Action Surface Rights Association

Non-payment of Annual Compensation

The Great Oil Rout of 2015-2016

Why?

	2010	2014	%
US oil Production (BPD)	5, 482, 000	8, 663, 000	58
Iraq oil production (BPD)	2, 358, 000	3, 111, 000	32

Texas increased oil production from 2010 to 2014 by more than annual Albertan oil production.

Pennsylvania increased gas production from 2010 to 2014 by twice annual Alberta gas production.

IMPACT

2014 Production	BPD
US	+ 1.6 million
Canada	+ 310,000
Brazil	+230,000
Iraq	+ 140,000
Saudi	+ 110,000

Estimated <u>2 million bpd surplus</u> in the world today, although Demand/Consumption is still increasing.

	Current	2014	2013	2012	2011
Avg. Brent Oil Price	$29	$98.95	$108.86	$111.26	$111.67
Western CDN. Crude	$18				
By June 2015	US Shale Drilling Rigs		-54%		
Dec. 4, 2015			-62%		

$1 trillion + of junk bonds holding up shale and other marginal producers

Alberta Royalty Revenues

	2005	2014-2015 Royalties	2015-2016 Royalties
Bitumen		$5.049 billion	$1.4 billion
Conventional Oil		$2.245 billion	$594 million
Natural Gas	$8.5 billion	$989 million	$450 million
Land Sales		$476 million	$315 million
Other-rentals		$172 million	$149 million
Other-coal		$16 million	
Total		$8.948 billion	$2.9 billion

Consequences

Capital Expenditure cut-backs

Layoffs

EI rolls spike

Calgary office space vacancies

- Real Estate market softens

Lower consumer and industrial spending

EI expires

Foreclosures of houses

Suppliers and contractors go out of business

Oil Production is still up 3.9%

- Nat Gas Production up 2.3%

More layoffs

Construction companies have problems

Commercial and real estate prices decline

1/6 of Calgary office space vacant

Office space rental rates down 40%

- **Albertans have the highest average personal debt in the Country (by $4000)**
- **Estimated that the energy sector now puts $100 million/week less into Albertans pockets.**
- **Property tax assessments start to decline and Cities and Municipalities have to cut back?**

Agricultural Impact

Social Contract: Industry development of the minerals

Landowners made whole

-Compensation for Market Value of Land
-Compensation for Adverse Effect
-Compensation for Loss of Use
-Representation Costs paid

Background of Industry Development

-Dept. of Energy	highest bidder
-AER	approves license, mandate to develop resource
-SRB	grants ROE, compensates landowner
-Minister of Finance	-pays for Orphans
-Orphan Well Association	-reclaims Orphans

Current State of Industry

The AER regulates approximately 446 000 wells in Alberta:

- **186 000 are active**
- **82 000 are inactive**
- **66 000 are abandoned**
- **68 000 are reclamation certified**
- **37 000 are reclamation certificate exempt as they were abandoned prior to the legislative requirement to obtain a reclamation certificate.**

Orphan Wells to be Abandoned	695
Orphan Well Reclamation Sites	503

License Liability Rating (LLR)

LLR=	<u>Deemed Productive Assets</u> Deemed Liabilities to Reclaim			-based upon 3 year avg. netback price ($236m3) -likely 50% too low, was adjusted in 2015
Industry	<u>Deemed Assets</u> Deemed Liabilities	<u>$134.7 Billion</u> $ 36.1 Billion	*33% *200%	<u>$44.45 Billion</u> $72.2 Billion

Deemed liabilities were increased in 2015 but not high enough (licensees can't afford it)

LLR 357 of 811 Licensees have LLR below 1 (deposit goes to OWA if licensee defaults)

-no LLR deposits transferred to OWA in 2014/15

Problems

- Nothing about Debt Levels
- Many companies are penny stocks and will not survive
- Companies aren't paying the AER, administrative fees and LLR deposits
  - AER has been told not to push the LLR deposits
- Companies aren't paying linear assessments to Counties and MD's
- Builder's liens on landowner lands
- Some companies are deciding not to pay annual rentals
- Royalty review –get rid of high cost producers
- Orphan Well Association if woefully inadequate to reclaim all the wells
  - good companies have to pay for bad companies reclamation
- SRB doesn't have enough funding/staff to handle the matter in an expedient fashion
- Shyster operators bundling poor assets off to companies that will go bankrupt
- **Directive 13** – AER is wanting Operators to suspend wells and pipelines

Orphan Well Association

Who cleans up the mess?

Budget	
2012/13	$12 million
2013/14	$15 million
2014/15	$15 million
2015/16	$30 million
2016/17	$30 million

OWA has been asking for $60 million/year and needs more.

OWA Board of Directors	
CAPP	3 reps
EPAC	2 reps
AER	1 rep
Environment & Parks	1 rep (non-voting)

The AER divvies up the OWA budget request according to each Operators % of Deemed Liabilities. (7 licensees did not pay in 2015 –probably much higher). AER collects funds for the OWA.

Last Man Standing Model - probably is not fair or sustainable.

What does this mean to Landowners?

Section 36 of the *SRA* Minister of Finance

(Board had more than 750 new applications in 2015 (($1.5 million) – just tip of iceberg)

Current Situation - **Bankruptcy**

SRB Evolving Rulings

-Receivership	**Portas**
-Bankruptcy petition	**Lemke**
-Day after Bankruptcy	**Rodin**

- New Section 36 application for recurring applications

Problems

1) Bankruptcy -you don't want the Bankruptcy judge awarding you anything

2) Costs -Bergman case, will the SRB ask Minister to pay costs

3) Minister of Finance is not trying to recoup payouts

Implications to Counties and Municipalities

2 Streams of Oil/Gas revenues

Linear taxes	$845 million assessed/assigned by province
Industrial Property	assessed and collected by municipality

The 25% education proportion of the Linear tax assessment must be paid to province, whether collected or not.

Orphans and Bankrupt Operators do not pay either stream to municipalities or probably road use either.

Some Counties and Municipalities Budgets depend 60%-95% on oil/gas tax revenues.

- MD of Taber would have to increase normal property taxes 350% to recoup Linear.

There is a push to pool Linear assessments and divvy up with Urban areas and to centralize local tax assessors.

AER's Directive 13 requires Operators to suspend wellheads and pipelines which could reduce the 2 Streams of oil/gas revenues.