Orphan Well Association

ANNUAL REPORT 2018

Contents

OUR VISION AND MANDATE

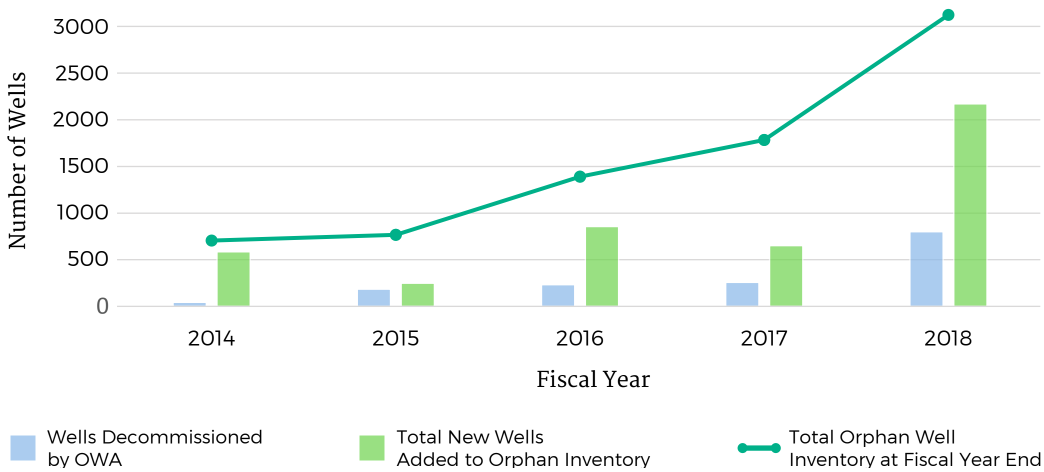
The Orphan Well Association began as an innovative collaboration among the Alberta Government, provincial regulators and the oil and gas industry to work toward a common goal: protecting public safety and managing the environmental risks of oil and gas properties that do not have a legally or financially responsible party that can be held to account. These properties are known as "orphans."

The mandate of the OWA is to safely decommission orphan oil and gas wells, pipelines and production facilities, and restore the land similar to its original state. Since its formation in 2002, the OWA has successfully decommissioned approximately 2,200 orphan wells, with over 800 sites reclaimed.

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. For this annual report, years are referenced as the first year; that is, 2018 refers to April 1, 2018 through March 31, 2019.

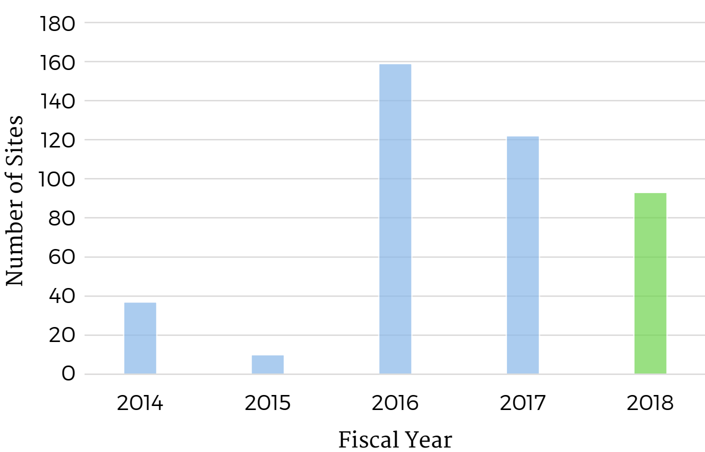
HIGHLIGHTS

ORPHAN WELL INVENTORY AND WELLS DECOMMISSIONED

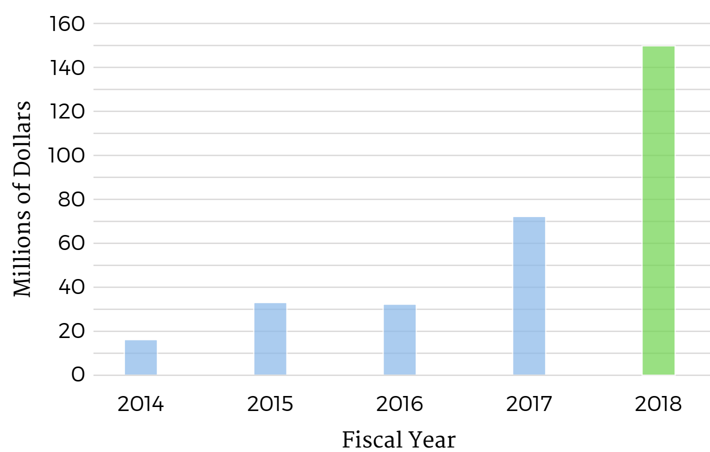


The OWA received a significant increase in funding in 2018, while its inventory of orphan properties also increased due in large part to the finalization of Lexin Resources's receivership. In anticipation of the increase, the OWA prepared and was able to increase its operational activity in 2018 in many categories.

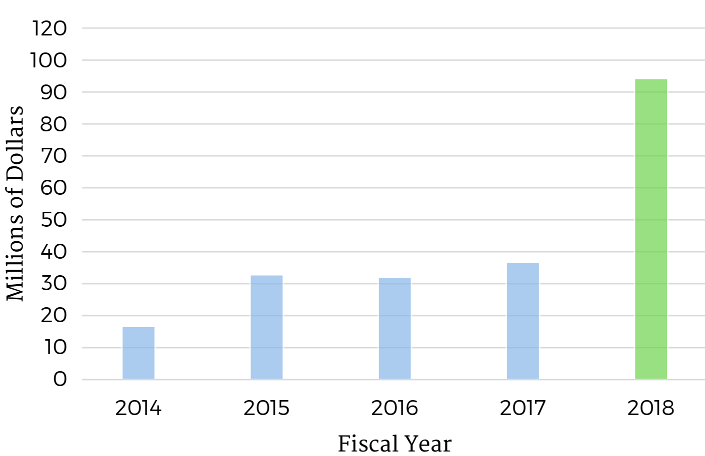
NUMBER OF SITES RECLAIMED AND CLOSED



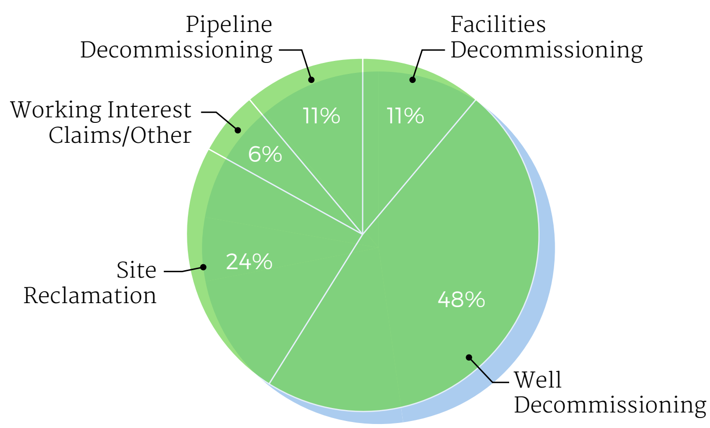
FUNDING



OPERATING EXPENDITURES BY FISCAL YEAR



2018 OPERATING EXPENDITURES BY CATEGORY



THE YEAR IN PERSPECTIVE

Message from the Chair

On behalf of our board of directors, the Alberta Energy Regulator that oversees our work, and the industry members that fund our efforts, I can certainly say this has been a year of ongoing challenges faced and resolved by the Orphan Well Association.

