

ABANDONED WELL OBLIGATIONS

August 2016



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_____, 2016

TO THE CAPLA AND CAPL MEMBERSHIP

RE: LETTER OF SUPPORT FOR THE ABANDONED WELL OBLIGATIONS 'BEST PRACTICES'

We hereby advise our membership that the current board of directors of both CAPLA and CAPL support the Abandoned Well Obligations Committee's (the "Committee") 'Best Practices' and strongly encourage its adoption when formally released on October 3, 2016, as the new industry standard for the administration of abandoned well obligations.

The Committee was formed after a team of experienced land and legal professionals met for extensive discussions about the contractual obligations of joint operators up to and potentially beyond the point of reclamation of a joint well. The 'Best Practices' established by the Committee offers industry an efficient and consistent set of guidelines that can be followed for maintaining the division of interest during day-to-day administration (including after mineral leases have expired) and acquisition and divestiture activity, as well as providing guidance for rectifying situations where the division of interest has not been maintained historically.

The benefit to industry will be fewer rejections or disputes over joint billings throughout the entire life cycle of joint wells as well as the assurance that abandonment and reclamation liabilities and expenses will be shared equitably and fairly by all joint operators.

Yours sincerely,

[•]
President, CAPLA

[•]
President, CAPL

cc: [•], SEPAC Executive Director
[•], CAPP President
[•], CAPP President
[•], PASC, President

ABANDONED WELL OBLIGATIONS COMMITTEE

INTRODUCTION

SUMMARY OF THE ISSUE

Historically, it was common practice in our industry to identify a contract file as terminated and update the electronic records to reflect a terminated status once all of the mineral leases covering joint lands governed under that contract expired regardless of any remaining unsatisfied contractual obligations for any well drilled for the joint account. This historic practice has **major** potential consequences for industry which were outlined in two articles written by Jim MacLean for CAPLA's NEXUS and CAPL's Negotiator. See Jim's articles here: [Part I](#) and [Part II](#)

FORMATION OF ABANDONED WELL OBLIGATIONS COMMITTEE

Following the publication of Jim Maclean's articles, CAPLA and CAPL co-hosted an industry round table event in September 2014 to discuss the issues. Attendees included industry participants, representatives from the major land system vendors and CAPLA/CAPL volunteer facilitators. (Read a summary of the round table discussions [here](#)). The Committee was formed from those industry participants to achieve the following deliverables:

- Develop a recommended/standard process for day-to-day administration, Acquisition and Divestiture activities, and rectifying disputes over well abandonment obligations;
- Host education and awareness sessions to increase compliance;
- Create form letters and sample documents;
- Provide a minimum of one report to NEXUS magazine.

RECOMMENDATIONS

The balance of this package provides the guidelines that the Committee recommends that industry adopt which details the matter of abandoned well liability, guidelines for identifying and dealing with the issues that arise from abandonment obligations and procedures that can be followed in accordance with the recommended protocol.

Any questions with regard to the issue of abandoned well obligations, the recommended 'Best Practices' or the package can be directed to:

Abandoned Well Obligations Committee
c/o The Canadian Association of Petroleum Land Administration (CAPLA)
620, 138 – 4 Avenue S.E., Calgary, Alberta T2G 4Z6
Phone: (403) 452-6497 Fax: (403) 452-6627 Email: office@caplacanada.org

ACKNOWLEDGMENTS

CAPLA would like to thank the participants of the Committee for all of their work completing these documents, namely: Candace Bakay (Repsol), Karen Bader (CNRL), Maureen Miller (Cenovus), Barb Doiron

(Crescent Point), Brittany Bennett (Surge Energy), Carell Price (Encana), Donna Beauchamp (Independent), Deb Watson (Nexen), Jerry McIsaac (Husky), Kari Hass (AER), Kari Lynn Hughes (Nexen), Marilyn Daku (Conoco), Scott Ganes (Suncor), Sabrina Van Gastel (Ember), Tricia Perkins (Lightstream), Wendy Brien (Enerplus).

The Committee would like to thank those industry participants who contributed to the round table making this initiative a great success including the representatives of the major land system vendors and those who volunteered as facilitators. The formation of this Committee in 2015 and the work done by it is a direct result of the articles, the participation that occurred at that industry round table event and the industry companies that supported their staff members' volunteer efforts during challenging times. As well, special recognition goes to Cathy Miller for her commitment and direction.

