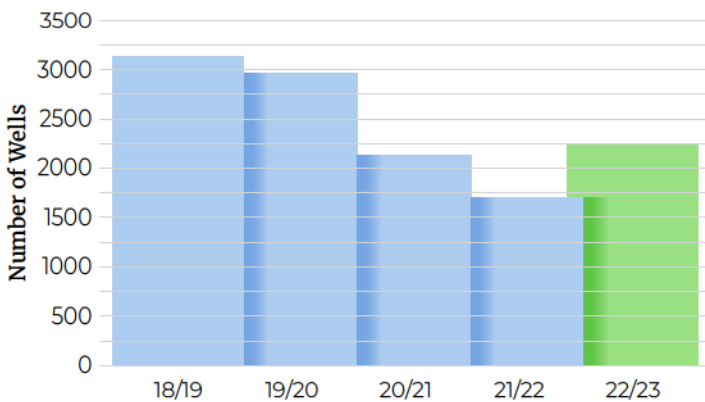
CLOSING A SITE

Closing a site and demonstrating that it is functioning similar to how it did before the development took place includes several steps that can take years. Sites typically move from our decommissioning inventory to our reclamation inventory until all provincial reclamation requirements are met, and the AER issues a reclamation certificate. Once the certificate is issued, the site is considered closed.



TACKLING THE INFRASTRUCTURE

Orphan Well Inventory



The number of orphan wells in the OWA inventory to be decommissioned increased 33% to 2,253 at the end of 2022/23, from 1,700 the year before. In addition, there are 90 wells the OWA has agreed to close as part of WIPAs. These sites will need to be reclaimed after the well has been decommissioned. The inventory number does not

include orphan sites where the well has already been decommissioned and only requires the OWA to remediate and/or reclaim the sites.

Over the last four years, the OWA decommissioned more wells than we received so that our overall inventory of orphan wells has decreased. This is due to a combination of our decommissioning efforts, as well as the increase in commodity prices, which generally reduces the risk of companies failing and creating orphan sites.

The number of new wells designated as orphans by the AER almost doubled to 1,369 in 2022/23, from 691 the year before. These represent the last orphans of the recent receiverships, much of which the OWA is currently funding. More than 85% of the new orphan wells received in 2022/23 were from the SanLing Energy, Trident Holding Company and Questfire Energy Corp. receiverships. In addition, there were 62 new wells the OWA agreed to close as part of WIPAs.

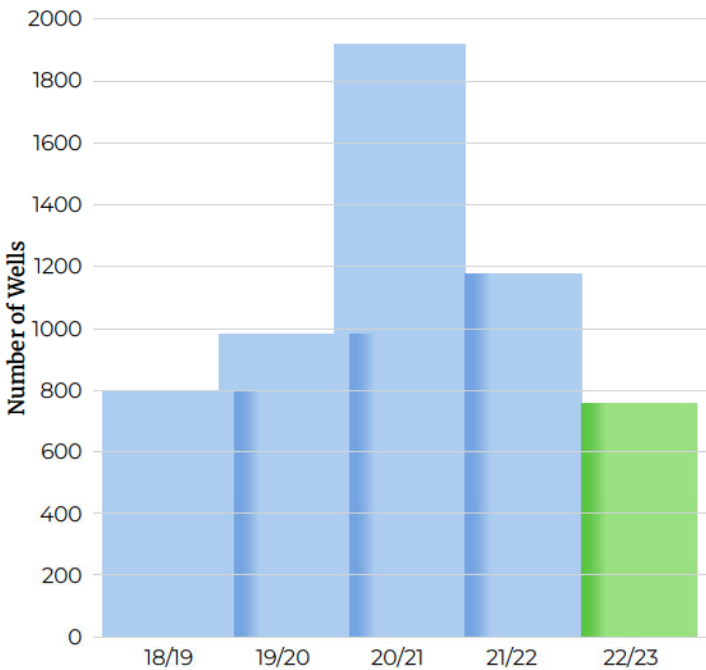
GAS PLANT DECOMMISSIONING CLOSE TO COMPLETE

The decommissioning of the Mazeppa Gas Plant, a regional natural gas collection and processing point south of Calgary, falls under the LFP, which is funded from an industry levy separate from the Orphan Fund Levy. The defunct plant underwent extensive decommissioning work in 2021 to 2023. We have carefully dismantled surface and underground structures, including foundations, pipes, tanks,

sections of rail and an 80-metre tower, with salvageable equipment sold to defray costs. As part of the overall salvage program, a viable power plant on site was recently sold, as well.

We expect decommissioning of this complex facility to be fully completed by fall 2023, with our remediation and reclamation team ready to take over the site.

Number of Wells Decommissioned



The number of wells fully decommissioned decreased 34% to 781 in 2022/23, from 1,179 the year before.

Decommissioning numbers for 2022/23 include 21 wells that were closed as part of WIPAs. The pace of decommissioning is slowing as government loans that funded increases in work have been effectively spent and are now being repaid.

A well is considered decommissioned when the AER’s requirements in *Directive 020: Well Abandonment* are satisfied. Once all necessary subsurface decommissioning actions are taken, the final step is to cut and cap the well. In this stage, the well casing is cut to a minimum of one metre below the surface (with some exceptions listed in *Directive 020*) and a vented cap is placed atop the well casing. At this point, remediation and/or reclamation of the site may begin.