From a high level, we had several milestones this year, but the most important is the 'Redwater Decision' from the Supreme Court of Canada. This case, which goes to the heart of our mandate, was about determining the entitlements of creditors versus the outstanding environmental liabilities of corporations – in this case Redwater Energy. The Court of Queen's Bench of Alberta had ruled that Redwater, facing insolvency, could market its viable assets to repay creditors, and leave their inactive and unmarketable properties to be decommissioned and reclaimed by the Orphan Well Association, at little or no cost to the creditors of Redwater.

Since its inception, the OWA has been guided by our belief in a social contract, where "good neighbours" in the industry fund the clean-up for insolvent companies, but there must be limits. While the OWA is nearly entirely industry-funded, this decision would have set a catastrophic precedent for both our work going forward and for taxpayer liabilities across many jurisdictions and many industries. For that reason, the appeal by the OWA and the Alberta Energy Regulator to the Supreme Court of Canada was supported not only by the oil and gas industry, but also by the governments of Alberta, British Columbia, Saskatchewan and Ontario.

The Supreme Court of Canada made the right decision in asserting that environmental responsibilities are among the first orders of business in an insolvency. The Court provided clarity that environmental obligations are not considered debts but are, rather, duties to citizens and communities. This has always been the OWA's core principle.

Even with this hallmark decision behind us, we expect to see more orphan properties added to our inventory as we continually remove them through our decommissioning and reclamation work. The OWA believes that orphaning should be a last resort and, where possible, sites should remain operating with responsible companies to support the energy industry and, most importantly, to support all Albertans.

The oil and gas industry is very much part of every community where it works, and they want to be trusted, responsible and respectful neighbours in the eventual closing of projects. This is overwhelmingly the case for energy companies in Alberta. While the OWA reached a record of 799 wells decommissioned this year, that is a very small part of the overall work by responsible operators. This is what the Alberta energy industry does as a regular part of business and life-cycle planning, and what government regulations demand.

The association's work is often focused in areas of the province where activity has declined, and the approximately $95 million we spent last year is important for our partners and local businesses in many of the communities where we work. To put that in perspective, our investment in businesses, people and communities is similar to what GM has planned to invest in its plant in Oshawa, Ontario.

We will continue to invest in jobs and reclamation work with industry funding and the bridge financing loan from the Government of Alberta. As a Board acting as stewards on behalf of Albertans, regulatory experts and industry funders, we believe that our work is actively responding to a dynamic economic and policy context to meet the challenges we have today, and to prepare for challenges tomorrow.

Brad Herald
Chair, OWA

Message from the Executive Director

The past year has been the busiest the Orphan Well Association has seen to date. In 2018, we completed a record number of projects, with almost as many wells, pipelines and related facilities decommissioned and returned to a safe state than the previous 20 years combined. This is, for the OWA, a long-term project – and we have the resources to stay ahead of the curve of projects and to manage the inventory over time. Managing our inventory is supported by an expert team of industry veterans from engineering, finance and project management to 'on the ground' site operations.

The recently accelerated pace of our activity – captured in this report's Operational Summary – was precipitated by a prolonged commodity price drop affecting both crude oil over the recent term and, especially, natural gas over more than a decade. The impact of a depressed market was further challenged by uncertainty with a Court of Queen's Bench of Alberta ruling on the "Redwater Decision" noted in our Message from the Chair. While the ultimate ruling on Redwater rightly treats environmental responsibilities as a priority, we continue to work in a volatile economic context around global energy market issues, and related government policies. These conditions have had a major impact on the industry that funds the OWA and the risk of corporate insolvencies that could add to our work.

The impact of industry economics was certainly seen in the last year with the high-profile collapse of Lexin Resources, when we saw a surge in our inventory. And, while the work of addressing those properties is now well underway, we are seeing continuing growth in our orphan inventory.

This includes several hundred wells received by the OWA from two new insolvencies over the past twelve months. In both cases, production has been halted with most of their wells safely shut in, but we still have significant surface work ahead to finish decommissioning and to reclaim the land to its previous state.

The focus for the OWA is to stay on top of the inventory by leveraging our budget wisely. With our existing inventory at over 3,000 wells, we decommissioned almost 800 in 2018. That's more than a quarter removed. This suggests if there were no more properties added to the inventory, then we could potentially erase the inventory in four more years. We know, however, that will not happen. With the economic downturn and decreased commodity prices, more companies are on a track to insolvency, which means more properties will be added to our inventory. And so, we must prepare.

The good news is that as our inventory has grown, so too did our funding to manage it. Building on an increase two years ago that took us from $32.4 million in 2016 to $72.3 million in 2017, funding ramped up again in 2018 to a total of $149.5 million. This was a result of an increase in the industry-funded levy and installments of a repayable loan from the Government of Alberta.

We are keenly focused on maximizing the equation of dollars to successful outcomes. After risk-assessing and prioritizing our inventory to ensure public safety and environmental protection, we've looked for opportunities to bundle projects regionally to maximize efficiencies. We've deployed contractors so that, wherever possible, they work on several projects in proximity, approaching them as one larger initiative from a workforce and supply-chain view, regardless of the corporate holder of orphaned liabilities.

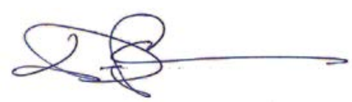
This approach recognizes the increasing volume of work we must tackle. Over time, we have become one of the largest decommissioning and reclamation managers in Canada. It's not a competitive market, and we have never aspired to be a growth business, but the companies that directly fund us and the taxpayers that have loaned funds to the OWA expect transparency and solid results. I believe the OWA team is delivering, with organizational efficiencies and innovation in how we approach our work.

Now, with our growing expertise and experience, we are sharing our knowledge with oil and gas companies about how to get the job done right, just as they did for the OWA when we started up nearly two decades ago. This has provided an opportunity to collaborate with energy companies, governments, regulators and stakeholders in other jurisdictions working to responsibly decommission their end-of-life assets, sharing our knowledge and advice.

With the work we do, we are often asked "what is the average cost to decommission and reclaim a site in Alberta?" It's an important question, and we sometimes see wildly inaccurate projections of decommissioning and reclamation costs. Overall this year, the average cost was $34,000 to fully decommission a well and $27,000 to reclaim a site.

There are certainly projects that cost more by an order of magnitude, but we always ensure high-risk properties are prioritized and addressed first, regardless of cost.

Once high-risk sites are prioritized, we round out our plans with medium- and low-risk sites to maximize the efficiency of our operations. We know that orphaned properties can have a real impact to landowners, leaseholders and rural and urban municipalities. But by driving efficiencies, we've performed more than three times the work with only a twofold increase in expenditures compared to just a year ago. These efficiencies will allow us to perform more decommissioning and reclamation work and set us on a clear path forward over the coming years.



