



ANNUAL REPORT 2020/21



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Our Vision and Mandate

The Orphan Well Association (OWA) is an innovative collaboration among 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 safely decommission¹ Alberta’s orphan oil and gas wells, pipelines and production facilities, and restore the land similar to its original state, all in a cost-efficient manner. Since its formation in 2002, the OWA has decommissioned approximately 5,100 orphan wells, with over 1,200 sites reclaimed. This work has allowed municipalities, farmers, ranchers and recreational users to reconnect with what the landscape has to offer.

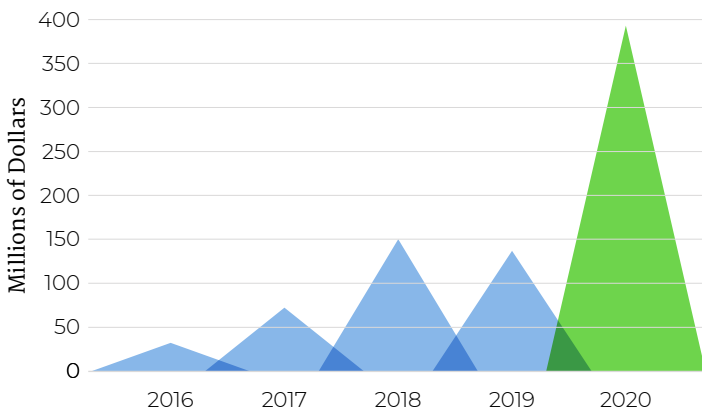
¹ The OWA Annual Report uses the term “decommission” to refer to the responsible abandonment of energy infrastructure, in a manner that ensures it will not pose a risk to the environment or the public.

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.

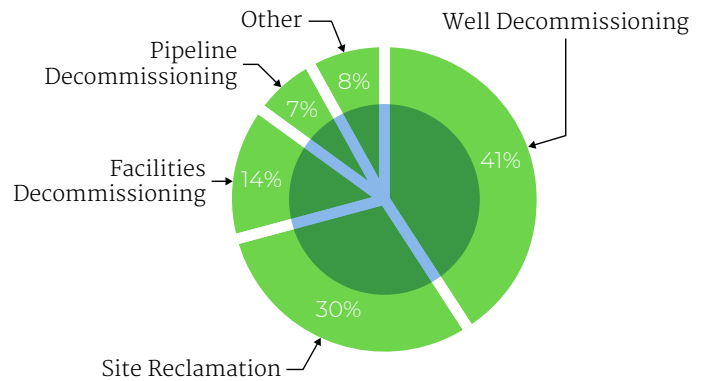
Highlights

Overall funding for the OWA increased substantially in 2020/21 due to loans from the Government of Alberta and the Government of Canada, which the OWA will repay. With increased funding, we decommissioned a record number of wells, pipelines and facilities. As a result, even with an increase in wells designated as orphans, the OWA decreased the well inventory by the end of the fiscal year. Once sites are decommissioned, they move into the reclamation phase, and so—as we expected—the OWA’s reclamation inventory increased in 2020/21. As vegetation planted in previous years took hold, we increased the number of sites that were closed. We expect to see significant growth in reclamation certificates as the sites we work on now mature.

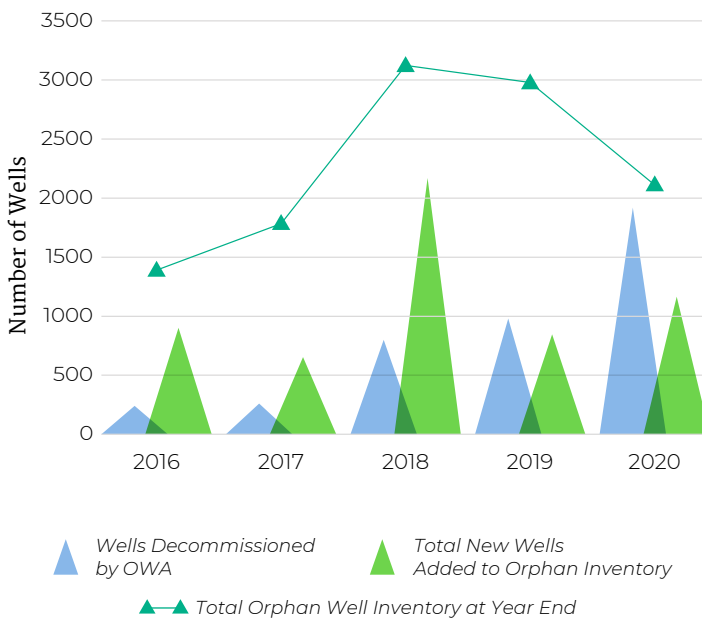
FUNDING



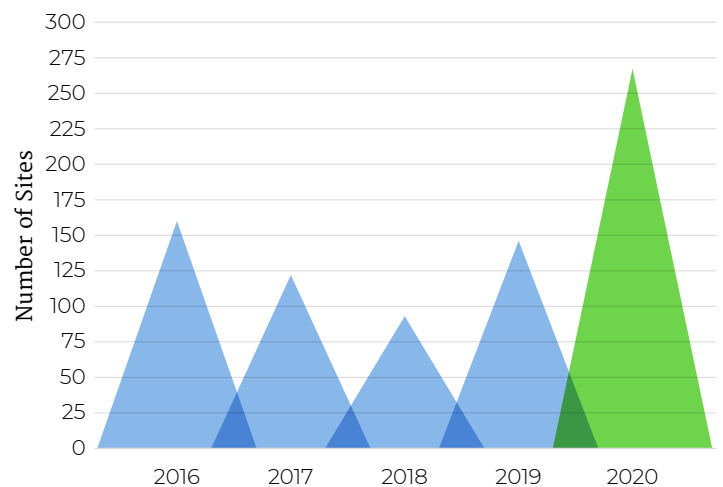
2020 OPERATING EXPENDITURES BY CATEGORY



ORPHAN WELL INVENTORY AND WELLS DECOMMISSIONED



NUMBER OF SITES RECLAIMED AND CLOSED



The Year in Perspective

MESSAGE FROM THE EXECUTIVE DIRECTOR

Every year brings new challenges, but 2020/21 was certainly exceptional for the Orphan Well Association. In the midst of a pandemic and economic crash, we managed the biggest operational year in our history. While many organizations suddenly found themselves in an eerily quiet market with activity sapped by the shock of COVID-19 and the economic downturn, the demands on the OWA continued to increase. And looking at the past year, I believe we rose to the challenge.

The reality of our closure work is that it is counter-cyclical: the economic factors that slow down parts of the oil and gas industry create more work for the OWA, not less. And, at the same time that our work increases, reductions in overall production volumes and commodity prices impact the industry that funds the OWA, adding another small cut to a wounded oil and gas sector.

As we continued our efforts to ramp up operations over the last two years, the declaration of a global pandemic brought a new set of challenges. Although our staff quickly transitioned to home offices, much of our mandate simply cannot be performed from a desk. Field work is at the centre of the OWA, around which everything else revolves. It was critical that we worked with our staff and contractors to ensure they could be on the ground at our sites, advancing the work of decommissioning and reclamation in a way that was safe for all workers and the communities we work in.