Before



After

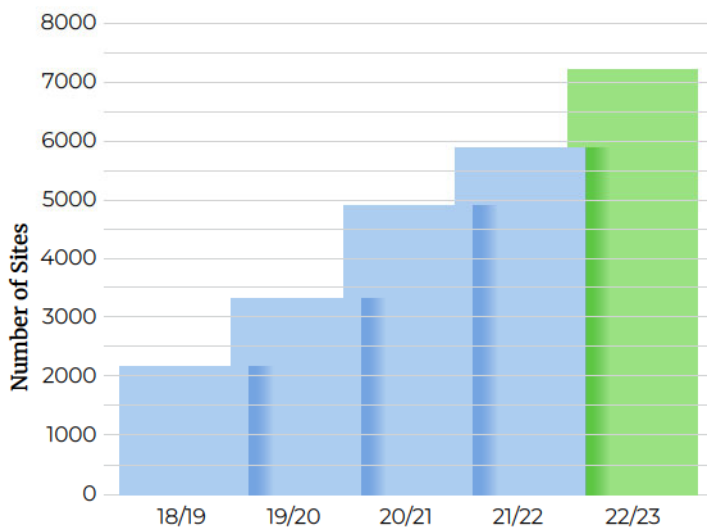
RETURNING THE LAND



We expect to see significant growth in the number of reclamation certificates in the coming years as a result of previous years' work.

As more sites are decommissioned, our work on remediation and reclamation grows. Although our mandate is to close sites and obtain reclamation certificates, the benefits of remediation and reclamation go beyond this goal. Every site that is revegetated pulls greenhouse gases out of the atmosphere. Every site that receives a reclamation certificate is then available for farming, pastureland, recreation or a growing community.

Reclamation Inventory



The number of orphan sites in the OWA reclamation inventory increased 21% to 7,117 at the end of 2022/23, from 5,887 at the end of 2021/22. In addition, the OWA has agreed to reclaim 188 sites as part of WIPAs. The reclamation inventory counts how many sites require reclamation. In some cases, there may be more than one decommissioned well or facility on a site.

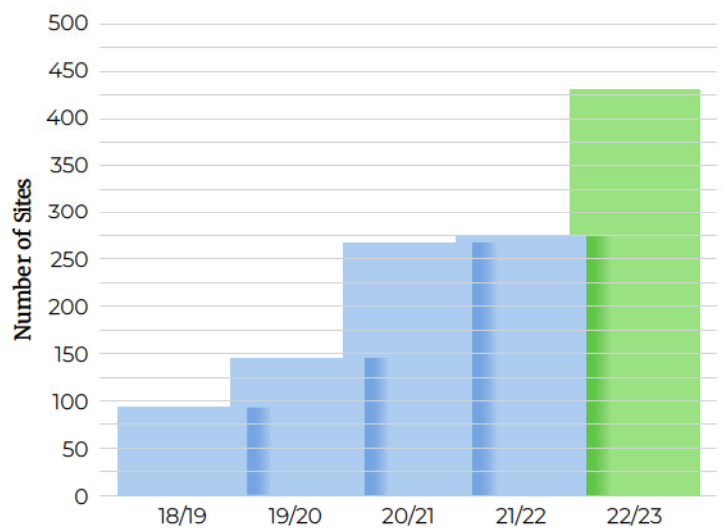
The reclamation inventory increases in two ways:

- when the OWA receives new sites—designated as orphans for reclamation only by the AER or through WIPAs—that only require reclamation (the decommissioning is already complete), and
- when the OWA is finished decommissioning wells, facilities and/or associated infrastructure and has transferred the sites into its reclamation inventory.

The inventory decreases when the OWA receives reclamation certificates or when it is discovered that a site received by the AER requires further decommissioning operations and it is moved back into that category. The inventory also decreases when a site is transferred to another oil and gas company.

For more information, pages 20 and 21 show the stages of closing a site.

Number of Sites Closed



The number of sites the OWA fully closed increased 57% to 431 in 2022/23, from 274 the year before. This closure number represents 1,906 hectares of land returned to Albertans, the equivalent of about 954 CFL football fields.

It takes years for a site to become suitable for a reclamation certificate application, so this year's number reflects reclamation work performed in the last several years.

We expect to see significant growth in the number of reclamation certificates in the coming years as a result of previous years' work. Given the current state of revegetation and the number of sites ready for regulatory assessment, we anticipate receiving close to 1,000 reclamation certificates in 2023/24.