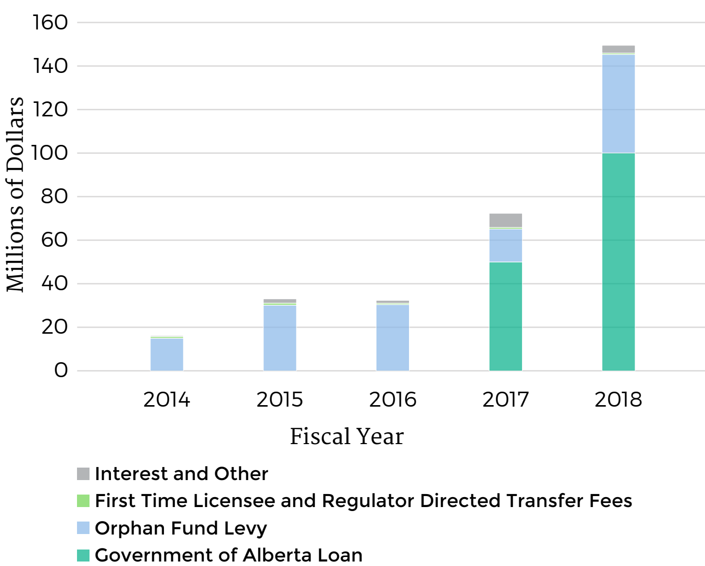
Lars De Pauw
Executive Director

Jon Handforth Photography

OPERATIONAL SUMMARY

The OWA received a significant increase in funding in 2018, while its inventory of orphan properties also increased due in large part to the finalization of Lexin Resources's receivership. In anticipation of the increase, the OWA prepared and was able to increase its operational activity in 2018 in many categories, as described below.

Funding the OWA



Funding for the OWA increased 107% to $149.5 million in 2018, from $72.3 million the year before. Funding is provided from the Orphan Fund Levy, First Time Licensee (FTL) and Regulator Directed Transfer (RDT) fees, interest, sales of salvageable equipment and other sources, which includes deposits held through the Alberta Energy Regulator's (AER) Licensee Liability Rating (LLR) Program. In addition, the Alberta Government announced in May 2017 that it would lend the OWA $235 million. The interest on this loan is being covered by a $30 million grant from the Government of Canada. The first loan advance to the OWA was in January 2018, the OWA's fiscal 2017, and the last advance will be in April 2020. The $235 million loan will be repaid by the oil and gas industry through the annual Orphan Fund Levy starting in January 2019, the OWA's fiscal 2018, with the last repayment occurring in 2027.

The related graph shows the Orphan Fund Levy decreased in 2017; however, this is not a true representation of the trend due to the timing of when the funding was received. Historically, the financial statements showed a substantial surplus at year-end that would be used in the following fiscal year. To address this timing issue, starting in 2018, the levy was issued in April instead of March. As a result, it is accounted for in the 2018 fiscal year, causing the funding for fiscal 2017 to appear lower.

In reality, the Orphan Fund Levy provided to the OWA increased 49% to $45.4 million in fiscal 2018, from 30.4 million. The levy has continued to increase and was issued at $60 million in 2019.

The Orphan Fund Levy is based on the estimated cost of decommissioning and reclamation activities for the upcoming fiscal year. The Orphan Fund Levy is set by the AER in consultation with the OWA, Canadian Association of Petroleum Producers and Explorers and Producers Association of Canada.

First Time Licensee and Regulator Directed Transfer fees decreased 21% to $580,000 in 2018, from $730,000 the year before. A First Time Licensee fee of $10,000 is required by the AER from companies applying for eligibility to hold a well, facility or pipeline license. The AER collects Regulator Directed

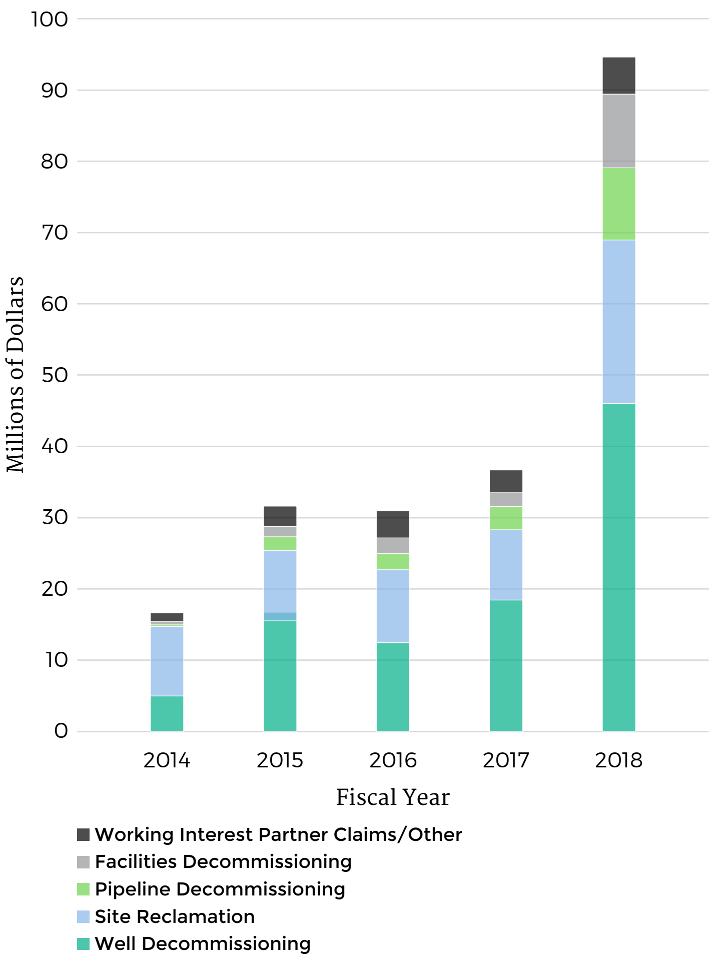
[1] *The OWA Annual Report uses the term "decommission" to refer to the responsible abandonment of energy infrastructure, in a manner that ensures it will not pose a risk to the environment or the public.*

Transfer fees from an active company when it acquires a property licensed to a defunct company. The AER gathers and remits these fees to the OWA.

Funding from interest and other sources decreased 45% to $3.6 million from $6.5 million, primarily as a result of LLR deposits.

The LLR Program, managed by the AER, is another source of funding for the OWA. The LLR program assesses companies' ability to address their decommissioning and reclamation obligations by calculating a ratio of deemed assets (oil and natural gas production) to deemed liabilities (estimated decommissioning and reclamation costs). When companies do not maintain a ratio above 1.0, the AER requires a security deposit to cover these closure costs in the event the company is not able to meet its obligations in the future. The AER remits this money to the OWA when appropriate, if the company is no longer solvent.

Operating Expenditures



The OWA's operating expenditures over the last five years are divided by well decommissioning, site reclamation, pipeline decommissioning, facility decommissioning, and reimbursement for Working Interest Partner claims and other costs including historic AER operations relating to similar sites (2014 and 2015).