While COVID-19 remains very present at the time of this letter, the safety protocols we have in place have allowed us to continue to work in a restricted environment. And, on the economic side, there is reason for optimism for the OWA and across the industry. Commodity prices have

made a substantial recovery from historic lows in early 2020, and many companies have weathered the storm and are poised for a return to a steady state or even growth.

However, for a variety of reasons, not all companies have been so resilient. It can take some time before the major downturns to the economy and industry move from financial projections and business options to on-the-ground plans. In a difficult economy for energy producers, we expect to see more insolvencies, with more field work and more receivership management for the OWA. This includes, for example, coordinating efforts to ensure, where possible, assets from defunct companies are transitioned to other companies or sold with a return to the OWA to offset closure costs on assets not sold in receivership.

Over the past year, the OWA continued to build momentum, decommissioning more wells and completing more reclamation projects than ever before. Despite receiving a substantial number of new orphan wells, we actually decreased the overall inventory with a steady and strategic approach. With our well inventory at the beginning of the last fiscal year at almost 3,000 wells, we decommissioned 1,922 of them in 2020/21—nearly 65 per cent of the inventory. We also received 1,167 new wells to decommission which reduced the net impact of our efforts.

Decommissioning is the start of our process, but as described later in this report, when we decommission a site, our job is not done. The project simply advances to the next stage in the closure process to reclamation. In addition, our reclamation inventory also accepts sites that were previously decommissioned by a company that later became insolvent. For this reason, our record number of safely decommissioned wells means there is now more

work on reclamation. This has required more staff and resources to ensure we continue to manage this critical end-of-life-cycle inventory.

End-of-life reclamation takes time—a lot of time. It can take years for the final revegetation to take place and more time still to certify that it's properly reclaimed.

Our ultimate outcome is to restore lands for municipalities, farmers, ranchers and recreational users to reconnect with what the landscape has to offer.

While our resources move to a larger focus on reclamation of existing sites, in 2020/21 we also adopted a new category of orphan sites: Large Facilities. With regulatory changes, the OWA received our first Large Facility: the Mazeppa Gas Plant, a now shuttered facility originally built to process natural gas and liquids for the commercial market. This adds a new level of complexity to our work, for which we have begun planning and expect to begin in earnest in 2021/22 (see page 13).

As our inventory changes in type, region and scale going forward, we continue to proactively assess how to manage our resources and allocate funding to ensure the higher-risk orphans are addressed first, with the entire inventory addressed appropriately over time.

EFFICIENT AND EFFECTIVE

It's important for our stakeholders to understand that with the scale of work we have, we need to take a “big picture” capital planning approach to maximize safety and efficiency. In the same way that you wouldn't plan a community development one house at a time, we don't plan decommissioning, reclamation and closure one well, one pipeline or one year at a time. We look at the work ahead of us and the resources we have and try to set the best path for steady and continuous success.

With that focus, we are using area-based closure processes, informed by feedback from companies that have successfully implemented this approach. Put simply,

following a risk-assessment, we deploy resources to work on potentially dozens to hundreds of sites in a defined area as one project, where sites move through the closure process together, one step at a time, similar to a manufacturing process. This provides predictable work to contractors, economies of scale to reduce costs, and a virtual ring-fence around the area once the OWA's work is completed. Reducing our costs per site allows us to do more with the funds we have and move more quickly to our next priorities.

As part of our focus on operational efficiency, we have also piloted a new contractor selection process for some of our major supply categories that will pre-qualify companies who meet our health, safety, cost and performance criteria. This is, in some ways, an extension of our area-

Our ultimate outcome is to restore lands for municipalities, farmers, ranchers and recreational users to reconnect with what the landscape has to offer.

based closure strategy in that we are looking to drive efficiencies of scale. In this case, rather than preparing backgrounds and bid proposals on a smaller project basis, pre-qualified contractors can focus on work for larger packages in their area of

operation and category of expertise. With a current pilot for well decommissioning service rigs and downhole tool providers, this initiative is exploring how we can bring cost-efficiencies that will ultimately benefit our contractor workforce and the OWA.

ESTIMATED TOTAL REMAINING CLOSURE COST AND THE POWER TO MANAGE IT

For a greater understanding of the challenge ahead, many stakeholders ask about what the ultimate cost will be—the OWA's estimated total remaining closure cost. We have historically used this estimate to inform and consult key stakeholders on the recommendation of the annual Orphan Fund Levy on oil and gas producers, who will continue to shoulder the costs based on industry's remaining liabilities. We believe, given stakeholder interest, it is important to share this number publicly going forward.

As of March 31, 2021, the total remaining closure cost is estimated to range from \$650 million to \$700 million. This includes only assets currently designated as orphans and is a blend of site-specific evaluations and estimates based on our extensive historical experience working in Alberta. This is obviously a large number, but we still have substantial access to funds, as can be seen in our financial statements. With the annual orphan levy on industry being raised to \$70 million for 2021/22, we are confident that we will be able to significantly reduce the estimated closure liability over the next two to three years.

It is important to note that, while we have been firmly supported by loans from the governments of Alberta and Canada, the loans are repayable and will ultimately be part of our industry—not government—funded operations.

To address the province's closure liability in the long term and to work more efficiently in the short to medium term, the Government of Alberta has passed legislative changes with Bill 12. These changes provide us with more tools, giving the OWA flexibility to respond using different approaches, depending on the nature of the situation we face.

There are many changes and amendments, but there are two that are significant for the OWA going forward.

The first relates to a new tool for the Alberta Energy Regulator (AER) called “reasonable care and measures” orders. The AER can issue a reasonable care and measures order to an operator or a working interest participant—a partial owner of an interest or “WIP”. The order allows the AER to ensure that public safety, the environment, and the asset are protected in the interim when the operator is not meeting their regulatory obligations.

Second, Bill 12 grants the OWA the power to enter into agreements with WIPs for closure activities. Previously, any WIP that remained after the failure of the licensed well or facility would be on the hook to manage the decommissioning, remediation and reclamation of the site and could then apply to the OWA to recover the defunct company's portion of the costs. This type of work is not necessarily within the expertise of some WIPs, which

could make the process lengthy, costly or both. With WIP Agreements now formally sanctioned by Bill 12, the OWA can undertake the work for a WIP, leveraging our expertise and scale of area-based closure operations to save money and mitigate costs to industry, who ultimately pay the bill. As of March 2021, we had four initial projects underway with WIP Agreements and we expect to implement the program fully in June 2021.

EVOLVING THE ORGANIZATION

For the OWA to continue to effectively manage its inventory, we are building an organization that is more sophisticated, with greater resources across the spectrum of our work. Along with a core group of talented staff and contractors, our leadership team has expanded with four new members to ensure we have the expertise and capacity to address the decommissioning, reclamation, financial and stakeholder challenges and opportunities we face. The addition of Vik Dhalla (Corporate Controller), Brad Malley (Team Lead Decommissioning), Dave Marks (Team Lead Land, Stakeholder Relations and Support Services) and Rob Thompson (Team Lead Environment) brings deep experience in closure activities and a wealth of management savvy to ensure the OWA is firing on all cylinders.

The structural evolution, leadership strength and focus on innovative and efficient delivery of our mandate will allow us to safely perform more decommissioning and reclamation work, while increasing our efficiency, and set us on a clear path forward over the coming years.

