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

The mandate of the OWA is to decommission 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 approximately 6,270 wells, with about 1,480 sites reclaimed. This work has allowed municipalities, farmers, ranchers and recreational users to reconnect with what the landscape has to offer.

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.

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.
Over the last three years, the OWA decommissioned more wells than we received, so that our overall inventory of orphan wells has decreased. Excluding loans, the OWA’s industry funding increased, so that inventories can continue to be actively addressed. The OWA is still spending most of its resources on well decommissioning; however, resources are starting to shift to reclamation work as sites move into this next step of closure. We expect to see significant growth in reclamation certificates as sites revegetate over time.
THE YEAR IN PERSPECTIVE

Message from the President

This year marks the 20th anniversary since the OWA began operations in 2002. As originally mandated, the OWA took on the work of closing orphan sites that had no legal or financially responsible party to bring them safely to closure. In our first five years, we decommissioned about 400 wells. In the last five years, we have decommissioned more than 5,000 wells, reflecting a surge in the inventory of orphan sites, and—importantly—an increased capacity to handle them.

The OWA’s organizational capacity—fine-tuning our strategies, increased funding and an expert team—have been central to our ability to tackle these challenges. Together with updated legislation, changes to the bylaws that govern our organization and regulatory enhancements that are discussed in the Message from the Chair, we are well-positioned for the future.

Part of our future outlook involves an evolution in how we deploy funds and workers. We believe we are now at the tail end of a wave of corporate receiverships, which arose partly from historically low oil and gas prices, driving up the number of orphan wells awaiting closure by the OWA. The impact of this surge over the past five years has meant that we have been largely focused on decommissioning, the necessary first phase of closure: removing the surface equipment from the site and capping the well to ensure that it is safe from any risk of leakage.

With the focus on safety and environmental protection, decommissioning wells in various states of repair was the largest single component of our expenditures over the past several years, accounting most recently for 42% of spending in 2021/22. With a recovery in oil and gas prices and regulatory changes that reduce the likelihood of new orphans, we expect both inventory additions and related decommissioning to level off as they did this past year. In fact, as our increased capacity meets current inventory, we could essentially complete all decommissioning efforts in 18 to 24 months, with the exception of a few non-routine, more complex wells. Of course, there will likely continue to be smaller additions to our inventory, and we have built an organization with the flexibility to scale down, as well as up. With the decommissioning inventory largely under control, our efforts going forward—and our spending—will become increasingly focused on the second stage of closure: reclamation and returning the land to an equivalent state to meet the needs of Alberta landowners and users. However, reclamation and receiving the required certifications is a much longer process. After remediating a site for any soil or groundwater contamination that may be present, regular monitoring and the necessary time and help of nature are required while revegetation takes hold. This is a process that can take several years, but we should see a substantial increase in reclamation certificates as the heavy lifting of the last three years comes to fruition.

Working the “disassembly line”

As the OWA shifts resources toward reclamation, we will maintain our strategy of area-based closure as an important part of our ongoing record of success in 2021/22. With area-based closure, we put our resources to work on various projects that include dozens to hundreds of sites in a defined area as a single, step-by-step project: like manufacturing, but with a “disassembly line”. This provides predictable work to contractors, the flexibility to deploy workers and equipment where and when they’re needed over short distances, overall economies of scale to reduce costs, and a virtual ring-fence around the area once the OWA’s work is completed.
An additional benefit that became clear with OWA’s area-based closures is that an area’s history of development provides important information for its closure, helping improve our efficiency. Building on the data we have in hand, our experience in decommissioning the first well in a development area also provides insight into the construction and operational history, as well as other downhole details, as many of the wells were originally drilled to similar specifications and with similar materials. What we learn on the first well is applied to the next well or dozens of wells, expediting the work and providing cost efficiencies. The benefits of this approach continue when we move into the reclamation stage, as we apply what we’ve learned about operating history, as well as local environmental features.

Our decommissioning work began a new and visually dramatic chapter in 2021/22 with the Mazeppa Gas Plant south of Calgary. Mazeppa had been the regional collection and natural gas processing point for a defunct operator. Pipes, tanks, structures and an 80-metre tower were carefully taken apart with any salvageable equipment sold to defray costs. This project was assigned under the Alberta Energy Regulator’s (AER’s) Directive 024: Large Facility Liability Management Program.

The Large Facility Program (LFP), as it is known, is a second program managed by the OWA that is financially separate from well closures, with its own industry levies and funding. Mazeppa, the first project under the LFP, was largely decommissioned over the past year and is set to move into the subsurface equipment removal, and soil and groundwater assessment phase in 2022/23.

A new way to partner with industry

In 2021, OWA launched a new tool enabled by recent changes in legislation: Working Interest Participant Agreements (WIPAs). Working Interest Participant (WIP) structures are a common cost- and risk-sharing agreement where one or more companies take part ownership of a well or facility along with the licensed operator. Previously, should the licensee become insolvent, the WIPs would be required to close the site under an AER Order, with costs proportionate to the ownership of the defunct licensee reimbursed by the Orphan Fund.

