Orphan Well Association
Association

Orphan Well Association

Alberta Oil and Gas Orphan Abandonment and Reclamation Association
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July 8, 2024

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

Dear Reeve Kalinski,

As a neighbour in MD of Bonnyville, and a partner with Alberta businesses, I've enclosed for your information our 2023/24 Orphan Well Association (OWA) annual report. It outlines our work across the province in the principled, safe, efficient and environmentally responsible closure of orphaned sites, as well as oil and gas properties with closure orders that the OWA has entered agreements to manage. We have supplemented province-wide summaries in this letter with information specifically about MD of Bonnyville.

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 becomes the responsibility of the OWA. Our role is to decommission the site 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 2023/24, our typical cost for closing an orphan site was about $44,000, 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, 2021 to March 31, 2024, the OWA invested about $2,270,000 in MD of Bonnyville, hiring 98 vendors to safely perform a variety of activities, ranging from inspections and decommissioning to remediation and reclamation, but also including other related spending such as accommodation and food.

There remain other orphan properties in MD of Bonnyville, including 36 sites that require decommissioning and then reclamation, and 76 sites that require reclamation only. Of the sites that require reclamation only, we have completed our work on 22, or about 29 per cent, and are waiting on vegetation to be fully established before we apply for a reclamation certificate from the AER. Our complete inventory is available on our website at orphanwell.ca.

In addition to orphan properties, MD of Bonnyville also has 5,564 inactive well licenses. These properties have solvent owners and operators, and so are not the responsibility of the OWA.

With the support of the oil and gas industry, as well as provincial and federal government loans fully expended in 2023, we have decommissioned orphan wells at an accelerated rate for the past several years, ensuring they are 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 $160 million of the Alberta loan from industry levies, as of July 2024. Note that these loans are not part of the $1 billion grant for the Alberta Site Rehabilitation Program, which concluded earlier this year and for which the OWA's orphan inventory was not eligible.

Following the surge in decommissioning, we have seen a larger portion of our expenditures shift toward the final stages of site closure – remediation and reclamation. This builds on previous years of work, which has 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 prices, natural gas prices remain volatile and we are still feeling the impact of a years-long downturn, so we expect to 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 funded our work with a levy of $135 million, bringing the total industry contribution to around three-quarters of a billion dollars. We are reviewing the 2025 levy with the AER and expect it will be in this range for the near future.

Underpinning all the OWA's efforts are our relationships with industry partners and contractors – close to 500 large and small businesses across Alberta this year. They are critical to how we do our job, meet our goals and perform our mandate.

We've 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
2023/24

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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 accountable. These properties are known as “orphans”.

The mandate of the OWA is to decommission[1] 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 over 7,700 wells and achieved over 2,500 reclamation certificates, with nearly 3,400 other sites reclaimed and awaiting revegetation. 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.

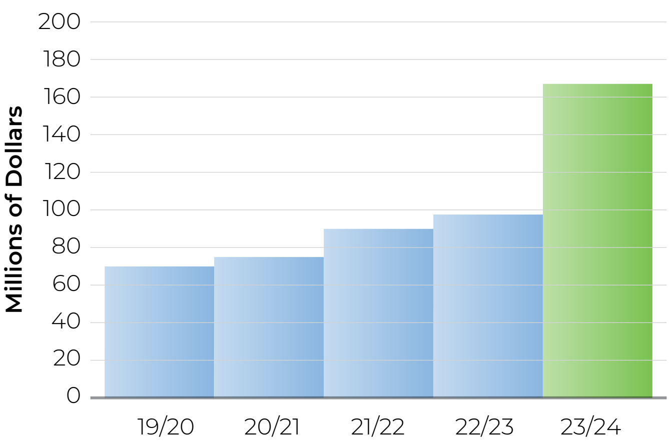
[1] *The OWA Annual Report uses the term “decommission” to refer to the responsible abandonment of energy infrastructure, in a manner that ensures it will not pose a risk to the environment or the public.*

HIGHLIGHTS

Industry funding through the Orphan Fund Levy increased again in 2023/24, this time by 87 per cent, recognizing the volume of work ahead to ensure public safety and manage the overall inventory at an acceptable pace. The OWA decommissioned more wells this year than we received, so our overall inventory is decreasing.

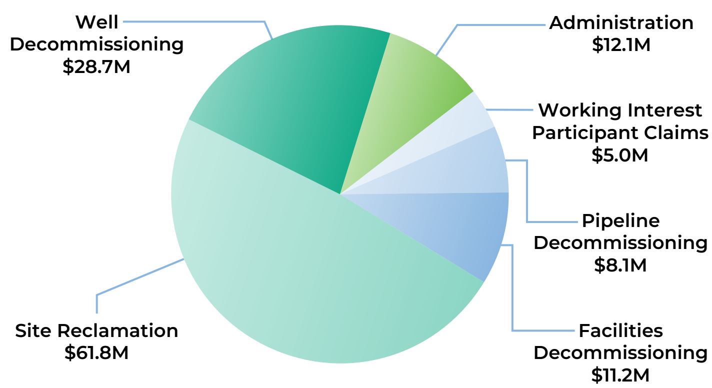
Our expenditures are shifting to site reclamation, as more of our inventory moves to this final stage of closure and as we tackle more complex sites. The number of sites achieving reclamation certificates is increasing, reflecting the reclamation work of the past several years.

*FUNDS RECEIVED**

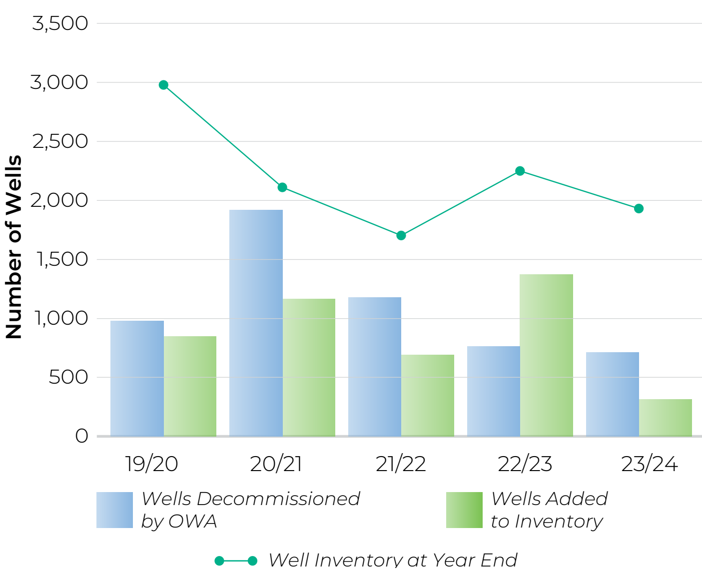


**Excluding government loans*

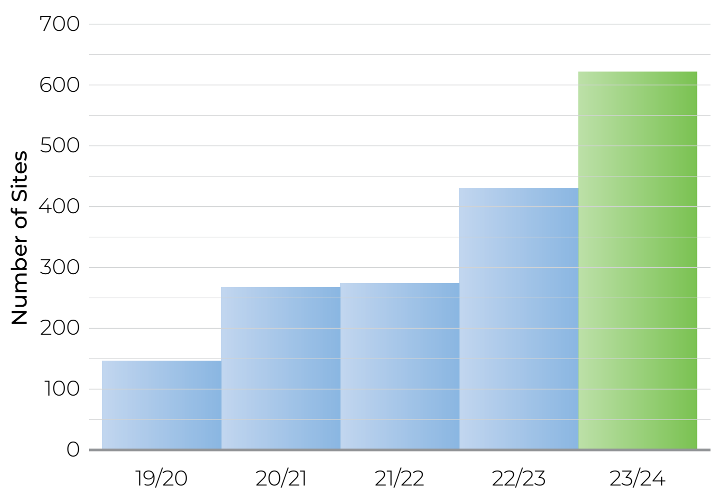
2023/24 EXPENDITURES BY CATEGORY



WELL INVENTORY AND WELLS DECOMMISSIONED



NUMBER OF RECLAMATION CERTIFICATES ACHIEVED



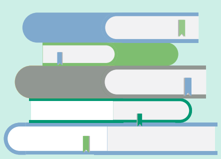
REGULATORY FRAMEWORK

Alberta has a comprehensive regulatory system that includes proactive requirements and processes to 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.