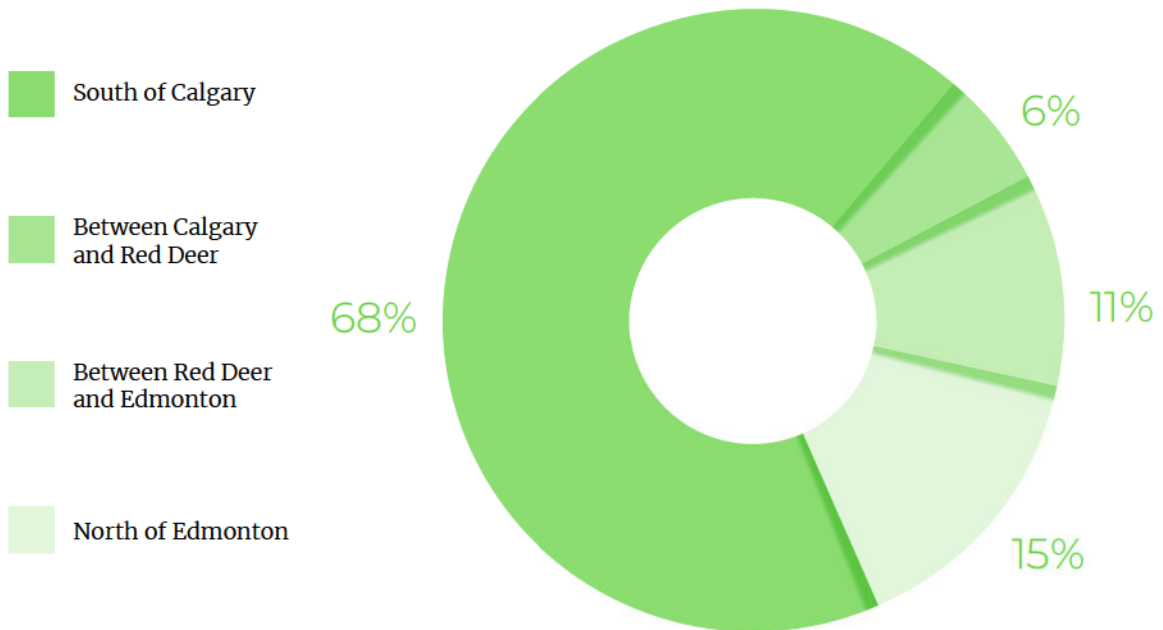
PROTECTING PEOPLE AND THE ENVIRONMENT

The OWA uses a risk-based approach to maintain the safety and protection of workers, the public and the environment. Through a rigorous intake process, we identify stakeholders affected by orphan sites and notify them of future work on their land. Next, sites are reviewed and evaluated with an automated risk-ranking tool and grouped into low-, medium- and high-risk. Following the review, sites are inspected by contractors to further mitigate risks and obtain site-specific information for the decommissioning and reclamation processes. This information is vital to maximizing the efficiency of our

subsequent field operations. Inspectors identify on-site hazards and any environmental issues, as well as conduct a thorough equipment inventory to aid in on-site equipment sales.

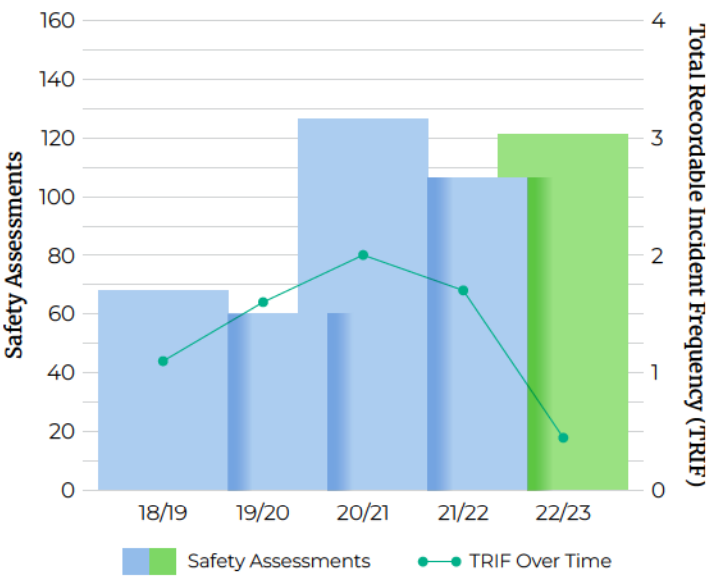
Inspections

In 2022/23, the OWA completed over 2,000 inspections throughout Alberta, including over 1,900 conducted on new sites. Of these, 68% were completed south of Calgary, 6% between Calgary and Red Deer, 11% between Red Deer and Edmonton, and 15% completed north of Edmonton.





Safety



The OWA uses the safety benchmark of Total Recordable Injury Frequency (TRIF) to measure field safety performance relative to the number of hours worked. In 2022/23 our TRIF was 0.45 per 200,000 hours worked based on an estimated 886,000 contractor hours. We investigate all incidents and evaluate ways to reduce the number of injury incidents in the future. In addition, the OWA assesses the safety programs of its vendors and conducts site assessments to ensure safe practices are followed during operations. During 2022/23, there were a total of 121 safety assessments conducted on Prime Contractors. In addition to these more formal assessments, the OWA conducted 482 safety engagements, where a range of activities were undertaken to support contractors’ safety performance, from safety bulletins to in-person dialogue.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Alberta Oil and Gas Orphan Abandonment and Reclamation Association, or “Orphan Well Association” (OWA) are the responsibility of management and have been approved by the OWA Board.

These financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-for-Profit Organizations, appropriate in the circumstances, and include the use of estimates and assumptions that have been made using management’s best judgment.

To discharge its responsibility for financial reporting, management maintains a system of internal controls designed to provide reasonable assurance that the OWAs assets are safeguarded, that transactions are properly authorized and that financial information is relevant, accurate and available on a timely basis. Internal controls are reinforced through the Code of Ethical Conduct, which sets forth the OWA’s commitment to conduct business with integrity and to comply with the law.