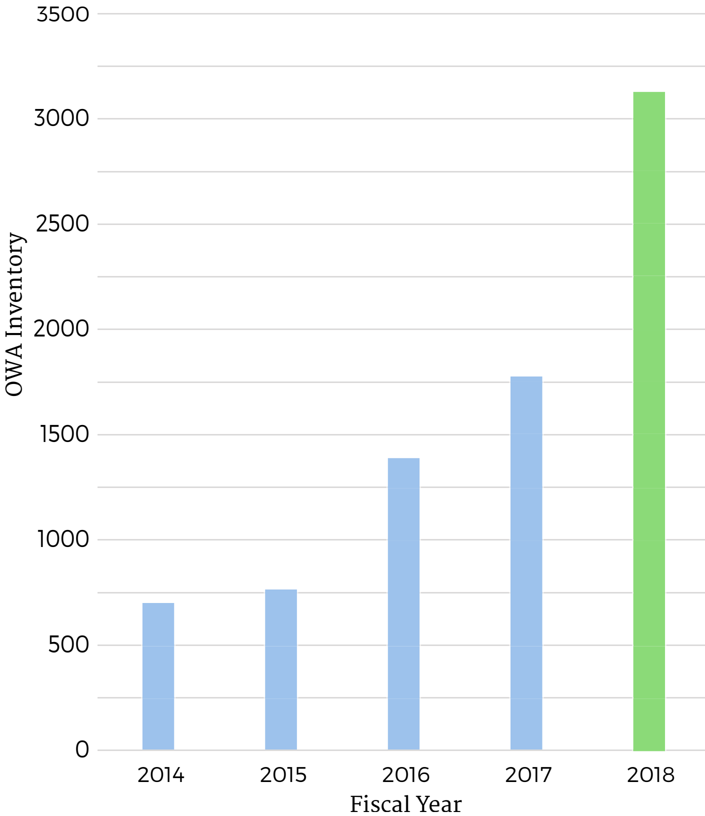
Total OWA expenditures increased 157% to $94.4 million in 2018, from $36.7 million the year before. This was due in part to OWA receiving the loan advance from the Alberta Government, which allowed more field work to be conducted.

Detailed expenditures are:

- well decommissioning increased 149% to $45.9 million, from $18.5 million the year before.
- site reclamation increased 131% to $22.9 million, from $9.8 million the year before.
- Working Interest Partner claims increased 65% to $5.2 million, from $3.1 million the year before.
- pipeline decommissioning increased 206% to $10.1 million, from $3.3 million the year before.
- facilities decommissioning increased 415% to $10.3 million, from $2.0 million the year before.

Working Interest Partner claims are made by active companies when they manage the decommissioning and/or reclamation of assets jointly owned with defunct partners. In these situations, the active company performs a function comparable to the OWA to properly decommission and reclaim the property. The OWA then reimburses the active company for the defunct company's portion of the activities. More information about working interest claims is available in a later section of this operational summary.

Orphan Well Inventory



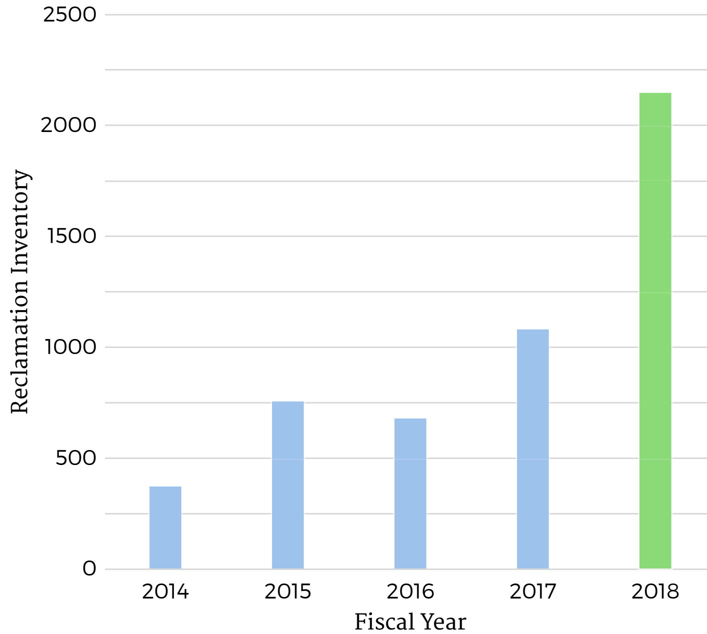
The number of orphan wells in the OWA inventory to be decommissioned increased 76% to 3,128 at the end of fiscal 2018, from 1,778 wells at the end of fiscal 2017. The inventory number does not include orphan sites that require remediation and reclamation only. This increase is largely due to the change in designation of 1,033 Lexin wells from "suspension only" to "orphan," so that they now require decommissioning.

The number of new orphan wells received for decommissioning from the AER increased 226% to 2,170 in 2018, from 666 the year before.

CHANGES IN ALBERTA'S ORPHAN WELL INVENTORY FOR 2018:

Description	Number of Wells
Reported as of March 31, 2018	1,778 wells
New wells received	2,170 wells
Completed well decommissions	- 799 wells
Other well closures	-21 wells
As of March 31, 2019	3,128 wells

Reclamation Inventory



The number of sites in the OWA reclamation inventory increased 98% to 2,151 at the end of fiscal 2018, from 1,085 at the end of fiscal 2017. The reclamation inventory increases when the OWA receives new sites that only require reclamation, and when the OWA is finished decommissioning wells and has transferred the sites into the reclamation inventory. The inventory decreases when the OWA receives reclamation certificates and when it is discovered that a site in the reclamation inventory still requires further decommissioning operations. Other changes to the inventory take place when a site is transferred to another oil and gas company, and when a site is received and reclaimed by the OWA in the same year.

CHANGES IN ALBERTA'S ORPHAN SITE RECLAMATION INVENTORY FOR 2018:

Reported as of March 31, 2018	1,085
New sites received for reclamation only	439
Properties with decommissioned wells added to reclamation inventory	715
Reclamation certificates received	- 85
Sites moved from reclamation to decommission inventory	-3
Sites received and handled in the same year*	8
As of March 31, 2019:	2,151

**Not included in total as of March 31, 2019.*

Inspections

Inspections are an important activity that ensure protection of public safety and the environment. Inspection results support the OWA's risk assessment with higher risk sites being prioritized. The OWA contacts landowners or surface rights holders to notify them about the OWA and the orphan well, pipeline, facility or site to confirm land access before conducting an inspection.

In 2018, the OWA inspected 910 sites, 96% of which were on new orphan wells. The OWA prioritizes the inspection of new sites in its inventory to ensure they are appropriately risk-assessed and prioritized for public safety and environmental protection. This year, many new sites received from Lexin Resources had been previously inspected and so re-inspection was not necessary.

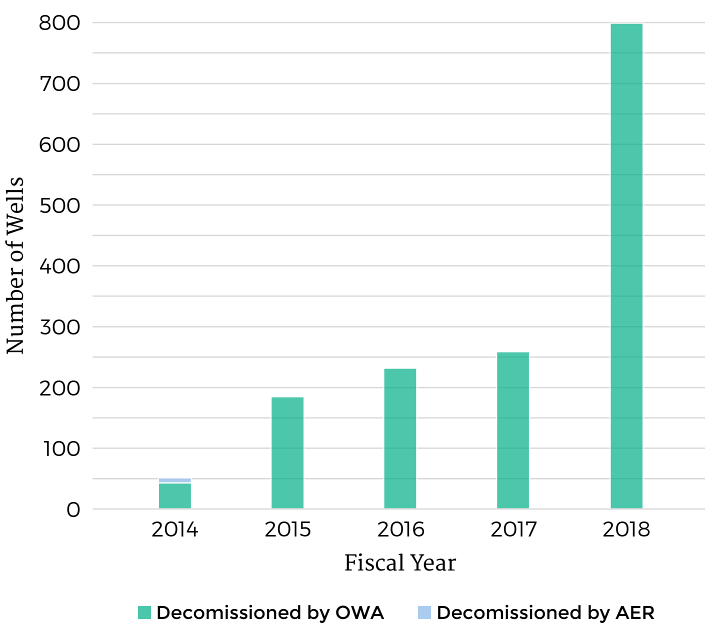
OWA SITE INSPECTIONS FOR 2018

Inspections	Count
New site inspections, routine	803
New site inspections, non-routine*	67
Repeat inspections/monitoring**	40
Total	**910**

