



Oil and Gas Regulatory
Cost Recovery Levy
Annual Report for
2014 -15

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Introduction

Efficient and effective regulation is the foundation of responsible resource development. In Saskatchewan, the Ministry of the Economy (ECON), Ministry of Environment (ENV) and the Ministry of Agriculture (AG) share responsibility for regulating the oil and gas industry.

In 2014, the Government of Saskatchewan introduced the Oil and Gas Regulatory Cost Recovery Levy (well levy) to ensure that Saskatchewan's regulatory system meets public expectations and provides service standards that align with modern industry needs.

The well levy recovers 90 per cent of regulatory costs and follows the same principles as the funding models used in Alberta and British Columbia. Billed annually, the well levy replaces 10 individual licensing or application fees and eliminates 20,000 transactions. This is a significant reduction in administrative burden for industry and government.

When introducing the well levy, the Government of Saskatchewan made a commitment to improve transparency on the well levy administration and regulatory performance indicators through the publication of an annual report. This first report summarizes the results and statistics that are currently available, however with the implementation of the Integrated Resource Information System (IRIS) in late 2015, more information will be available for subsequent reporting purposes.

This report has two main sections: an overview of well levy finances; and a review of performance indicators for the various regulatory services that are delivered. ECON engaged KPMG to do a review of the financial information included within the Financial Reporting section of this report. The findings from this review are attached to this report in Appendix A and Appendix B.

Oil Levy Calculation

In 2014, industry reported oil production of 29,811,336.2 cubic metres (m³) from 35,279 wells in the range of 0.1 m³ to 67,461.2 m³ per well or an average production rate of 845.1 m³/year (yr). These oil wells also produced 3,462,897.2 x 10³ m³ of natural gas or an average production rate of 98.2 x 10³ m³/yr. As well, 18,805 wells reported only gas production. A total of 2,356,820.5 x 10³ m³ of natural gas was produced in the range of 0.1 x 10³ m³ to 9,499.7 x 10³ m³/yr or an average production rate of 125.3 x 10³ m³/yr. There were also 4,799 injection or disposal wells subject to the base well levy.

90 per cent of forecast regulatory expenses are covered. The provincial budget for regulatory services affects the well levy rates as do changes in the number of wells or volume of production.

For the 2014-15 fiscal year, industry was invoiced \$16,696,425 for the well levy. This invoice amount represents 90 per cent of the costs of regulatory services that were provided prior to the introduction of the well levy, plus 90 per cent of the additional \$1.5 million (M) in resources added to ECON's 2014-15 budget to increase regulatory activities in Saskatchewan.

The well levy is invoiced annually based on the number of wells and the production of oil and natural gas (in equivalent oil terms) from each well for the previous year ended December 31. All wells are sorted into one of eight classes by production volume. Each well is charged a base fee multiplied by an adjustment factor. The adjustment factor is set annually to ensure

Adjustment Factor Calculation (Well Class and Base Well Levy Amount)				
Well Class	Production (cubic meters/year)	Base Well Levy Amount	Well Count	Base Amount X Well Count
1	Service wells	\$100	4565	\$456,500
2	0.1 to 300.0	\$100	31940	\$3,194,000
3	300.1 to 600.0	\$125	7705	\$963,125
4	600.1 to 1200.0	\$312	6604	\$2,060,448
5	1200.1 to 2000.0	\$750	3460	\$2,595,000
6	2000.1 to 4000.0	\$1,250	2758	\$3,447,500
7	4000.1 to 6000.0	\$1,625	658	\$1,069,250
8	greater than 6000.0	\$1,875	492	\$922,500
Total			58182	\$14,708,323 B
2013-2014 Regulatory Budget				\$18,621,790 A
Industry Share (90%)				\$16,759,611 C
Adjustment Factor (A/B=C)				1.139464

*Note: Industry was actually invoiced a total of **\$16,696,425** due to an adjustment to eliminate double counting of multizone wells as well as rounding when applying the adjustment factor at the well level.

Financial Reporting

WELL LEVY REVENUE AND REGULATORY COSTS (\$000s)		2014-15 Actual
WELL LEVY INVOICED		16,696
LESS: REGULATORY COSTS INCURRED (90%)		17,805
VARIANCE (6.6%)		(1,109)
COST DETAIL		
1	Enforcement: regulatory oversight, enforcement and authorization for well, facility and pipeline licence, application approvals and transfers, gas exploration and development, carbon capture and storage, costs of operating the geological laboratory	8,623
2	Validation: production data, well information, geological information and potential crown mineral trespass, title and ownership resolution and data maintenance	838
3	Technical services: production reports, digital well records, geological expertise and resources	689
4	Surface Rights Arbitration Board	101
5	Information Technology (IT) and database costs	3,069
6	Central overhead and costs	4,593
TOTAL MINISTRY OF THE ECONOMY		17,913
OTHER MINISTRIES:		
7	Agriculture	606
8	Environment	1,264
TOTAL COSTS: ALL MINISTRIES		19,783
WELL LEVY 90%		17,805

REF.	DESCRIPTION
1	<p data-bbox="228 533 370 558">Enforcement:</p> <ul data-bbox="253 569 1516 1079" style="list-style-type: none"> <li data-bbox="253 569 1516 625">• Oversight of development of new regulatory initiatives requested by the industry such as Directive 17, Measurement and Metering Requirements, or the sour gas strategy; <li data-bbox="253 632 1398 657">• Costs associated with the delivery of well, facility, blaster permit and seismic license approvals and transfers; <li data-bbox="253 663 1516 785">• Costs for enforcement, compliance and regulatory oversight, including site inspections, environmental (acknowledgement of reclamation and care custody of unmanaged sites), public safety (rig inspections), spill, waste, associated gas conservation, air emission control, licensee liability rating, inactive and orphan well management programs; <li data-bbox="253 791 1516 913">• Costs associated with the delivery of pipeline license approvals and transfers; technical application reviews, including horizontal wells, enhanced oil recovery (EOR) and waterflood projects; off-target wells, allowable production rates, oil and gas pools, reservoir analysis for appropriate well spacing, resource conservation and reserve calculations, injection wells, commingled wells, concurrent production, unitization and storage caverns. <li data-bbox="253 919 1430 976">• Activities including validation of Crown lands for posting, mineral ownership for wells, resolution of title issues, maintenance of ownership data, and maintenance of data files and maps for land restrictions; <li data-bbox="253 982 1308 1008">• Activities related to the development of policy and regulations for carbon capture and storage; and <li data-bbox="253 1014 1471 1079">• Support to regulatory compliance for oil and gas exploration and development; this includes processing cores and samples submitted under regulation and identifying oil pools.
2	<p data-bbox="228 1108 342 1134">Validation:</p> <ul data-bbox="253 1148 1516 1325" style="list-style-type: none"> <li data-bbox="253 1148 1516 1230">• Collection, validation and enforcement of data submission requirements with respect to petroleum energy sector data, which includes drilling information, well and facility infrastructure data, geological data, seismic information and volumetric data; and <li data-bbox="253 1236 1516 1325">• Activities and associated costs related to technical reviews of wells drilled on Crown minerals to determine whether trespass has occurred, and administrative costs related to the enforcement of Section 25(a) of <i>The Crown Minerals Act</i> where a trespass has been confirmed.
3	<p data-bbox="228 1354 423 1379">Technical Services:</p> <ul data-bbox="253 1394 1516 1635" style="list-style-type: none"> <li data-bbox="253 1394 1516 1535">• Activities related to client support for industry involving front-line assistance and guidance with respect to the use of the electronic data reporting system, managing data collection system change requirements and enhancements, managing electronic data submission penalty and waiver processes, developing electronic report summaries, digitizing well and seismic records, and providing industry access to digital well records, seismic information and other electronic well and facility information and reports; <li data-bbox="253 1541 1516 1598">• Costs for providing geological reviews of technical applications on an as-needed basis (off-target wells, oil and gas pools, EOR projects, etc.); and <li data-bbox="253 1604 1438 1635">• Costs for the technical review and administration of lease of space agreements (storage and disposal/injection).