The OWA Board, through the Finance & Audit Committee, is responsible for ensuring management fulfils its responsibility for financial reporting and internal controls. The Finance & Audit Committee meets regularly with management and external auditors to discuss any significant accounting, internal control and auditing

matters to determine that management is carrying out its responsibilities and to review and recommend the approval of the financial statements by the OWA Board.

The financial statements have been examined by Ernst & Young LLP, the OWA’s external independent auditors who are engaged by the OWA Board. The responsibility of these external auditors is to examine the financial statements and express their opinion on the fairness of the financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations. The external auditors’ report outlines the scope of their examination and states their opinion. Internal and external auditors have access to the Finance & Audit Committee, with and without the presence of management.



Lars De Pauw
President



Vik Dhalla CPA, CMA
Corporate Controller

Independent auditor's report

To the Members of **Alberta Oil and Gas Orphan Abandonment and Reclamation Association**

Opinion

We have audited the financial statements of **Alberta Oil and Gas Orphan Abandonment and Reclamation Association** (the "Association"), which comprise the statement of financial position as at March 31, 2023, and the statement of operations, statement of changes in net assets, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Association as at March 31, 2023 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Calgary, Canada
June 27, 2023

Ernst + Young LLP

Chartered Professional Accountants


FINANCIAL STATEMENTS

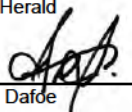
ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Financial Position
 As at March 31, 2023
 (thousands of dollars)

	2023	2022
Assets		
Current assets		
Cash	\$ 44,650	\$ 124,602
Accounts and other receivables	4,617	1,165
Prepaid expenses and deposits	527	578
Investments (Note 4)	34,757	69,783
	84,551	196,128
Internally restricted cash (Note 16)	-	1,373
Tangible capital assets (Note 5)	15	25
	\$ 84,566	\$ 197,526
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	17,625	25,616
Current portion of long-term notes payable (Note 6)	30,198	30,198
	47,823	55,814
Long-term notes payable (Note 6)	296,261	314,775
Deferred contributions (Note 7)	102,094	106,019
	446,178	476,608
Internally restricted assets (Note 16)	-	1,373
Unrestricted net assets	(361,612)	(280,455)
	(361,612)	(279,082)
	\$ 84,566	\$ 197,526

See accompanying notes to financial statements.

Approved by the Board:


 Director – Brad Herald


 Director – Doug Dafre

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Operations
Year ended March 31, 2023
(thousands of dollars)

	2023	2022
Revenues		
Orphan Fund levy through the AER	71,979	69,810
Large Facility levy through the AER	6,000	3,500
Interest income (Notes 3, 4, 6 and 7)	16,937	13,881
Industry, enforcement and security deposit recoveries	1,861	3,797
Salvage sales	11,637	8,986
First time licensee fees and Regulator directed transfer fees through the AER	669	436
Working interest participant agreement recoveries (Note 8)	1,019	770
	110,102	101,180
Expenditures		
Operating		
Well abandonment	66,954	67,704
Site reclamation	63,359	48,541
Facility decommissioning	24,231	21,257
Pipeline abandonment	8,328	8,595
Land acquisition	313	-
	163,185	146,097
Other expenses (income)		
Interest on long-term notes payable (Note 6)	11,684	12,236
Fund administration (Notes 10 and 11)	9,165	8,632
Non-recoverable GST expense (recovery) (Note 3)	(2,941)	7,382
Working interest claims (Note 9)	6,137	4,695
Receivership expenses (Note 12)	5,057	2,341
Unrealized loss on investments	277	325
Bad debt expense	-	6
AER enforcement activities (Note 13)	68	1
	29,447	35,618
	192,632	181,715
Deficiency of revenues over expenses	\$ (82,530)	\$ (80,535)

See accompanying notes to financial statements.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Changes in Net Assets
Year ended March 31, 2023
(thousands of dollars)

	Internally		2023	2022
	Restricted	Unrestricted		
Balance, beginning of year	\$ 1,373	\$ (280,455)	\$ (279,082)	\$ (198,547)
Deficit	-	(82,530)	(82,530)	(80,535)
Board restricted	(1,373)	1,373	-	-
	\$ -	\$ (361,612)	\$ (361,612)	\$ (279,082)

See accompanying notes to financial statements.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Cash Flows
Year ended March 31, 2023
(thousands of dollars)

	2023	2022
Cash provided by (used in)		
Operating		
Deficiency of revenues over expenses	\$ (82,530)	\$ (80,535)
Non-cash items		
Amortization of tangible capital assets	20	16
Unrealized loss on investments	277	325
Changes in operating non-cash working capital		
Decrease (increase) in accounts and other receivables	(3,452)	1,698
Increase in prepaid expenses and deposits	51	(260)
Decrease in accounts payable and accrued liabilities	(7,991)	(7,262)
	(93,625)	(86,018)
Investing		
Decrease (increase) in investments	34,749	(25,108)
Purchase of tangible capital assets	(10)	(25)
Decrease (increase) in internally restricted cash	1,373	(854)
	36,112	(25,987)
Financing		
Increase in deferred contributions	7,759	-
Repayment of long-term notes payable	(30,198)	(30,198)
	(22,439)	(30,198)
Net decrease in cash	(79,952)	(142,203)
Cash, beginning of year	124,602	266,805
Cash, end of year	\$ 44,650	\$ 124,602