** New site inspections, non-routine includes sites requiring multiple visits and/or lab testing. Included are surface casing vent flow or gas migration sites.*

*** Repeat inspections/monitoring includes return visits to confirm well repairs or inspection of long-term wells.*

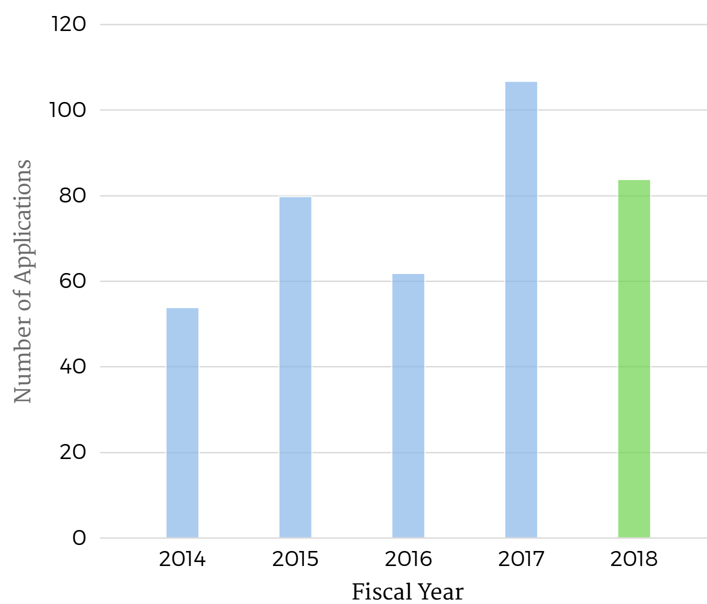
Number of Wells Decomissioned



The number of orphan wells decommissioned increased 208% to 799 in 2018, from 259 the year before. Wells include those decommissioned by the OWA and by the AER as an enforcement action that were subsequently designated as orphans. The AER has reduced this type of enforcement work and made no requests for reimbursement for enforcement activities in the last three years.

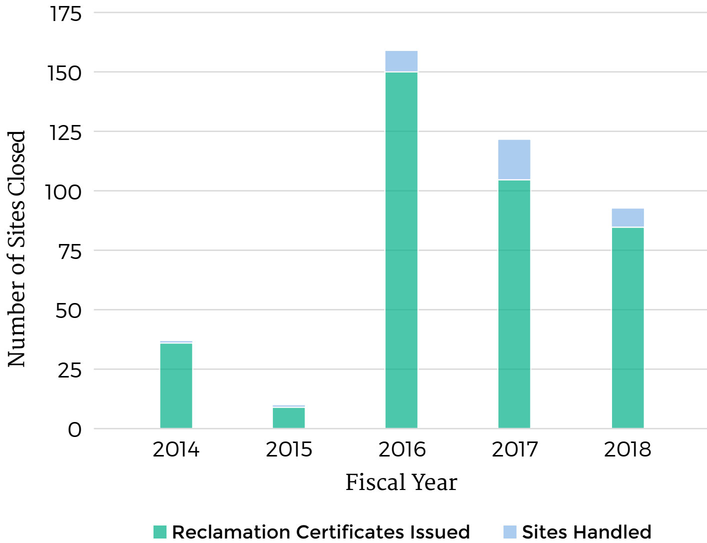
A well is considered decommissioned when the AER's requirements in *Directive 020: Well Abandonment (Directive 020)* are satisfied. Once all necessary subsurface decommissioning actions are taken, the final step is to cut and cap the well. In this stage, the well casing is cut to a minimum of one metre below the surface (with some exceptions listed in *Directive 20*) and a vented cap is placed atop the well casing. At this point, remediation and/or reclamation of the site may begin.

Number of Reclamation Certificate Applications Submitted



The number of orphan sites that are ready for a regulatory decision regarding closure is reflected in the number of applications submitted for reclamation certificates. The number of sites with applications submitted for reclamation certificates decreased 22% to 84 in 2018, from 107 the year before. It takes years for a site to become suitable for a reclamation certificate application, and so this year's number reflects reclamation work performed in the last two to four years.

Number of Sites Closed



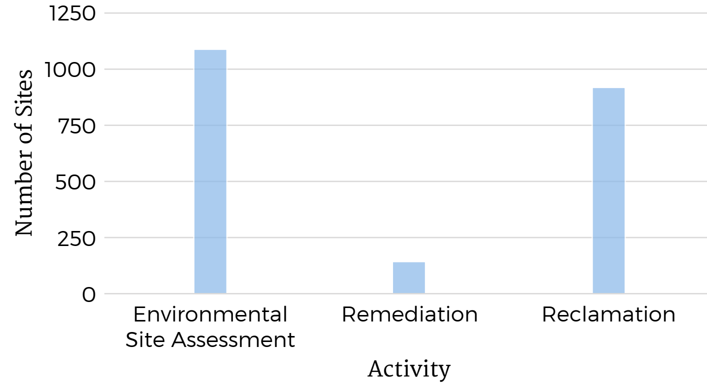
The number of sites the OWA closed decreased 11% to 93 in 2018, from 122 the year before. Reclamation certificates peaked in 2016 when the AER introduced a new online reclamation certification system. The system, OneStop, cleared a backlog of applications, with the OWA receiving 89 reclamation certificates within a short period of time.

The OWA expects an increase in the number of reclamation certificates it receives in the next one to two years, as sites become ready for the detailed site assessment required for a reclamation certificate application.

Sites that are closed may have received a reclamation certificate or have been deemed as handled. Reclamation certificates are provided for sites that had wells or facilities. Also counted in this category are sites on federal reserve land, which receive federal environmental closure in the form of a signed Memorandum of Surrender from Indian Oil and Gas Canada. Sites in this category have satisfied applicable regulatory standards and no further action is required.

Sites counted as handled have received some type of closure with no further action required. This includes sites that had wells decommissioned prior to reclamation legislation being enacted, known as reclamation exempt wells. This category also includes sites that are closed but did not receive reclamation certificates, and sites taken over by active oil and gas companies with a new surface lease.