REF.	DESCRIPTION
4	<p>The Surface Rights Arbitration Board:</p> <p>This arbitration board, governed by <i>The Surface Rights Acquisition and Compensation Act</i>, is used as a last resort when a landowner or occupant and an oil/gas or potash operator are unable to reach an agreement.</p>
5	<p>IT and Database Costs:</p> <ul style="list-style-type: none"> • Costs of Petrinex for services that provide fast, standardized, safe and accurate management/exchange of key volumetric, royalty and commercial information associated with the upstream petroleum sector; • Operating costs of the Integrated Resource Information System (IRIS), the Government of Saskatchewan's online business portal for the oil and gas industry. This includes IT costs for the support and maintenance of IRIS to enable the licensees and regulators to audit and measure the respective performance activities; and • Amortization costs of capitalized IRIS IT projects and the operating costs of the legacy systems replaced by IRIS that are in the process of being phased out.
6	<p>Central Overhead and Costs:</p> <ul style="list-style-type: none"> • Allocation of central accommodation, IT and benefit costs attributable to well levy activities; • Accommodation costs for Geological Laboratory where core samples gathered in accordance with the Regulations are located; and • Amortization costs of capitalized Geological Laboratory assets and capitalized Petroleum Development branch field assets.
7	<p>Ministry of Agriculture:</p> <ul style="list-style-type: none"> • Salary and expenses, mileage, etc., for two land agrologists (one in the Swift Current office and one in the North Battleford office) for site inspections, review of new project proposals, abandonment inspections, lease spills, seed mix reviews and approvals; and • Salary and operating costs for one regional manager, one agreement coordinator preparing leases and addressing industry inquiries, Regina staff involved in policy development, rate review, billing, collections and accounting associated with 6,735 active leases.
8	<p>Ministry of Environment:</p> <ul style="list-style-type: none"> • Salaries and operating costs for ecological protection specialists from Landscape Stewardship Branch responsible for review and approval of oil/gas industry proposals; • Time spent by support staff within the branch on the oil/gas program; and • Salaries and operating costs for the two managers in the branch who are responsible for the program; • Time for registry staff from the Client Service Office responsible for producing and completing all land dispositions associated with the industry; and • Oil/gas industry related time for staff at the Conservation Data Centre (provides rare and endangered species information to the industry for use in planning exploration and developments), regional wildlife and fisheries biologist time associated with the industry, and time spent on industry issues/proposals for Environmental Assessment Branch staff.

Improved Service Standards

When the Government of Saskatchewan introduced the well levy, it provided an overview of the phase in of increased resources for regulatory oversight over the next three years. The original overview stated that the cost of regulatory services in 2013-14 was approximately \$17M with a planned increase in regulatory oversight valued at \$1.5M in 2014-15, \$3.5M in 2015-16 and \$5M in 2016-17.

The incremental funding over the three years is intended to provide the ability to improve service standards, including:

- Faster well license approval time;
- Enhanced sour gas and other air pollutant monitoring and enforcement;
- Care and custody of pre-orphaned sites;
- Enhanced spill contingency and response;
- Examination of the provision of single-window service for all well licensing, combining the work of the Ministries of Agriculture, Environment and the Economy; and
- Enhance technological investments to expand EOR.

The multi-year Service Standard targets identified include:

Service Standard Commitments, Post IRIS Implementation	
Service	Target
License Application Approvals	
Routine well license approval	Same day
Non-routine well license approval *excluding time of duty to consult (DTC) or Environmental Impact Assessment (EIA)	14 calendar days excluding DTC or EIA
Post License Application Approvals	
Rig release	Same day
Completion application	Same day
Abandonment and plug back approvals (for wells, facilities and pipelines)	Same day
License condition amendment (for wells, facilities and pipelines)	Same day

Regulatory Services

Overview of Progress to Improve Service Standards

The following information indicates the progress made on improving the specific services to industry within Economy unless otherwise stated in the areas that were targeted:

a. Well License Approval Times

A modest lowering of wait times for internal processes from 1.9 to 1.6 days with respect to well licensing approval was achieved as the well levy eliminated a licence fee submission with every licence application. When the Integrated Resource Information System (IRIS) is released near the end of 2015, the target for approval times is a one-day turnaround on routine well licence applications.

b. Enhanced sour gas and other air pollutant monitoring and enforcement:

ECON carried out 84 risk-specific inspections (an increase of 282 per cent from 2013-14), focused on high-risk sour gas production areas, which resulted in 48 shut-in and correction orders. In 2013-14, comprehensive audits were conducted at 22 facilities.

ECON has purchased three additional Forward Looking InfraRed (FLIR) cameras to detect fugitive hydrocarbon emissions from oil tanks and processing equipment. These fugitive emission sources comprise the majority of sour gas volumes released from upstream oil facilities.

c. Care and Custody of Pre-Orphaned Sites:

ECON had expenditures of \$432,123 for care and custody of pre-orphaned sites. These are sites that, at the time the work was required, were not officially deemed as orphaned, but the responsible company refused or was unable to meet its obligations. The work conducted under the care and custody program is typically emergent in nature. Examples of the work conducted were abandonment of wells with unsafe pressure conditions or leaks, removal of contaminated soil

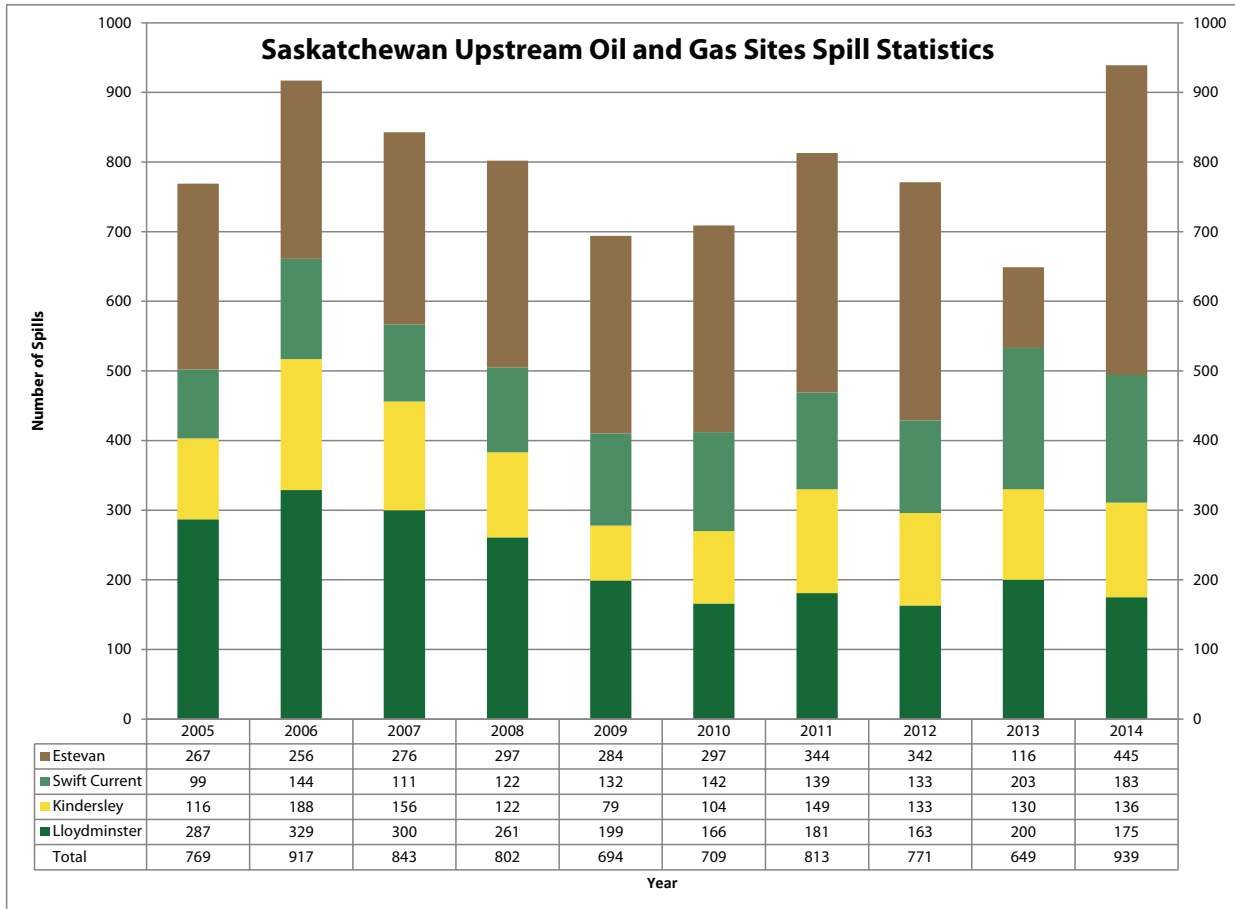
adjacent to surface water, removal of fluid from tanks and other receptacles, hauling and disposal of refined chemical barrels, and mowing.