At the OWA, we sometimes joke that our ultimate goal is to work ourselves out of business. While we don't expect to meet that goal in the next year, we do expect to see continued progress toward leveraging the contributions of Alberta's oil and gas industry to support Alberta businesses and communities, and deliver our mandate to protect our shared environment.



Lars De Pauw
Executive Director



MESSAGE FROM THE CHAIR

It was an unprecedented year at the OWA and, even with the pandemic bringing unique challenges, the organization continued to ramp up, delivering industry-leading metrics and accomplishing more closure milestones than any year in our history. This work translated into direct investment for companies in the service industry and indirect investment in the communities where we work, all of whom are part of the lifeblood of the Alberta economy.

We expect that certain companies will continue to falter, and that the energy industry will continue to fund the clean-up. The oil and gas industry is resilient. The companies that have maintained a steady course are taking on the responsibility of those that have failed by funding the OWA and, in some noteworthy cases, sharing their expertise in closure activities. We are encouraged by ongoing improvements in the liability management system and look forward to playing a less prominent role in closure activities in the province as these changes take root. This novel model and the partnership it represents is unique on the continent, and the workers in our industry, the companies they work for and all of the citizens of the province can be proud of this collaboration.

Very importantly, the governments of Alberta and Canada have stepped up to augment industry funding with repayable loans that have helped the OWA keep on top of site closure inventories. We are very committed to paying back these loans in a timely manner, and to-date have repaid over \$61 million.

The outstanding work of the OWA is driven by a hard-working team of management, staff experts and contractors. I would like to thank them for their unwavering commitment throughout 2020/21, during times of uncertainty and personal stress as we shifted to working within Alberta's pandemic restrictions. I would also like to acknowledge my fellow board members, whose oversight and direction has been vital to the OWA's performance. In particular, I would like to thank Orest Kotelko, who is retiring from our board after nearly 18 years of participation. Orest, your deep experience and expertise have played a critical role in setting the stage for the OWA's work over these years, and we wish you all the best in your next chapter.

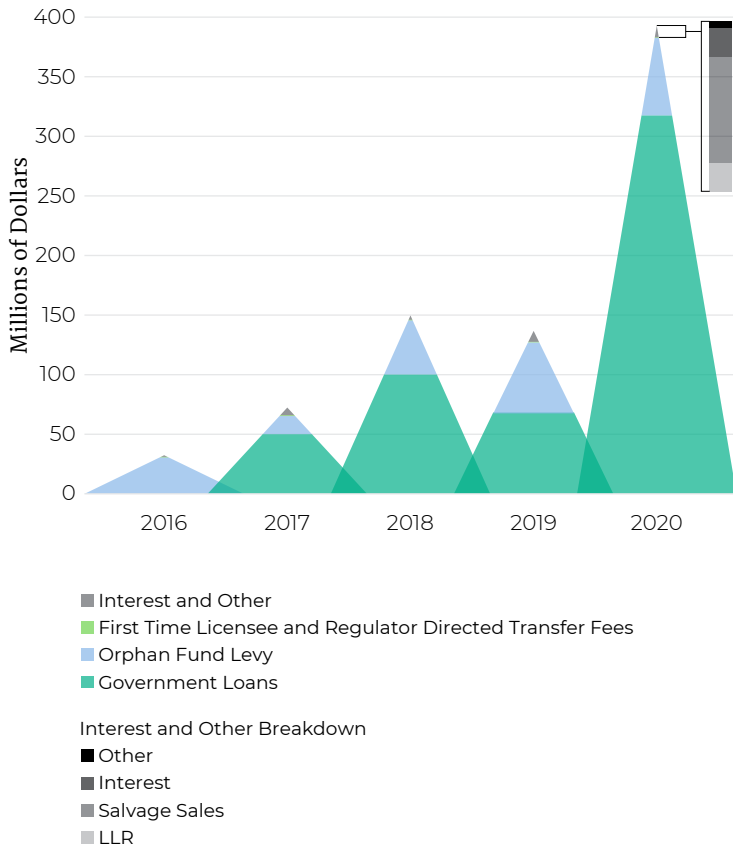
To our new board members, I welcome you. You bring an impressive set of skills and perspectives that further strengthen our board governance and oversight of the OWA's vital work in Alberta. The OWA is a strong and capable organization, ready to meet the challenges ahead. Finally, a special thank you to Lars De Pauw for your unflagging support and leadership skills over a time of significant change to make the model live and breathe.

Brad Herald
Chair, OWA

Fiscal Responsibility

Funding for the OWA is primarily provided by Alberta’s oil and gas industry through the Orphan Fund Levy, collected by the Alberta Energy Regulator (AER). In addition, the OWA has received government loans as part of their plan to provide support for the service sector but also to expedite our decommissioning and reclamation work, with the expectation of full repayment. These loans will be repaid by future levies.

Funding the OWA



Overall funding for the OWA increased 187% to \$392.2 million in 2020/21, from \$136.8 million the year before. The substantial increase is primarily due to government loans, which the OWA is already beginning to repay. In 2020/21, we received a \$117 million loan from the Government of Alberta, while the Government of Canada provided a \$200 million loan as part of the federal COVID-19 Economic Response Plan. These loans are interest-free to the OWA.

The loans we received in 2020/21 are in addition to a Government of Alberta loan in 2017/18 of \$235 million, with a grant of \$30 million from the Government of Canada to the provincial government to cover interest charges.

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 reclaims sites outside of the OWA’s inventory, so we are not eligible for these funds.

There has always been a clear expectation that the OWA will repay government loans. By the end of 2020/21, the OWA repaid \$53.8 million to the provincial government, with an additional payment of approximately \$7.5 million (unaudited) in the first quarter of 2021/22. With ongoing industry levies, we plan to pay back the total provincial loan by October 2031. Following that, we will repay the federal loan from industry levies.

See notes 2 and 6 in the Financial Statements for further explanation of government loans. The related graph shows the Orphan Fund Levy decreased in 2017/18; however, this is not a true representation of the trend due to the timing of when the funding was received. Historically, the financial statements showed a substantial surplus at year-end that would be used in the following fiscal year. To address this timing issue, starting in 2018/19, the levy was issued in April instead of March. As a result, it was accounted for in 2018/19, causing the funding for 2017/18 to appear lower.

The OWA fiscal year is from April 1 to March 31.

Regular OWA funding is provided from the Orphan Fund Levy, First Time Licensee and Regulator Directed Transfer fees, and interest and other sources.

The Orphan Fund Levy has continued to increase to approximately \$65 million in 2020/21; however, due to debt that was non-collectable from some operators for a variety of reasons, \$626,000 was not received and is written down on the OWA balance sheet as bad debt.

The goal of the Orphan Fund Levy is to provide funding to the OWA so we 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 claims and funding the administration of receiverships.

Working Interest Participant claims are made by active companies when they manage the decommissioning and/or reclamation of assets jointly owned with defunct partners. In these situations, the active company performs a function comparable to the OWA to properly decommission and reclaim the property. A typical project can take years for a company to complete. The OWA reimburses the active company for the defunct company's portion of the decommissioning and reclamation activities.