Number of Sites in the Reclamation Process



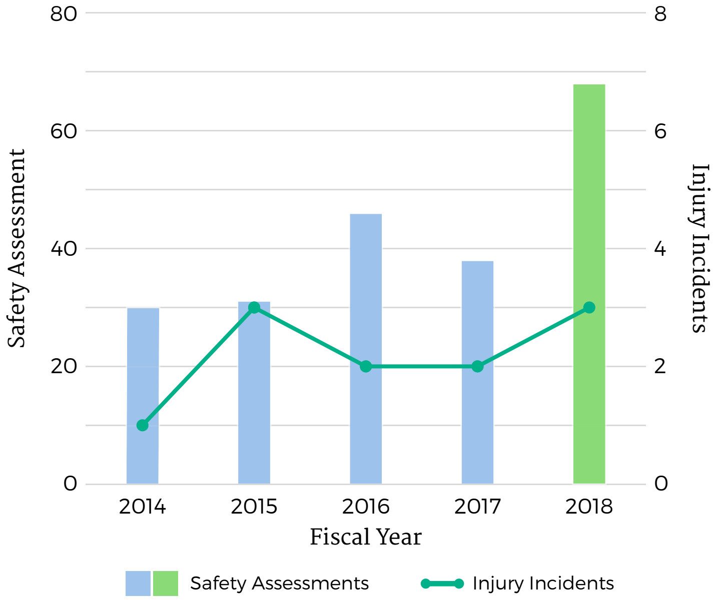
Moving sites through the reclamation process continues to be a priority area for the OWA. The process to prepare a site for reclamation certification can take several years. 2018 saw a 44% increase in the number of sites starting the Environmental Site Assessment (ESA) process, with 1,089 in 2018 compared to 605 the year before. The increase is due to the OWA beginning ESAs on sites while wells were still in the decommissioning phase.

The stages of the reclamation process include:

- **Environmental Site Assessment:** Once a site is ready to begin the reclamation process, the OWA conducts an ESA to characterize and delineate contaminants in the soil and groundwater. Detailed site investigations and contaminant transport modeling may be used to develop site-specific remediation guidelines.
- **Remediation:** In the remediation phase, contaminants from substances that spilled or leaked are managed and removed.
- **Reclamation:** Once remediation is complete, the site must be reclaimed so that the land returns to how it looked and how it was used (or similarly) before development took place.

After remediation and reclamation is complete, it can take up to five years or more for the site to re-vegetate and be ready for the detailed site assessment required for a reclamation certificate application. The actual time required to obtain a reclamation certificate depends on the land use, type of vegetation and factors that affect growing conditions, such as amount of rainfall.

Safety



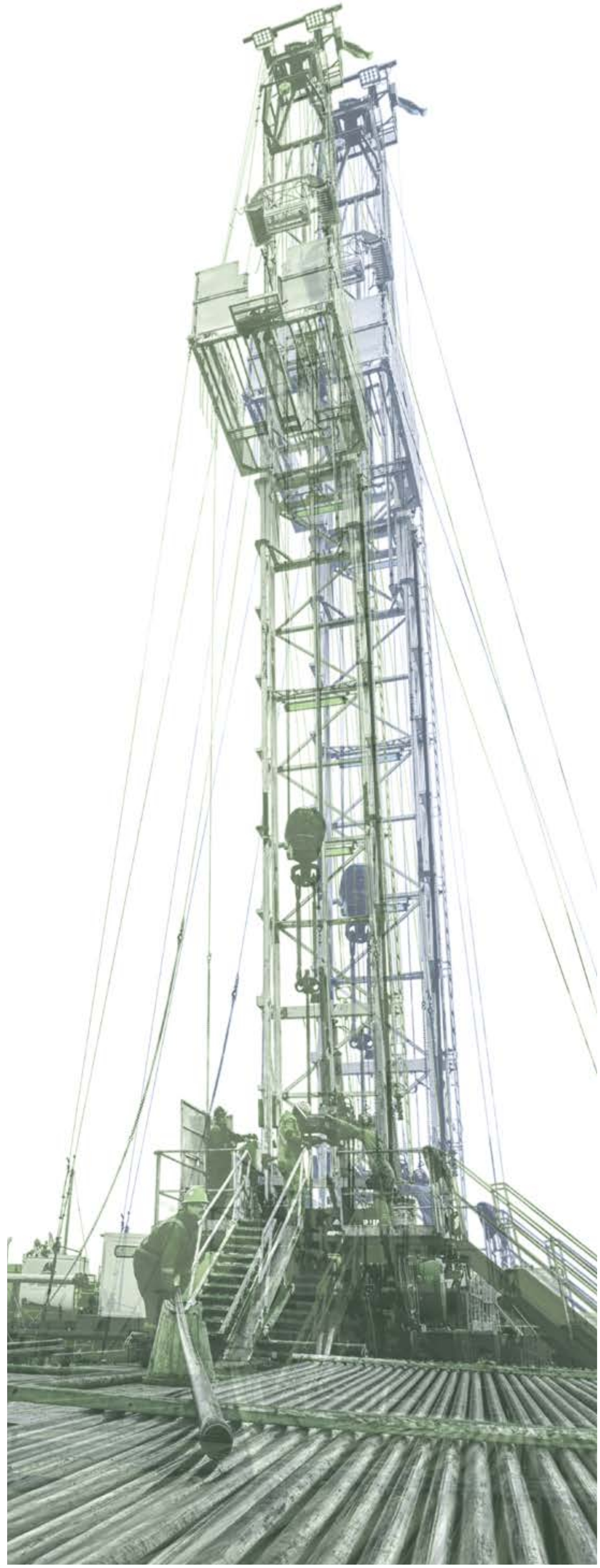
With overall operational activity increasing substantially in 2018, recordable injuries increased slightly to three, from two the year before. The OWA assesses the safety programs of its vendors and conducts site assessments to ensure safe practices are followed during operations. During 2018, 15 company safety programs were assessed, and 53 safety assessments were conducted in the field, for a total of 68 safety assessments.

The OWA uses the safety benchmark of Total Recordable Injury Frequency (TRIF) to measure our field safety performance relative to the number of hours worked. In 2018 our TRIF was 1.1 based on an estimated 560,000 field hours.

Working Interest Claims

Working interest claims are made by active companies when they manage the decommissioning and/or reclamation of assets jointly owned with a defunct operator. In these situations, the active company performs field work in a function comparable to the OWA to ensure the properties are properly decommissioned and reclaimed. The OWA then reimburses the active company for the defunct company's portion of the activities.

In fiscal 2018, the OWA paid $5.2 million in working interest claims related to 132 decommissioned wells, 46 reclaimed wells, 1 decommissioned and reclaimed well and 15 decommissioned pipeline segments.



Jon Handforth Photography

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report

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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, 2019, and the statements of operations, changes in fund balances and 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 Alberta Oil and Gas Orphan Abandonment and Reclamation Association as at March 31, 2019, and its results of operations 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 other 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 these 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 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.

Grant Thornton LLP

Calgary, Canada
July 11, 2019

Chartered Professional Accountants

FINANCIAL STATEMENTS

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Financial Position
As at March 31, 2019
(thousands of dollars)

		2019		2018
Assets				
Current assets				
Cash	$	**99,525**	$	49,340
Accounts receivable from the AER		**1,928**		822
GST receivable (Note 4)		**718**		211
Prepaid expense and other receivables		**659**		338
		102,830		50,711
Tangible capital assets (Note 5)		**36**		60
	$	**102,866**	$	50,771
Liabilities and net assets				
Current liabilities				
Accounts payable and accrued liabilities	$	**12,305**	$	3,195
Long term note payable (Note 6)		**128,826**		43,970
Deferred contribution (Note 6)		**15,619**		6,030
Internally restricted assets (Note 7)		**506**		500
Unrestricted net assets		**(54,389)**		(2,924)
		(53,883)		(2,424)
	$	**102,866**	$	50,771

Commitment (Note 12)

See accompanying notes to financial statements.