See accompanying notes to financial statements.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Notes to the Financial Statements

March 31, 2023

(thousands of dollars)

Note 1 Nature of operations

The Alberta Oil and Gas Orphan Abandonment and Reclamation Association (the "OWA" or the "Association") operates under the authority of the Oil and Gas Conservation Act, the Orphan Fund Delegated Administration Regulation ("OFDAR"), and the Societies Act, Chapter S-18, 1980. The OWA was created as a Delegated Administration Organization ("DAO") under the delegated authority of the Alberta Energy Regulator ("AER") and was established to manage the abandonment of Alberta's upstream oil and gas orphan wells, pipelines and facilities and the reclamation of associated sites. The OWA does not assume legal responsibility for expenditures related to suspension, abandonment and reclamation of such sites.

The OWA's business is governed by the Members of the OWA (the "Members"). The Members function as a board of directors (the "Board") and act in the public interest. The Members of the OWA are representatives of the Canadian Association of Petroleum Producers ("CAPP"), the Explorers and Producers Association of Canada ("EPAC"), the AER and Alberta Environment and Parks (honorary non-voting Member). The AER requires that charges to the industry, including well abandonment, site reclamation, facility decommissioning and pipe abandonment (the "Orphan Fund Levy" and "Large Facility Levy"), be set to recover the costs incurred to operate the OWA.

Note 2 Significant accounting policies

a) Basis of presentation

The Association's financial statements are prepared by management in accordance with Part III of the *CPA Canada Handbook – Accounting*, Accounting Standards for Not-for-Profit Organizations, which sets out generally accepted accounting principles for not-for-profit enterprises in Canada and includes the significant accounting policies described hereafter. The financial statements are presented in thousands of Canadian dollars.

b) Cash

Cash consists of deposits held with financial institutions.

c) Investments

Investments reported at fair value consist of equity instruments that are quoted in an active market. Changes in fair value are recognized in net income. Transaction costs to acquire or dispose of these instruments are recognized in net income in the period during which they are incurred.

Investments include guaranteed investment certificates ("GICs") that mature within the next 12 months to known amounts of cash and are subject to an insignificant risk of changes in value and short-term bond EFTs, income pool funds or short maturity bond funds each of which must have a risk rating of low with a correlation risk ranking by Canadian Bond Rating Service or Dominion Bond Rating Service of low and maturities up to 5 years.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Notes to the Financial Statements
March 31, 2023
(thousands of dollars)

d) Revenue recognition

The OWA receives substantially all its revenue as a contribution from the AER, which includes the Orphan Fund Levy, Large Facility Levy, industry fees, enforcement recoveries and security deposit recoveries, first time licensee fees and Regulator directed transfer fees. The Orphan Fund Levy and the Large Facility Levy is set by the AER in consultation with the OWA, CAPP and EPAC. The OWA follows the deferral method of accounting for the contributions, whereby restricted contributions are recognized as revenue in the period the related expenses are incurred. Unrestricted contributions, including first time licensee fees, Regulator directed transfer fees, industry fees, enforcement recoveries and security deposit recoveries are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and the collection is reasonably assured. Salvage sales income is recorded when persuasive evidence of an arrangement exists, when the significant risks and rewards of ownership have passed to the buyer, and collection is reasonably assured. Interest income includes interest from investments, interest from GST recovery, dividends, net realized gains or losses on the sale of investments and deferred contributions on interest-free government loans. Rental income is recognized on the basis of the passage of time when collectability is reasonably assured. Working interest participant agreement recoveries are recognized when the associated expense has been incurred.

e) Tangible capital assets

Purchased tangible capital assets are recorded at cost less accumulated amortization. Cost includes the purchase price plus any additional costs attributable to the construction of the asset and preparing the asset for its intended use. Donated tangible capital assets are recorded at their fair values at the date of donation. Amortization of computers is provided on a straight-line basis over the estimated useful life of 3 years.

f) Financial assets and liabilities

The Association initially records financial assets and liabilities at fair value, except for a related party transaction. Related party financial instruments that are not required to be initially measured at fair value are instead initially measured at cost. Cost is determined based on whether or not the instrument itself or, as the next alternative, the consideration transferred from or received by the Association has repayment terms. If there are repayment terms, cost generally represents the undiscounted cash flows, excluding interest and dividend payments. Otherwise, cost is determined using the carrying or exchange amount of such consideration transferred or received, depending on the circumstances.

Financial instruments that will be measured subsequently at amortized cost, are adjusted by the amount of any related financing fees and transaction costs that are directly attributable to their origination, issuance or assumption.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Notes to the Financial Statements
March 31, 2023
(thousands of dollars)

Subsequently, the Association measures financial instruments as follows:

- (i) Investments in equity instruments that are quoted in an active market at fair value, with unrealized gains or losses recognized in the statement of operations;
- (ii) all other financial assets, which includes cash, accounts and other receivables and internally restricted cash, at amortized cost; and
- (iii) all financial liabilities, which includes accounts payable and accrued liabilities and long-term notes payable at amortized cost.