First Time Licensee and Regulator Directed Transfer fees decreased 28% to \$501,000 in 2020/21, from \$694,000 the year before. A First Time Licensee fee of \$10,000 is required by the AER from companies applying for eligibility to hold a well, facility or pipeline license. The AER collects Regulator Directed Transfer fees from an active company when it acquires a property licensed to a defunct company and then remits these fees to the OWA.

Funding from interest and other sources increased 7% to \$10.1 million from \$9.4 million. This category includes salvage sales and deposits held through the Alberta Energy Regulator's (AER) Licensee Liability Rating (LLR) Program.

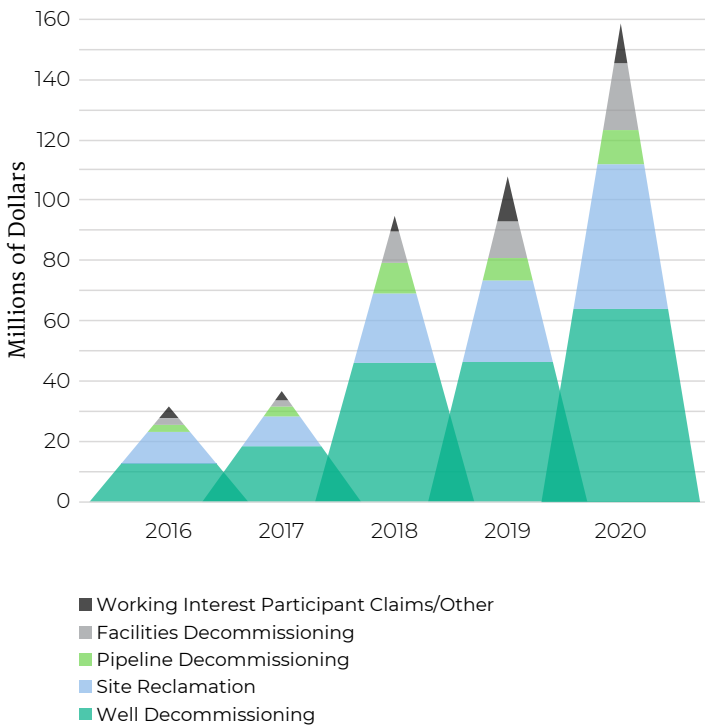
The LLR program assesses companies' abilities to address their decommissioning and reclamation obligations by calculating a ratio of deemed assets (oil and natural gas production) to deemed liabilities (estimated decommissioning and reclamation costs). When companies do not maintain a ratio above 1.0, the AER may require a security deposit to cover these closure costs in the event the company is not able to meet its obligations in the future. The AER remits this money to the OWA if the company is no longer solvent after the OWA completes the closure work.

Salvage sales increased 170% to \$6.2 million, from \$2.3 million the year before, due to the OWA's increased capability and focus on selling salvageable equipment. LLR recoveries decreased 54% to \$1.7 million, from \$3.7 million the year before.

Looking at previous years, the Funding the OWA graph shows overall funding for the OWA decreased in 2019/20. This is due to the structure of a Government of Alberta loan for \$235 million, provided from 2017/18 to 2020/21. All other funding increased that year.

This graph also shows the Orphan Fund Levy decreased in 2017/18; however, this is not a true representation of the trend due to the timing of when the funding was received. Historically, the financial statements showed a substantial surplus at year-end that would be used in the following fiscal year. To address this timing issue, starting in 2018/19, the levy was issued in April instead of March. As a result, it was accounted for in 2018/19, causing the funding for 2017/18 to appear lower.

Operating Expenditures



OWA operating expenditures increased 47% to \$157.9 million in 2020/21, from \$107.4 million the year before. The increase represents a substantial ramp-up of activity, which was possible due to government loans. Because decommissioning and reclaiming thousands of sites is an involved process, government funds will necessarily be spread out over several years to ensure these investments are effective and cost-efficient.

The OWA's operating expenditures are divided by well decommissioning, facility decommissioning, pipeline decommissioning, site reclamation, reimbursement for Working Interest Participant claims and receivership administration.

Detailed expenditures show the OWA is still spending most of its resources on well decommissioning; however, resources are starting to shift to pipeline and facilities decommissioning and, in particular, 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.

With new legislative changes, the OWA administered several receiverships during the fiscal year, which prevented many assets from becoming orphans. At the same time, the OWA's overall administration costs increased as the organization grew to ensure the inventory of orphans would be efficiently and effectively handled at an appropriate pace.

Detailed expenditures:

- Well decommissioning increased 38% to \$63.7 million, from \$46.2 million the year before¹.
- Site reclamation increased 78% to \$47.8 million, from \$26.9 million the year before².
- Facilities decommissioning increased 82% to \$22 million, from \$12.1 million the year before.
- Pipeline decommissioning increased 53% to \$11.3 million, from \$7.4 million the year before.
- Working Interest Participant reimbursements and other administration, primarily related to receiverships, remained relatively even at \$13.1 million compared to \$13.0 million the year before.

In 2020/21, working interest reimbursements accounted for 158 decommissioned wells, three well suspensions, 27 decommissioned pipelines, two decommissioned facilities and 25 site reclamations.

We work hard to ensure the funds we receive have the greatest impact. Over the last three years, the costs to decommission a well and reclaim a site have decreased due to diligent project management, including bundling projects regionally to maximize efficiencies.

The average cost of decommissioning a well in 2020/21 was \$23,000, with most in the range of \$4,500 to \$50,000. The average cost of reclaiming a site in 2020/21 was \$22,500, with most ranging between \$4,500 to \$60,000. These numbers reflect the 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.

² Site reclamation includes environmental site assessments, remediation and reclamation.

Closing a Site

Closing a site and demonstrating that it is functioning similar to how it did before the development took place includes several steps that can take years. Sites typically move from our decommissioning inventory to our

reclamation inventory until all provincial reclamation requirements are met, and the AER issues a reclamation certificate. Once the certificate is issued, the site is considered closed, and the surface lease is ended.

Many times, there is more than one licensed orphan on a site; for example, there may be five wellbores with a tank on one site. In this example, once all six orphans are decommissioned, it becomes one site that requires reclamation.

1 Site Designated Orphan

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

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



2 Inspection

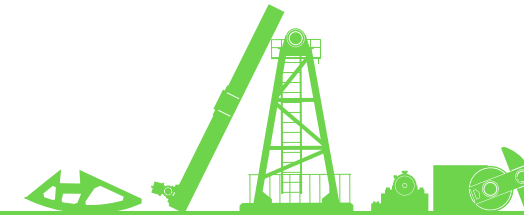
Landowners are contacted and an inspection of the site ensures protection of public safety and the environment. Sites are risk assessed with higher-risk sites decommissioned sooner.



Inspection takes place within 60 days

3 Decommissioning

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



Planning for decommissioning can take from one to several months

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.

4 Environmental Site Assessment

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

34% of reclamation inventory is here



Most assessments are completed within three months

Once work begins, decommissioning takes up to two weeks

5 Remediation

If contaminants are present, they are managed or removed.