Approved by the Board:

Brad Herald

Brad Herald - Director

Jim Screaton - Director

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Statement of Operations
Year ended March 31, 2019
(thousands of dollars)

		2019		2018
Revenues				
Orphan fund levy through the AER		**45,379**		15,106
Interest income		**5,869**		587
Salvage sales		**780**		1,211
First time licensee fees and regulator directed transfer fees through the AER		**580**		730
Industry, enforcement and licensee liability rating recoveries through the AER		**96**		5,013
		52,704		22,647
Expenditures				
Operating				
Well abandonment		**45,846**		18,460
Site reclamation		**22,930**		9,833
Facility decommissioning		**10,286**		1,980
Pipeline abandonment		**10,121**		3,284
		89,183		33,557
Other				
Working interest claims (Note 8)		**5,181**		3,131
Fund administration (Note 9)		**4,408**		2,335
Interest on long term note payable (Note 6)		**3,177**		353
Non-recoverable GST expense (Note 4)		**2,214**		949
AER enforcement activities (Note 10)		-		-
		14,980		6,768
		104,163		40,325
Deficiency of revenues over expenses	**$**	**(51,459)**	$	(17,678)

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, 2019
(thousands of dollars)

	Internally Restricted	Unrestricted	2019	2018
Balance, beginning of year	**$ 500**	**$ (2,924)**	**$ (2,424)**	$ 15,254
Surplus (deficit)	**6**	**(51,465)**	**(51,459)**	$ (17,678)
	$ 506	**$ (54,389)**	**$ (53,883)**	$ (2,424)

See accompanying notes to financial statements.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Statement of Cash Flows
Year ended March 31, 2019
(thousands of dollars)

		2019		2018
Cash provided by (used in)				
Operating				
Deficiency of revenues over expenses	**$**	**(51,459)**	$	(17,678)
Non-cash items				
Amortization of tangible capital assets		**24**		12
Changes in operating non-cash working capital				
(Increase) decrease in accounts receivable from the AER		**(1,106)**		13,293
(Increase) decrease in GST receivable		**(507)**		1,752
Increase in prepaid expense and other receivables		**(321)**		(163)
Increase (decrease) in accounts payable and accrued liabilities		**9,110**		(707)
		(44,260)		(3,491)
Capital transactions				
Acquisition of tangible capital assets		**-**		(72)
Financing				
Long term note payable		**84,856**		43,970
Deferred contribution		**9,589**		6,030
Net increase in cash		**50,185**		46,437
Cash, beginning of year		**49,340**		2,903
Cash, end of year	**$**	**99,525**	$	49,340

See accompanying notes to financial statements.

Note 1 Authority and purpose

The Alberta Oil and Gas Orphan Abandonment and Reclamation Association (OWA or the Association) operates under the authority of the Oil and Gas Conservation Act, Orphan Fund Delegated Administration Regulation, and the Societies Act, Chapter S-18, 1980, as amended. 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, facilities and the reclamation of associated sites. The OWA does not assume the legal responsibility for expenditures related to suspension, abandonment and reclamation of such sites. The Members of the OWA are 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).

Note 2 Significant accounting policies

a) Basis of presentation

The Association's financial statements are prepared in accordance with Canadian accounting standards for not for profit organizations.

b) Revenue recognition

The OWA follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and the collection is reasonably assured. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

c) Tangible capital assets

Purchased tangible capital assets are recorded at costs. Donated tangible capital assets are recorded at their fair values at the date of donation. Amortization is provided on a straight-line basis over the assets' estimated useful lives as follows:

Computers	3 years

d) Financial assets and liabilities

Initial measurement: Upon initial measurement, the Association's financial assets and liabilities are measured at fair value, which, in the case of financial assets or financial liabilities that will be measured subsequently at amortized cost, is increased or decreased by the amount of the related financing fees and transaction costs.

Subsequent measurement: At each reporting date, the Association measures its financial assets and liabilities at amortized cost (including any impairment in the case of financial assets).

The Association records cash, accounts receivable from the AER, other receivables, and accounts payable and accrued liabilities at amortized cost.

Note 2 Significant accounting policies (continued)

Financial assets measured at amortized cost are assessed for indications of impairment. When there is an indication of impairment indicating a significant adverse change in the expected timing or amount of future cash flows from the financial asset, an impairment loss will be recognized in the statement of operations. 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.

e) 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 note payable.

f) Not for profit status

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

Note 3 Economic dependence and contributions

The OWA receives substantially all of its revenue through the AER. The AER collects the Orphan fund levy, first time licensee fees, regulatory directed transfer fees, enforcement recoveries, and liability licensee rating recoveries from industry. These funds are then contributed directly to the OWA. The annual revenue received by the OWA is subject to budget submission to the AER.

Note 4 GST receivable and non-recoverable GST expense

During fiscal 2016, the CRA pronounced a new ruling for the OWA which determined that OWA is a GST exempt entity for fiscal years ending March 31, 2014-2016. This change in ruling has resulted in a refund of GST paid during these years, as reduced by the income tax credits claimed by fifty percent as OWA is a not-for-profit entity. The net effect for his ruling has resulted in a GST receivable of $718 (2018 - $211) and non-recoverable GST expense of $2,214 (2018 – $949)

(thousands of dollars)

Note 5 Tangible capital assets

	Cost	Accumulated amortization	**2019 Net book value**	2018 Net book value
Computers	$ 72	$ 36	$ 36	$ 60
	$ 72	$ 36	$ 36	$ 60

Note 6 Long term note payable

The OWA entered into a loan agreement 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) under which the OWA may borrow money from the Province to a maximum aggregate amount of $235,000. The date of last permitted advance is April 1, 2020, with quarterly frequencies at zero percent interest rate on the advances. The loan is fair valued at $205,000 with the difference between book value and fair value recorded as a deferred contribution, and amortized into revenue over the life of the loan. As at March 31, 2019, advances of $150,000 (2018 $50,000) has been received, of which $15,619 (2018 $6,030) is recorded as a deferred contribution, and 3,177 (2018 $353) is recorded as interest calculated at an annual rate of 3.2% (2018 3.2%). The following is the advance and repayment schedule for the note payable.

	2019	2020	2021	2022	2023	2024	2025-2027
Advance schedule	**$ 100,000**	$ 68,000	$ 17,000	$ -	$ -	$ -	$ -
Repayment Schedule	**$ 5,556**	$ 18,056	$ 30,198	$ 30,198	$ 30,198	$ 30,198	$ 90,596

Note 7 Internally restricted assets

The Directors maintain sovereignty of the internally restricted fund and the balance of $506 (2018 $500) to be used at the discretion of the Board.

Note 8 Working interest claims

The OWA accepts claims from the AER made by industry for defunct working interest partners. Working interest partners are any party under a joint operating or other agreement under which the party is entitled to a proportionate share of cash flows as well as costs. If a company has a defunct working interest partner with a well, facility or associated site that is deemed orphan by the AER, the OWA will reimburse the proportionate share of costs on behalf of the defunct working interest partner of the completed abandonment and/or the completed reclamation. Reclamation is considered completed and reimbursement can be made when a reclamation certificate has been issued on the site.

(thousands of dollars)

Note 9 Fund administration

Fund administration includes contract payments and salaries to management of $392 (2018 - $194). No remuneration and benefit payments were made to Board members for 2019 and 2018.