d. Enhanced Well and Facility Operations Monitoring and Enforcement:

ECON conducted 10,821 inspections of wells, facilities, spills and pipelines. The ministry also issued 1,163 verbal warnings, 517 warning letters, 48 shut-in orders as a result of inspections, and 124 shut-in orders due to failure to meet regulatory obligations. Nineteen summer and co-operative (co-op) students were hired to assist in conducting well-site inspections, witness annulus pressure tests, and collect and analyze field surveillance data. The average cost (salary only) was \$14,000 per student (per term, which varied from four to 12 months).

While the number of inspections was in the same range as the previous year, the 2014-15 inspections were more focused on comprehensive inspections related to sour gas and risk-based inspections of injection wells to ensure there was no casing, packer or injection line failures.

e. Enhanced Spill Contingency and Response:



In 2014, the Saskatchewan upstream oil and gas industry recorded a record number of spill incidents. The record number is mainly due to the spills related to 2013 flooding in southeast Saskatchewan that were not discovered and reported until 2014 when the water receded. Also, in 2014 ECON conducted 565 spill-site inspections.

To help oil and gas companies educate and train their spill-response personnel, ECON officials participate in spill exercise and spill-response unit general meetings. ECON will replace the existing spill-database system with a web-based system as part of the Process Renewal and Information Management Enhancements (PRIME) project in late fall 2015. Over 10,000 spill records have been converted and data cleaned up allowing the data elements to be uploaded to the new system.

Also, to improve access to past spill records, ECON has posted a more complete set of records on its website. The public now has online access to all the spill information ECON has on file. To complete the scanning, data conversion and clean-up, a total of 10 engineering and science co-op and summer students for four field offices were hired for the 2014-15 fiscal year. Average cost for students (salary only) was \$14,000 per student (per term, which varied from four to 12 months).

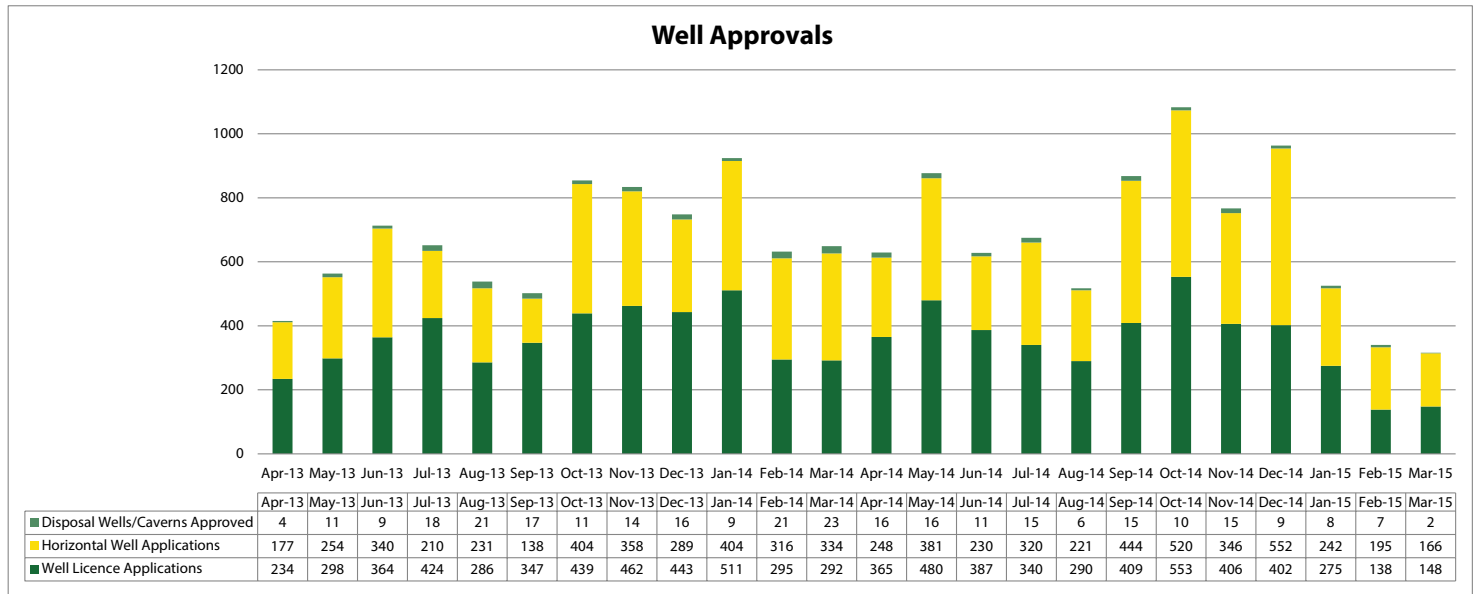
- f. Examination of single-window service for all well licensing, combining the work of AG, ENV and ECON's well licensing operations:

In 2014-15, ECON, AG and ENV conducted a lean exercise on the well licensing process, which included representatives from industry. As a result of this work, a single-window licensing project was added to PRIME. This will result in a new web-based well licensing system, which will be implemented in November 2015. Industry will submit one licence application through this single window as opposed to 3 separate applications to each Ministry.