The Committee would also like to thank Jim Maclean for initiating discussions among industry, writing articles and facilitating the CAPLA and CAPL co-hosted industry round table event; and further for his continued invaluable expertise afforded to the Committee since inception.

It is now up to industry to take ownership of the Abandoned Well Obligations 'Best Practices' and make them succeed!

BEST PRACTICES GO FORWARD PROCESS

LIFE OF A CONTRACT

A land contract that governs abandoned wells must stay active until all operations on the lands are completed and a final statement of accounts has been made among the parties. Costs are incurred and governed under the contract for any well drilled until the Operator receives a “Reclamation Certificate” for the surface lease that indicates that the land has been restored to its original state. Wellbore obligations continue past the reclamation of a well (i.e. Directive 79) therefore it is important to ensure your DOI is accurate at the time the contract is inactivated.

(See Termination clause in CAPL: 1971 Clause 3001, 1974 Clause 2801, 1981 Clause 2801, 1990 Clause 2901, 2007 Clause 1.14 and 2015 Clause 1.14 – In older agreements without a CAPL Operating Procedure review agreement for Termination clause)

EXPIRING LANDS

A notification of expired land will initiate the review of whether a contract should remain active or not.

OPERATED CONTRACT WELLS

Notification of expired land is received and there is no wellbore liability:

- If all lands under the contract have not expired, the contract remains active.
- If all of the lands under the contract are expired, notify partners to terminate contract {See Sample #3}

Notification of expired land is received and there is wellbore liability:

- If there are still active lands on the contract, update land system to reflect Wellbore Reclamation DOI and keep contract active.
- If there are no active lands remaining on the contract, notify partner(s) that lands have expired but the contract shall remain active until such time as all wells have been abandoned and reclaimed {See Sample #1}

Once the wellbore is abandoned and the status updated, communicate with all internal stakeholders, and ensure you are notified internally when the Reclamation Certificate was applied for and more importantly when the final Reclamation Certificate is received.

Send a letter to Partner(s) including a copy of the Reclamation Certificate. If there are no other wells to reclaim (See Sample #2A) or if further wells require reclamation (See Sample #2B).

NON-OPERATED CONTRACT WELLS

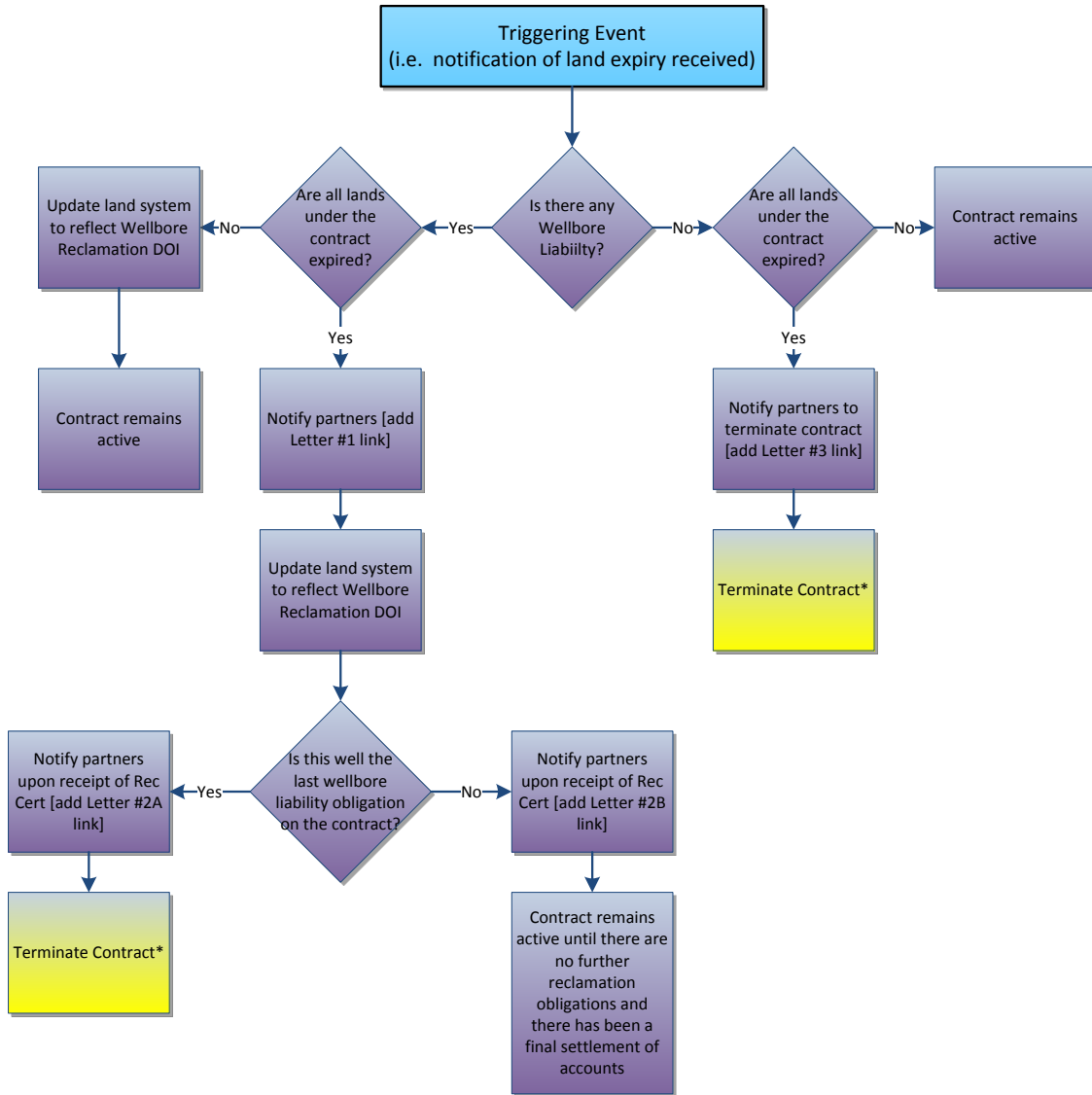
Other than receiving a Wellbore Abandonment Notice, not much changes but you should now be on the receiving end of the information notifications on mineral expiry and reclamation statuses (application sent & date/reclamation received & date) from the operator. If you are not receiving notifications contact the Operator for updates on the status of the well reclamation progress. {See Sample #4}