With WIPAs, an agreement is reached that sees the OWA take—at its discretion—its expertise and economies of scale to the closure work with reimbursement from the WIPs. As an added benefit, the work can also often be completed more quickly as the OWA is purpose-built to manage closures. A WIPA can be attractive to industry as the OWA can often do the work for the WIPs at less than it would cost to undertake it themselves. More critically, the agreement is only put in place if it also reduces final costs to the Orphan Fund. A win-win.

At the end of our 2021/22 fiscal year, 88 WIPA sites had been decommissioned and moved into reclamation, with additional agreements in place to begin decommissioning on 27 wells. While this is a relatively small portion of our overall closure work, we expect it to be a regular feature for the OWA in future years.
Funding levies and loans

When the topic of orphan sites comes up, we sometimes hear comments that “industry should clean up after itself.” The fact is that the overwhelming majority of well decommissioning is carried out by responsible licensees that close sites as part of the normal business cycle. When sites do become orphaned, the cost is almost exclusively born by industry through the Orphan Fund Levy. Despite reduced industry activity, the levy was increased to $70 million in 2021/22, from $65 million the year before, contributing to a cumulative industry contribution of more than half a billion dollars since the OWA’s inception. Industry funding also repays federal and provincial interest-free loans, which were first provided in 2017. Over $90 million of the Alberta loan total of $335 million has been repaid to date. With ongoing industry levies, we plan to pay back the total provincial loan by October 2031. Following that, we will repay the federal loan, also from industry levies.

Including both levies and loans, total funding for the OWA decreased with the end of government loan programs. After a substantial ramp-up of activity during which much of the loaned funds were deployed to the field, the OWA will continue to spend the remainder of the funds to further reduce the orphan inventory.

For a greater understanding of the work ahead, many stakeholders ask about the ultimate cost—the OWA’s estimated total remaining closure cost. We have historically used this estimate to inform and consult key stakeholders on the recommendation for the annual Orphan Fund Levy on oil and gas producers, who will continue to shoulder the costs based on industry’s remaining liabilities.

As of March 31, 2022, the total remaining closure cost is estimated to be slightly less than $700 million, roughly even with last year’s estimate, with new sites added to the inventory as existing sites have been closed. The OWA works with Receivers that we have appointed and will be prepared to accept new sites to our inventory, when designated by the AER, by incorporating new sites into our business planning now.

Our closure cost estimates are a blend of site-specific evaluations and estimates based on our extensive historical experience working in Alberta. The closure estimate is obviously a large number, but we still have substantial access to funds, and we are confident that we will be able to significantly reduce the closure liability over the next three to five years.

As we look to the challenges ahead, we believe we have the experienced leadership required in our core competencies of decommissioning, reclamation, finance, and land and stakeholder relations. These teams work closely with each other and with contractors, regulators and landowners over the OWA life cycle that spans from receiving an orphan site to returning it to a fully reclaimed state, ready for a new life in agriculture, recreation or municipal development.

We will confidently stay the course on well-tested and cost-effective strategies but remain nimble enough to respond to changes that may come our way with economic cycles, government policy direction and the realities of a maturing energy industry in Alberta.

As an established and trusted partner, the OWA is well positioned for the future.

Lars De Pauw
President
Regulatory Framework Highlights

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

Proactive rules and process

PREVENTING ORPHANS

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

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

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

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

COVID has, unfortunately, become business-as-usual for organizations, large and small, and the OWA is no exception. The declaration of the pandemic came in early 2020, at nearly the exact time our decommissioning and related reclamation plans were set for a major spike after building the organization amid a surge in new orphans.

Like other businesses, our office staff quickly transitioned to home settings from which we are just beginning to incrementally return in 2022. Happily, we suffered no loss in productivity while keeping our workforce safe. Field work—the core of our operations—was more complicated, as it required close physical distances and movement between sites and communities across the province. With established protocols between the OWA and our contractors, we have managed to handle two years of record-high workloads.

At its most challenging, over the winter we managed a workforce of about 200 people for an area-based closure project in northern Alberta. With the risk of COVID spread, contractors were tested before housing in dedicated mobile accommodations. This approach was successful, although difficult. With safety protocols and ongoing testing, we had only one positive result during the project. While COVID variants continue to be a risk at the time of this report, we’re pleased to report the safety protocols that we have in place have allowed us to continue to work in a restricted environment.

Reactive system

THE BACKSTOP FOR CLOSING ORPHANS

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

Manage, maintain and operate for a limited time.

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

Work on behalf of remaining Working Interest Participants, who reimburse the OWA for costs, for sites under an AER Order WIPA.
Message from the Chair

At its core, the job of the OWA is to protect public safety and the physical environment—the air, land and water that we share. But there are two other critical—and related—aspects: the economic environment and the policy environment in which we operate. Both have a significant impact on our inventory. And both saw major changes over the past year.

In terms of economic factors, in an otherwise difficult time, 2021/22 is a success story for the OWA and the many communities where we contribute to the local economy. As an organization, we operate in a counter-cyclical business context. When commodity prices are low, as they were for several years, we have greater access to the skilled workers needed to decommission and reclaim orphans. That’s because much of the same expert workforce that supports a growing industry also supports an industry—and needs the support of an industry—that is stalled or even contracting.