4% of reclamation inventory is here



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

6 Reclamation

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

27% of reclamation inventory is here



32% of reclamation inventory is here

Re-vegetation on most sites takes about two years

7 Reclamation Certificate Application

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

Two months to prepare; may be approved in several days



8 Site is Closed

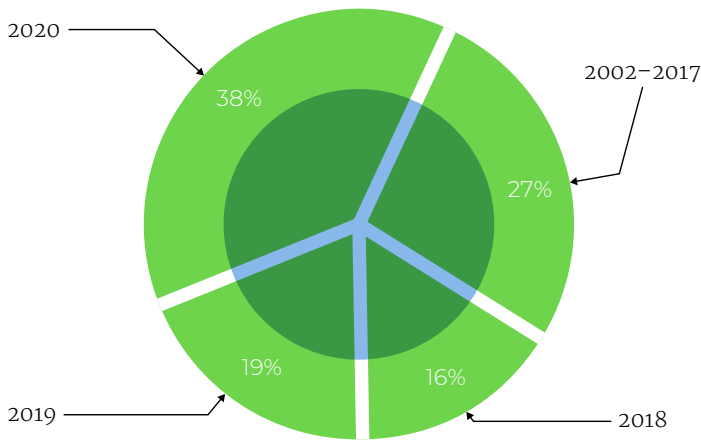


Timeline is approximate. Remaining 3% of reclamation inventory is categorized as 'other.'

Tackling the Infrastructure

In 2020/21, we handled almost 40 per cent of the total wells decommissioned by the OWA since its formation in 2002.

WELLS DECOMMISSIONED BY THE OWA

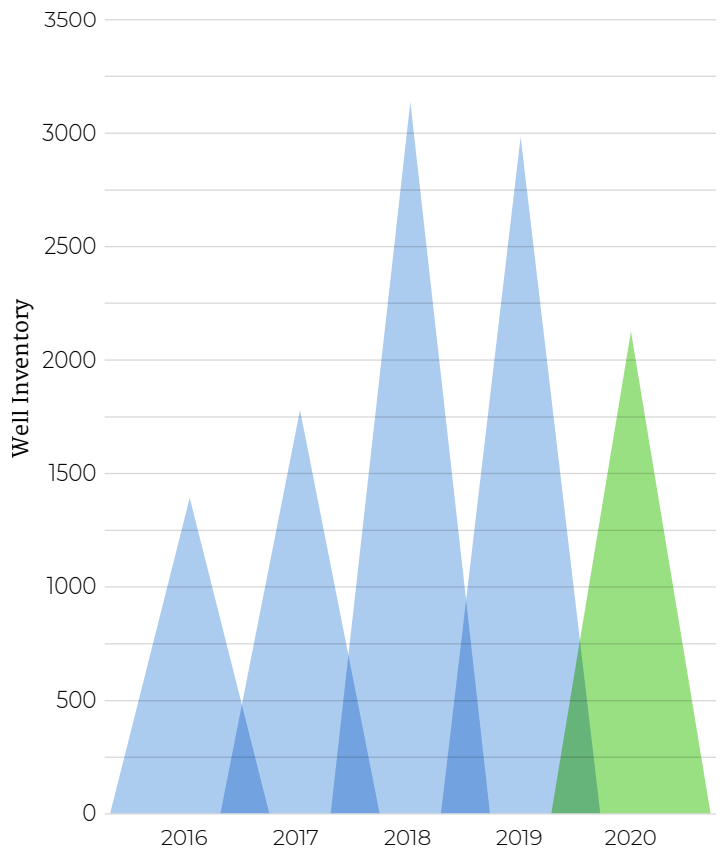


The very name “Orphan Well Association” reflects the idea that our job is to handle orphan wells. In fact, the OWA is also responsible for orphan pipelines and facilities, and we are seeing a greater number of these coming into our inventory.

Facilities can range from a tank on a wellsite to a large gas plant. In October 2020, we received our first Large Facility under the AER’s Directive 024: Large Facility Liability Management Program: the Mazeppa Gas Plant. Planning is now underway so we can begin decommissioning this complex facility in 2021/22.

Orphan Well Inventory

The number of orphan wells in the OWA inventory to be decommissioned decreased 29% to 2,126 at the end of 2020/21, from 2,983 wells at the end of 2019/20. The inventory number does not include orphan sites where the well has already been decommissioned and only requires remediation and reclamation.

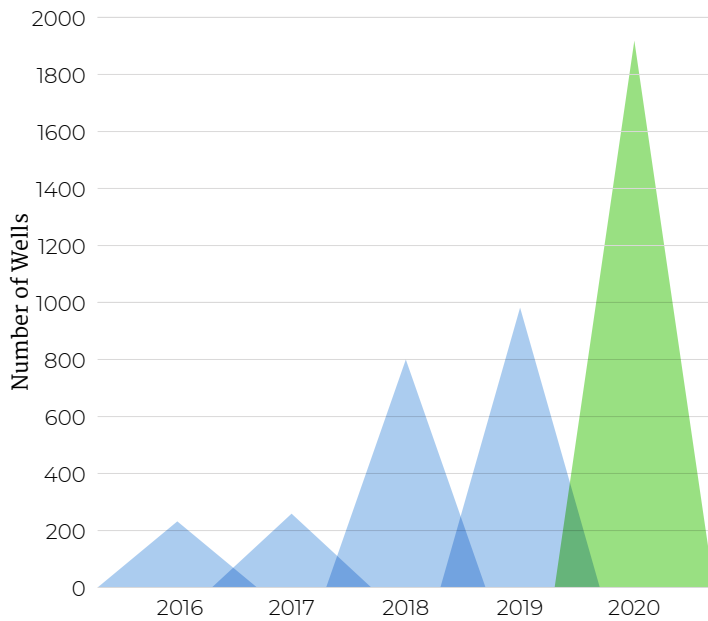


The number of new orphan wells received for decommissioning from the AER increased 38% to 1,167 in 2020/21, from 848 the year before. Most of the new wells received in 2020/21 were from Houston Oil and Gas Ltd.



Mazeppa Gas Plant

Number of Wells Decommissioned



The number of orphan wells decommissioned increased 96% to 1,922 in 2020/21, from 982 the year before.

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

Large Facility Program Operationalized

Under Alberta legislation, the OWA has two programs: the original Orphan Well Program covering our primary work, and the Large Facility Liability Management Program (LFP), as defined under AER Directive 024. These two programs are accounted for and funded separately but are summarized under one organization—the OWA.

The LFP was developed in parallel with the AER’s other liability management programs, anticipating the risk of potential future orphaned industry facilities that are downstream from the wells. These are typically the facilities and collector pipelines that we’ve historically focused on. The LFP program includes very specific facilities, including sulphur recovery plants and in situ oil sands processing facilities. As such, the LFP program only includes about 100 facilities in total.

Now, with the Mazeppa Gas Plant as the first Large Facility designated as an orphan to the OWA, the LFP will move from a legislated option to an operational reality. In 2021/22, we expect the complicated process of decommissioning and reclaiming this site to begin, the latter taking years to complete. To fund this project and the closure of future Large Facility orphans, the Government of Alberta now intends to enable the AER to operationalize the Large Facility Management Program levy to support the management of this type of work.