UNIT WELLS

Unit Wells may or may not fall under these practices, depending on your company’s internal process and which group handles unit wells. Ensure you are aware of your internal processes in order to maintain compliance under any land agreements.

Wellbore Abandonment Best Practices

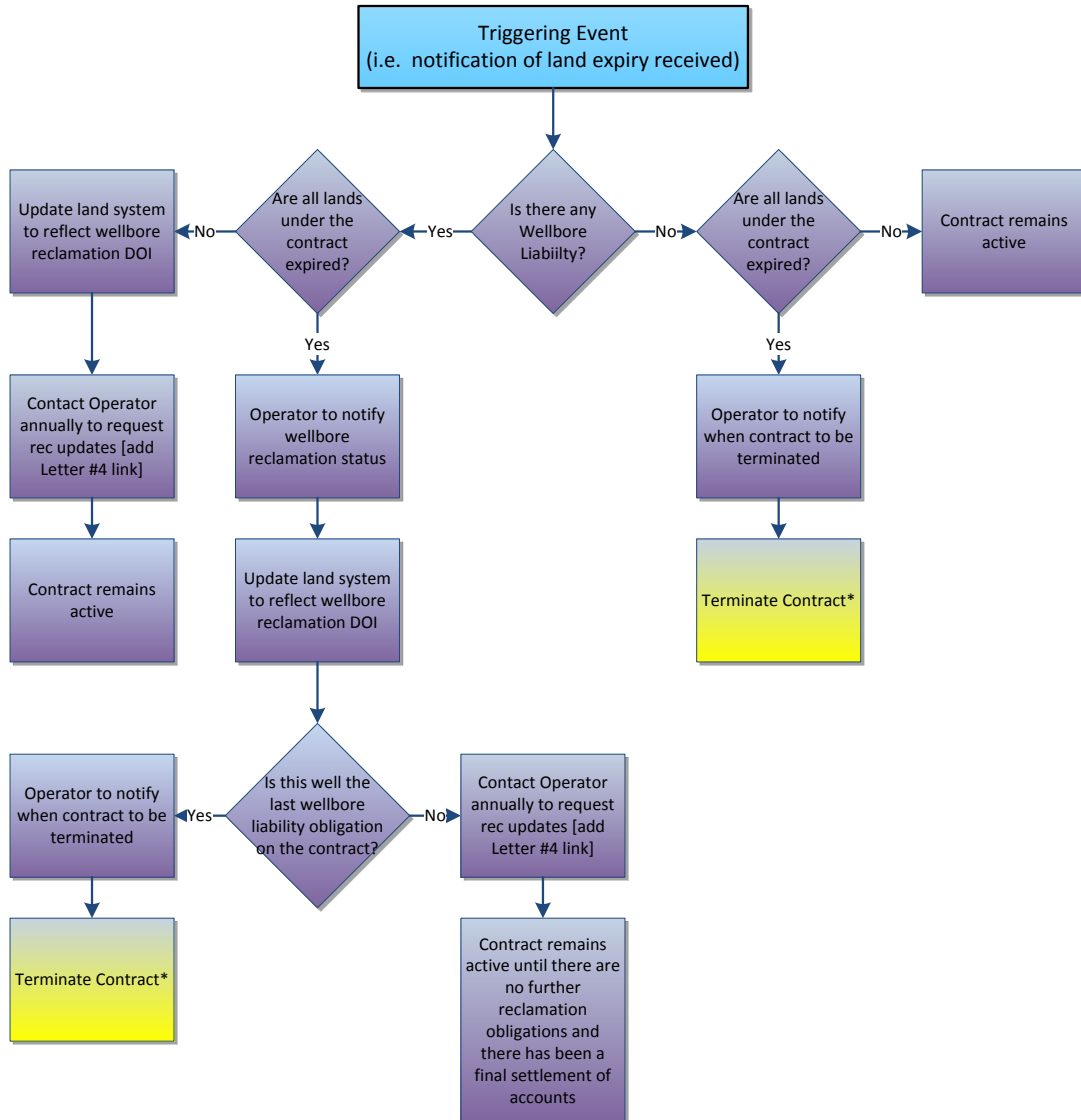
OPERATED



* Wellbore obligations continue past the reclamation of a well (ie Directive 79), therefore it is important to retain your contracts indefinitely and ensure your DOI is accurate at the time the contract is terminated.

Wellbore Abandonment Best Practices

NON-OPERATED



* Wellbore obligations continue past the reclamation of a well (ie Directive 79), therefore it is important to retain your contracts indefinitely and ensure your DOI is accurate at the time the contract is terminated.

Last Updated: Apr 13, 2016

THESE ARE SAMPLES ONLY – MODIFY TO SUIT YOUR SPECIFIC SITUATION AND PREFERENCES

SAMPLE LETTER #1 - LETTER TO PARTNERS WHEN LANDS HAVE EXPIRED

Re: [insert governing agreement description] (the "Agreement")
[insert Lands] (the "Lands")

This letter is to advise that although the Lands governed by this Agreement have expired, this contract shall remain active until such time as all wells have been abandoned and reclaimed pursuant to Clause [] [of the Operating Procedure attached thereto **OR** of the Agreement (if no operating procedure exists)].

SAMPLE LETTER #2A - LETTER TO PARTNERS WHEN RECLAMATION CERTIFICATES HAVE BEEN ISSUED

Re: [insert governing agreement description] (the "Agreement")
[insert Lands] (the "Lands")

This letter is to advise that the Lands governed by the Agreement have expired and all wells drilled under same have been abandoned and reclaimed (a copy of Reclamation Certificate(s) are attached for your records). This Agreement can now be terminated pursuant to Clause [] [of the Operating Procedure attached thereto **OR** of the Agreement (if no operating procedure exists)].

SAMPLE LETTER #2B - LETTER TO PARTNERS WHEN A RECLAMATION CERTIFICATE(S) HAVE BEEN ISSUED BUT MORE WELLS ARE PENDING RECLAMATION

Re: [insert governing agreement description] (the "Agreement")
[insert Lands] (the "Lands")
[insert UWI] (the "Well")

This letter is to advise that the Lands governed by this Agreement have expired and we have now received a Reclamation Certificate for the Well (a copy of the Reclamation Certificate is attached for your records).

As there are additional wells governed by the Agreement that are pending reclamation, this Agreement shall remain active pursuant to Clause [] [of the Operating Procedure attached thereto **OR** of the Agreement (if no operating procedure exists)].

