



Standard Operating Procedure Working Interest Participant Agreements (WIPAs)

Date: March 22,
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Version: 1.07

Introduction

This Standard Operating Procedure (SOP) sets forth the general process to be followed when forming an agreement with Working Interest Participants (WIP's) to execute suspension, abandonment, decommissioning, remediation or reclamation work on a WIP-controlled site(s) licensed to a defunct company. The overall intent of any WIP agreement (WIPA) entered into by the OWA must always be based on the foundation of reducing costs to the Orphan Fund. Based on economies of scale, the OWA can typically execute projects for substantially less cost than a WIP.

Under no circumstance will the OWA take any financial risks on behalf of a WIP.

Authority

Section 4(1) of the *Orphan Fund Delegated Administration Regulation* (OFDAR) provides the OWA with the authority to enter into agreements with any person for any reason related to exercising its delegated authority. Section 4(2)(b) further states that the OWA may enter into “an agreement with working interest participants for the purpose of suspension, abandonment, remediation or reclamation of a well, facility, well site or facility site;”.

Eligibility

The OWA may enter into WIP agreements under a wide variety of situations. In general, however, the following criteria will be used to determine situations where a WIP agreement may be formed and work executed.

- The licensee of record is defunct and a WIP has been issued a corporate-level Abandonment Order or an Operator Letter/Environmental Protection Order for closure work
- The defunct licensee's working interest percentage (WI%) typically exceeds 50%.
 - This may be individually for a single site or in the aggregate for several sites.
 - Where more than one defunct company is involved, the aggregate of the defunct companies combined WI% typically exceeds 50%.
- The WIP must be financially viable and in a position to post up-front financial security that will cover their WI% of the liabilities in their entirety.
- WIP's are deemed to be in good standing respecting any previous agreements with the OWA.
- The OWA retains discretion on where and when WIPAs are undertaken.
- Field execution programs are subject to budgetary considerations. WIPAs may be extended where current-year budget restrictions apply.

Other considerations may be reviewed by the OWA prior to any given WIP project. The OWA is not obligated to enter into an agreement with a WIP and will ultimately make the final decision. The AER will be engaged prior to any “atypical” agreements being considered.



Agreement Process

This section outlines the general principles of WIPAs.

- A completed agreement does not convert the OWA into a WIP. WIP's remain entirely responsible for compliance with all regulatory requirements from the AER and/or other regulatory bodies including municipal, provincial, and federal requirements. This includes any future requirements that may arise regardless of the work undertaken by the OWA, and any obligations the WIP may have respecting surface lease rentals via the Surface Rights Board (SRB).
- The OWA does not take the place of a WIP respecting any AER order.
 - To be compliant with any AER orders, the WIP must advise the AER directly that they will be entering into an agreement with the OWA. The OWA will not communicate to the AER on the WIP's behalf. WIP's remain responsible for compliance with any AER order.
- The OWA may terminate the agreement at any time for convenience and will return any security remaining less costs incurred and administrative fees.
- If infrastructure involves more than one WIP, all WIP's must execute an agreement with the OWA for the project to proceed (100% of the working interest must be accounted for). WIP partners are accountable to obtain agreement of all WIPs. WIPs may choose to cover the costs of a non-cooperating WIP if they so choose. These costs may be eligible for a Working Interest Claim (WIC) at the end of the project if the AER deems them to be a *Defaulting WIP*.
- WIP's cannot assign any WIPA to another company or WIP without the consent of the OWA.
- There is no limit as to how many WIPAs may be active at one time, however the OWA may exercise its right to limit the total number of WIPAs at its sole discretion.
- Distribution of work and selection of Prime and Sub-contractors is at the sole discretion of the OWA.
- WIPAs have a duration of 5 years from the time of execution. If, after 5 years, there are sites remaining to be closed (e.g., reclamation certified), the agreement may be extended based on mutual agreement of the WIP(s) and the OWA. If work is not commenced in 2 years the agreement is null and void, but if started, will continue until the last site is reclamation certified.
- Any credits received by the association during the tenure of the agreement (e.g., salvage sales, oil credits, etc.) will be distributed to all WIPs based on their respective WI%. These credits will be distributed at the time of final closure of the agreement along with any remaining security.
- Under the Province of Alberta's Contaminated Sites Policy Framework the OWA has a responsibility to report site conditions and contaminant levels to the AER with or without the consent of WIP partners.
- All WIPA locations will be listed on the inventory page of the OWA's website by defunct licensee.