- g. Enhanced technological investments to expand EOR:

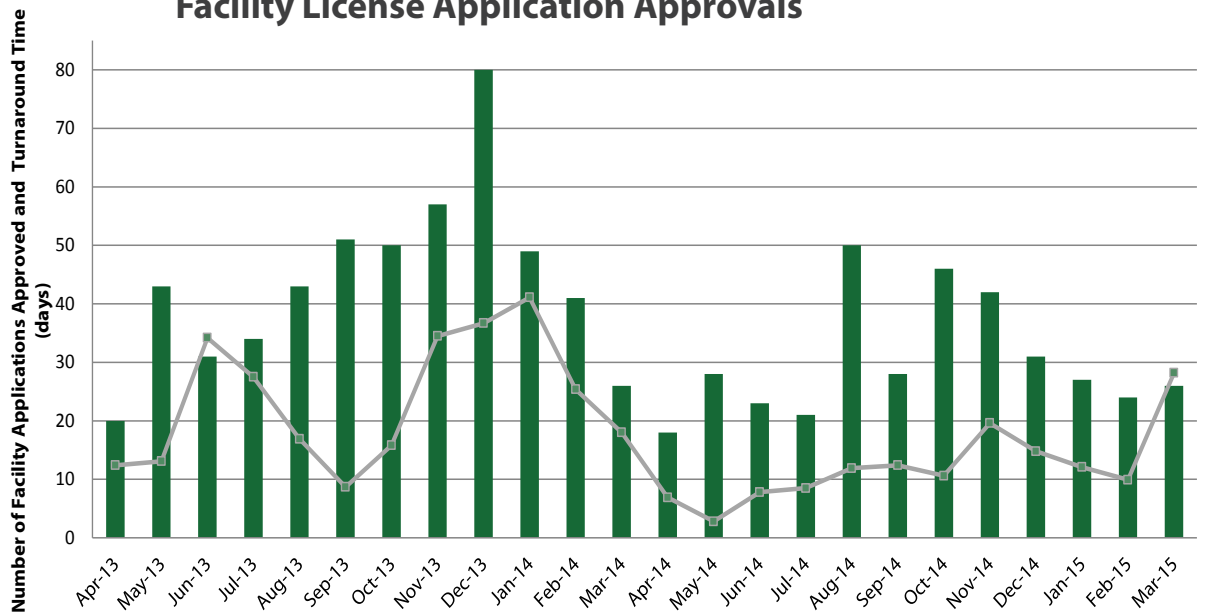
To provide staff with the knowledge required to review and recommend approval of projects to enhance oil recovery, more than \$60,000 was spent last year to provide technical training or enable staff to attend conferences to keep up to date with current technology. Streamlining of processes provides a more consistent and timely approval process for horizontal wells, waterflood and EOR projects.

Details of Regulatory Services for 2014 -2015



- The combined number of well application reviews and approvals (such as vertical and horizontal well license applications, disposal well applications, EOR applications, pipeline licences, etc.) increased from 8,024 applications in 2013-14 to 8,188 in 2014-15.
- Well license applications approved have decreased from 4,434 in 2013-14 to 4,082 in 2014-15 mainly due to the downturn in oil prices. Average turnaround time decreased from 1.9 calendar days in 2013-14 to 1.6 calendar days in 2014-15.
- Horizontal well applications approvals increased from 3,455 in 2013-14 to 3,865 in 2014-15. Average turnaround time increased from 12.3 calendar days in 2013-14 to 15.8 calendar days in 2014-15 due to greater volumes of applications. In 2013-14, 2,774 routine horizontal wells and 681 non-routine horizontal applications were approved. In 2014-15, 3,136 routine horizontal wells and 729 non-routine horizontal applications were approved.
- Disposal well applications approvals decreased from 174 in 2013-14 to 130 in 2014-15. Average turnaround time in 2013-14 was 30.5 calendar days and 24.4 calendar days in 2014-15.

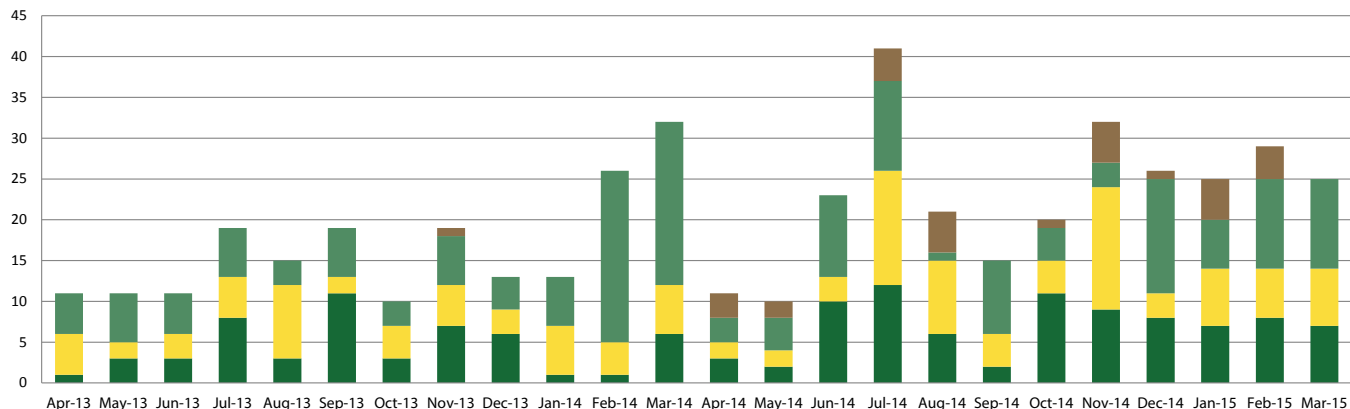
Facility License Application Approvals



	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Facility Licence Application Issued	20	43	31	34	43	51	50	57	80	49	41	26	18	28	23	21	50	28	46	42	31	27	24	26
Turn-Around	12	13	34	28	17	9	16	35	37	41	25	18	7	3	8	9	12	12	11	20	15	12	10	28

- Facility license approvals decreased from 525 in 2013-14 to 364 in 2014-15. Average turnaround time was 24 calendar days in 2013-14 and 12 calendar days in 2014-15.

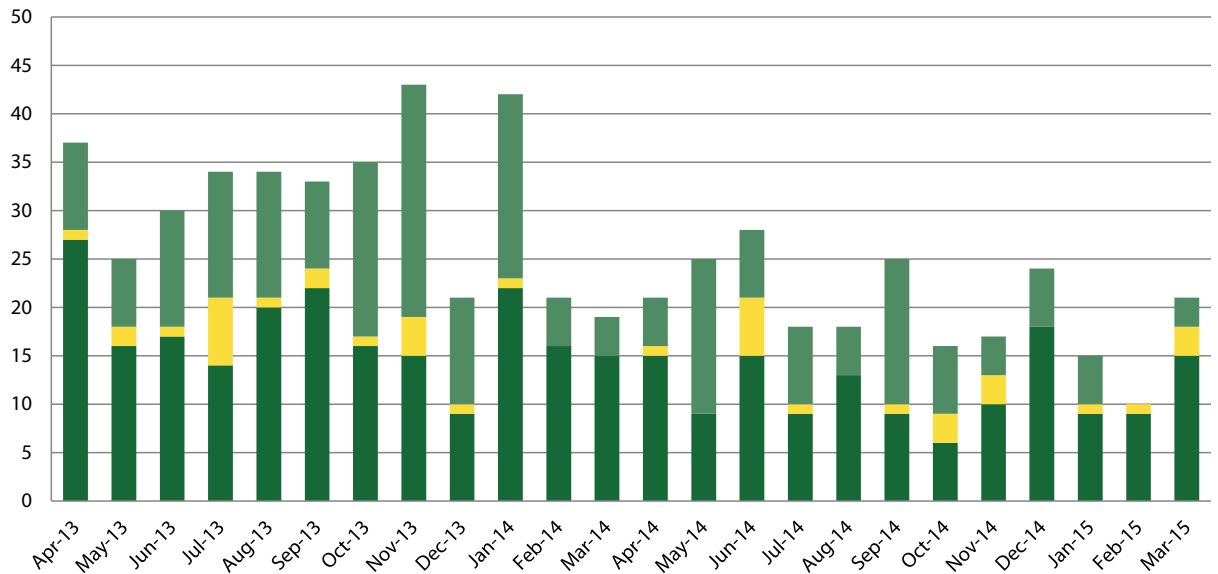
Pipeline Approvals



	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Transfers	0	0	0	0	0	0	0	1	0	0	0	0	3	2	0	4	5	0	1	5	1	5	4	0
Leave to Opens	5	6	5	6	3	6	3	6	4	6	21	20	3	4	10	11	1	9	4	3	14	6	11	11
Amendments	5	2	3	5	9	2	4	5	3	6	4	6	2	2	3	14	9	4	4	15	3	7	6	7
Approvals	1	3	3	8	3	11	3	7	6	1	1	6	3	2	10	12	6	2	11	9	8	7	8	7

- Pipeline license application (consist of pipeline licenses, license amendments and leave to opens) approvals have increased from 199 in 2013-14 to 278 in 2014-15. Average turnaround time in 2013-14 was 6.3 calendar days, compared to 5.9 calendar days in 2014-15.

