



NOTICE TO ALL OPERATORS

AUGUST 19, 2016

TO: ALL WELL/FACILITY LICENSEES AND OPERATORS

**RE: PENDING CHANGES, LICENSEE LIABILITY RATING (LLR) PROGRAM AND
MANAGEMENT**

On May 17, 2016, the Alberta Court of Queen's Bench ruled that receivership trustees may renounce uneconomic oil and gas assets as part of the bankruptcy process under the federal Bankruptcy and Insolvency Act (BIA). This decision means that the Alberta Energy Regulator can no longer rely on the economic assets of an insolvent company to deal with the outstanding environmental liabilities associated with inactive or suspended wells. This has the potential of placing increased pressure on Alberta's Orphan Well Program to pay the abandonment and reclamation costs of insolvent companies.

The Licensee Liability Rating (LLR) program which operates in Saskatchewan is similar in design to the program in Alberta. The Ministry of the Economy (ECON) is therefore very concerned about the implications of the Redwater decision on the operation of its LLR Program. The Government of Saskatchewan is therefore applying to intervene in the Alberta Court proceedings to ensure that its views are fully considered by the Courts.

In the interim, the Ministry will be implementing the following measures to deal with the risk of a similar court decision in Saskatchewan:

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- The Ministry of Justice has been requested to vigorously challenge any attempt by a receiver in Saskatchewan to renounce uneconomic oil and gas assets which are subject to the LLR program. As noted above, the Ministry of Justice will also be applying to intervene in the Alberta appeal.
- ECON is consulting with the Orphan Well Fund Advisory Committee (FAC) on measures to manage the potential additional risk to the orphan fund in the wake of the Redwater decision. Where necessary, ECON will be consulting with the FAC on specific transactions where there is a high level of risk associated with the transfer.
- Effective immediately and until further notice, all licence transfer applications will now be considered non-routine as the ministry will not be strictly relying on the standard LLR calculations in evaluating deposit requirements. All licence transfer applications will be reviewed in detail and ECON will consider all relevant factors in calculating transfer deposit requirements. In addition to increased deposit requirements, ECON may incorporate additional conditions with licence transfer approvals which may impact the decision to proceed with certain transactions.

In particular, licence transfers involving a high percentage of potentially uneconomic infrastructure will be very closely reviewed and deposit requirements set accordingly.

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It is therefore of critical importance that licensees engage ECON early in the process with respect to any potential purchase and sales agreements, to ensure that the parties are aware of potential deposit requirements or conditions. As per *The Oil and Gas Conservation Act* (OGCA), the minister has the authority to deny any licence transfer application and will not approve applications where the required deposit cannot be met. Parties involved in acquisitions and sales need to confirm that they will be able to meet the potential deposit requirements in order to ensure that they will be granted license to operate. Please contact the Liability Management Branch (via the PNG Service Desk; PNG.Support@gov.sk.ca) as early as practically possible prior to closing any purchase and sales agreements.

ECON will work with licensees and attempt to process licence transfers that had been submitted prior to this notice according to the standard LLR calculation provided in the opinion of the ministry that there are no indications of significant financial risk.

If you have any questions or concerns please contact the undersigned at Brad.Wagner@gov.sk.ca.

Sincerely,



Brad Wagner
Director, Liability Management