Financial Security



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Financial security must be posted by the WIP partner involved in each agreement in accordance with the following criteria:

- For the purposes of determining the amount of security to be posted, Liability estimates will be based on:
 - For well abandonment - the AER's *Directive 011 Licensee Liability Rating (LLR) Program: Updated Industry Parameters and Liability Costs*, August 1, 2015 or as updated from time to time.
 - For surface/near-surface facility decommissioning and site remediation and reclamation – OWA internal benchmark data will be used. These estimates are benchmarked against and informed by oil and gas industry estimates/costs in Alberta.
- The above estimates may be altered as field work progresses. If estimates increase substantially due to discovered issues, WIP(s) may be required to increase their posted security. WIPs will have an option to terminate the agreement and receive a refund of their posted security, less costs incurred and administrative fees in these circumstances.
- Security will include a minimum contingency factor of 20%.
- An administrative fee of 2.5% will be applied to all work to offset OWA overhead costs.
- All posted security must include GST.
- Security must be provided to the OWA in the form of an Irrevocable Letter of Credit (LoC) to the satisfaction of the Association. The OWA will use the LoC as a backstop only. Invoices will be sent to WIP(s) on a regularly basis as work is completed and will be based on an individual WIP's WI%. Invoice payment terms are 30 days.
- Provided WIP(s) comply with the above payment terms, any related LoC's will not be drawn against. If a WIP fails to comply with payment terms of the agreement, the OWA will draw down the LoC to cover all incurred costs. In these situations, the WIP may be required to post additional security if the OWA feels any remaining work is not adequately backstopped.
- Security in the form of cash may be acceptable to the OWA in certain circumstances and at the sole discretion of the OWA. In these cases, invoice payments will not be required, rather the cash will simply be drawn down by the OWA as work progresses.
- Security must be received and held by the OWA prior to the commencement of the project.
- Security must be based on all aspects of the project from initial suspension through to reclamation certification.
 - Excessive funds attributable to well abandonment and facility decommissioning *may* be returned to the WIP after the majority of Phase I and Phase II DSA's have been completed and thus a high degree of certainty is achieved regarding pending remediation costs.
 - Excessive funds attributable to remediation, and reclamation *may* be returned to the WIP at the time of *near-certification* of the majority of sites (i.e. majority of sites are in the vegetation monitoring stage or beyond).
 - Any return of funds is subject to other obligations the WIP may have with the OWA.
 - If a shortfall is anticipated, the WIP will be required to post additional funds based on detailed estimates information provided by the OWA.



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- If additional funds associated with cost overruns are not forthcoming from the WIP, the OWA reserves the right to access funds through other current WIPAs between the WIP and the OWA.
- Any refunds distributed to WIPs will be based on an aggregate basis and not respecting any given site (unless a single-site project).
- Posted funds (if cash) will be administered by the OWA's Controller and will be maintained within the OWA's suite of financial accounts.
- The OWA may, at its sole and absolute discretion, split the financial security into multi-stage payments if all-in security would be problematic for the WIP to front. This is the exception and not the rule. At a minimum, well decommissioning funds must be provided upfront and in full.
- Any returned security funds will not include interest.
- All services provided by the OWA are subject to GST.
- Refunds due to WIP partners under a value of \$500 will not be distributed.
- WIPs will have the right within the agreement to audit processes related to their respective WIPAs at any time up to two years after completion of work.