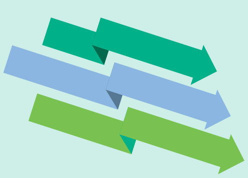
Alberta Energy Regulator

AER Proactive Rules and Process

Holistic licensee assessments look at the overall capability of a company to address its obligations, including closure *(Directive 088: Licensee Life-Cycle Management).*



Liability management programs encourage and require companies to address their liabilities appropriately.



Inventory Reduction Program requires annual mandatory spending on closure.

Sites at Risk

When a licensee is not meeting its requirements, the AER may issue an order for them to take all **reasonable care and measures** (RCAM) to protect public safety and the environment.
If they do not, the AER may require the OWA to provide that care. The OWA may safely shut-in operations or operate the site for an interim period.

The OWA can apply to the courts for the **appointment of a Receiver** to provide the opportunity for an orderly transition of assets to new parties.

Orphan Well Association

Backstop for Closing Orphans

The **OWA closes sites** that have been designated as orphans by the AER or through a Working Interest Participant Agreement (WIPA).

Risk-assessed and area-based approaches ensure that public safety and the environment are protected and closure work is completed efficiently.

THE YEAR IN PERSPECTIVE

MESSAGE FROM THE PRESIDENT

Over the last year, the OWA continued to deliver on its commitment to Albertans through strong operational performance, cost-efficiency, worker and community safety and demonstrated technical expertise as good as anyone in the oil and gas industry.

In 2023/24, we tackled projects that ranged in size and complexity. At one end of the spectrum, we decommissioned an intensive development of 150 wells in a single township. While work at this scale is logistically challenging, the efficiencies we realized reduced our inventory at a low cost, leaving funds on the table for more technically complex projects.

And, at the other end of the spectrum, after years of clearing many straightforward projects from our inventory, we also focused on a smaller number of more complex remediation sites. In this context, dealing with fewer sites is not because we are taking our foot off the gas, but we are committing our resources to more difficult projects that take more time and planning. Our performance on these projects has been excellent, with selected sites successfully moving into our reclamation inventory.

The number of Reclamation Certificates from the Alberta Energy Regulator (AER) continued to increase as more sites re-vegetate after decommissioning and reclamation work completed years ago – although, we were challenged by drought conditions that made soil too dry for typical vegetation growth in some areas. Still, our Reclamation Certificates increased by about 45 per cent from last year, and the remaining sites waiting for revegetation will continue to progress without further intervention – just slower than we anticipated.

Where the drought conditions have hindered vegetation growth, they expedited some reclamation work in the fall of 2023 as we were able to access more sites.

Looking ahead at our inventory in 2024/25, we see several companies – most significantly Sequoia Resources – potentially starting or nearing completion of insolvency processes and anticipate a material number of new orphan sites in the fall of 2024. The majority of these insolvencies relate to transactions that pre-date the new regulatory framework implemented by the AER.

Our commitment to Albertans is to continue closing sites in a cost-efficient and safe manner, to the highest technical standards.

We have been preparing for this influx, incorporating the risk of these licenses being orphaned into our long-term planning processes. We are ready to tackle the incoming inventory, including a sustained industry levy of $135 million in 2023/2024, with similar levels expected going forward. We do not expect to receive loans from government and continue to repay our provincial loan at over $30 million per year, as per the agreement.

We are steadfast in our determination to address the sites in our inventory. The OWA has received significant influxes of orphan assets in the past and we have managed them effectively. It takes time, but even as we continue to transition to lower-carbon fuels, the oil and gas industry will be an important part of meeting our future energy needs and will continue to fund the closure of sites assigned to the OWA.

As we plan for the next year and beyond, the foundation of our confidence is our commitment to operational and technical excellence. We have enhanced our processes over the last five years – how we tackle projects, evaluate vendors and benchmark performance – and developed a model for closure efficiency that has helped us become a trusted partner of industry.

Evidence of industry's trust is the increase in companies signing Working Interest Participant Agreements, or WIPAs, with us. WIPAs allow the OWA to close a site on behalf of a company that has a working interest in a site licensed to a defunct company. As we close the site, they reimburse us for their portion of the costs. WIPAs demonstrate that industry has confidence in our expertise and believe we will conduct closure work up to or exceeding their technical standards, with a more cost-effective approach.

Safety of the public and our contractors has always been our number one priority. Three years ago, after a decrease in contractor safety performance, we worked to reverse the trend. We have now completed six quarters in a row with no lost-time injuries, which – given the significant volume of work we undertake – is a point of pride. It is a testament to all of our contractors' commitment in the field to protecting the well-being of their people, and I would like to thank them for their exemplary safety performance over the last 18 months.

As orphan sites are added to our inventory and existing sites are closed, the estimated total remaining closure cost provides an indication of the liability the OWA expects to address. This number provides the AER with important context as they establish the annual Orphan Fund Levy on oil and gas producers, who are responsible for the sector's closure costs.

As of March 31, 2024, the total remaining closure cost on sites managed by the OWA (orphans, WIPAs and large facilities) is estimated to be about $862 million. This number is based on generic and site-specific evaluations, as wells as our extensive historical experience closing sites.

Our commitment to Albertans is to continue closing sites in a cost-efficient and safe manner, to the highest technical standards. With another wave of orphan sites likely on the horizon, we know that we have the capacity and resources to steadily reduce our decommissioning inventory and move those sites to the longer process of reclamation, revegetation – which takes time – and ultimate closure. Our history of meeting this challenge gives us confidence that we will continue on this trend. Our expectation is that as the AER's modernized regulatory framework to reduce the risk of orphans remains in place, we will see fewer waves like this over time.

The work we do is technical, based on science, technology and engineering expertise, but it's all delivered by a great team of people. I'd like to thank the OWA employees and hundreds of contractors who work hard every day to close orphan sites and return the land to Albertans.

Lars De Pauw
President

MESSAGE FROM THE CHAIR

The business of closing orphan oil and gas sites is, by its nature, a long game. With an appropriate plan and efficient use of resources, the first steps of site assessment and decommissioning to remove any environmental or safety risk can be done relatively quickly. Our focus on area-based closures – tackling hundreds of neighbouring wells and facilities in a coordinated effort – has been very successful, decommissioning about 5,600 in just five years as a trusted partner of landowners, governments and expert contractors.

However, the critical follow-up work of restoring the land requires another partner, and she will not be rushed. Mother Nature's regeneration of vegetation and habitat takes time and varies tremendously with local environmental conditions. So, although we've increased our focus on reclaiming sites following major strides in annual decommissioning, there is an inevitable – and expected – lag, as the OWA inventory moves through the full process to being certified as reclaimed.

An expected lag is also part of the regulatory environment in which we work. Over the past four years, the Alberta Energy Regulator has put in place a series of stringent measures to mitigate the risk that any well or facility will be orphaned. Among these measures are tightening the financial conditions under which sites may be sold or transferred to a new owner and requiring site licensees to increase their focus on inactive wells, with annual mandatory funds directed to closure. This is significant for the OWA's outlook, because limiting the number of inactive wells held by a company bodes well for its corporate health – and ability to continue to operate responsibly.

We are seeing the results of these regulatory and policy enhancements: the number of inactive wells in Alberta has decreased from more than 97,000 to about 78,000, an almost 20 per cent reduction. The system is working, clearing inactive wells and applying more early intervention processes to avoid the risk of orphans. The future looks brighter, but in this long game we still have trailing effects – the new inventory that we expect to see in 2024/25 are mostly related to historical transactions and operations that predate these more stringent regulations.

We are prepared as these legacy issues move through the system, with AER-directed industry funding to the OWA nearly doubling from 2022 to the current $135 million, and expected to remain at this level for the foreseeable future. Historical industry funding alone adds up to nearly three-quarters of a billion dollars since our inception.

The three-quarters of a billion dollars are funds that companies have paid for other companies' liabilities. I don't know of any other sector in the world with this kind of approach. It's unique and it's working.

In addition to the long-term role of nature in reclamation, enhanced regulation and increased funding from industry, the fundamental health of the oil and gas industry also plays a role that is measured in years. There are rarely calm seas in commodity pricing. The vast majority of companies have an expectation of price volatility built into their business models and operating practices, but some have been hit hard by a long period of low average prices. This is especially the case with natural gas producers. The start-up this year of the LNG Canada export terminal should help natural gas prices. Similarly, the first shipments from the Trans Mountain pipeline expansion will help better connect Alberta oil production to global prices, and these factors will contribute to the overall health of the industry.