SAMPLE LETTER #3 - LETTER TO PARTNERS WHEN LANDS HAVE EXPIRED AND CONTRACT CAN BE INACTIVATED

Re: [insert governing agreement description] (the "Agreement")
[insert Lands] (the "Lands")

This letter is to advise that the Lands governed by this Agreement have expired or been surrendered and as there are no outstanding wellbore liabilities, this Agreement may now be terminated.

SAMPLE LETTER #4 - LETTER TO OPERATOR WHEN LANDS HAVE EXPIRED BUT WELLS HAVE NOT YET BEEN RECLAIMED

According to our records the Lands have now expired and the following wells are subject to reclamation:

UWI	W.I. PARTY	W.I. %

Accordingly, this Agreement shall remain active until such time as all wells governed by this Agreement have been abandoned and reclaimed pursuant to Clause [] [of the Operating Procedure attached thereto **OR** of the Agreement (if no operating procedure exists)].

We ask that you forward reclamation certificates as they become available.

ACQUISITIONS AND DIVESTITURES

The Issue	Risks Associated	Recommended Solutions	Desired Results
<p>Inaccurate Conveyancing (i.e., misuse of 4a vs. 4b, portions, excluded wells, etc.)</p>	<ul style="list-style-type: none"> ➤ Inability to have clarity of ownership and liabilities ➤ Not accurately assigning/receiving assets and liabilities 	<ul style="list-style-type: none"> ➤ Ensure when preparing conveyance documents the entire agreement is reviewed and only what is being sold is conveyed ➤ Ensure all wells are addressed (as either included or excluded) ➤ Be aware when reviewing the contract that some of the mineral rights originally contained in the contract may have been sold or expired, however if there are any wells on those lands they will need to be either included or excluded from the transfer in accordance with the terms of the P&S. ➤ When assigning a portion of the interest, either list the “included” wells or the “excluded” wells – being careful to note which you are using. The choice you make should be based on the least amount of additional typing to define your “portion”. 	<ul style="list-style-type: none"> ➤ Companies will have clarity of assets owned/ sold/ purchased ➤ Ability to accurately account for current and future liabilities ➤ Provide companies with the appropriate written documentation to evidence ownership of assets

ACQUISITIONS AND DIVESTITURES

The Issue	Risks Associated	Recommended Solutions	Desired Results
<p>Definitions, Clauses and Schedules within the P&S Agreement are not clear or consistent and may in fact not accurately describe the intent (White Map wording, excluded assets, etc.)</p>	<ul style="list-style-type: none"> ➤ Lack of clarity to purchaser and vendor to which assets are included in the transaction – ultimately inability to have clarity of ownership and liabilities for both parties 	<ul style="list-style-type: none"> ➤ Ensure the wording of the P&S is accurate and provides definitions to support the intent of the transaction 	
<p>Inactivating agreements in the land system prior to reclamation and/or satisfying obligations</p>	<ul style="list-style-type: none"> ➤ Governing Agreements not assigned or provided to purchaser, resulting in Vendor remaining as the recognized party ➤ Incomplete records/ Chain of Title to identify current ownership ➤ Unknown liabilities and inability to identify agreements that have outstanding obligations ➤ Proper Due Diligence not performed, as purchaser is unaware of agreements 	<ul style="list-style-type: none"> ➤ Ensure agreements remain active (or work around as the case may be for system limitations) until all obligations have been satisfied – i.e., reclamation ➤ Ensure purchaser is provided all agreements with outstanding liability when available (this includes files that may have been previously inactivated in your system) ➤ Ensure all agreements are properly assigned to the purchaser (this includes files that may have been previously inactivated in your system) 	

ACQUISITIONS AND DIVESTITURES

The Issue	Risks Associated	Recommended Solutions	Desired Results
<p>Historically, not all Government Regulators have accepted registered transfers of ownership to wells after abandonment, or companies have not ensured proper well transfers were completed</p>	<p>➤ Regulators are unaware of current ownership and historical owner may be responsible for future well liabilities</p>	<p>➤ Ensure all well licences are transferred with the appropriate Regulator when this is possible:</p> <ul style="list-style-type: none"> • Saskatchewan will allow licensee transfers of wells up to reclamation • Manitoba will allow licensee transfers of wells up to reclamation, as long as all mineral rights and surface leases are assigned • British Columbia will allow a licensee transfer of wells up to reclamation, status of well will dictate which documents are required • Alberta will allow a licensee transfer of wells up to reclamation, if the well has an abandoned status with the AER, the new licensee must have an active surface lease assuming reclamation liability • Alberta is the only province which records working interest participants from license to reclamation, however their electronic records can only be updated for working interest participants by the well licensee of record at one of the four points of the well's life cycle – license issuance, license transfer, suspension and abandonment 	<p>➤ By ensuring wells are properly transferred through the appropriate Government Regulator, industry can feel more confident that the correct ownership and ultimately liability is recorded properly on record</p> <p>(See attached for Q&A with AER supporting document which details the expectations when there is a working interest participant ownership change)</p>