Note 10 AER enforcement activities

AER enforcement activities expenditures are amounts paid to the AER for third party abandonment expenditures on wells, pipelines and facilities incurred by the AER during their enforcement actions against liable parties. In cases when the wells, pipelines or facilities are subsequently deemed orphan by the AER, the OWA will reimburse the AER for these expenditures.

Note 11 Financial instruments

The Association's main financial risk exposure is detailed as follows:

(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. The Association's accounts receivable are primarily due from AER and are subject to normal credit terms. The maximum credit risk exposure associated with the Association's financial assets is the carrying amount.

(ii) Liquidity risk

The Association is exposed to liquidity risk which is the risk that the Association will be unable to generate or obtain sufficient cash to meet obligations as they fall due. Mitigation of this risk is achieved through the active management of cash and debt. The liquidity risk is assessed as low for the Association.

The contractual maturities of financial liabilities as of March 31, 2019 are as follows:

	Total	2020	2021	2022	2023	2024	Thereafte
Accounts payable and accrued liabilities	$ 12,305	$ 12,305	$ -	$ -	$ -	$ -	$ -
Long term note payable	$ 144,445	$ 18,056	$ 30,198	$ 30,198	$ 30,198	$ 30,198	$ 5,597

(thousands of dollars)

Note 12 Commitment

Office space contracted payments are as follows:

	Total	2020	2021	2022	2023	2024	2025
Contracted payments	$ 920	$ 170	$ 170	$ 170	$ 170	$ 170	$ 70

GOVERNANCE

The Alberta Oil and Gas Orphan Abandonment and Reclamation Association is an independent nonprofit 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 Well Levy.

Through its Board of Directors, industry, regulatory and government representatives 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.

Kendall Dilling, Cenovus Energy

Kendall Dilling has 25 years of technical and management experience in the oil and gas industry, including work in environmental protection and management of pipeline projects. He has worked with emerging Canadian and multinational energy companies in health, safety and environment portfolios. In addition to the OWA, Kendall serves on several nonprofit industry, community and research boards.

Trevor Gosselin, Alberta Energy Regulator

Trevor Gosselin is Director, Asset and Liability Transition Management at the AER and represents the regulator's delegated authority of OWA operations. He brings to the OWA Board experience in organizational management, focused on planning, people, and efficient use of resources. Prior to his current role with the AER, Trevor served in senior leadership roles in domestic and international operations with the Canadian Forces.

Orest Kotelko, Canadian Natural Resources Limited

Orest Kotelko has more than 45 years of experience in energy life-cycle development, operations and liability management in drilling, construction and reservoir engineering. His experience includes work with industry associations, major and emerging companies, and governments, as well as stakeholder groups in conventional and oil sands development in Western Canada.

Darrel Purdy, Paramount Resources

Darrel Purdy is a Professional Engineer with career experience that covers a broad range of technical, operational and strategic roles in the energy industry. In addition to his work in the upstream oil and gas producing sector of the industry, he brings to the OWA Board significant experience in midstream operations—the gathering and processing facilities that are an important part of the OWA's life-cycle management portfolio.

Jim Screaton, Corval Energy Ltd.

Jim Screaton is a Chartered Accountant who has held leadership roles in major, mid-size and emerging energy companies. He brings experience in organizational strategy related to financial analysis, debt and liability, securities regulation and disclosure. In addition, he has represented industry on a breadth of association and committee work, including liability management.

Karen Wronko, Alberta Environment and Parks

Karen Wronko is the Executive Director of Land Policy within Environment and Parks. During her career in public service she has worked in a number of areas and has provided senior level leadership to several strategic initiatives, including policy development related to water and land, the growth and diversification of the provincial economy through local economic development, entrepreneurship and small business support, and major initiatives targeted at growing the petrochemical sector in Alberta.

Management

Lars De Pauw, Executive Director

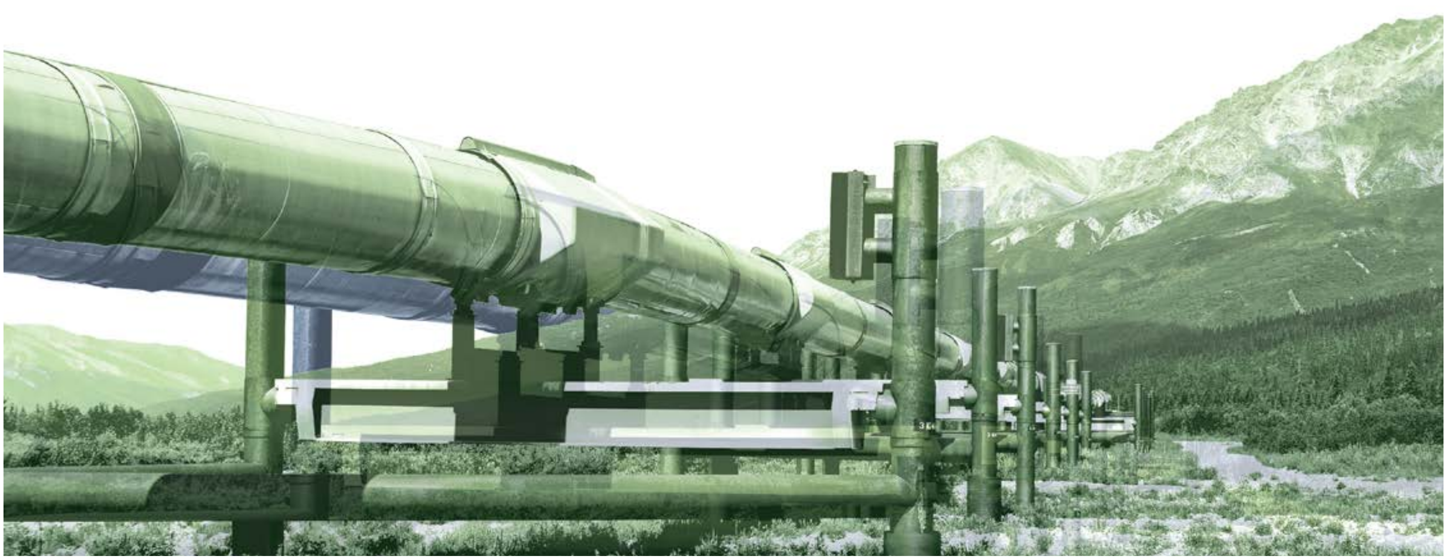
Lars De Pauw took on the leadership of the OWA in 2017. As a Professional Engineer, he has held senior positions in strategic planning, project development, environmental engineering, and client and stakeholder relationship management. His experience includes work with a major Canadian oil and gas producer, a diversified petroleum services company, and strategic and operational consulting businesses.

Wanda Sakura, Team Lead, Environment

Wanda Sakura is a Professional Geologist who brings to OWA more than 30 years of environment and safety experience, including direct work with the association's planning and operations since 2006. Her expertise includes management of environmental assessment and remediation of legacy facilities in urban and commercially developed areas. She also brings significant experience in working effectively with Indigenous communities.

Ken Willis, Team Lead, Well Decommissioning

Ken Willis has worked as a Professional Engineer in the oil and gas industry since 1980, both in the field from drilling and completions, and as an organizational leader of engineering and technology teams in Canada and internationally. His experience in life-cycle management of facilities covers a broad spectrum of expertise from downhole work to surface production operation sites.



Orphan Well Association

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

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