Financial assets measured at amortized cost are assessed annually for indications of impairment. When there are indications of possible impairment, the Association determines if there has been a significant adverse change to the expected timing or amounts of the future cashflows expected from the financial asset. Any impairment loss is recognized as an expense of the period, in the statement of operations. A previously recognized impairment loss is reversed to the extent that the improvement can be related to an event occurring after the impairment was recognized, but the adjusted carrying amount of the financial asset shall be no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized. The reversal of a previously recognized impairment loss on a financial asset measured at amortized cost is recognized in the statement of operations in the year the reversal occurs.

g) Long-term notes payable

With respect to below-market interest and interest-free government loans, the difference between the loan received and its fair value is recorded as a deferred contribution and amortized into revenue over the period of the life of the loan concerned. Fair value and the corresponding interest expense are calculated based on market interest rates at the initial measurement of the financial instrument thereby resulting in financial liabilities recorded at amortized cost.

h) Use of estimates

The preparation of the financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Due to the inherent uncertainty involved with making such estimates, actual results reported in future years could differ from those estimates.

Items subject to significant management estimate include accrued liabilities, amortization of tangible capital assets and fair value of long-term notes payable.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Notes to the Financial Statements
 March 31, 2023
 (thousands of dollars)

i) Taxation

The OWA, as a not-for-profit organization, has no liability for corporate income tax under the *Income Tax Act* (Canada).

Note 3 GST recovery and non-recoverable GST expense

In fiscals 2018 and 2021 the Canada Revenue Agency ("CRA") determined the OWA to be ineligible to claim for input tax credits ("ITC") and public service body ("PSB") rebates respectively under subsections 123(1), 169(1), 259(2) and 259(3) and section 10 of Part VI of Schedule V of the *Excise Tax Act*. As such, the OWA records the non-recoverable GST expenses separately on the statement of operations.

Beginning in fiscal 2018 the OWA proceeded to dispute the CRA's determinations, including filing an appeal in the Tax Court of Canada in 2020. Ultimately the Tax Court Appeal was settled by a consent order signed by the OWA and the CRA in fiscal 2023, which entitled the OWA to claim full ITCs in the amount of \$1,757 including interest for its GST reportable periods of April 1, 2014 through December 31, 2016. In 2021, the OWA also filed a Notice of Objection with CRA Appeals claiming full ITCs for the GST it had incurred from January 1, 2017 through February 28, 2021. In fiscal 2023, CRA Appeals allowed the OWA's claim for full ITCs in the amount of \$9,994 including interest. ITC amounts from March 1, 2021 to present remain outstanding pending discussions with the AER and CRA and therefore have not been recognized in these financial statements.

Note 4 Investments

At March 31, 2023, the Association's investments included \$25,000 of guaranteed investment certificates with an interest rate of 5.5% per annum. The investment matures on November 2023. The Association also has \$9,756 of investments in the form of fixed income bond funds with varying degrees of yield, coupon and maturity.

Note 5 Tangible capital assets

			2023	2022
	Cost	Accumulated amortization	Net book value	Net book value
Computers	\$ 131	\$ 116	\$ 15	\$ 25

Note 6 Long-term notes payable

In fiscal 2018, the OWA entered into an interest-free loan arrangement with Her Majesty the Queen in Right of Alberta as represented by the President of Treasury Board, Minister of Finance and by the Minister of Energy (the "Province"), by which the OWA may borrow from the Province to a maximum aggregate amount

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Notes to the Financial Statements

March 31, 2023

(thousands of dollars)

of \$235,000. As at March 31, 2023, advances of \$235,000 (2022 - \$235,000) have been received, of which \$7,011 (2022 - \$10,985) has been recorded as a deferred contribution (see Note 7), and \$3,974 (2022 - \$4,806) as interest revenue and expense, calculated based on an annual rate of 3.2%. The outstanding balance of this Provincial loan is repayable in quarterly instalments of \$7,550 through to January 1, 2027.

In fiscal 2021, the loan arrangement with the Province was amended such that the OWA may borrow an additional \$100,000 interest-free. As at March 31, 2023, an advance of \$100,000 (2022 - \$100,000) has been received, of which \$23,364 (2022 - \$23,060) has been recorded as a deferred contribution (see Note 7), and \$2,696 (2022 - \$2,605) as interest revenue and expense, calculated based on an annual rate of 3.44%. This \$100,000 loan is repayable in quarterly instalments of \$6,250 commencing on January 1, 2028 until October 1, 2031.

Also in fiscal 2021, an interest-free loan arrangement was entered into with Her Majesty the Queen in Right of Canada as represented by the Minister of Finance ("Canada") under which the OWA may borrow a maximum aggregate amount of \$200,000. As at March 31, 2023, advances of \$200,000 (2022 - \$200,000) have been received, of which \$66,960 (2022 - \$71,974) has been recorded as a deferred contribution (see Note 7), and \$5,014 (2022 - \$4,825) as interest revenue and expense, calculated based on an annual rate of 3.84%. This \$200,000 loan is repayable in quarterly instalments of \$12,500 commencing on January 1, 2032 until October 1, 2035.