As we head into the next year, we are ready to meet the challenges. We expect to see continued success with our closure strategies, getting more work done with every dollar of industry funding while, at the same time, the industry itself and enhanced regulation are working to ensure less work comes our way. I'd like to thank the OWA staff and the many, many people, companies and organizations who work with us every day to help ensure we do the best work possible, today and over the long term.

Brad Herald

Brad Herald
Chair, OWA

BRINGING BACK A UNIQUE LANDSCAPE

COLLABORATING TO SUPPORT THE SURVIVAL OF SPECIES AT RISK

Manyberries has a unique Albertan landscape in an unusual situation: if we followed the standard reclamation criteria, we would actually set reclamation back ten years or more.

The majority of the 250 orphan sites in the area, 85 kilometres south of Medicine Hat, are now fully decommissioned, and assessment, remediation and reclamation efforts are in full swing. Birds, mammals, reptiles and sensitive native vegetation – many of which are listed as endangered or threatened under the Canadian Registry for Species at Risk – call Manyberries home.

The next phase of the Manyberries project will focus on Alberta's badlands, with terrain that will be some of the of the most challenging our industry will tackle.

The reason the Manyberries project is unusual is that the native grasses and plants, particularly silver sagebrush, started recovering the landscape on their own, in places we wouldn't have expected it to thrive. Although this miraculous plant has established itself well, the problem is that it's not the only kind of vegetation needed to return the land to an equivalent state as before development took place. Given the large-scale disturbances from historic construction practices and the arid nature of the soil, fully revegetating the area will require significant effort.

"Normally, we might remove vegetation that had grown on its own so we could recontour the landscape and revegetate the full variety of native species," says Samantha Price, an OWA environmental lead. "But removing the recently established silver sagebrush just to start from scratch would take decades to re-establish, setting back a vital habitat and food source."

And so, an intensive collaborative process involving multiple jurisdictions of regulatory oversight began, with the goal to reclaim the land as quickly as possible in a manner that supported the Species at Risk in the area, including the greater sage-grouse.

As a result, we transplanted 14,000 silver sagebrush plants that spontaneously grew and matured in the otherwise barren drilling pads and access roads so we could prepare the sites for other vegetation species to intermix and grow. The transplanting process involved careful tracking of the GPS coordinates of each cluster of plants as we monitor their health over the next phase of the project and complete reporting requirements to the Canadian Wildlife Service.

To support future efforts, our main reclamation prime contractor for the area, Jorgensen Land Management, took the lead for the second year in a row, organizing a seed harvesting day. Students from the environmental sciences program at Lethbridge College and volunteers from Alberta Environment and Protected Areas (EPA), AER, OWA and another prime contractor, Terralogix Solutions, collected ten full bags of silver sagebrush seeds.

Planning is now underway for the upcoming season, which involves a new set of best management practices for the endangered greater short-horned lizard. Although the next project area is beside where we are working now, the ecology shifts dramatically within a short distance into Alberta's badlands, with hoodoos and valleys that will be some of the most challenging reclamation our industry will tackle. This is the heart of the Manyberries program, and our team is ready to take it on.

At the centre of this story are passionate people. Collaboration across the OWA, contractors and government departments and agencies is creating significant progress in reclaiming a sensitive and unique habitat in support of the greater sage-grouse and other Species at Risk who call it home. Planning and patience continues to be key to the future success of this unique and important project.

Reclamation is underway in the unique Manyberries landscape.

A PROUD 17 YEARS COMES TO A CLOSE

This year, Allison Wolfe is retiring from the Orphan Well Association after 17 years of reclaiming orphan sites in areas ranging from farms and forests to sensitive native grasslands.

There have been a lot of changes since Allison joined the OWA in early 2007 as an environmental coordinator. At the time, her responsibilities involved nearly everything on the land in every corner of the province.

“I did it all in those days” says Allison, at a time when there were only about a half dozen on the OWA team. “Landowner contact, regulatory engagement, report and application filing, managing our consultants. I was ‘it’ running the environmental program.”

Allison’s career at the OWA tracks the growing volume of work and evolution of the OWA over nearly two decades. One of her first reclamation projects was the South Alberta Energy Corp. sites southwest of Medicine Hat, where about 100 well sites had been decommissioned and were ready for reclamation.

“That was a very big project when I started and it’s all been closed and certified as reclaimed, except for one well,” says Allison, referring to a single, complex site that is in the final stages of reclamation.

From what was the largest project in the OWA’s history at the time, the work of reclamation has grown substantially.

“When I came, we had about 500 sites in the reclamation program. We have 7,500 now.”

One major increase came with the insolvency of Lexin Resources in 2018, which added more than 1,000 wells to the OWA inventory. This was a daunting challenge and one of the earlier instances when the OWA applied “area-based” closure – a strategic plan to take on large regional projects in a concerted campaign. With the sites safely decommissioned, Allison and her team moved in quickly and, six years later, more than a third of the original orphan sites have been certified as reclaimed and returned to the landscape. “If we can take on ten sites or forty sites in an area, our work actually gets easier and faster,” says Allison.

But even at a larger scale, there are always nuances.

“One of the things that makes reclamation so interesting is the wide variety – really simple well sites and really complex multimillion-dollar remediation sites.”

Each site has its own history and story, some dating back more than a century. Land use and industry practices have changed and, at the same time, the science and practice of reclamation has improved.

“Forty years ago, you were looking at ‘were the plants growing?’ Now we’re looking closely for contamination sources, lab tests, making sure it’s all been identified and addressed. It takes longer and costs more money, but it has to be done so you know you’re going to get the site returned to its original land use. And sometimes we need to go back because the guidelines have changed.”

As the work of oilfield reclamation continues to evolve, Allison can be proud of the improvement made over hercareer at the OWA.

“Every year we learn from what we’ve done the year beforeand are able to do our work really efficiently and get stuff done. I think we’re all pretty proud of the work we do.”

FISCAL RESPONSIBILITY

Funding the OWA

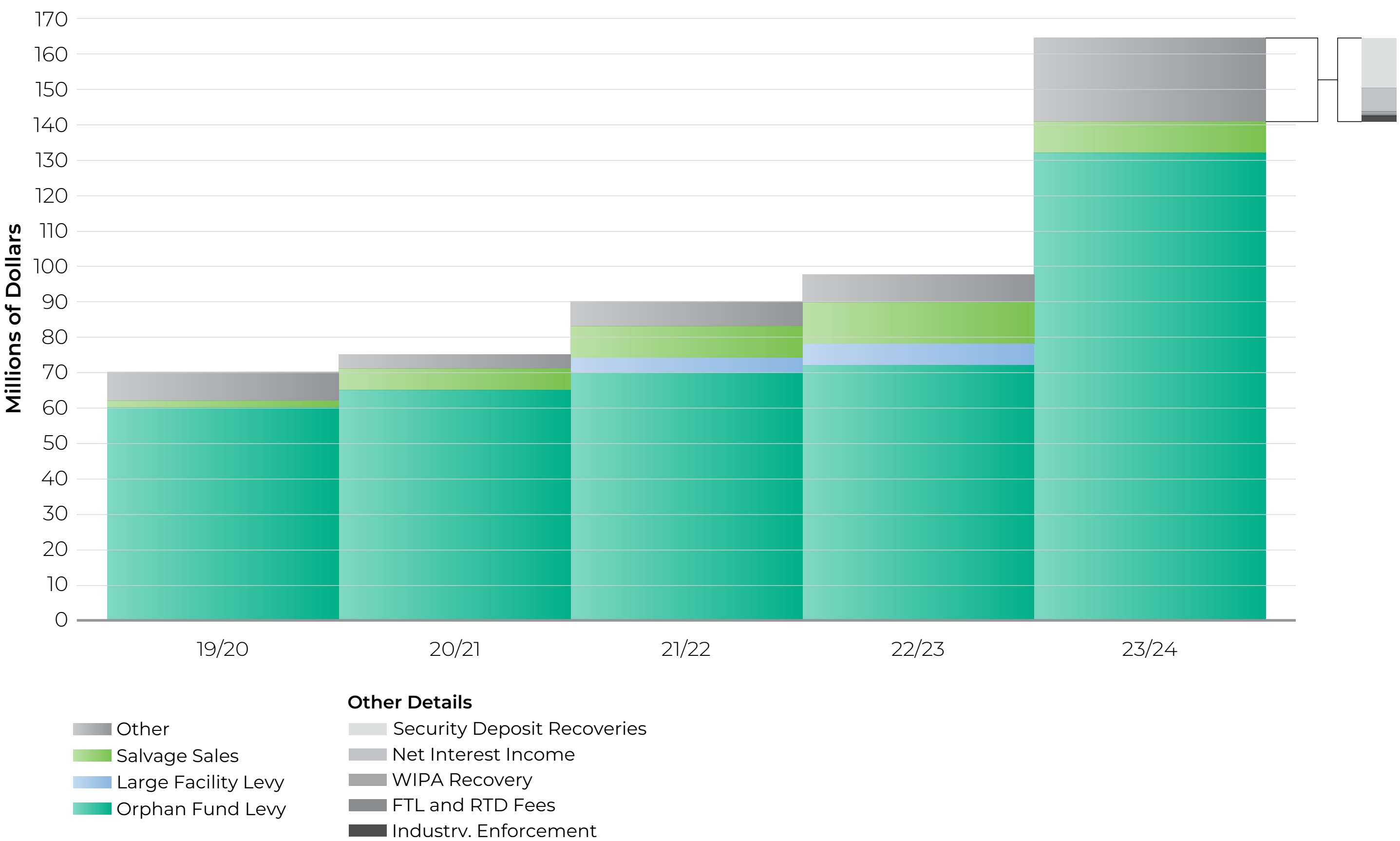
Direct funding and other sources of revenue for the OWA increased 70% to $167.2 million in 2023/24, from $98.4 million the year before. Regular OWA funding is provided from the Orphan Fund Levy, the Large Facility Levy, salvage sales and other sources.