Toward this goal, in the last five years, we received over $255 million in industry funds, in addition to $535 million in repayable, interest-free loans from the Alberta and federal governments. This resulted in more than three million person-hours of work on OWA projects in the last five years. That’s a significant number of well-paying jobs in every corner of the province and many more in indirect jobs that support these workers.

In our view, this is an excellent example of stimulus spending: it’s work that is scalable and shovel-ready, it flows to regions in need, it delivers a real and measurable benefit, and it is ultimately funded by industry.

Lower energy prices presented an opportunity for the OWA to support local businesses, but on the other end of the spectrum, rising commodity economics also play a role for the OWA. Oil prices that tested lows of near US$10 per barrel in April 2020 increased to more than US$100 two years later. Although it’s not possible to accurately measure, that dramatic swing certainly reduces the near-term risk of new orphans as operators that may have been on the margins return to financial stability. It’s important to note that the cyclical nature of prices is part of business planning for the vast majority of energy producers, and liabilities are backed by solid balance sheets. However, some of those marginal operators may not be positioned for the next, inevitable, downward price swing. This is where changes in the policy and regulatory environment are so critical.

Over the course of 2021/22, the policy and, by extension, the regulatory environment in Alberta took direct aim at how we assess and manage the numbers and risks associated with oil and gas operations and operators, with the intent of reducing the number of assets that will be orphaned.

The AER’s Directive 088: Licensee Life-Cycle Management, introduced in December 2021 takes a holistic approach to liabilities, including education and compliance measures through the Licensee Capability Assessment (LCA). The LCA considers a variety of factors to evaluate a company, including their financial and liability risk, their performance compared with similar companies, and other operational, closure, and administrative factors, with compliance history being considered throughout. Notably, recent regulatory changes include annual mandatory spending minimums with the intent of reducing inactive inventory, supported by tools to encourage collaboration. Recent regulation also has requirements for license transfers to ensure that the financial capacity for new licensees and operators is firmly in place when properties change ownership.
The goal of these measures is to reduce the risk of future orphans, and we believe we are at a turning point where the system now mitigates that risk well over the mid-term. As the primary funder of resolving this issue, the oil and gas industry applauds these actions.

While these are positive regulatory developments that help de-risk future liabilities, the policy environment still presents risks. These include the timing and scope of policies related to climate change (where we are actively contributing to greenhouse gas reductions) and other economic and environmental initiatives. As a trusted partner of industry, governments and regulators, we will continue to be at the table to help ensure positive outcomes in the interests of Albertans and Canadians.

On behalf of the OWA Board of Directors, I would like to extend my sincere thanks to all our partners and stakeholders—responsible operators, oilfield and environmental services providers, regulators, community businesses and neighbours, and landowners—and especially our talented staff who have worked so diligently over an unprecedented year of protecting our shared environment.

Brad Herald
Chair, OWA
“The activity that the OWA brings to communities is vital to Alberta. The spin-off from service rig activity and other abandonment services stimulates the local economies in many ways. SWS personnel stay in hotels, eat in the restaurants, use local fabrication and mechanical shops, welders, fuel and supply outlets and oilfield rental and transportation services. Very importantly, the OWA is aligned with SWS in ensuring that our closure activities are conducted in a safe, efficient, and environmentally responsible manner.”

Savanna Well Service

“The OWA and support of governments for the association have been important to Vertex and the industry as a whole. In a time of great economic uncertainty, our involvement with the OWA has created and protected high quality jobs in local Alberta communities. We are now working closely together on innovative practices and service combinations to bring industry closure costs down in the long run. Most importantly, local stakeholders and landowners have expressed their gratitude and pride in seeing orphan sites cleaned up and the land returned to its original agricultural roots.”

Vertex Resource Group

“We greatly appreciate the opportunity to work with the Orphan Well Association for the past two decades reclaiming Alberta’s defunct legacy sites in the ‘Heart of the Peace Country’. The OWA has essentially become a lifeline of our business and a support to some of the hardest hit communities in the Peace Country since the colossal crash of 2008. The work needs to be done, we do it well and we have remained consistently busy for the past 10 years.”

SHARP Environmental
Funding the OWA

Not including government loans, funding for the OWA increased 18% to $88.9 million in 2021/22, from $75.6 million the year before. Regular OWA funding is provided from the Orphan Fund Levy, the Large Facility Levy, salvage sales and other sources.

The collected Orphan Fund Levy increased 8% to $69.8 million in 2021/22, from $64.4 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.

In addition to the Orphan Fund Levy, the OWA was provided funding for the first time in 2021/22 from the Large Facility Levy of $3.5 million. The Large Facility Levy funds the Large Facility Liability Management Program (LFP), as defined under AER Directive 024: Large Facility Liability Management Program, a separate program the OWA manages in addition to the original Orphan Well Program. The LFP includes very specific facilities, including sulphur recovery plants and in situ oil sands processing facilities.

Salvage sales increased 43% to $9.0 million, from $6.3 million the year before, due to the OWA’s increased capability and focus on selling salvageable equipment.