Returning the Land

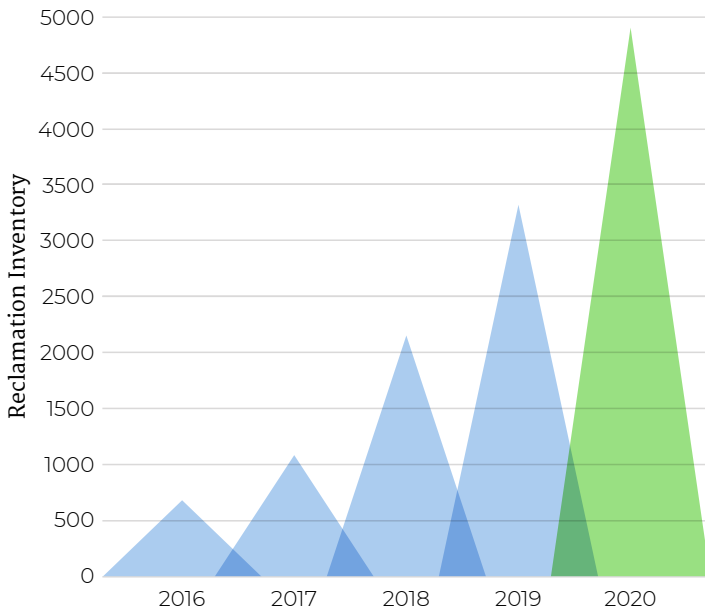


We expect to see significant growth in the number of reclamation certificates in the coming years as a result of previous years' work.

As more sites are decommissioned, our work on remediation and reclamation grows. The OWA is increasing staff and resources appropriately in this area to ensure we can manage this phase of the closure process.

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

Reclamation Inventory



The number of sites in the OWA reclamation inventory increased 47% to 4,889 at the end of 2020/21, from 3,319 at the end of 2019/20. 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.

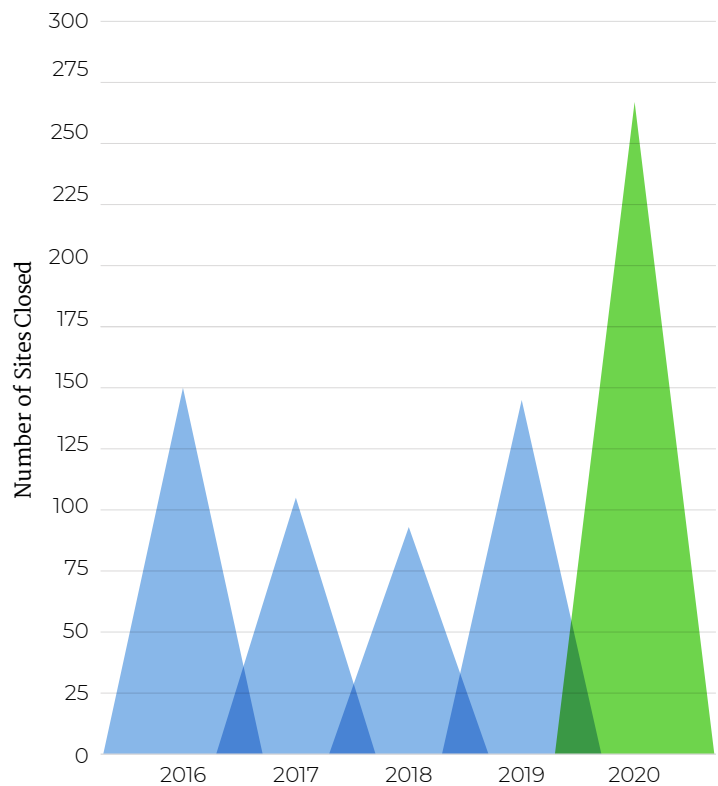
The reclamation inventory increases in two ways:

- when the OWA receives new sites—designated as orphans by the AER—that only require reclamation, 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 10–11 show the stages of closing a site.

Number of Sites Closed



The number of sites the OWA closed increased 83% to 267 in 2020/21, from 146 the year before. It takes years for a site to become suitable for a reclamation certificate application, and so this year’s number reflects reclamation work performed in the last several years.

This number of sites closed represents 466 hectares of land returned to Albertans, the equivalent of about 572 CFL football fields.

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



A saved barred tiger salamander found at a reclamation site near Throne, Alberta.

Salamander Relocation Saves Species of Special Concern

You never know what you'll find while reclaiming a site—or how precious it might be.

In August 2020, near Throne, Alberta in Paintearth County No. 18, North Shore Environmental Consultants began the task of pumping water out of ditches along an access road, so the road and wellsite could be reclaimed. Just as the pumps were starting up, the team noticed the dark, broad head and slender body of a salamander swimming in the murky water. Knowing the water was critical to the salamander's survival, they immediately shut down the pumps to investigate further.

Once the team began to look closely, more and more salamanders could be seen at various stages of development, including scores of larvae, which are entirely aquatic. The find was quickly reported to the OWA and North Shore's biophysical group, who identified the animals as barred tiger salamanders, also known as *Ambystoma mavortium*. This particular population is

listed as Special Concern under the Species at Risk Public Registry, and as Secure under the General Status of Alberta's Wild Species.

The immediate plans for site reclamation were put on hold. Within days, a relocation plan was developed and approved by the regional Alberta Environment and Parks' biologist to move the salamanders from two separate ditches to a nearby location that would not be impacted by the reclamation activities. Two biologists completed the relocation project, in which a total of 166 salamanders were safely moved to a water body that was an appropriate habitat with good food sources, approximately 350 metres north.

Thanks to the on-site consultants' quick actions, this colony—or congress—of salamanders was saved and will continue to thrive. The access road reclamation project was continued after the salamander relocation project was complete, allowing North Shore to successfully reclaim the road and wellsite in the area.

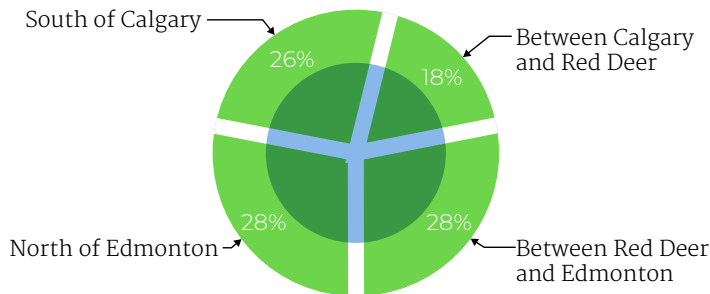


The area where the barred tiger salamanders were relocated.

Protecting Safety and the Environment

At the OWA, we are always assessing risk to ensure workers and the public are safe and the environment is protected. It starts shortly after a new site is designated to our inventory. We contact landowners or surface rights holders to notify them that we would like to access their land to do an inspection. The inspection ensures public safety and protection of the environment, allowing us to prioritize the higher-risk sites in our inventory, and at the same time drives operational efficiency. Once work on a site begins, it is critical that our contractors have safety protocols in place and follow them.

Inspections



In 2020/21, the OWA completed 1,050 site inspections throughout Alberta. Of these, 623 were initial site inspections, with 26% completed south of Calgary, 18% between Calgary and Red Deer, and 28% between Red Deer and Edmonton. The remaining 28% of were completed north of Edmonton.