The Orphan Fund Levy collected by the AER increased by 87% to $134.3 million in 2023/24, from $72.0 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.

With no new large facility orphan sites expected and surplus funding from previous levies remaining in place, the AER did not collect a Large Facility Levy this year. 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 decreased 23% to $8.9 million in 2023/24, from $11.6 million the year before, as there were fewer assets available from decommissioned sites and lower new inventory than in previous years.

Funding from industry, enforcement and security deposit recoveries increased 758% to $16.0 million in 2023/24,



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

from $1.9 million the year before. Most of this increase is due to security deposit recoveries, which are recovered during insolvency to offset end-of-life obligations. The “industry” category includes reimbursement for work the OWA performed on behalf of others. This may include reimbursement from land developers when the OWA is the only organization that can feasibly resolve issues related to a right-of-way. “Enforcement” refers to reimbursement for work the OWA performed on behalf of the defunct company, if the company chooses to revive operations.

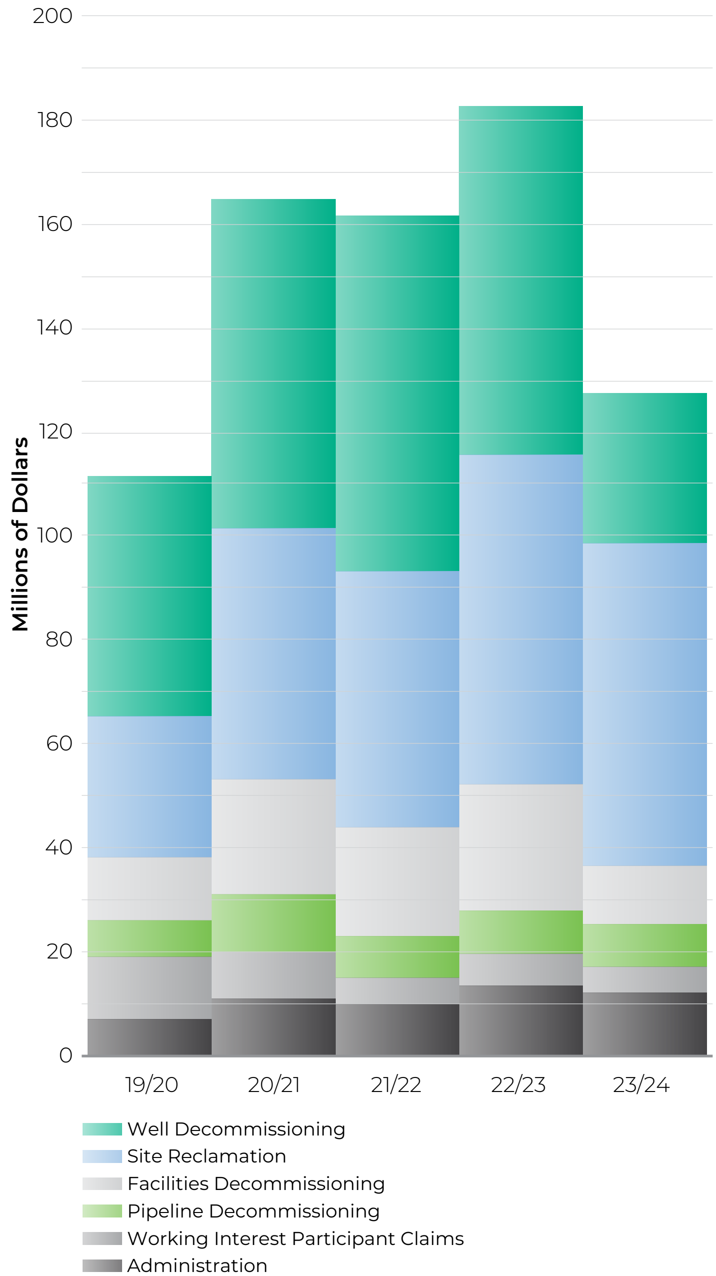
Net interest income increased 30% to $6.8 million in 2023/24, from $5.3 million the year before due to increasing interest rates.

Working Interest Participant Agreement (WIPA) recoveries decreased 29% to $719,000 in 2023/24, from $1.0 million the year before.

First Time Licensee (FTL) and Regulator Directed Transfer (RDT) fees decreased 30% to $466,000 in 2023/24, from $669,000 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 2023/24 fiscal year, 65 orphan licenses were transferred, reducing the OWA’s estimated liability by $4.3 million.

Expenditures



OWA expenditures[2] decreased 30% to $126.9 million in 2023/24, from $183.6 million the year before, as we completed spending government loans in 2022 and continued repayments.

DETAILED EXPENDITURES:

- Well decommissioning decreased 57% to $28.7 million, from $67.0 million the year before.[3]
- Site reclamation decreased 2% to $61.8 million, from $63.4 million the year before.[4]
- Facilities decommissioning decreased 54% to $11.2 million, from $24.2 million the year before.
- Pipeline decommissioning decreased 2% to $8.2 million, from $8.3 million the year before.
- WIP reimbursements decreased 19% to $5.0 million, from $6.1 million the year before.
- Administration decreased by 15% to $12.1 million from $14.3 million the year before. Administration expenditures include receivership costs.

Detailed expenditures show that spending was focused more on reclamation than decommissioning as sites moved from one inventory to the other. We are also seeing a shift to reclamation for the single site under the LFP, described in the Funding the OWA section.

In 2022, Canada Revenue Agency (CRA) reversed its previous position and now allows the OWA to claim Input Tax Credits (ITC) for GST paid. 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 and Unrealized Loss on Investment. Please 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

Our average costs to decommission a well and reclaim a site fluctuate over time and can vary significantly depending on the complexity of the site. In 2023/24, the average cost of decommissioning a well was $16,500, while the average cost of reclaiming a site was $27,400. These averages reflect the sites 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.

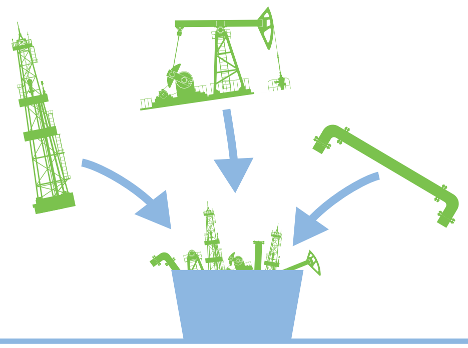
1 Site Designated Orphan

Wells, facilities and pipelines are added to the OWA inventory of sites.

Sites that have been previously decommissioned go directly to an Environmental Site Assessment.

2 Inspection

Landowners are contacted and an inspection of the site ensures protection of public safety and the environment. Sites are risk-assessed with higher-risk sites decommissioned sooner.