Funding from other sources increased 56% to $6.6 million, from $4.2 million the year before. This category includes AER security recoveries, net interest income, Working Interest Participant Agreement (WIPA) recoveries and First

See note 6 in the Financial Statements for further explanation of net interest income.
Who closes a defunct site?

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

If the well licensed to a defunct company has an interest owned by an active company, then the active company can manage the closure of the site and make a Working Interest Participant Claim to the OWA to be reimbursed for the defunct company’s portion of the decommissioning and reclamation activities.

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

Time Licensee (FTL) and Regulator Directed Transfer (RDT) fees.

AER security recoveries increased 124% to $3.8 million, from $1.7 million the year before. AER security recoveries include any funds held by the AER from operators that are defunct.

Net interest income decreased 6% to $1.6 million in 2021/22, from $1.7 million the year before.

WIPA recoveries totalled $770,000, with this portion of the OWA’s funding expected to increase in the future as this type of work increases.

FTL and RDT fees decreased 13% to $436,000 in 2021/22, from $501,000 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 collects RDT fees from active companies that acquire properties licensed to a defunct company, and then remits these fees to the OWA.

The History of Government Loans

The OWA received government loans as part of plans to provide support for the service sector during the economic downturn, but also to expedite our decommissioning and reclamation work, with the expectation of full repayment.

The Government of Alberta loaned the OWA a total of $335 million, and the Government of Canada loaned $200 million. These loans are interest-free to the OWA.

As of May 2022, over $90 million of the Alberta loan was repaid. With ongoing industry levies, the OWA will pay back the total provincial loan by October 2031. Following that, the federal loan will be repaid from industry levies.

These loans are not part of a separate initiative of the Government of Canada to support Alberta’s Site Rehabilitation Program with a $1.0 billion grant. The Site Rehabilitation Program decommissions and reclames sites outside of the OWA’s inventory, so we are not eligible for these funds.
OWA expenditures decreased 2% to $161.5 million in 2021/22, from $165.5 million the year before. After a substantial ramp-up of activity in 2020/21 with the influx of government loans, the OWA will continue to spend the remaining government loans and industry levies to effectively and cost-efficiently reduce the inventory of orphans.

Detailed expenditures:

- Well decommissioning increased 6% to $67.7 million, from $63.7 million the year before.\(^1\)
- Site reclamation increased 2% to $48.5 million, from $47.8 million the year before.\(^2\)
- Facilities decommissioning decreased 5% to $21.0 million, from $22.0 million the year before.
- Pipeline decommissioning decreased 24% to $8.6 million, from $11.3 million the year before.
- Working Interest Participant (WIP) reimbursements decreased 50% to $4.7 million, from $9.4 million the year before.
- Administration decreased by 3% to $10.9 million, from $11.2 million the year before.

Detailed expenditures show the OWA is still spending most of its resources on well decommissioning; however, resources are starting to shift to reclamation work. Reclamation work will continue to see increasing allocation of total funds in future years as more sites move to this last phase of the closure process.

Starting in 2021/22, facilities decommissioning includes two categories: facilities we have historically focused on and a new specific facility under the LFP. Of the $21 million in facilities decommissioning expenditures, $2.4 million were spent under the LFP on closure work at the Mazeppa Gas Plant, the first Large Facility designated as an orphan.

OWA administration includes receiverships, legal fees and fund administration. The OWA funded several receiverships during the fiscal year to support liquidation sales processes, which prevented many assets from becoming orphans.

2021/22 was the first full year the AER was able to use a new tool called Reasonable Care and Measures, or RCAM. The OWA is directed by the AER to undertake RCAM activities when the AER identifies a site or sites where reasonable care and measures are needed to prevent impairment or damage to the environment, human health and safety, or property. The OWA spent $113,000 on RCAM activities in 2021/22.

$7.4 million was also paid in GST, which the OWA is currently appealing with the Canada Revenue Agency.

We work hard to ensure the funds we receive have the greatest impact. Our average costs to decommission a well and reclaim a site fluctuate over time, but generally the average costs have remained consistent. The average cost of decommissioning a well in 2021/22 was $20,000, with most in the range of $7,500 to $51,000. The average cost of reclaiming a site in 2021/22 was $19,500, with most ranging between $3,900 to $48,700. These numbers reflect a sample of sites that were addressed by the OWA during the fiscal year and may not be representative of all sites in the OWA inventory or those across the industry.

\(^1\) Well decommissioning includes all aspects of work conducted on orphan wells, including inspections and long-term management.

\(^2\) Site reclamation includes environmental site assessments, remediation and reclamation.
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 these impacts within the authority we have been given.

Inspection takes place within 60 days.

Planning for decommissioning can take from one to several months.

Most assessments are completed within three months.

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

Reclamation takes about two years for most cultivated sites. Pasture and forested locations can take much longer.

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.

Site is Closed

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, and the surface lease is ended.
The number of orphan wells in the OWA inventory to be decommissioned decreased 20% to 1,700 at the end of 2021/22, from 2,126 the year before. In addition, there are 27 wells the OWA has agreed to close as part of WIPAs. These sites will need to be reclaimed after the well has been decommissioned. The inventory number does not include orphan sites where the well has already been decommissioned and only requires the OWA to remediate and/or reclaim the sites.