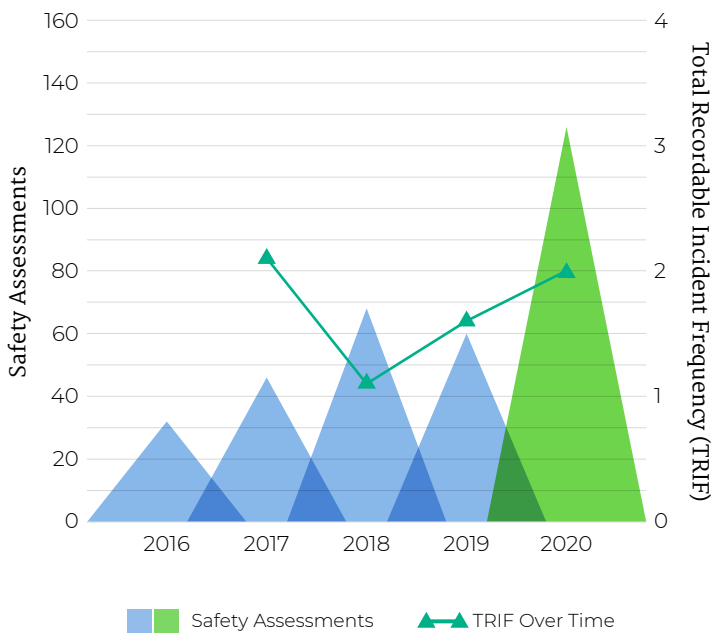
The OWA now evaluates new orphans with an automated system to rapidly identify high-risk sites and prioritize inspections appropriately. We have also started working with several receivers to access data from defunct companies, allowing us to contact landowners and conduct inspections sooner and, in turn, start the decommissioning earlier.

As well, we inventory equipment during inspections and place those assets on market platforms within hours to ensure anything salvageable is sold directly from site as soon as possible, increasing our revenue and improving our decommissioning efficiency.





Safety



The OWA began compiling contractor TRIF in 2017/18

The OWA uses the safety benchmark of Total Recordable Injury Frequency (TRIF) to measure our field safety performance relative to the number of hours worked. In 2020/21 our TRIF was 2.0 based on an estimated 984,000 contractor hours.

The majority of injuries at the OWA are slips, trips and falls. 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 2020/21, there were a total of 126 safety assessments conducted on Prime Contractors. In addition to these more formal assessments, the OWA conducted 343 safety engagements, where a range of activities were undertaken to support contractors' safety performance from safety bulletins to in-person dialogue. We expected to see a decrease in our contractor TRIF due to increased assessments and engagements, but unfortunately this did not occur. We plan to further increase our efforts to improve our safety results in 2021/22.



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
Executive Director



Vik Dhalla CPA, CMA
Corporate Controller

Independent Auditor's Report

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, 2021, and the statement of changes in net assets, statement of operations, 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, 2021 and its financial performance and its cash flow 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 matter

The financial statements of the Association for the year ended March 31, 2020 were audited by another auditor who expressed an unmodified opinion on those statements on June 10, 2020.

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.

Ernst + Young LLP

Calgary, Canada
June 24, 2021

Chartered Professional Accountants

Financial Statements

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Financial Position
 As at March 31, 2021
 (thousands of dollars)

	2021	2020
Assets		
Current assets		
Cash	\$ 266,805	\$ 11,304
Accounts and other receivables	2,863	1,570
GST receivable (Note 3)	-	443
Prepaid expenses and deposits	318	213
Short term investments (Note 4)	45,000	88,500
	314,986	102,030
Internally restricted cash (Note 7)	519	516
Tangible capital assets (Note 5)	16	12
	\$ 315,521	\$ 102,558
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	32,878	9,167
Current portion of long term notes payable (Note 6)	30,198	30,198
	63,076	39,365
Long term notes payable (Note 6)	332,737	144,957
Deferred contributions (Note 6)	118,255	19,234
	514,068	203,556
Internally restricted assets (Note 7)	519	516
Unrestricted net assets	(199,066)	(101,514)
	(198,547)	(100,998)
	\$ 315,521	\$ 102,558

Subsequent events (Note 16)

See accompanying notes to financial statements.

Approved by the Board:


 Director


 Director

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Operations
Year ended March 31, 2021
(thousands of dollars)

	2021	2020
Revenues		
Orphan fund levy through the AER	65,000	60,345
Interest income (Notes 4 and 6)	9,660	8,306
Industry enforcement and licensee liability rating deposit recoveries through the AER	1,727	3,715
Salvage sales and rental income	6,311	2,400
First time licensee fees and Regulator directed transfer fees through the AER	501	694
Working interest participant agreement recoveries (Note 8)	311	-
	83,510	75,460
Expenditures		
Operating		
Well abandonment	63,700	46,247
Site reclamation	47,794	26,871
Facility decommissioning	22,027	12,112
Pipeline abandonment	11,320	7,351
	144,841	92,581
Other		
Working interest claims (Note 9)	9,382	12,168
Fund administration (Note 10)	7,534	4,410
Interest on long term note payable (Note 6)	7,950	5,066
Bad debt expense (Note 11)	626	3,353
Non-recoverable GST expense (Note 3)	6,972	2,347
AER enforcement activities (Note 13)	45	1,880
Receivership expenses (Note 12)	3,709	770
	36,218	29,994
	181,059	122,575
Deficiency of revenues over expenses	\$ (97,549)	\$ (47,115)

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, 2021

(thousands of dollars)

	Internally			
	Restricted	Unrestricted	2021	2020
Balance, beginning of year	\$ 516	\$ (101,514)	\$ (100,998)	\$ (53,883)
Surplus (deficit)	3	(97,552)	(97,549)	(47,115)
	\$ 519	\$ (199,066)	\$ (198,547)	\$ (100,998)

See accompanying notes to financial statements.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Statement of Cash Flows
Year ended March 31, 2021
(thousands of dollars)

	2021	2020
Cash provided by (used in)		
Operating		
Deficiency of revenues over expenses	\$ (97,549)	\$ (47,115)
Non-cash items		
Amortization of tangible capital assets	20	24
Changes in operating non-cash working capital		
Decrease (increase) in accounts and other receivables	(1,293)	358
Decrease (increase) in GST receivable	443	275
Decrease (increase) in prepaid expenses and deposits	(105)	446
Increase (decrease) in accounts payable and accrued liabilities	23,711	(3,138)
	(74,773)	(49,150)
Investing		
Decrease in short term investments	43,500	5,500
Purchase of tangible capital assets	(24)	-
Increase in internally restricted cash	(3)	(10)
	43,473	5,490
Financing		
Issuance of long term notes payable	217,978	64,385
Increase in deferred contributions	99,021	3,616
Repayment of long term notes payable	(30,198)	(18,056)
	286,801	49,945
Net increase in cash	255,501	6,285
Cash, beginning of year	11,304	5,019
Cash, end of year	\$ 266,805	\$ 11,304

See accompanying notes to financial statements.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Notes to the Financial Statements

March 31, 2021

(thousands of dollars)

Note 1 Nature of operations

The Alberta Oil and Gas Orphan Abandonment and Reclamation Association (the "OWA" or the "Association") operates under the authority of the Oil and Gas Conservation Act, the Orphan Fund Delegated Administration Regulation ("OFDAR"), and the Societies Act, Chapter S-18, 1980. The OWA was created as a Delegated Administration Organization ("DAO") under the delegated authority of the Alberta Energy Regulator ("AER") and was established to manage the abandonment of Alberta's upstream oil and gas orphan wells, pipelines, 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"), 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) Short term investments

Short term 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.