Q&A with the AER (AER regulations in effect as of April 2016)	
Q. When there is a change of WIP, is there an expectation from the AER that you will be notified of such transactions in order to keep your records accurate?	
<p>A. Directive 056: Energy Development Applications and Schedules require licensees update the AER of EIP changes. Please note that electronic records (on working interest participants) in our Corporate Compliance System can only be modified by the licensee of record at one of the four points of the wells' life cycle: license issuance, transfer, suspension and abandonment.</p>	
Q. If so, is there a form or standard assignment or letter which you require WIP to prepare in order to notify of such change?	
<p>A. The written documentation should preferably identify the well licence and location, identify the specific working interest percentage and contain the signed consent of both parties. If this information is already contained in a Notice of Assignment, Purchase & Sale Agreement, etc. these types of documents may also be provided for the AER's review. Further documentation may be requested if the working interest percentage does not align with the AER's prior records. E.g. AER records indicate that the Licensee is 100 EIP, yet assigning company has provided documentation indicating that they were a prior X% working interest participant in the same well that has now been acquired by Y Corp.</p> <p>The AER reserves the right to refuse mineral agreement documentation provided as proof of change in working interest participant. Mineral working interest participants may not always be a working interest participant for the purposes of abandonment and reclamation.</p> <p>AER records must show a working interest percentage/distribution that adds up to 100%. Per Directive 056, partnerships cannot be named as the working interest participant. A specific company from that partnership must be listed as the working interest participant Providing the complete name of a corporation (including Inc., Ltd., or Corp.) is required and appreciated.</p> <p>Section 16 of the Oil and Gas Conservation Act requires that the licensee must also be a working interest participant.</p>	
Q. Until which stage in the well life cycle would you continue to update your records for a WIP change – i.e., could we provide this information right up to reclamation? After reclamation?	
<p>A. Changes in working interest participants can be made up to reclamation (if a reclamation certificate has not been issued). Records of these changes can be provided to the AER at any time.</p>	