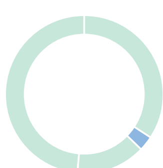


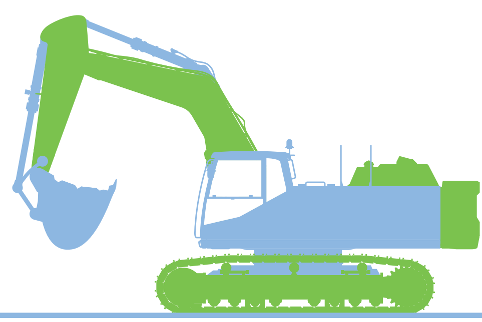
Inspection takes place within 60 days

5 Remediation

If contaminants are present, they are managed or removed.

3% of reclamation inventory is here





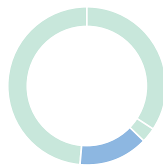
Most assessments are completed within three months

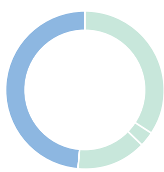
Remediation may not be needed, or may require months or years

6 Reclamation

Land is contoured and vegetation is planted. The land must be returned similar to its original state.

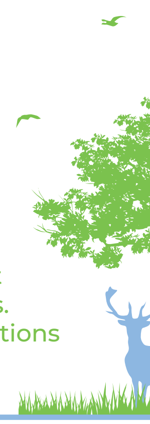
14% of reclamation inventory is here





48% of reclamation inventory is here

Re-vegetation takes two to three years for most cultivated and pasture sites. Forested and native prairie locations can take much longer.

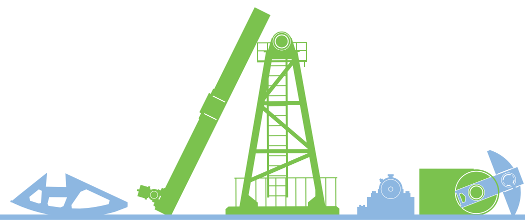


We engage landowners about our plan to decommission, remediate and reclaim the site, so they understand who will be on their land and what work will be done. Landowners are often frustrated after years of feeling the impacts of these sites. We work hard to address their concerns and mitigate theses impacts within the authority we have been given.

3 Decommissioning

Wells, pipelines and facilities are permanently dismantled and left in a safe condition, so there are no risks to the public or environment.

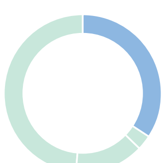
Planning for decommissioning can take from one to several months



4 Environmental Site Assessment

Soil and groundwater are tested for contamination from any spills or leaks. Detailed site investigation and contaminant transport modelling may be used to develop site-specific remediation plans.

34% of reclamation inventory is here



Once work begins, decommissioning takes up to two weeks

7 Reclamation Certificate Application

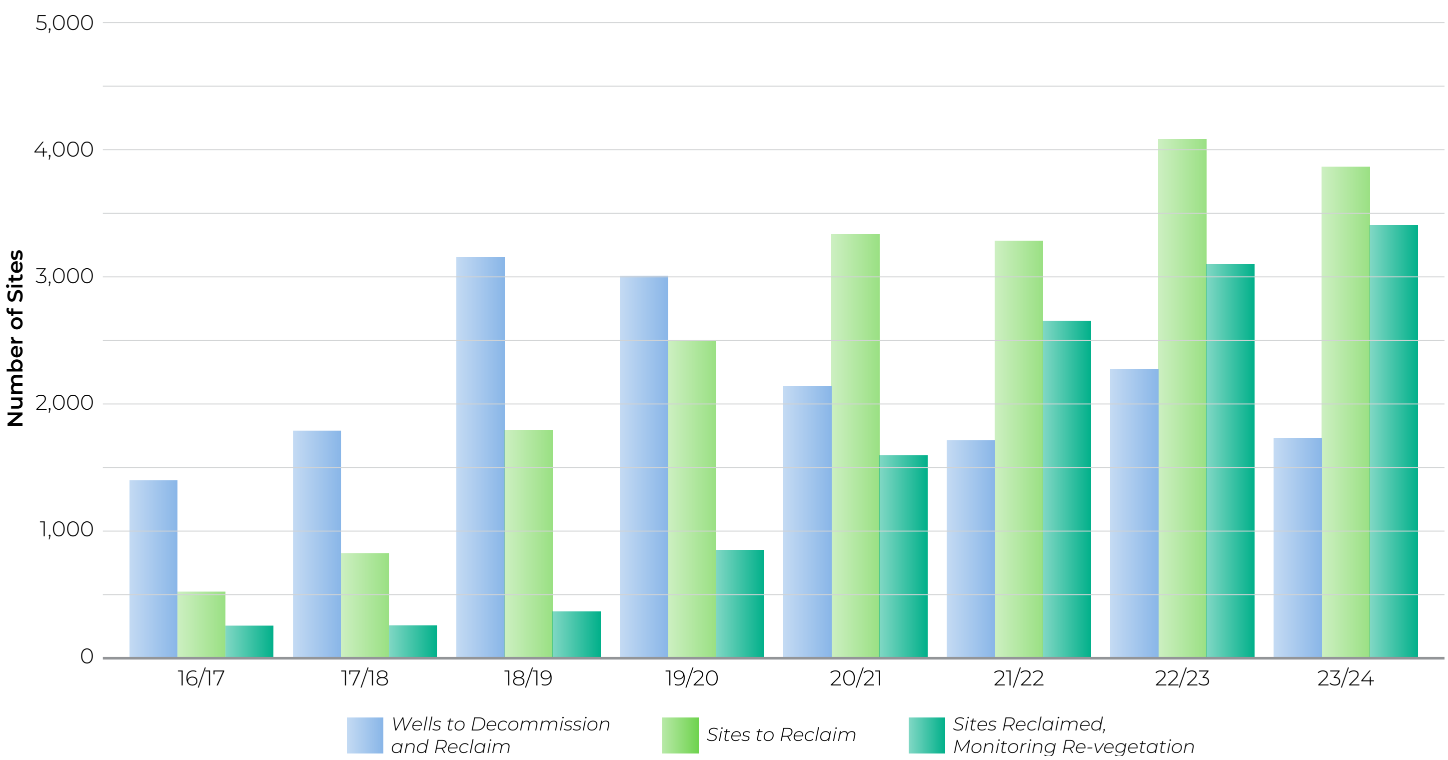
A detailed site assessment is required to apply for a reclamation certificate from the AER.

Two months to prepare; may be approved in several days

8 Site is Closed

Timeline is approximate. Percentages do not add up to 100 per cent due to rounding.

ORPHAN INVENTORY OVERVIEW



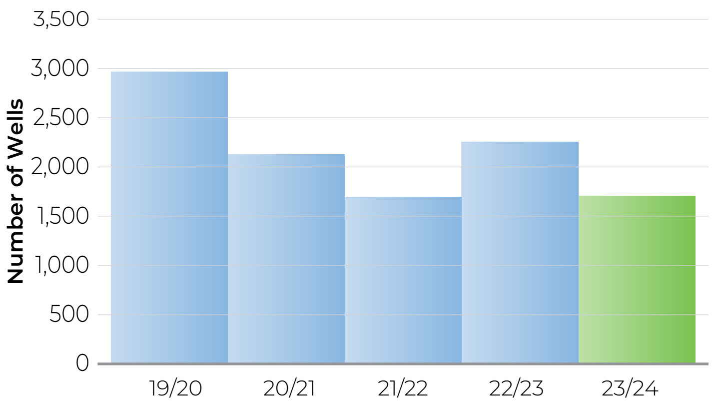
Once we have decommissioned wells and other infrastructure, which can take months, the sites move from our decommissioning team to our reclamation team. Reclamation can take much longer to complete, as re-establishing vegetation can take years. The graph above shows that a decrease in our orphan well inventory leads to an increase in our reclamation inventory. Sites then stay in our reclamation inventory for a longer period of time during revegetation.