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

The number of new wells designated as orphans by the AER decreased 41% to 691 in 2021/22, from 1,167 the year before. More than half of the new orphan wells received in 2021/22 were from Trident Exploration. In addition, there were 122 new wells the OWA agreed to close as part of WIPAs. Many of these wells were decommissioned the same year they were received, explaining why the remaining inventory of WIPA wells is lower than the number of new WIPA wells received.

The very name “Orphan Well Association” reflects the idea that our job is to handle orphan wells. In fact, the OWA is also responsible for orphan pipelines and facilities. Facilities can range from a tank on a wellsite to a large gas plant. We currently have one Large Facility under the AER’s Directive 024: Large Facility Liability Management Program: the Mazeppa Gas Plant. Decommissioning this complex
facility has begun. Following completion, the site will move into the assessment and then remediation phase, which may take several years to complete depending on soil and groundwater impacts.

The number of orphan and WIPA wells fully decommissioned decreased 39% to 1,179 in 2021/22, from 1,922 the year before. However, this number would have been relatively consistent with last year if not for the short-term deferral, for about 600 wells, of the final step of decommissioning—called cut and cap—in the interest of cost efficiency. These wells will be fully decommissioned early in the next fiscal year and will be counted in next year’s annual report.

Decommissioning numbers for 2021/22 include 95 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.
As more sites are decommissioned, our work on remediation and reclamation grows. Although our mandate is to close sites and obtain reclamation certificates, the benefits of remediation and reclamation go beyond this goal. Every site that is revegetated pulls greenhouse gases out of the atmosphere. Every site that receives a reclamation certificate is then available for farming, pastureland, recreation or a growing community.
The number of orphan sites in the OWA reclamation inventory increased 20% to 5,887 at the end of 2021/22, from 4,889 at the end of 2020/21. In addition, the OWA has agreed to reclaim 88 sites as part of WIPAs. The reclamation inventory counts how many sites require reclamation. In some cases, there may be more than one decommissioned well or facility on a site.

The reclamation inventory increases in two ways:

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

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

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

The number of sites the OWA closed increased 3% to 274 in 2021/22, from 267 the year before. This number of sites closed represents 465 hectares of land returned to Albertans, the equivalent of about 572 CFL football fields. It takes years for a site to become suitable for a reclamation certificate application, so this year’s number reflects reclamation work performed in the last several years. Additionally, the reclamation certificate application process was changed by the AER in July 2021, adding additional steps and layers of review.

The OWA expects next year’s number to increase, as about 94 reclamation certificates were received in April 2022 (following the end of the 2021/22 fiscal year), with an additional 97 applications in process. In addition, our reclamation inventory includes about 2,200 sites that we are monitoring for vegetation growth with the expectation that they will be ready for a reclamation certificate application in the coming years.

We expect to see significant growth in the number of reclamation certificates in the coming years as a result of previous years’ work.
The OWA continues 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 to identify those that are high-risk. Following the review, sites are inspected by contractors allowing us to obtain valuable information and details on each site, which also contributes to the operational efficiency of our decommissioning 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.

**GEOGRAPHICAL DISTRIBUTION OF INSPECTIONS**

- **South of Calgary**: 25%
- **Between Calgary and Red Deer**: 46%
- **Between Red Deer and Edmonton**: 11%
- **North of Edmonton**: 18%

**Inspections**

In 2021/22, the OWA completed 1,885 inspections throughout Alberta. Of these, 1,735 were conducted on new sites, with 46% completed south of Calgary, 18% between Calgary and Red Deer, 11% between Red Deer and Edmonton, and 25% completed north of Edmonton. These inspection included 116 under WIPA agreements, as well as RCAM inspections on 54 sites and numerous pipeline rights-of-way.
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 2021/22 our TRIF was 1.7 based on an estimated 844,000 contractor hours.

We investigate all incidents and evaluate ways to reduce the number of injury incidents in the future. In addition, the OWA assesses the safety programs of its vendors and conducts site assessments to ensure safe practices are followed during operations. During 2021/22, there were a total of 106 safety assessments conducted on Prime Contractors. In addition to these more formal assessments, the OWA conducted 455 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 set 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, 2022, 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, 2022 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

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

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

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

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

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

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

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

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

Auditor’s responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.
Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Calgary, Canada
June 27, 2022