Reporting

Reporting will be required on several levels and will include the following:

AER

- Regular reports will be made to the AER's Orphaning, Insolvency & Legacy group that will outline details of the OWA's overall WIPA program and include:

WIPs

- Reports will be made available for WIPs to view the status of any given WIPA project they participate in. A portal will be created within SharePoint (or equivalent arrangement) that will be accessible only to participants to see summaries of their respective agreements (updated on an annual basis).
- Data respecting all WIP programs will include:
 - Name of WIPA (Defunct company name, WIP name)
 - Site by site summary of work status
 - Spend per site vs estimate for total work or work stage
 - Salvage Credit (if any) per site

Intake Process

Once a WIPA has been executed and financial security is in the possession of the OWA (if required), the intake process can begin, just as it would for properties turned over via the orphaning process. The only difference is all records brought into SiteView that pertain to a WIP agreement are identified as being a WIP Cost Centre and records will document the name of the WIP partner and their WI%. OWA Prime contractors will execute their work just as they would for any OWA project. Landowner notification will



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note that the OWA is executing the project on behalf of the WIP, this will be the only difference for WIPA sites vs orphan sites.

WIPA projects may form a portion of a larger OWA ABC project, or they may be standalone projects that are in geographic areas outside of other OWA programs. Once cost centres have been established for all of the WIP agreement sites, the accounting system will ensure proper WI% is applied.

In all cases the OWA will work with WIPs to obtain file information from the defunct company (or an agent/receiver) to obtain as much information on each site as possible. This is the same process employed for the orphan program.

Accounting Process

Any security funds in the form of cash that have been received by the OWA will be accounted for and reported separately than other OWA funds and will not be used for OWA general operations. All funds will be held and/or invested as per the OWA's Financial Policy. Cost centres will be created for each discrete well/facility and all sites will be tracked within SiteView as per orphan locations. This will allow the OWA to track and report data on the performance of each individual project.

The WIPA legal agreement and the form in which the monies are held will ensure only the OWA may access these funds. In the event of a WIP entering Companies' Creditors Arrangement Act (CCAA) or bankruptcy, the monies will not be accessible to any other body or creditor.

Insurance

There are no anticipated changes to current OWA insurance coverage with respect to any work executed for WIPAs as work remains identical to work undertaken for orphans. Only the funding formula changes which will not impact insurance.

Roles and Responsibilities

OWA

- Administer and adhere to the requirements of this SOP.
- Vet WIPs prior to entering any WIPA.
- Ensure WIP funds are fully secured prior to the execution of any project work.
- Complete and forward reports to the participating WIP partners and the AER and any other financial reporting as required by this SOP.
- Account for all funds held as security and report for each WIPA project.
- Adhere to all requirements of the executed WIP legal agreement.
- Review and revise this document as required.

WIP

- Enter into WIP Agreements in good faith with the OWA.
- Provide accurate working interest percentage details as required for all wells, facilities and sites.



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- Provide total financial security as per the requirements of this SOP in a format acceptable to the OWA.
- Adhere to all requirements of the executed WIP legal agreement.
- Retains overall responsibility for their own regulatory compliance.

Close out Procedure / Termination

Upon completion of the agreed work scope, all reports and file information will be shared with the WIP for their long-term retention and compliance needs. All working files and reports will also be held by the OWA in accordance with the *OWA's Information Management Practice and Records Retention Schedule*.

Any issues or regulatory requirements that may arise respecting any of the wellbores or sites after abandonment or reclamation certification will be the sole responsibility of the WIP(s) and the OWA shall be indemnified in all cases.

The legal agreement signed between the OWA and the WIP partner will allow for termination of the agreement based on terms outlined within the agreement.

Management of Change

This document will be reviewed and updated as required to ensure it remains consistent with OWA processes and the associated WIPA Legal Agreement.