The following is the repayment schedule for the notes payable:

	2024	2025	2026	2027	2028	Thereafter
Repayment Schedule	\$ 30,198	\$ 30,198	\$ 30,198	\$ 30,198	\$ 6,250	\$ 293,750

Note 7 Deferred Contribution

In addition to the deferred contributions arising from the interest-free portion of the long-term notes payable as described in note 6, in fiscal 2023 the OWA entered into an agreement with a third party to direct specified funds towards closure work at six orphan sites. The terms and conditions of the agreement are subject to confidentiality restrictions. The funds provided by the third party pursuant to the agreement will be treated as a restricted contribution and recognized as security deposits recovery revenue as expenses are incurred, following the deferral method of accounting per Part III of the *CPA Handbook - Accounting*.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Notes to the Financial Statements
 March 31, 2023
 (thousands of dollars)

Changes in deferred contributions during the year are as follows:

	2023	2022
Balance, beginning of year	\$ 106,019	\$ 118,255
Contributions received	\$ 8,000	-
Transferred to revenue	\$ (241)	-
Interest revenue recognized (Note 6)	\$ (11,684)	\$ (12,236)
Balance, end of year	<u>\$ 102,094</u>	<u>\$ 106,019</u>

Note 8 Working interest participant agreement recoveries

In fiscal 2021, the OFDAR was amended such that authority has been delegated to the OWA to enter into agreements with working interest participants for the purpose of suspension, abandonment, remediation or reclamation of a well, facility, well site or facility site. During the year ended March 31, 2023, \$1,019 (2022 - \$770) has been recovered from working interest participants.

Note 9 Working interest claims

Working interest claims are permitted under the Oil and Gas Conservation Act (OGCA) S. 70(1),(2), S. 71(1) and Oil and Gas Conservation Rules (OGCR) S. 16.541(1)(2). As per the legislation, the AER deems any defaulting working interest participants and authorizes payment from the orphan fund. The OWA accepts claims as directed from the AER made by industry for deemed defaulting (defunct) working interest participants. Working interest participants are anyone who owns a beneficial or legal undivided interest in a well or facility under agreements that pertain to the ownership of that well or facility. If a company has a working interest participant with a well, facility or associated site that has completed end of life obligations, the OWA may reimburse the proportionate share of costs on behalf of the defaulting working interest participant for the completed abandonment and/or reclamation as directed by the AER. Reclamation is considered completed and reimbursement made when a site reclamation certificate has been issued. During the year ended March 31, 2023, \$6,137 (2022 - \$4,695) has been reimbursed to working interest participants.

Note 10 Related party transactions

As required under Section 6(3) of OFDAR, the Association discloses the salaries and benefits paid to management personnel who report directly to the Board of \$573 (2022 - \$433), which is included in fund administration expenses. Also included in fund administration expense for the year to March 31, 2023 is \$235 related to a long-term incentive plan, payable in relation to services rendered by those management personnel (2022 - \$125). Under the terms of the long-term incentive plan, while the Association is committed to make further payments totaling \$615 in respect of services, which are expected to be rendered over the period from April 1, 2023 to March 31, 2028, these future payments have not been reflected in the financial statements as they are contingent upon the provision of future service obligations. The annual payments are subject to the approval of the Board. No remuneration and benefit payments were made to Board members for services provided in fiscal years 2023 and 2022.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Notes to the Financial Statements
March 31, 2023
(thousands of dollars)

The transactions with the AER, the Province and Canada as described in notes 6, 9 and 13 are considered related party transactions.

Note 11 Long-term incentive plan

The Association has a cash-based long-term incentive plan which is payable at the discretion of the Board, for the benefit of the Association's employees. The terms of the long-term incentive plan are such that eligible employees are entitled to a fixed cash amount which vests based on the completion of a period of service rendered to the Association. During the year ended March 31, 2023, the Association has recorded \$708 (2022 - \$290) as employee long-term incentive expense, which has been included as part of the fund administration expense and is recorded in accounts payable and accrued liabilities on the statement of financial position. While the long-term incentive plan contemplates future payments of \$751, these future payments have not been reflected in the financial statements as they are contingent upon the provision of future service obligations.

Note 12 Receivership expenses

As necessary, the Association applies to the Courts to appoint Receivers for certain entities to ensure that assets are managed and maintained safely for the benefit of the public, and where possible, placed in the hands of responsible operators through recognized sales processes following AER approval. During the year ended March 31, 2023, \$5,057 (2022 - \$2,341) has been recorded as receivership expenses.

Note 13 AER enforcement activity expenditures

AER enforcement activity expenditures represent amounts paid to the AER as reimbursement for third party abandonment expenditures related to orphaned wells, pipelines and facilities, and incurred by the AER in performing enforcement actions against liable parties. During the year ended March 31, 2023, \$68 (2022 - \$1) has been recorded as AER enforcement activity expenses.

Note 14 Financial instruments

The Association is exposed to the following types of risks in relation to its financial instruments:

(i) Credit risk

The Association is exposed to credit risk, which is the risk that a counterparty will fail to perform an obligation or settle a liability, resulting in a financial loss to the Association. As at March 31, 2023, approximately 39% of the Association's accounts and other receivables was due from the AER (2022 - 10%). The maximum credit risk exposure associated with the Association's financial assets is the carrying amount.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest-free government loans are not subject to a fair value risk.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Notes to the Financial Statements
 March 31, 2023
 (thousands of dollars)

(iii) Liquidity risk

Liquidity risk is the risk that the Association will encounter difficulty in meeting obligations associated with financial liabilities. Mitigation of this risk is achieved through the active management of cash and debt. The Association does not consider there to be a present risk in relation to funds available to the Association under the existing loan arrangements.