Ernst & Young LLP
Chartered Professional Accountants
## ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
### Statement of Financial Position
As at March 31, 2022
(Thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$124,602</td>
<td>$266,805</td>
</tr>
<tr>
<td>Accounts and other receivables</td>
<td>1,165</td>
<td>2,863</td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>578</td>
<td>318</td>
</tr>
<tr>
<td>Investments (Note 4)</td>
<td>69,783</td>
<td>45,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>196,128</td>
<td>314,986</td>
</tr>
<tr>
<td>Internally restricted cash (Note 7)</td>
<td>1,373</td>
<td>519</td>
</tr>
<tr>
<td>Tangible capital assets (Note 5)</td>
<td>25</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$197,526</td>
<td>$315,521</td>
</tr>
<tr>
<td><strong>Liabilities and net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>25,616</td>
<td>32,878</td>
</tr>
<tr>
<td>Current portion of long-term notes payable (Note 6)</td>
<td>30,198</td>
<td>30,198</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>55,814</td>
<td>63,076</td>
</tr>
<tr>
<td>Long-term notes payable (Note 6)</td>
<td>314,775</td>
<td>332,737</td>
</tr>
<tr>
<td>Deferred contributions (Note 6)</td>
<td>106,019</td>
<td>118,255</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>476,608</td>
<td>514,068</td>
</tr>
<tr>
<td>Internally restricted assets (Note 7)</td>
<td>1,373</td>
<td>519</td>
</tr>
<tr>
<td>Unrestricted net assets</td>
<td>(280,455)</td>
<td>(199,066)</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>(279,082)</td>
<td>(198,547)</td>
</tr>
</tbody>
</table>

$ 197,526 $ 315,521

See accompanying notes to financial statements.

Approved by the Board:

**Director – Brad Herald**

**Director – Doug Dafoe**
## ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

### Statement of Operations

Year ended March 31, 2022  
(thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orphan Fund levy through the AER</td>
<td>69,810</td>
<td>64,374</td>
</tr>
<tr>
<td>Large Facility levy through the AER</td>
<td>3,500</td>
<td>-</td>
</tr>
<tr>
<td>Interest income (Notes 4 and 6)</td>
<td>13,882</td>
<td>9,660</td>
</tr>
<tr>
<td>Industry, enforcement and security deposit recoveries through the AER</td>
<td>3,797</td>
<td>1,727</td>
</tr>
<tr>
<td>Salvage sales and rental income</td>
<td>8,986</td>
<td>6,311</td>
</tr>
<tr>
<td>First time licensee fees and Regulator directed transfer fees through the AER</td>
<td>436</td>
<td>501</td>
</tr>
<tr>
<td>Working interest participant agreement recoveries (Note 8)</td>
<td>770</td>
<td>311</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>101,180</td>
<td>82,884</td>
</tr>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Well abandonment</td>
<td>67,704</td>
<td>63,700</td>
</tr>
<tr>
<td>Site reclamation</td>
<td>48,541</td>
<td>47,794</td>
</tr>
<tr>
<td>Facility decommissioning</td>
<td>21,257</td>
<td>22,027</td>
</tr>
<tr>
<td>Pipeline abandonment</td>
<td>8,595</td>
<td>11,320</td>
</tr>
<tr>
<td><strong>Total Operating Expenditures</strong></td>
<td>146,097</td>
<td>144,841</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest on long-term notes payable (Note 6)</td>
<td>12,236</td>
<td>7,950</td>
</tr>
<tr>
<td>Fund administration (Note 10)</td>
<td>8,632</td>
<td>7,534</td>
</tr>
<tr>
<td>Non-recoverable GST expense (Note 3)</td>
<td>7,382</td>
<td>6,972</td>
</tr>
<tr>
<td>Working interest claims (Note 9)</td>
<td>4,695</td>
<td>9,382</td>
</tr>
<tr>
<td>Receivership expenses (Note 12)</td>
<td>2,341</td>
<td>3,709</td>
</tr>
<tr>
<td>Unrealized loss on investments (Note 4)</td>
<td>325</td>
<td>-</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>AER enforcement activities (Note 13)</td>
<td>1</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total Other Expenditures</strong></td>
<td>35,618</td>
<td>35,592</td>
</tr>
<tr>
<td><strong>Deficiency of revenues over expenses</strong></td>
<td><strong>$ (80,535)</strong></td>
<td><strong>$ (97,549)</strong></td>
</tr>
</tbody>
</table>

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, 2022

(thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>Internally</th>
<th>Unrestricted</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Restricted</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning of year</td>
<td>$ 519</td>
<td>$ (199,066)</td>
<td>$ (198,547)</td>
<td>$ (100,998)</td>
</tr>
<tr>
<td>Deficit</td>
<td>-</td>
<td>(80,535)</td>
<td>(80,535)</td>
<td>(97,549)</td>
</tr>
<tr>
<td>Board restricted</td>
<td>854</td>
<td>(854)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$ 1,373</td>
<td>$ (280,455)</td>
<td>$ (279,082)</td>
<td>$ (198,547)</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
### ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