d) Revenue recognition

The OWA receives substantially all its revenue as a contribution from the AER, which includes the Orphan Fund Levy, first time licensee fees, Regulator directed transfer fees, enforcement recoveries, and liability licensee rating recoveries. The Orphan Fund Levy is set by the AER in consultation with the OWA, Canadian Association of Petroleum Producers and Explorers and Producers Association of Canada. 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,

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Notes to the Financial Statements

March 31, 2021

(thousands of dollars)

including first time licensee fees, Regulator directed transfer fees, enforcement recoveries, and liability licensee rating 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 and rental income are recognized on the basis of the passage of time when collectability is reasonably assured.

e) Tangible capital assets

Purchased tangible capital assets are recorded at cost less accumulated depreciation. 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 is provided on a straight-line basis over the assets' estimated useful lives as follows:

Computers	3 years
-----------	---------

f) Financial assets and liabilities

The Association initially records financial assets and liabilities at fair value, except for a related party transaction, which is recorded at the carrying or exchange amount 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) all financial assets, which includes cash, accounts and other receivables, short term investments and internally restricted cash, at amortized cost; and
- (ii) 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.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Notes to the Financial Statements

March 31, 2021

(thousands of dollars)

g) Long-term note 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

During the year ended March 31, 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.

Note 4 Short term investments

At March 31, 2021, the Association's short-term investments included Guaranteed Investment Certificates with interest rates of 0.4% to 1% per annum. The investments mature at various dates from November 2021 to March 2022.

Note 5 Tangible capital assets

			2021		2020	
	Cost	Accumulated amortization	Net book value	Net book value		
Computers	\$ 96	\$ 80	\$ 16	\$ 12		

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Notes to the Financial Statements

March 31, 2021

(thousands of dollars)

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, 2021, advances of \$235,000 (2020 - \$218,000) have been received, of which \$27,830 (2019 - \$19,234) has been recorded as a deferred contribution, and \$5,612 (2020 - \$5,066) as interest expense, calculated based on an annual rate of 3.2% (2020 - 3.2%). The outstanding balance of this Provincial loan is repayable in quarterly instalments of \$7,550 through to January 1, 2027.

In the year ended March 31, 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, 2021, an advance of \$100,000 has been received, of which \$25,665 has been recorded as a deferred contribution, together with interest to be 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.

In addition, in the year ended March 31, 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, 2021, advances of \$200,000 have been received, of which \$79,137 has been recorded as a deferred contribution, and \$2,338 as interest 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:

	2022	2023	2024	2025	2026	Thereafter
Repayment Schedule	\$ 30,198	\$ 30,198	\$ 30,198	\$ 30,198	\$ 30,198	\$ 330,198

Changes in deferred contributions during the year are as follows:

Deferred contributions	2021		2020	
Balance, beginning of year	\$	19,234	\$	15,619
Additions	\$	106,971	\$	8,681
Interest revenue recognized	\$	(7,950)	\$	(5,066)
Balance, end of year	\$	118,255	\$	19,234

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Notes to the Financial Statements

March 31, 2021

(thousands of dollars)

Note 7 Internally restricted assets

Internally restricted cash represents internally restricted net assets in the amount of \$519 (2020 - \$516), which may be used at the discretion of the Board.

Note 8 Working interest participant agreement recoveries

During the year ended March 31, 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, 2021, \$311 (2020 - nil) 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, 2021, \$9,382 (2020 - \$12,168) 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 \$421 (2020 - \$387), which is included in fund administration expenses. No remuneration and benefit payments were made to Board members for services provided in fiscal years 2021 and 2020.

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

Note 11 Bad debt expense

Bad debt expense is recorded to reflect uncollected Orphan Levy Funds from prior periods for which collection is uncertain. During the year ended March 31, 2021, \$626 (2020 - \$3,353) has been recorded as a bad debt expense.

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

Notes to the Financial Statements

March 31, 2021

(thousands of dollars)

Note 12 Receivership expenses

As necessary, the Association applies to the Courts to appoint Receivers for certain entities to ensure that abandoned 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, 2021, \$3,709 (2020 - \$770) 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, 2021, \$45 (2020 - \$1,880) 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, 2021, approximately 52% of the Association's accounts and other receivables was due from the AER (2020 - 30%). 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

The Association is exposed to liquidity risk which is the risk that the Association will be unable to generate or obtain enough cash to meet obligations as they fall due. 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, 2021 are as follows:

	Total	2022	2023	2024	2025	2026	Thereafter
Accounts payable and accrued liabilities	\$ 32,877	\$ 32,877	\$ -	\$ -	\$ -	\$ -	\$ -
Long term note payable	\$ 481,190	\$ 30,198	\$ 30,198	\$ 30,198	\$ 30,198	\$ 30,198	\$ 330,198

ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION
Notes to the Financial Statements
March 31, 2021
(thousands of dollars)

Note 15 COVID-19

As at the reporting date, the COVID-19 pandemic continues across Alberta, Canada and around the globe. During the year ended March 31, 2021, the Association took steps to ensure it could continue to operate in a safe and effective manner. These steps included permitting employees to work-from-home, creating safe and socially distanced workspaces for those employees deemed essential to be present at office premises, investing in technology to enable continued access to the tools necessary for employees to perform their responsibilities and the heeding of local, provincial and federal health authority guidance. The pandemic has had minimal effect on the OWA operation as a whole and it continues to operate in a safe and effective manner.

Note 16 Subsequent events

- a) Subsequent to year end, the OWA entered into an operating lease on April 7, 2021 for office premises for the period from August 1, 2021 until February 27, 2025. The annual minimum payments under the operating lease are \$265.
- b) While the OWA 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, on May 4, 2021 the Association was informed by the CRA of their further decision to disallow ITC's claimed during the period from January 1, 2017 to February 28, 2021. The total amount being appealed by the OWA is \$3,174 related to the period of April 1, 2014 to December 31, 2016.

Note 17 Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

Governance

The Alberta Oil and Gas Orphan Abandonment and Reclamation Association is an independent nonprofit organization, generally known as the Orphan Well Association or OWA. The OWA operates under the delegated legal authority of the AER, the provincial regulator of energy development. Funding for the association's work comes primarily from Alberta's oil and gas producers through the Orphan 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 Orest Kotelko, Jim Sreaton and Rob Wadsworth who concluded their service on the Board during the fiscal year

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.

Orest Kotelko

Canadian Natural Resources Limited

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

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.

Jim Screatton

Explorers and Producers Association of Canada

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

Rob Wadsworth

Alberta Energy Regulator

Rob Wadsworth is Vice President Compliance & Liability Management at the Alberta Energy Regulator. Since 2012, he has held several executive roles with the AER covering industry life-cycle regulation from approval processes for new projects to closure and reclamation, as well as providing organizational leadership on learning, effectiveness and efficiency initiatives. Prior to the AER, Rob worked as a departmental manager with a major nuclear power producer. He had earlier served in senior leadership roles in domestic and international operations with the Canadian Forces.

Management

Lars De Pauw

Executive Director

Vik Dhalla

Corporate Controller

Brad Malley

Team Lead
Decommissioning

Dave Marks

Team Lead
Land, Stakeholder Relations and Support Services

Rob Thompson

Team Lead
Environment





ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION ASSOCIATION

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