Other Technical Applications

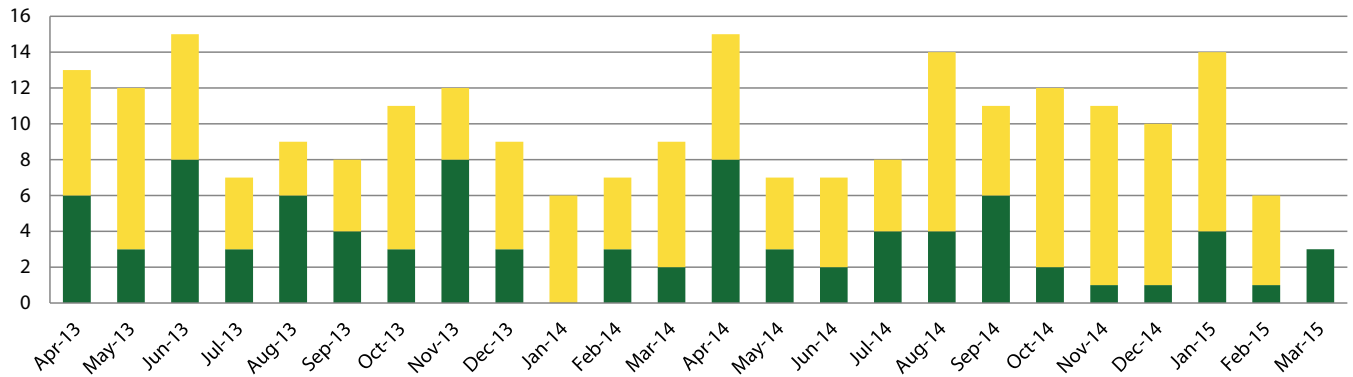


	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Off Target	9	7	12	13	13	9	18	24	11	19	5	4	5	16	7	8	5	15	7	4	6	5	0	3
Concurrent Applications	1	2	1	7	1	2	1	4	1	1	0	0	1	0	6	1	0	1	3	3	0	1	1	3
Commingling Applications	27	16	17	14	20	22	16	15	9	22	16	15	15	9	15	9	13	9	6	10	18	9	9	15

Other technical applications, which include: off-target; concurrent; and commingling applications.

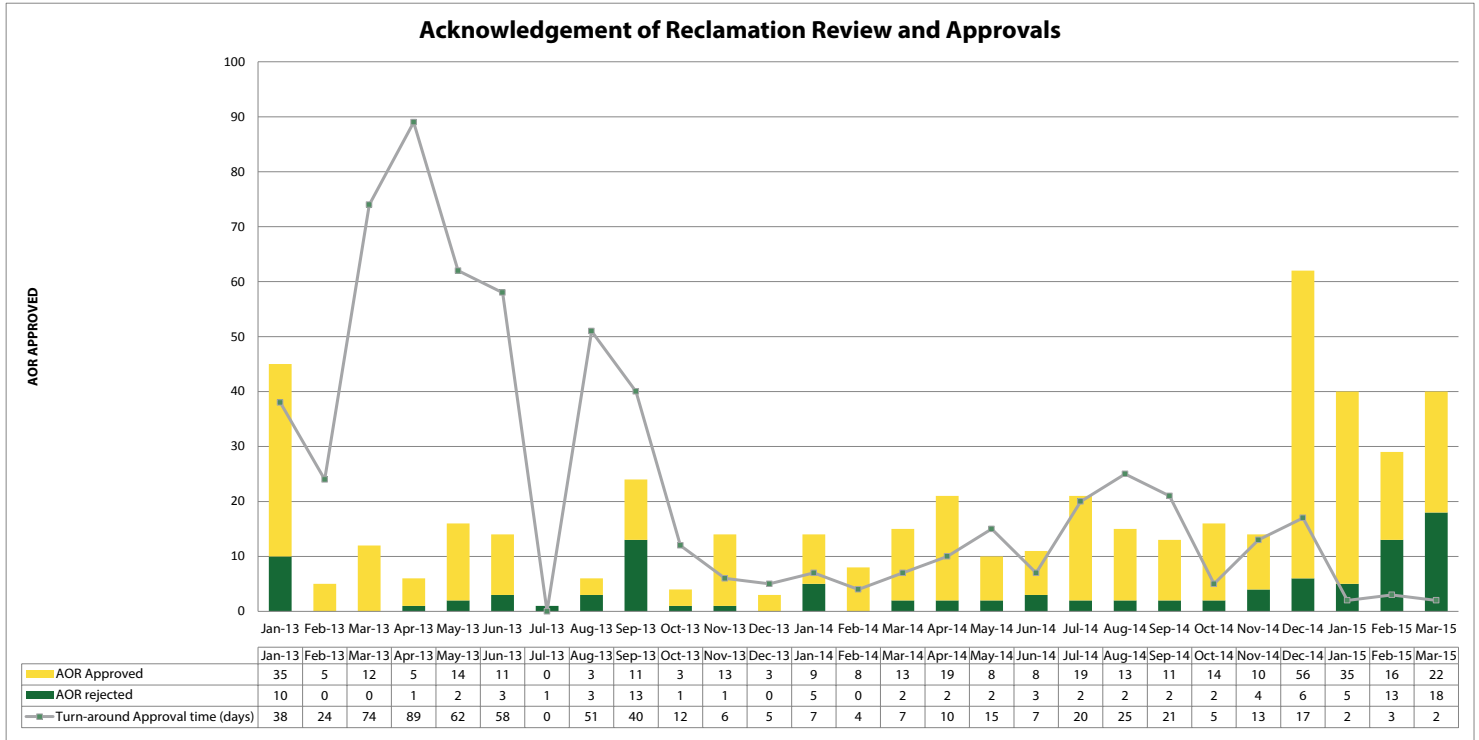
- Other technical applications approved have decreased from 374 in 2013-14 to 238 in 2014-15. Average turnaround time was 26 calendar days in 2013-14, compared to 21 calendar days in 2014-15. Other applications handled but not shown graphically due to relatively low volume include: maximum permissive rate (MPR); spacing modifications; storage; metering and measurement; and forced pooling applications.