**Statement of Cash Flows**  
Year ended March 31, 2022  
(thousands of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash provided by (used in)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deficiency of revenues over expenses</td>
<td>$ (80,535)</td>
<td>$ (97,549)</td>
</tr>
<tr>
<td><strong>Non-cash items</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of tangible capital assets</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Unrealized loss on investments</td>
<td>325</td>
<td>-</td>
</tr>
<tr>
<td><strong>Changes in operating non-cash working capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in accounts and other receivables</td>
<td>1,698</td>
<td>1,293</td>
</tr>
<tr>
<td>Decrease in GST receivable</td>
<td>-</td>
<td>443</td>
</tr>
<tr>
<td>Increase in prepaid expenses and deposits</td>
<td>(260)</td>
<td>(105)</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable and accrued liabilities</td>
<td>(7,262)</td>
<td>23,711</td>
</tr>
<tr>
<td><strong>Operating</strong></td>
<td>(86,018)</td>
<td>(74,773)</td>
</tr>
<tr>
<td><strong>Investing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in investments</td>
<td>(25,108)</td>
<td>43,500</td>
</tr>
<tr>
<td>Purchase of tangible capital assets</td>
<td>(25)</td>
<td>(24)</td>
</tr>
<tr>
<td>Increase in internally restricted cash</td>
<td>(854)</td>
<td>(3)</td>
</tr>
<tr>
<td><strong>Investing</strong></td>
<td>(25,987)</td>
<td>43,473</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of long-term notes payable</td>
<td>-</td>
<td>217,978</td>
</tr>
<tr>
<td>Increase in deferred contributions</td>
<td>-</td>
<td>99,021</td>
</tr>
<tr>
<td>Repayment of long-term notes payable</td>
<td>(30,198)</td>
<td>(30,198)</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td>(30,198)</td>
<td>286,801</td>
</tr>
<tr>
<td><strong>Net (decrease) increase in cash</strong></td>
<td>(142,203)</td>
<td>255,501</td>
</tr>
<tr>
<td>Cash, beginning of year</td>
<td>266,805</td>
<td>11,304</td>
</tr>
<tr>
<td><strong>Cash, end of year</strong></td>
<td>$ 124,602</td>
<td>$ 266,805</td>
</tr>
</tbody>
</table>

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

Note 2 Significant accounting policies

a) Basis of presentation

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

b) Cash

Cash consists of deposits held with financial institutions.

c) Investments

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

Investments include guaranteed investment certificates (“GICs”) that mature within the next 12 months to known amounts of cash and are subject to an insignificant risk of changes in value and short-term bond EFTs, income pool funds or short maturity bond funds each of which must have a risk rating of low with a correlation risk ranking by Canadian Bond Rating Service or Dominion Bond Rating Service of low and maturities up to 5 years.
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, Canadian Association of Petroleum Producers and Explorers and Producers Association of Canada. 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, dividends, net realized and unrealized gains or losses on the sale of investments and deferred contribution on interest-free government loans. Rental income is recognized on the basis of the passage of time when collectability is reasonably assured. Working interest participant agreement recoveries are recognized when the associated expense has been incurred.

e) Tangible capital assets

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

f) Financial assets and liabilities

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

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

(i) Investments in equity instruments that are quoted in an active market at fair value;

(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.

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.

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 receivable and non-recoverable GST expense

In fiscal 2021 the Canada Revenue Agency determined the OWA to be ineligible to claim for public service body ("PSB") rebates under subsection 259(2) of the Excise Tax Act. As such, the OWA records the non-recoverable GST expenses separately on the statement of operations.

The Association continues to appeal the decision of the CRA to disallow the Association to recover Input Tax Credits ("ITC") on the purchase of equipment and services related to decommissioning and remediation/reclamation activities. The total amount being appealed by the OWA is $3,174 related to the period of April 1, 2014 to December 31, 2016. During the fiscal year 2022 the CRA further informed the Association of their decision to disallow ITCs from January 1, 2017 to December 31, 2020 and the Association has since filed an objection to this new decision. The CRA has agreed to hold the objection in abeyance pending the resolution of the appeal. The total amount held in abeyance is $8,327.

Note 4  Investments

At March 31, 2022, the Association’s investments included $60,000 of guaranteed investment certificates with interest rates ranging from 0.7% to 1.4% per annum. The investments mature at various dates from April 2022 to June 2022. The Association also has $9,783 of investments in the form of fixed income bond funds with varying degrees of yield, coupon and maturity.

Note 5  Tangible capital assets

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th></th>
<th>2021</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Accumulated amortization</td>
<td>Net book value</td>
<td>Net book value</td>
</tr>
<tr>
<td>Computers</td>
<td>$</td>
<td>121</td>
<td>$</td>
<td>96</td>
</tr>
</tbody>
</table>

Note 6  Long-term notes payable

In fiscal 2018, the OWA entered into an interest-free loan arrangement with Her Majesty the Queen in Right of Alberta as represented by the President of Treasury Board, Minister of Finance and by the Minister of Energy (the “Province”), by which the OWA may borrow from the Province to a maximum aggregate amount of $235,000. As at March 31, 2022, advances of $235,000 (2021 - $235,000) have been received, of which $10,985 (2021 - $15,792) has been recorded as a deferred contribution, and $4,806 (2021 - $5,612) 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, 2022, an advance of $100,000 (2021 - $100,000) has been received, of which $23,060 (2021 - $25,665) has been recorded as a deferred contribution, and $2,605 (2021
- nil) as interest revenue and expense, calculated based on an annual rate of 3.44%. This $100,000 loan is repayable in quarterly instalments of $6,250 commencing on January 1, 2028 until October 1, 2031.

