

Informational Notice 02-04

June 26, 2002

Annual Report

Abandonment Fund Reserve Account Fiscal Year Ending March 31, 2002

Abandonment Fund Reserve Account

The Abandonment Fund Reserve Account ("the Account") is established under Section 172 of The Oil and Gas Act. The Account may be used as a source of funds to operate or abandon a well or facility that is non compliant with the Act where the licensee or permittee of the well or facility fails to comply. The Account may also be used to rehabilitate the site of an abandoned well or facility or to address any adverse effect on property caused by a well or facility. Expenditure from the Account on behalf of a licensee or permittee automatically creates a debt of the licensee or permittee to the Crown.

Annual Review of Account

Section 54.1 of the Drilling and Production Regulation under The Oil and Gas Act provides as follows

Account reviewed annually

54.1 The director shall conduct an annual review of the Abandonment Fund Reserve Account and shall make a recommendation as to whether the amount of the non-refundable levy should be changed having regard to the account balance and the anticipated deposits to and expenditures from the account.

This is the Director's report as required by the regulation.

Opening Balance

The opening balance of the Account on April 1, 2001 was \$187,597.47

Deposits (April 1, 2001 to March 31, 2002)

Deposits into the Account are comprised of levies on certain licences and permits issued under The Act as well as annual inactive well levies. Accrued interest earned by the Account is also deposited. Deposits to the Account may also include recoveries of previous expenditures made from the Account.

Levies for deposit in the Account are established by regulation.

The Geophysical Regulation provides for a levy of \$50 on each Geophysical Licence issued. The Drilling and Production Regulation provides for levies on well licences issued or transferred, battery operating permits issued and wells designated by the Director as inactive. Manitoba Regulation 116/2001 introduced an amendment to increase various levies charged under the Act. The following table provides a comparison of the levies before and after the introduction of this regulation on July 28, 2001:

	Previous Levy	Amended Levy
Geophysical Licence	\$ 50	\$ 50
Well Licence	\$200	\$250
Transfer of well licence	nil	\$ 50 *
Battery Operating Permit	\$ 50	\$250
Inactive Wells (annual)	\$100	\$150 to \$1000 **

* Subject to a maximum of \$1000 for any single well licence transfer application

** Four classes are established, three for wells that have been inactive for differing lengths of time and one for batteries that are inactive

The amending regulation also provides for late payment penalties with respect to inactive well levies. The revised inactive well levies are effective for the calendar year 2001 and collection based on these levies will be reflected in fiscal year 2002/03.

In fiscal year 2001/02, the Branch was successful in partial recovery of a debt to the Crown by Shannon Oils Ltd. The debt arose from non payment by Shannon of inactive well levies for the years 1995, 1996 and 1997 as well as payments made from the Account in regards to abandonment of three wells and a battery seized in 1998 by the Director pursuant to Section 182 of the Act.

Deposits into the Account in fiscal year 2001/02 were as follows:

Levies

Geophysical Licences	\$ 200.00
Well Licences	\$24,650.00
Battery Operating Permits	\$ 500.00
Transfer of Well Licences	\$ 1,250.00
Inactive Well Levies	\$22,100.00

Total Levies **\$48,700.00**

Interest **\$ 5,347.25**

Recovery of Expenditures

Shannon Oils Ltd. \$22,490.27

Total Deposits (01/02) **\$76,537.52**

Expenditures (April 1, 2001 to March 31, 2002)

Expenditures from the Account were limited to a crop loss payment to the landowner of a well/battery site formerly operated by Shannon Oils Ltd.

Total Expenditures \$ 192.00

Closing Balance

The closing balance of the Account as at March 31, 2002 was **\$263,942.99**

Forecast of Revenue and Expenditures

The following revenues are forecast for the Account during fiscal year 2002/03

Well Licences	\$25,000
Geophysical Licences	\$ 400
Battery Operating Permits	\$ 500
Transfer of Well Licences	\$ 2,000
Inactive Well Levies	\$55,000
Interest	\$ 4,500
Recoveries (Shannon)	\$ 5,600

Total **\$93,000**

It is anticipated there will be major expenditures from the Account during fiscal year 2002/03. The wells and facilities of three operators have been seized under Ministerial Orders and the Branch plans to abandon or transfer to other operators these wells and facilities in the summer and fall of 2002. While a

portion of the cost of this will be covered by performance deposits, sale of oil and salvage of equipment, a significant draw on the Account is anticipated as detailed below. It is anticipated that prospects for collection of the debts that any of these expenditures create are limited.

Oilex Exploration Corp	\$170,000
Mead Petroleums and Farms Ltd.	\$ 13,000
Fawn Petroleums Ltd.	\$ 44,800
Total	\$227,800

Based on the above, the closing balance of the Account at the end of fiscal year 2002/03 is forecasted at \$129,000.

There are a number of other non compliant or derelict operators where seizure of wells and facilities may be required. As these properties have limited asset values, a further draw on the Account is anticipated. Any further seizure actions will be contingent on maintaining a viable balance in the Account.

Recommendation

Having regard for the anticipated revenues to and expenditures from the Account, and noting that levies charged under the Act were recently increased, it is recommended that there be no change in levies charged under the Act in fiscal year 2002/03.

Given significant potential expenditures from the Account during FY 2002/03 and beyond, alternate sources of revenue to the Account should be considered. It is noted that most options under consideration would require amendment of The Oil and Gas Act

L. R. Dubreuil
Director