Waterflood and EOR

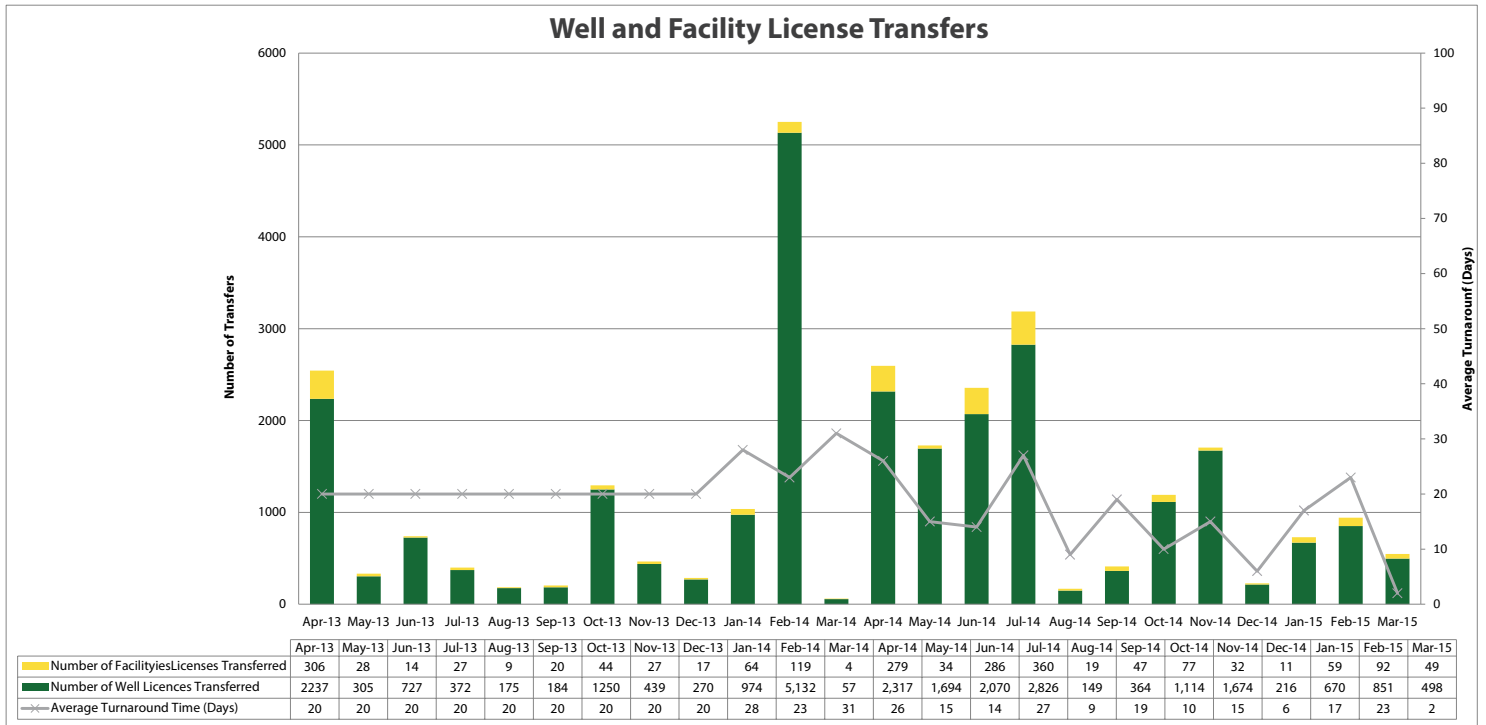


	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Waterflood	7	9	7	4	3	4	8	4	6	6	4	7	7	4	5	4	10	5	10	10	9	10	5	0
EOR	6	3	8	3	6	4	3	8	3	0	3	2	8	3	2	4	4	6	2	1	1	4	1	3

- Waterflood application volume increased from 69 in 2013-14 to 79 in 2014-15. Average turnaround time was 50.6 calendar days in 2013-14 and 63 calendar days in 2014-15.
- EOR project application volume has decreased from 49 in 2013-14 to 39 in 2014-15. Average turnaround time was 62.7 calendar days in 2013-14 and 71 calendar days in 2014-15.

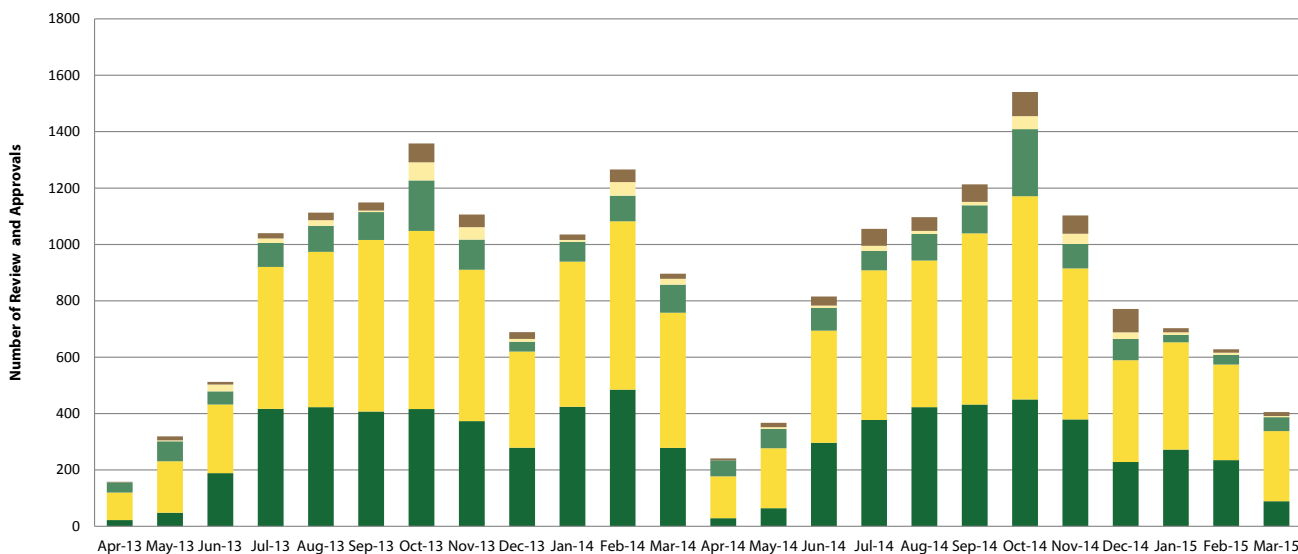


- Acknowledgements of reclamation (AOR) application reviews and approvals have increased from 125 in 2013-14 to 292 in 2014-15. Average turnaround time in 2013-14 was 28.4 calendar days, compared to 11.7 in 2014-15. This is due to new AOR guidelines and electronic-based applications introduced in 2014.



- Well and facility license transfers continues to be very active due to significant acquisitions and mergers in the upstream oil and gas industry. License transfers have increased from 12,801 wells and facilities in 2013-14 to 15,788 in 2014-15. Average turnaround time in 2013-14 was 22 calendar days compared to 15 in 2014-15.