When we receive a surge of orphan wells, as we did in 2018/19, decommissioning work is conducted steadily in reasonably efficient timeframes before this inventory can be moved to reclamation work. As a result, the reclamation inventory increases, as it has consistently from 2016/17. 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. When the OWA achieves a reclamation certificate for a site, it is removed from our reclamation inventory

TACKLING THE INFRASTRUCTURE

DECOMMISSIONING

Orphan Well Inventory

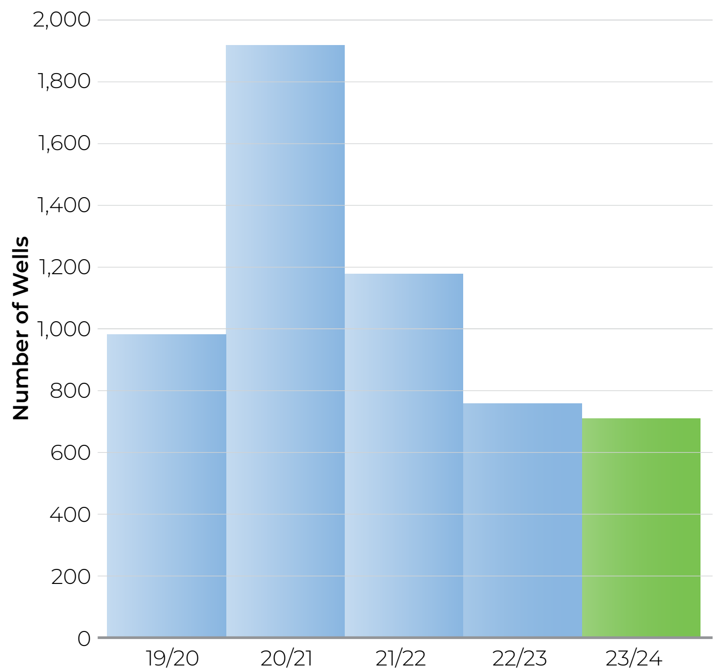


The number of orphan wells in the OWA inventory to be decommissioned decreased 24% to 1,719 at the end of 2023/24, from 2,253 the year before. In addition, there are 209 wells the OWA has agreed to close as part of WIPAs.

These sites will need to be reclaimed after the site has been fully 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 five years, the OWA decommissioned more wells than we received resulting in a decrease in our overall inventory of orphan wells. The number of new wells designated as orphans by the AER decreased 88% to 170 in 2023/24, from 1,369 the year before. In addition, there were 144 new wells the OWA agreed to close as part of WIPAs.

Number of Wells Decommissioned



The number of wells fully decommissioned decreased 9% to 710 in 2023/24, from 781 the year before. Decommissioning numbers for 2023/24 include 25 wells that were closed as part of WIPAs.

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.

WHO CLOSES DEFUNCT SITES?

Defunct companies currently holding licenses

There are 2,642 wells that need to be decommissioned and 8,950 sites that need to be reclaimed.

Orphan Sites

When there is no legally responsible party to look after an asset, the AER may designate it as an orphan.

Alberta Energy Regulator

Sites with a Remaining Responsible Party

A Working Interest Participant (WIP), who owns an undivided interest in a well or facility, is directed by the AER to close a site.

Orphan Well Association

OWA Orphan Inventory

The OWA undertakes the closure work and pays for it with industry funding.

There are 1,719 wells that need to be decommissioned and 7,210 sites that need to be reclaimed.

WIPA Inventory

The OWA closes the site and pays the costs for that work, and the WIP reimburses the OWA for their portion of the costs.

There are 209 wells that need to be decommissioned and 314 sites that need to be reclaimed.

WIPs can sign a Working Interest Participant Agreements (WIPA) with the OWA so that the OWA closes the site.

The responsible WIP decides to conduct closure work.

WIPs Inventory

The WIP closes the site and can make a claim to the OWA to be reimbursed for the defunct company's portion of the activities.

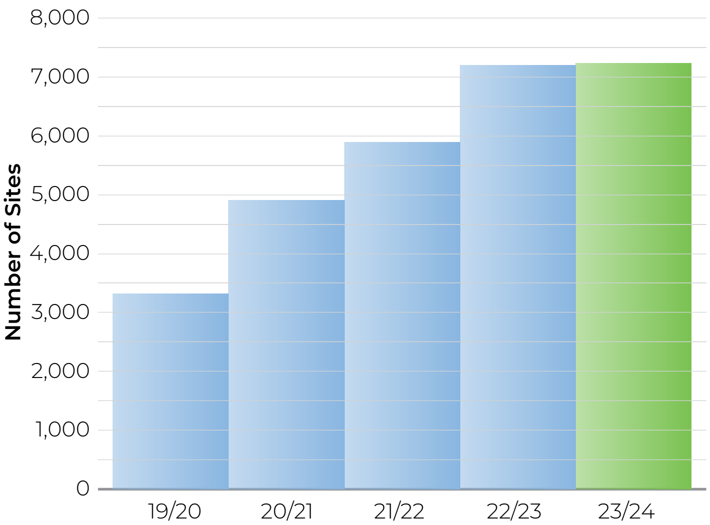
There are 714 wells that need to be decommissioned and 1,426 sites that need to be reclaimed.

RETURNING THE LAND

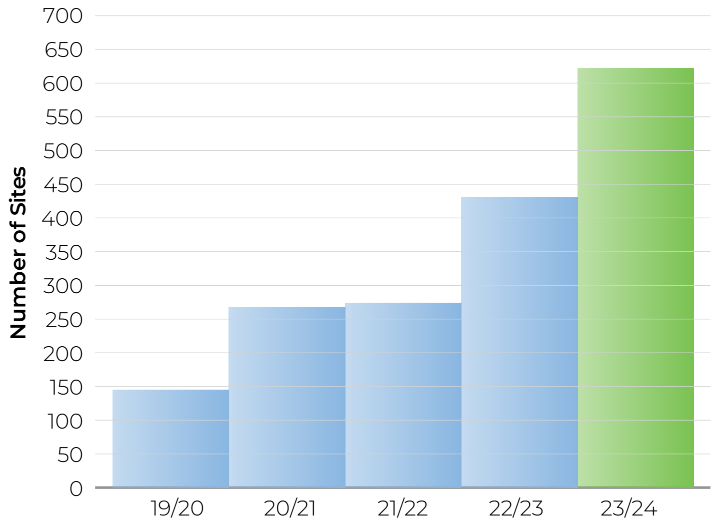
We expect to see significant growth in the number of reclamation certificates in the coming years as a result of previous years' work.

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 achieves a reclamation certificate is then available for farming, pastureland, recreation or a growing community.

Reclamation Inventory



Number of Sites Closed



The number of orphan sites in the OWA reclamation inventory increased 1% to 7,210 at the end of 2023/24, from 7,117 the year before. In addition, the OWA has agreed to reclaim 314 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 from 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 achieves 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.

For more information, pages 14 and 15 show the stages of closing a site.

The number of sites the OWA fully closed increased 44% to 622 in 2023/24, from 431 the year before. The number of sites closed for 2023/24 include four that were part of WIPAs.

This closure number represents 1,155 hectares of land returned to Albertans, similar to the size of Edson, Alberta.

It takes years for a site to become suitable for a reclamation certificate application, so this year's number reflects reclamation work performed over 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, although drought conditions are leading to a slower revegetation process than expected.

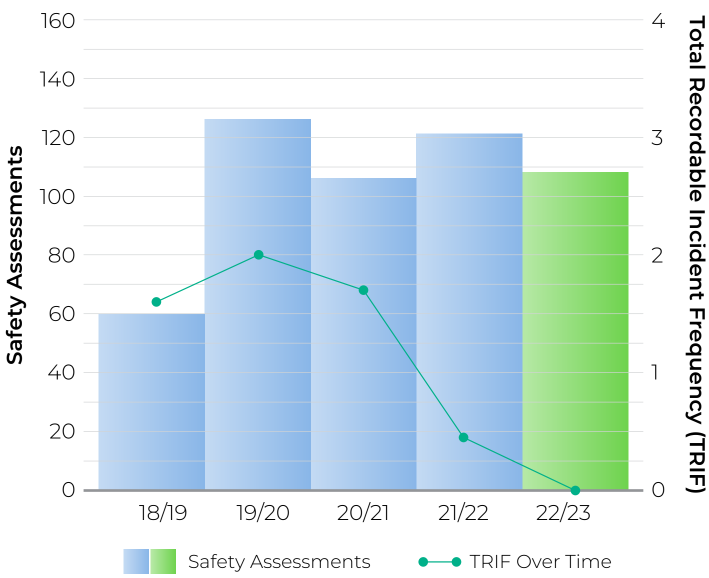
PROTECTING PEOPLE AND THE ENVIRONMENT

RISK ASSESSMENT AND SAFETY

The OWA continues to use 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 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.

In 2023/24, the OWA completed 437 inspections. This is lower than in previous years because fewer sites were designated as orphans or executed through WIPA agreements.

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 2023/24, there were no lost-time injuries, which is a significant accomplishment for the OWA and our contractors given the volume of work we undertake. When incidents do take place, we investigate and evaluate ways to reduce the risk of injury incidents in the future.