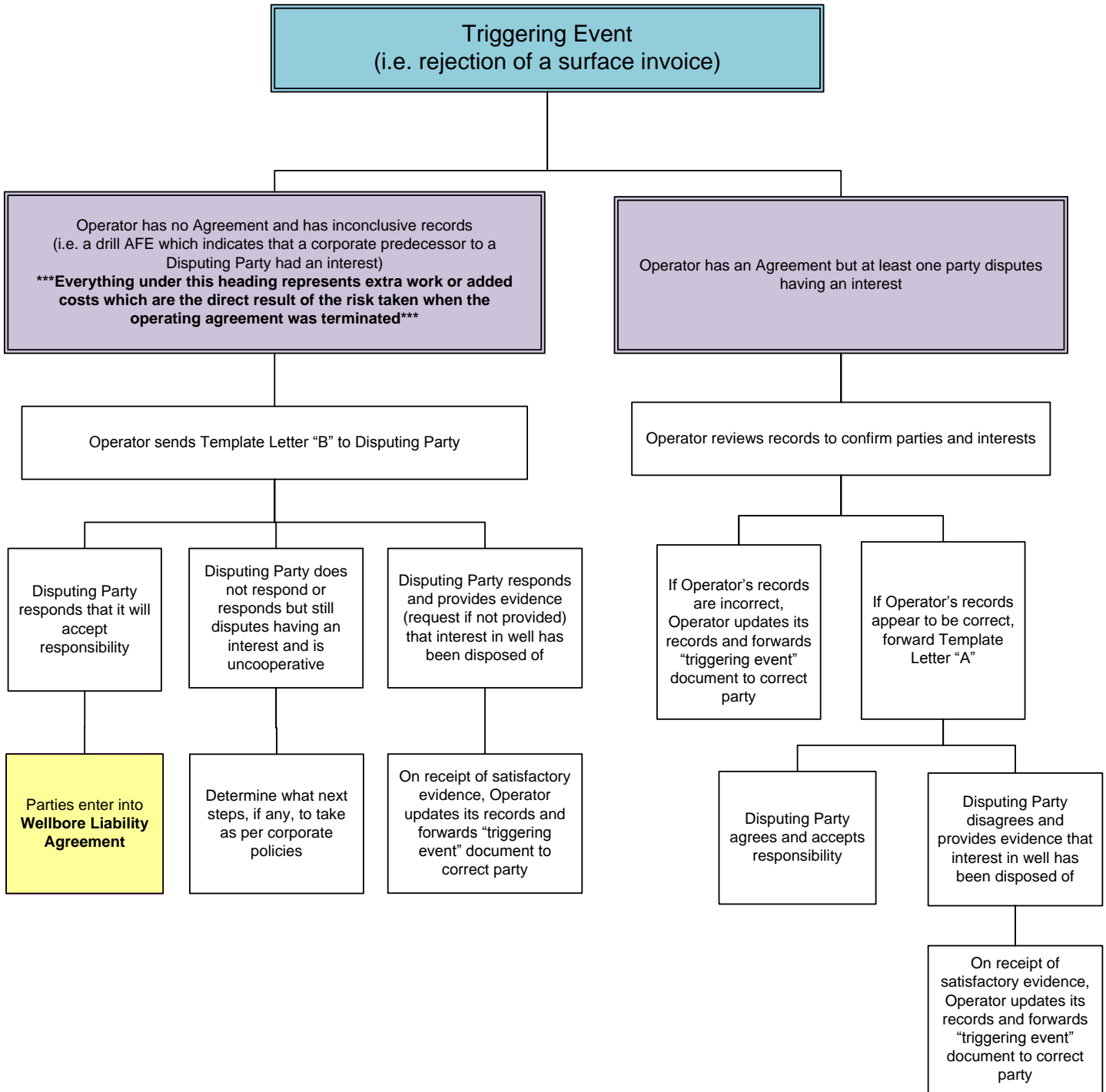
ACQUISITIONS AND DIVESTITURES

Q. Is there any discussion within the AER to allow transfers of a well licence for a well which is already abandoned? Already reclaimed?