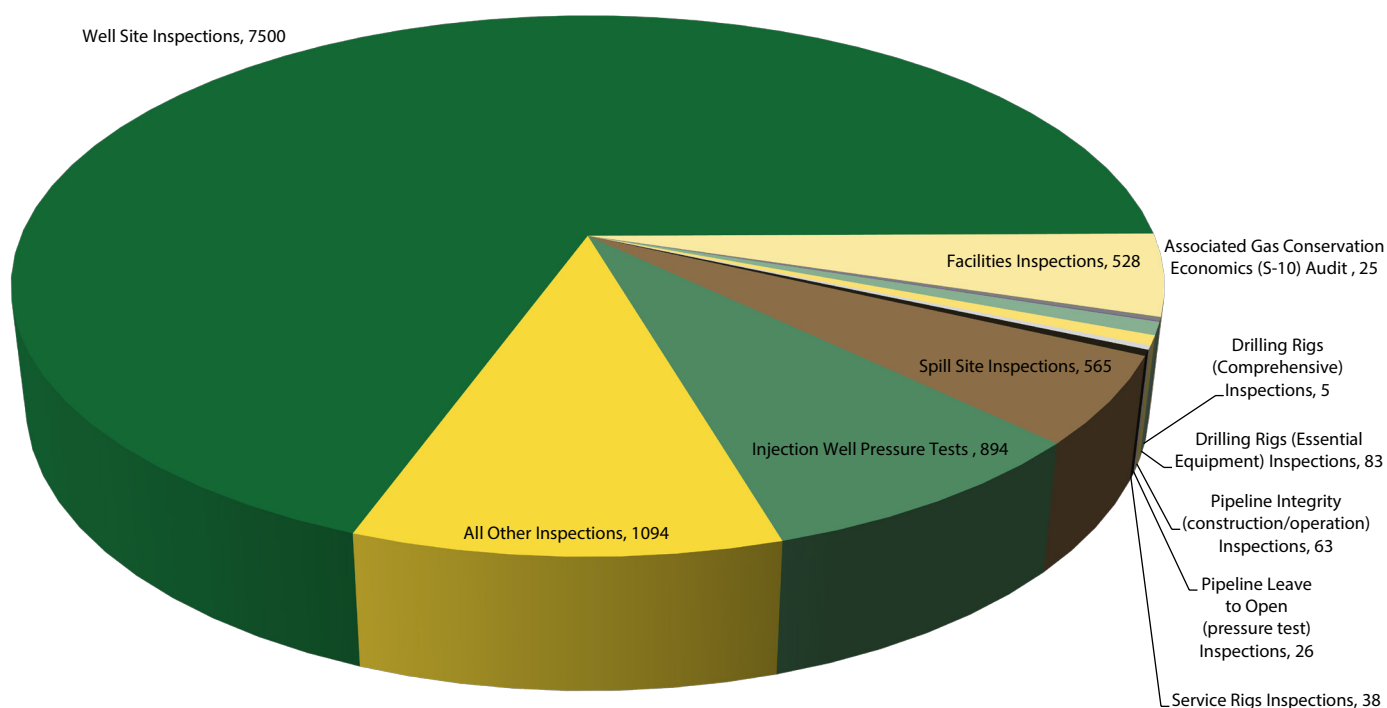
Post Drilling Activity Review and Approvals - Rig Release, Completion, Plugback (Re-Completion) and Abandonment



	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Abandonment Completed Well	2	14	9	19	27	29	67	45	24	19	45	18	7	15	32	60	49	62	86	65	83	15	12	14
Abandonment Dry Well	0	3	24	16	20	5	64	44	10	7	48	21	0	6	8	18	11	12	46	36	23	9	8	4
Plug Back	36	71	47	85	92	99	179	107	35	70	91	99	57	69	81	69	94	100	238	87	76	26	34	49
Well Completion	98	183	243	503	551	609	632	537	341	515	597	480	148	213	398	531	520	607	721	536	361	381	339	249
Rig Release	22	48	189	417	423	407	416	373	279	424	485	278	29	64	296	377	423	432	450	379	228	272	235	89

- The post drilling activities include rig release, completion, plugs back and abandonment. These activities are required to actually produce oil or gas from the well or retire those wells that are dry or unproductive. The activity continues to be very high. Total review and approvals have decreased from 10,641 in 2013-14 to 9,939 in 2014-15. Average turnaround time is not tracked at this time; however, the new Integrated Resource Information System to be released in late 2015 will commence tracking turnaround times.

Inspections, Audits and Enforcements



AUDITS AND INSPECTION STATISTICS 2014

	Inspections/Audits	Verbal Warning Issued (Minor Issues)	Non Compliance Warning Letter Issued	Shut-in Order result of failure to comply with warning letter or due to high risk infraction discovered	Shut-in Order as result failing to meet legislative or regulatory obligations (LLR)
Well Site Inspections	7500	1110	491	0	117
Facilities Inspections	528	53	26	48	7
Associated Gas Conservation (S-10) Audit	25	NA	NA	NA	NA
Drilling Rigs (Comprehensive) Inspections	5	IPRIBO	IPRIBO	0	NA
Drilling Rigs (Essential Equipment) Inspections	83	IPRIBO	IPRIBO	0	NA
Pipeline Integrity (Construction/Operation) Inspections	63	NA	NA	NA	NA

AUDITS AND INSPECTION STATISTICS 2014 (CONTINUED...)

	Inspections/Audits	Verbal Warning Issued (Minor Issues)	Non Compliance Warning Letter Issued	Shut-in Order result of failure to comply with warning letter or due to high risk infraction discovered	Shut-in Order as result failing to meet legislative or regulatory obligations (LLR)
Pipeline Leave to Open (pressure test) Inspections	26	IPRIBO	IPRIBO	0	0
Service Rigs Inspections	38	IPRIBO	IPRIBO	0	NA
Spill Site Inspections	565	IPRIBO	IPRIBO	0	NA
Injection Well Pressure Tests	894	IPRIBO	IPRIBO	0	NA
All Other Inspections	1094	IPRIBO	IPRIBO	0	NA
Total	10821	1163	517	48	124

*The above reported numbers are for calendar year 2014 (January 1 –December 31). The inspections are not tracked in any database system as none exists at this time. The information was tallied and compiled from field notes. Fiscal year data is currently not available as many inspected sites may require re-inspection to confirm compliance. Snow and other weather conditions prevent such verifications, and the inspection files are still active and opened and unavailable for tallying. The new Integrated Resource Information System to be released in late 2015 will commence tracking electronic records of inspections.

- ** IPRIBO stands for Identified Problem Resolved Immediately Before Operating.
- 10,821 audits and inspections were carried out in 2014.
- 1,163 verbal warnings were issued, which were all resolved within the allotted time. Verbal warnings are provided for minor infractions such as weeds, signage and housekeeping items. Warning letters are issued when there is a repeated offence or more serious violations. For most serious violations, sites can be shut in and sealed in.
- In 2014, ECON conducted 84 risk-specific investigations, focused on high-risk sour gas production areas, which resulted in 48 facilities being shut-in.
- 117 wells and seven facilities were shut in due to failing to meet key environmental protection legislative or regulatory obligations under the Licensee Liability Rating program.

Agriculture

In 2014-15, AG issued 197 new surface leases including the review of project proposals, site inspections and field work as needed. The ministry also completed 100 surface lease renewals, 57 surface lease abandonments, approximately 20 surface lease amendments, numerous seed mix approvals, four Saskatchewan Petroleum Industry/Government Environment Committee (SPIGEC) meetings, on lease spill inspections, and policy development regarding surface lease rate review.

Environment

In 2014-15 the Ministry of Environment processed 6032 oil and gas project proposals. Site inspections were associated with a significant number of those projects, including pre and post construction inspections and inspections that were undertaken during construction. The Ministry currently administers 815 oil and gas dispositions on Crown land it is responsible for; 60 new dispositions and 65 renewals were processed in 2014-15.

Ministry staff also undertook numerous meetings with proponents, attended all Saskatchewan Petroleum Industry and Government Environment Committee (SPIGEC) meetings and facilitated the annual "Roadshow" meeting with industry in Calgary in February 2015.

Appendix A



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ACCOUNTANTS' REPORT

To: Saskatchewan Ministry of Economy

As requested by The Saskatchewan Ministry of the Economy (MoE) we have performed the following procedures in connection with to the Well Levy Revenue and Regulatory Costs financial information (the Financial Information) contained within the Financial Reporting section of the *Oil and Gas Regulatory Cost Recovery Levy Annual Report for 2014 -15* (the Oil Levy Report) (to which this report is attached):

Revenue Item

1. For the Well Levy Invoiced amount, we reconciled the total amount to the MoE's invoice summary reporting and the general ledger (G/L) system to determine whether it occurred and is accurate.