The OWA assesses the safety programs of its vendors and conducts site assessments to ensure safe practices are followed during operations. During 2023/24, there were a total of 108 direct safety assessments conducted on Prime Contractors. In addition to these more formal assessments, the OWA conducted 672 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, 2024, 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, 2024 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.

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.

Ernst & Young LLP
Chartered Professional Accountants

Calgary, Canada
June 5, 2024

FINANCIAL STATEMENTS

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Financial Position
As at March 31, 2024
(thousands of dollars)

		2024		2023
Assets				
Current assets				
Cash	$	**48,467**	$	44,650
Accounts and other receivables		**3,542**		4,617
Prepaid expenses and deposits		**603**		527
Investments (Note 4)		**37,491**		34,757
		90,103		84,551
Tangible capital assets (Note 5)		**25**		15
	$	**90,128**	$	84,566
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued liabilities (Note 11)		**14,860**		17,625
Current portion of long-term notes payable (Note 6)		**30,198**		30,198
		45,058		47,823
Long-term notes payable (Note 6)		**277,200**		296,261
Deferred contributions (Note 7)		**89,374**		102,094
		411,632		446,178
Net assets		**(321,504)**		(361,612)
	$	**90,128**	$	84,566

See accompanying notes to financial statements.

Approved by the Board:

Brad Herald

Director – Brad Herald

Director – Doug Dafoe

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Operations
Year ended March 31, 2024
(thousands of dollars)

		2024		2023
Revenues				
Orphan Fund levy through the AER		**134,257**		71,979
Large Facility levy through the AER		**-**		6,000
Interest income (Notes 3, 4, 6 and 7)		**17,948**		16,937
Industry, enforcement and security deposit recoveries		**15,978**		1,861
Salvage sales		**8,934**		11,637
First time licensee fees and Regulator directed transfer fees through the AER		**466**		669
Working interest participant agreement recoveries (Note 8)		**719**		1,019
		178,302		110,102
Expenditures				
Operating				
Well abandonment		**28,708**		66,954
Site reclamation		**61,802**		63,359
Facility decommissioning		**11,159**		24,231
Pipeline abandonment		**8,145**		8,328
Land acquisition		**-**		313
		109,814		163,185
Other expenses (income)				
Interest on long-term notes payable (Note 6)		**11,137**		11,684
Fund administration (Notes 10 and 11)		**8,312**		9,165
Non-recoverable GST expense (recovery) (Note 3)		**126**		(2,941)
Working interest claims (Note 9)		**4,978**		6,137
Receivership expenses (Note 12)		**3,809**		5,057
Unrealized loss on investments		**1**		277
Bad debt expense		**16**		-
AER enforcement activities (Note 13)		**-**		68
		28,379		29,447
		138,193		192,632
Surplus (deficiency) of revenues over expenses	**$**	**40,109**	$	(82,530)

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, 2024
(thousands of dollars)

	2024	2023
Balance, beginning of year	**$ (361,613)**	$ (279,083)
Surplus (Deficit)	**40,109**	(82,530)
Balance, end of year	**$ (321,504)**	$ (361,613)

See accompanying notes to financial statements.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Cash Flows
Year ended March 31, 2024
(thousands of dollars)

		2024		2023
Cash provided by (used in)				
Operating				
Surplus (deficiency) of revenues over expenses	**$**	**40,109**	$	(82,530)
Non-cash items				
Amortization of tangible capital assets		**22**		20
Unrealized loss on investments		**1**		277
Changes in operating non-cash working capital				
Decrease (increase) in accounts and other receivables		**1,074**		(3,452)
(Increase) decrease in prepaid expenses and deposits		**(77)**		51
Decrease in accounts payable and accrued liabilities		**(2,765)**		(7,991)
		38,364		(93,625)
Investing				
(Increase) decrease in investments		**(2,736)**		34,749
Purchase of tangible capital assets		**(31)**		(10)
Decrease in internally restricted cash		**-**		1,373
		(2,767)		36,112
Financing				
(Decrease) increase in deferred contributions		**(1,582)**		7,759
Repayment of long-term notes payable		**(30,198)**		(30,198)
		(31,780)		(22,439)
Net increase (decrease) in cash		**3,817**		(79,952)
Cash, beginning of year		**44,650**		124,602
Cash, end of year	**$**	**48,467**	$	44,650

See accompanying notes to financial statements.

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 a board of directors (the “Board”) who act in the public interest. The Board is appointed by the voting Members of the OWA (the “Voting Members”). The Voting Members of the OWA are the Canadian Association of Petroleum Producers (“CAPP”), the Explorers and Producers Association of Canada (“EPAC”), and the AER. The Ministry of Environment and Protected Areas of Alberta, and the Alberta Ministry of Energy and Minerals are honorary non-voting Member of the OWA. 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 with maturities of three months or less.

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”) and Bankers’ Acceptance (“BA”) notes that mature within the next 12 months to known amounts of cash and which 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 and a correlation risk ranking by either the Canadian Bond Rating Service or Dominion Bond Rating Service of low and with maturities of up to 5 years.

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. Contribution agreement and 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.

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.

(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 a prior year 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. 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, and $9,994 including interest for the GST reportable periods of January 1, 2017 through February 28, 2021. In fiscal 2024 the OWA claimed ITCs in the amount of $1,807 plus interest for the GST reportable period July 1, 2023 through October 1, 2023. Payments for additional amounts claimed for the period from March 1, 2021 to March 31, 2024 (excluding the 4 months noted) remain outstanding pending discussions with the AER and CRA and have not been recognized in these financial statements.

Note 4 Investments

At March 31, 2024, the Association's investments included $30,000 (2023 - $25,000) of guaranteed investment certificates with interest rates between 5.36% and 5.7% per annum. The investments matured in April/May 2024 at which time they were reinvested in similar instruments with comparable interest rates. The Association also has $7,491 (2023 - $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

	Cost	Accumulated amortization	**2024 Net book value**	2023 Net book value
Computers	$ 162	$ 138	$ 24	$ 16

(thousands of dollars)

Note 6 Long-term notes payable

In fiscal 2018, the OWA entered into an interest-free loan arrangement with His Majesty the King 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 of $235,000. As at March 31, 2024, advances of $235,000 (2023 - $235,000) have been received, of which $3,897 (2023 - $7,011) has been recorded as a deferred contribution (see Note 7), and $3,114 (2023 - $3,974) 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, 2024, an advance of $100,000 (2023 - $100,000) has been received, of which $17,565 (2023 - $20,364) has been recorded as a deferred contribution (see Note 7), and $2,798 (2023 - $2,696) 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 His Majesty the King 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, 2024, advances of $200,000 (2023 - $200,000) have been received, of which $61,734 (2023 - $66.960) has been recorded as a deferred contribution (see Note 7), and $5,225 (2023 - $5,014) 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:

	2025	2026	2027	2028	2029	Thereafter
Repayment Schedule	$ 30,198	$ 30,198	$ 30,198	$ 6,250	$ 25,000	$ 268,750

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 have been treated as a restricted contribution and recognized as security deposits recovery revenue, as expenses are incurred, following the deferral method of accounting.

(thousands of dollars)

Changes in deferred contributions during the year are as follows:

Deferred contributions		**2024**		2023
Balance, beginning of year	$	102,094	$	106,019
Contributions received		-	$	8,000
Transferred to revenue	$	(1,582)	$	(241)
Interest revenue recognized (Note 6)	$	(11,137)	$	(11,684)
Balance, end of year	$	89,374	$	102,094

Note 8 Working interest participant agreement recoveries

By delegated authority from the OFDAR, the OWA is permitted 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, 2024, $719 (2023 - $1,019) 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). By this legislation, the AER identifies 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, 2024, $4,978 (2023 - $6,137) 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 $694 (2023 - $573), and which is included in fund administration expense on the Statement of Operations. Also included in fund administration expense for the year to March 31, 2024 is $235 (2023 - $235) related to a long-term incentive plan, payable in relation to services rendered by those management personnel. Under the terms of the long-term incentive plan, while the Association is committed to make further payments totaling $830 in respect of services, which are expected to be rendered over the period from April 1, 2024 to March 31, 2029, these future payments have not been reflected in the financial statements as they are contingent upon the provision of those 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 2024 and 2023.