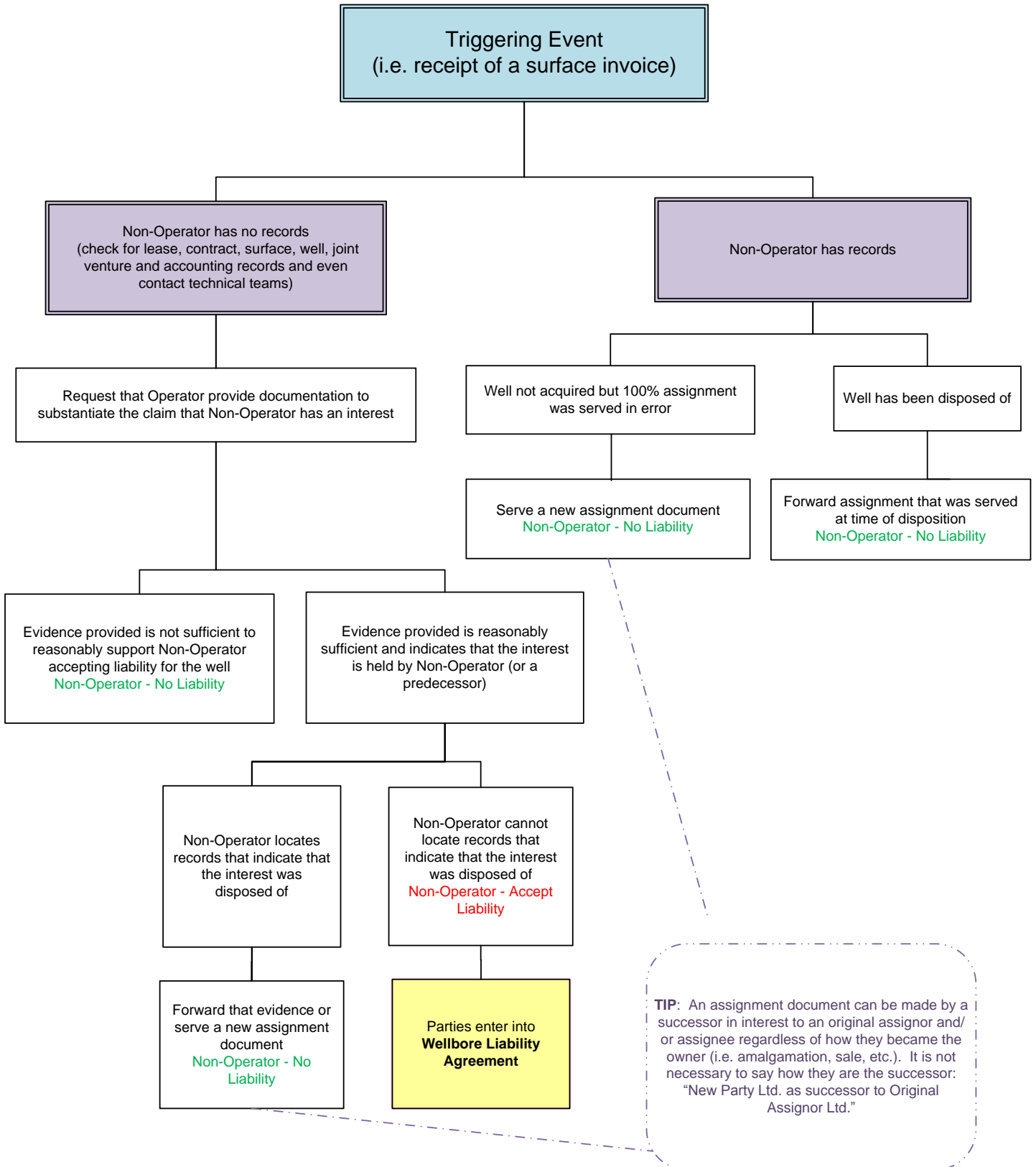
- A. Well/Facility licences can be transferred prior to a reclamation certificate being issued. Once the well/facility has been reclaimed, the licence cannot be transferred (Para. 6 of Appendix 2, Directive 006).

For the transfer of an abandoned well, the new licensee must have an active surface lease. Abandoned wells can be transferred for the purposes of the new licensee assuming reclamation responsibility. However, transfer of an abandoned well for the purpose of re-entry should occur via a Directive 056 application.

HISTORICAL WELL REVIEW PROCESS FOR AN OPERATOR AND/OR LICENSEE



HISTORICAL WELL REVIEW PROCESS FOR A NON-OPERATOR



THIS IS A SAMPLE ONLY – MODIFY TO SUIT YOUR SPECIFIC SITUATION AND PREFERENCES

TEMPLATE LETTER "A"

Re: [insert UWI] (the "Well") Dispute
[insert governing agreement information] (the "Agreement")

With reference to your recent dispute of [insert Operator's Name]'s invoice, enclosed is a copy of the chain of title and [describe back-up documents?] which evidence [insert Disputing Company name's] responsibility for costs associated with the Well. In the event an assignment of an interest in the Well was served in error, an assignment of that interest back to the assignor (or its successor) will be required before we can update our records. Please be advised that we will only update our records pursuant to industry practice.

We will continue to look to Disputing Party for its share of costs associated with the Well. [Be advised that should you fail to provide the requested evidence but continue to dispute your responsibility, we will avail ourselves of any and all remedies available at law.]??

THIS IS A SAMPLE ONLY – MODIFY TO SUIT YOUR SPECIFIC SITUATION AND PREFERENCES

TEMPLATE LETTER "B"

Re: [insert UWI] (the "Well") Dispute
[insert governing agreement information] (the "Agreement")

With reference to your recent dispute of costs associated with the Well, please be advised that according to our records (please see the attached [insert document type i.e. AFE]), Disputing Company, or its predecessor, has a ___% interest in the Well. We would appreciate it if you would conduct a review of your current and historical records (lease, contract, surface and well files) within the next 30 days to confirm whether this is in fact the case.

If you are unable to provide sufficient documentary evidence of the transfer of this Well to another party, we will look to Disputing Party for its share of the costs associated with the Well. [Be advised that should you fail to provide the requested evidence but continue to dispute your responsibility, we will avail ourselves of any and all remedies available at law.]??