As a result of applying the above procedure, we found no exceptions.

Cost Items

2. For Costs Detail items 1 through 8, we reconciled the 2014-15 Actual amounts to the supporting documentation provided by the MoE, the Ministry of Agriculture (MoA) and the Ministry of Environment (MoEnv) (including: cost aggregation schedules, G/L reports, payroll summaries, full time equivalent employee [FTE] summaries, employee lists, and salary/wage grids).

As a result of applying the above procedure, we found no exceptions.

3. For Costs Detail items 1 through 8, we assessed the mathematical accuracy of the 2014-15 Actual amounts by footing sub-totals and totals, as well as reviewing and recalculating the formulas and calculations used to aggregate the costs within the supporting documentation.

As a result of applying the above procedure, we found no exceptions.

4. For Costs Detail items 1 through 8, we assessed whether the underlying costs that were aggregated to compile the 2014-15 Actual amounts align with the nature and types of costs described in the references to the Financial Information (presented in the Appendix to this report).

As a result of applying the above procedure, nothing came to our attention to suggest that the amounts did not align with the nature and types of costs described in the references to the Financial Information.

The above procedures do not constitute an audit of the Financial Information or the Oil Levy Report, and would not necessarily reveal the existence of errors in the information taken as a whole. Therefore, we express no opinion on the overall Financial Information presented in the Appendix to this report.

It is understood that this report is intended for use by the Ministry of the Economy to support their production of the Oil Levy Report, and is not to be used for any other purpose without the express consent of KPMG.

KPMG LLP

Chartered Accountants

Regina, Canada
July 28, 2015

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Appendix B



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PRIVATE AND CONFIDENTIAL

Denise Haas, CPA, CMA
Chief Financial Officer
Revenue and Corporate Services Division
Ministry of the Economy
300, 2103 – 11th Avenue
Regina, SK S4P 3Z8

August 14, 2015

Dear Ms. Haas:

Summary Letter (Prepared Without Audit) Providing Qualitative Comments

We are writing to you in response to our July 14, 2015 engagement letter in which we outlined our approach for assisting the Saskatchewan Ministry of the Economy (MoE) by applying agreed-upon procedures in relation to the Well Levy Revenue and Regulatory Costs financial information (the Financial Information) contained within the Financial Reporting section of the *Oil and Gas Regulatory Cost Recovery Levy Annual Report for 2014 -15* (the Oil Levy Report).

We would like to thank the management and personnel of MoE for their assistance and cooperation during the course of our engagement. All requests for access to information were granted on a timely basis.

This is a summary letter (prepared without audit) that provides qualitative comments on the following matters:

- The degree to which the Financial Information agrees to the supporting documentation produced by the MoE, as well as the Saskatchewan Ministries of Agriculture and Environment (who collectively incurred approximately 15% of the Oil Levy regulatory costs); and
- The degree to which the Financial Information reasonably appears to align to the descriptions and assumptions of the cost categories provided within the supporting references to the Financial Information contained within the Oil Levy Report.

To complete our engagement, we performed the following procedures:

- We assessed the methodology for developing and calculating the Financial Information with representatives from the Ministries of Economy, Agriculture and Environment (hereafter collectively referred to as the Ministries).



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- We compared the Financial Information contained within the Financial Reporting section of the Oil Levy Report to the supporting financial information produced by the Ministries.
- We assessed the mathematical accuracy of the Financial Information and the supporting documentation by footing sub-totals and totals and reviewing and recalculating formulas.
- We assessed the reasonableness of the assumptions, accumulation methods and formulas utilized by the Ministries to aggregate the costs for the Financial Information by reviewing the supporting documentation and interviewing members of management from the Ministries.
- We assessed whether the underlying costs that were aggregated to compile the Financial Information align with the nature and types of costs described in the references to the Financial Information.

Qualitative Comments

As a result of the agreed upon procedures during this engagement, we have the following comments:

Financial Information Reconciled to the Supporting Documentation

- The MoE produced a detailed binder of documentation (including: cost aggregation schedules, general ledger [G/L] reports, payroll summaries, full time equivalent employee [FTE] summaries, employee lists, and salary/wage grids) that supported the aggregation of cost amounts to the six MoE categories contained within the Financial Information.
- The Ministries of Agriculture and Environment each produced a buildup of costs that outlined the aggregation of cost amounts to their two respective categories contained within the Financial Information, and provided additional documentation (including: cost aggregation schedules, G/L reports, payroll summaries, FTE summaries, employee lists, and salary grids) to support those costs.
- We were able to trace the amounts for Costs Detail items 1 through 8 within the Financial Information to the supporting documentation provided by the Ministries.
- We were able to assess the mathematical accuracy of the Costs Detail items 1 through 8 within the Financial Information by footing sub-totals and totals, as well as reviewing and recalculating the formulas and calculations used to aggregate the costs within the supporting documentation.

Financial Information Aligning to the Descriptions and Assumptions of the Cost Categories

- Our review of the supporting documentation and interviews with management from the Ministries identified that:
 - the Ministries did have support for the assumptions, accumulation methods and formulas utilized to aggregate the amounts for Costs Detail items 1 through 8 within the Financial Information;



- the underlying costs that were aggregated to compile the amounts for Costs Detail items 1 through 8 appeared to align with the nature and types of costs described in the references to the Financial Information.
- As a result of our work performed during this engagement, nothing came to our attention to suggest that: i) the assumptions, accumulation methods and formulas utilized were not reasonable; or ii) the amounts for Costs Detail items 1 through 8 did not align with the nature and types of costs described in the references to the Financial Information.

Procedures performed

This is a summary letter only, and is provided in conjunction with our engagement by MoE by applying agreed-upon procedures in relation to the Financial Information contained within the Financial Reporting section of the Oil Levy Report. We have not performed an audit on the information contained in this letter, and accordingly we do not express an audit opinion on this information.

As a result of this engagement, KPMG and MoE agreed upon two deliverables, including this summary letter. We agreed that these deliverables would be designed to assist MoE to support their production of the Oil Levy Report. The following table sets out the procedures performed, and the relevant deliverables containing the results:

Procedures Performed	Deliverable
<ul style="list-style-type: none"> • Prepare a report, based upon the results of specified procedures, to MoE indicating the results of certain agreed upon procedures, such as: <ul style="list-style-type: none"> a) Whether or not the Financial Information contained within the Financial Reporting section of the Oil Levy Report reconciles to the supporting financial information produced by the Ministries; b) Assessing the mathematical accuracy of the Financial Information; and c) Assessing whether the underlying costs that were aggregated to compile the Financial Information align with the nature and types of costs described in the references to the Financial Information contained within the Financial Reporting section of the Oil Levy Report. 	<p>Our Accountants' Report dated July 28, 2015</p>
<ul style="list-style-type: none"> • Prepare a summary letter to MoE providing qualitative comments on the following matters: <ul style="list-style-type: none"> a) The methodology utilized by the Ministries for developing and calculating the Financial Information; b) The degree to which the Financial Information reconciles to the supporting documentation produced by the Ministries; 	<p>This Summary Letter</p>



Procedures Performed	Deliverable
and c) The degree to which the Financial Information reasonably appears to align to the descriptions and assumptions of the cost categories provided within the supporting references to the Financial Information contained within the Oil Levy Report.	

* * * * *

This letter is intended solely for the purpose of assisting the Ministry of the Economy to support their production of the Oil Levy Report, and is not to be used for any other purpose without the express consent of KPMG.

Yours very truly

KPMG LLP

Chartered Accountants

James Barr, CPA, CA
Partner
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