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, 2024, the Association has recorded $529 (2023 - $708) as employee long-term incentive expense, which has been included within fund administration expense on the Statement of Operations and within accounts payable and accrued liabilities on the Statement of Financial Position. While the long-term incentive plan contemplates future payments of $840, 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, 2024, $3,809 (2023 - $5,057) 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, 2024, $0 (2023 - $68) 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, 2024, approximately 1% of the Association's accounts and other receivables was due from the AER (2023 - 39%). 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.

(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.

(thousands of dollars)

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, 2024 are as follows:

	Total	2025	2026	2027	2028	2029	Thereafter
Accounts payable and accrued liabilities	$ 14,860	$ 14,860	$ -	$ -	$ -	$ -	$ -
Long-term notes payable	$ 390,594	$ 30,198	$ 30,198	$ 30,198	$ 6,250	$ 25,000	$ 268,750

Note 15 Commitments and contingencies

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

	2025	2026	2027
Commitments	$ 247	$ 4	$ 1

In the course of the normal activity of the Association, it may become party to a claim or legal action as a result of events that have occurred. While the outcome of these matters is uncertain, and accordingly no provision has been recorded in the financial statements, the OWA does not believe that the outcome related to these matters, or any amount that the OWA may be required to pay, would have a materially adverse effect on the OWA as a whole.

Note 16 Subsequent events

On April 1, 2024, the Association approved an additional tranche of the cash-based long-term incentive plan in the amount of $1,484, for the performance period of April 1, 2024 through March 31, 2029, and which is payable at the discretion of the Board, for the benefit of the Association's employees.

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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.

Board of Directors

We are led by an independent Board of Directors with industry and regulatory representatives who oversee our operations, priorities and strategic planning to ensure the OWA fulfills its mandate.

Directors are appointed by the OWA's members: the Canadian Association of Petroleum Producers, the Explorers and Producers Association of Canada and the Alberta Energy Regulator.

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.

Logan Popko

Cenovus Energy Inc.

As Vice-President of Well Delivery for Cenovus Energy Inc., Logan Popko is accountable for the safe and efficient execution of drilling, completions and asset retirement programs. Over more than 15 years at Cenovus, he has held increasingly senior roles in production operations, asset development, execution, corporate strategy and planning, and downstream businesses. He holds a Bachelor of Science degree in Oil and Gas Engineering from the University of Calgary and is a member of the Association of Professional Engineers and Geoscientists of Alberta.

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 Pisio

Canadian Natural Resources Limited

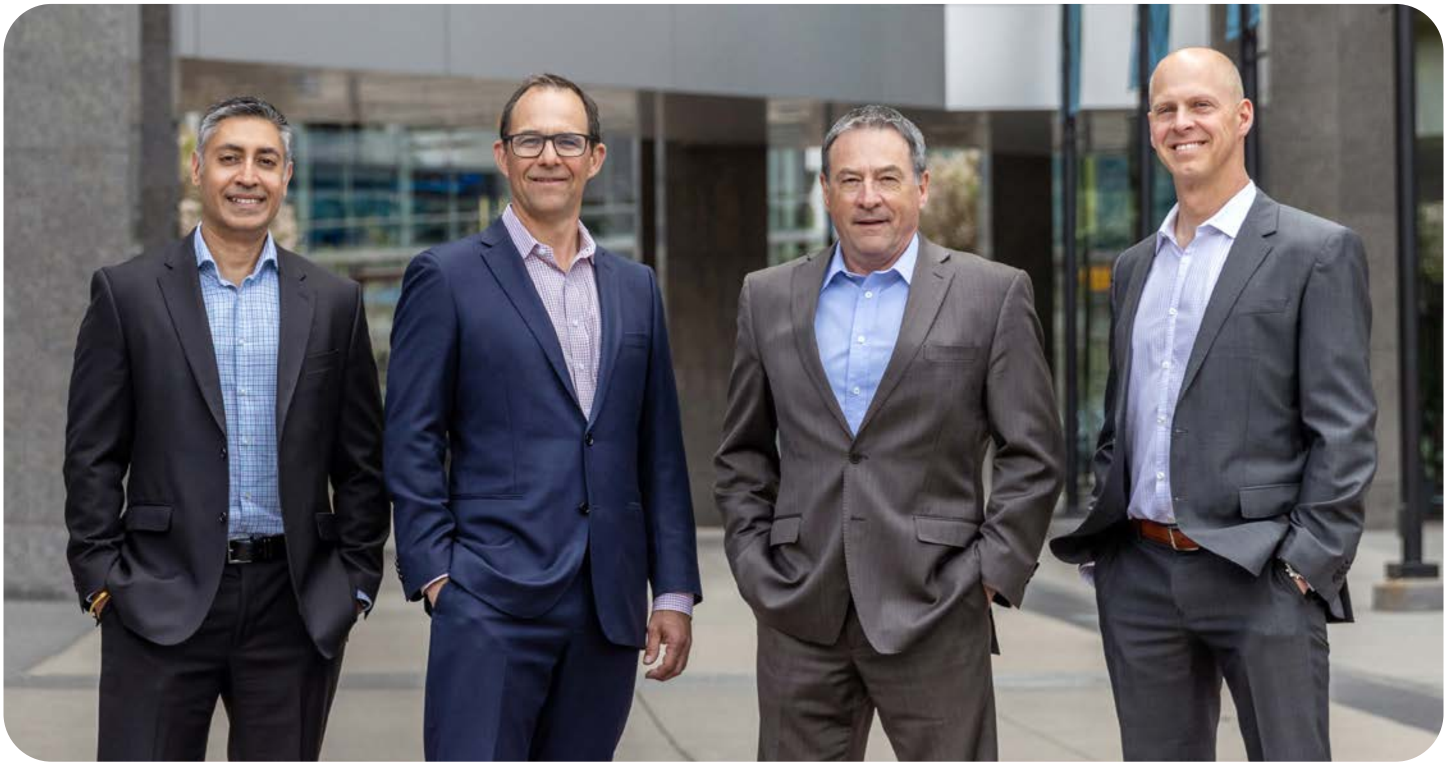
Kyle Pisio is Vice-President, Drilling, Completions and Asset Retirement at Canadian Natural Resources. During his more than 15-year career at Canadian Natural, Kyle has gained extensive experience in the development of oil and natural gas projects in the Western Canadian Sedimentary Basin as well as 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.

Leadership



Vik Dhalla | Lars De Pauw | Brad Malley | Dave Marks

Lars De Pauw

President

Lars De Pauw joined the OWA in 2017 as the association entered a new era of enhanced regulation, increasing inventories and larger and more complex projects. As executive director, and then president, he has led significant organizational transformation as the OWA has become one of the largest oil and gas site closure organizations in Alberta. Prior to joining the OWA, Lars held roles of increasing responsibility in environmental and reclamation management at a large producer and in the service sector, and has volunteered on several boards. He holds a B.Sc. in environmental engineering, an M.Sc. and a Professional Engineer (P.Eng.) designation.

Vik Dhalla

Corporate Controller

Vik Dhalla is responsible for the OWA's financial operations, including fiscal modeling and planning, oversight of funding and loans, service contracts, employee compensation and benefits, and financial reporting. He also has responsibility for the OWA's IT support and services. Vik has more than 25 years experience in finance systems, analysis, modeling and disclosure across the retail, technology and energy sectors. He holds degrees in biological sciences and finance, and the designations of Chartered Management Accountant (CMA) and Chartered Professional Accountant (CPA).

Brad Malley

Director, Operations

As Director, Operations, Brad Malley oversees the decommissioning and reclamation of sites for the OWA. He brings over 40 years of energy industry experience from the field and the head office. His past roles have included senior level oil and gas positions with responsibilities that included large capital projects, asset retirement, project and contractor management, health and safety, and regulatory compliance. Brad holds the designation of Professional Technologist (Eng).

Dave Marks

Manager, Land and Stakeholder

Dave Marks leads the OWA's Land and Stakeholder group. In this role, his team works with orphan sites from the earliest stages of engaging landowners and conducting risk assessments through ongoing operations, long-term monitoring and site closure. Dave also provides oversight of key industry relationships with working interest partners on WIPA sites, and with the AER when the regulator has directed the OWA to take reasonable care and measures to protect public safety and the environment. Dave has over 36 years of experience in the oil and gas industry and is a former OWA board member. He holds a B.Sc. in Resource Conservation and is a Professional Agrologist (P.Ag.).

Orphan Well Association

The OWA team joins in the annual Bow River clean-up in downtown Calgary.

Orphan Well Association

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

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