Also in fiscal 2021 an interest-free loan arrangement was entered into with Her Majesty the Queen in Right of Canada as represented by the Minister of Finance (“Canada”) under which the OWA may borrow a maximum aggregate amount of $200,000. As at March 31, 2022, advances of $200,000 (2021 - $200,000) have been received, of which $71,974 (2021 - $76,799) has been recorded as a deferred contribution, and $4,825 (2021 - $2,338) 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:

<table>
<thead>
<tr>
<th>Repayment Schedule</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30,198</td>
<td>$30,198</td>
<td>$30,198</td>
<td>$30,198</td>
<td>$30,198</td>
<td>$300,000</td>
<td></td>
</tr>
</tbody>
</table>

Changes in deferred contributions during the year are as follows:

<table>
<thead>
<tr>
<th>Deferred contributions</th>
<th>2022</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$118,255</td>
<td>$19,234</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>$106,971</td>
</tr>
<tr>
<td>Interest revenue recognized</td>
<td>$(12,236)</td>
<td>$(7,950)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$106,019</td>
<td>$118,255</td>
</tr>
</tbody>
</table>

Note 7 Internally restricted assets

Internally restricted cash represents internally restricted net assets in the amount of $1,373 (2021 - $519), which may be used at the discretion of the Board and in part has been set aside for emergency use or wind-up activities.

Note 8 Working interest participant agreement recoveries

In fiscal 2021, the OFDAR was amended such that authority has been delegated to the OWA to enter into agreements with working interest participants for the purpose of suspension, abandonment, remediation or reclamation of a well, facility, well site or facility site. During the year ended March 31, 2022, $770 (2021 - $311) has been recovered from working interest participants.

Note 9 Working interest claims

Working interest claims are permitted under the Oil and Gas Conservation Act (OGCA) S. 70(1),(2), S. 71(1) and Oil and Gas Conservation Rules (OGCR) S. 16.541(1)(2). As per the legislation, the AER deems any defaulting working interest participants and authorizes payment from the orphan fund. The OWA accepts
claims as directed from the AER made by industry for deemed defaulting (defunct) working interest participants. Working interest participants are anyone who owns a beneficial or legal undivided interest in a well or facility under agreements that pertain to the ownership of that well or facility. If a company has a working interest participant with a well, facility or associated site that has completed end of life obligations, the OWA will 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, 2022, $4,695 (2021 - $9,382) 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 $433 (2021 - $421), which is included in fund administration expenses. Also included in fund administration expense is $125 related to a long-term incentive plan, payable in relation to services rendered by those management personnel, for the year to March 31, 2022 (2021 - nil). Under the terms of the long-term incentive plan, while the Association is committed to make further payments totaling $300 in respect of services, which are expected to be rendered over the period from April 1, 2022 to March 31, 2026, these future payments have not been reflected in the financial statements as they are contingent upon the provision of future service obligations. The annual payments are subject to the approval of the Board. No remuneration and benefit payments were made to Board members for services provided in fiscal years 2022 and 2021.

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, 2022, the Association has recorded $290 (2021 - nil) as employee long-term incentive expense, which has been included as part of the fund administration expense. While the long-term incentive plan contemplates future payments of $240, 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. During the year ended March 31, 2022, $2,341 (2021 - $3,709) 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, 2022, $1 (2021 - $45) 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, 2022, approximately 10% of the Association’s accounts and other receivables was due from the AER (2021 - 52%). 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 subject the Association to a fair value risk.

(iii) Liquidity risk

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

The contractual maturities of financial liabilities as of March 31, 2022 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>accrued liabilities</td>
<td>$25,616</td>
<td>$25,616</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Notes payable</td>
<td>$450,990</td>
<td>$30,198</td>
<td>$30,198</td>
<td>$30,198</td>
<td>$30,198</td>
<td>$30,198</td>
<td>$300,000</td>
</tr>
</tbody>
</table>
Note 15 Commitments

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

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitments</td>
<td>$265</td>
<td>$265</td>
<td>$265</td>
</tr>
</tbody>
</table>

Note 16 Subsequent events

Commencing April 1, 2022, the Association has approved an additional tranche within the cash-based long-term incentive plan totaling $1,889 for the performance period of April 1, 2022 through March 31, 2027, which is payable at the discretion of the Board, for the benefit of the Association’s employees.

Note 17 Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. The reclassifications did not impact either the internally restricted or unrestricted net assets.
GOVERNANCE

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

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

Board of Directors

The OWA thanks Bill Peterson who has concluded his service on the Board.

Brad Herald
Canadian Association of Petroleum Producers, OWA Chair

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

Doug Dafoe
Ember Resources

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

Kendall Dilling
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.

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.
Bill Peterson
Canadian Natural Resources Limited
Bill Peterson is Senior Vice-President of Development Operations at Canadian Natural Resources. Bill has more than three decades of experience in oil and gas operations across various geographies and geological plays in the Western Canadian Sedimentary Basin. As a Professional Engineer who has worked in a range of roles from regional operations to organizational leadership, Bill brings expertise covering the oil and gas lifecycle from production engineering and enhanced recovery operations to closure and liability management.

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

Management
Lars De Pauw
President

Vik Dhalla
Corporate Controller

Brad Malley
Manager, Decommissioning

Dave Marks
Manager, Land, Stakeholder Relations and Support Services

Rob Thompson
Manager, Environment