The contractual maturities of financial liabilities as of March 31, 2023 are as follows:

	Total	2024	2025	2026	2027	2028	Thereafter
Accounts payable and accrued liabilities	\$ 17,625	\$ 17,625	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term notes payable	\$ 420,792	\$ 30,198	\$ 30,198	\$ 30,198	\$ 30,198	\$ 6,250	\$ 293,750

Note 15 Commitments

The Association has various operating leases for its premises and equipment. The annual minimum payments under these operating leases are as follows:

	2024	2025	2026
Commitments	\$ 268	\$ 268	\$ 3

Note 16 Internally restricted assets

As at March 31, 2022 internally restricted cash represented internally restricted net assets in the amount of \$1,373, to be used at the discretion of the Board and in part was set aside for emergency use or wind-up activities. In fiscal year 2023, the Board determined that there was no requirement for the OWA to restrict any amounts for emergency or wind-up and to absorb the cash into general funds, and therefore was transferred to cash and unrestricted net assets.

Note 17 Subsequent events

Commencing April 1, 2023, the Association has approved an additional tranche within the cash-based long-term incentive plan totaling \$874 for the performance period of April 1, 2023 through March 31, 2027, which is payable at the discretion of the Board, for the benefit of the Association's employees.

In addition, subsequent to March 31, 2023, the Association collected \$132,744 as part of the fiscal 2024 annual Orphan Fund levy through the AER.

GOVERNANCE

The Alberta Oil and Gas Orphan Abandonment and Reclamation Association is an independent non-profit organization, generally known as the Orphan Well Association or OWA. The OWA operates under the delegated legal authority of the AER, the provincial regulator of energy development. Funding for the Association's work comes primarily from Alberta's oil and gas producers through the Orphan Fund Levy and LFP Orphan Fund Levy.

Industry and regulatory representatives serving on the Board of Directors oversee the OWA's operations, priorities and strategic planning to ensure the Association is delivering its mandate to protect public health and safety and manage environmental risk.

Board of Directors

Brad Herald

Canadian Association of Petroleum Producers,
OWA Chair

Brad Herald's work with CAPP has focused on industry operations and economics in Western Canada, including best practices related to the environment and public health and safety. He works closely with industry experts on community and regional stakeholder concerns, and with regulators and governments on policy issues and implementation.

Doug Dafoe

Ember Resources

Doug Dafoe is President and CEO of Ember Resources Inc. He has more than thirty years of industry experience in financial and operating positions in several publicly traded energy companies. In addition to corporate leadership positions, Doug brings extensive governance experience as a Board Director for drilling and energy production companies, and as a past member of the Board of Governors of the Canadian Association of Petroleum Producers. He holds the designations of Chartered Accountant and Chartered Director.

Kendall Dilling

Pathways Alliance

As President, Pathways Alliance, Kendall Dilling is responsible for the overall coordination of technology, project development and external relations. With nearly 30 years in the oil and gas industry, Kendall has expertise in environment, regulatory, health and safety, Indigenous and stakeholder relations, surface land and business development. Prior to his role at Pathways Alliance, Kendall was Cenovus Energy's Vice-President, Environment & Regulatory, where he was responsible for environmental strategy, managing the regulatory process for major approvals and leading environmental policy advocacy efforts with various levels of government.

David Hardie

Alberta Energy Regulator

David Hardie is the Director of Liability Management for the Alberta Energy Regulator. In over 20 years with Alberta's regulatory authorities, David has worked in analysis, strategy development and organizational leadership for infrastructure liability and closure in the energy industry. His experience relates directly to stewarding policies related to financial, environmental and public safety risk related to wells, pipelines and facilities.

Kyle Pizio

Canadian Natural Resources Limited

Kyle Pizio is Vice-President, Drilling, Completions and Asset Retirement at Canadian Natural Resources. During his more than 15 year career at Canadian Natural, Kyle has gained extensive experience in the development of oil and natural gas projects in the Western Canadian Sedimentary Basin as well as international offshore assets. Kyle is a Professional Engineer who has progressed through a range of technical roles and is currently leading multi-disciplinary teams that safely, effectively and efficiently manage drilling, completions and asset retirement activities, including decommissioning, reclamation and site closure.

D. Blake Reid

Paramount Resources

Blake Reid is a Professional Engineer and Executive Vice President, Operations at Paramount Resources. Prior to joining Paramount, Blake held a number of progressively senior roles over 25 years of industry experience. His work has included a broad range of technical, operational and strategic management roles, including leadership of multi-disciplinary organizations covering operations, maintenance, engineering, project management, drilling and completions, administration, and environment, health and safety portfolios.

Management



Vik Dhalla

Corporate Controller

Lars De Pauw

President

Brad Malley

Director, Operations

Dave Marks

Manager, Land, Stakeholder Relations and Support Services



Orphan Well Association



The OWA team joins in the annual Bow River clean-up at Bowmont Park, Calgary.



ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

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