

ORPHAN WELL GRANT AGREEMENT

made the 27th day of May, 2009

BETWEEN:

HER MAJESTY THE QUEEN IN RIGHT OF ALBERTA, as represented by the
Minister of Energy
(“**Alberta Energy**”)

AND:

**ALBERTA OIL AND GAS ORPHAN ABANDONMENT AND RECLAMATION
ASSOCIATION**, an Alberta Society carrying on its activities under the registered trade
name “Orphan Well Association”
(the “**Association**”)

PREAMBLE:

In order to encourage and expedite the clean-up of oil and gas orphan wells and sites, Alberta Energy, as part of an incentive program for the energy sector and with a view to reducing the “environmental footprint” of the energy sector, has offered to provide grant funding of \$30 million for abandoning and reclaiming old wells and sites during the 2009-10 and 2010-11 fiscal years.

The Association has agreed to make use of the grant funding in a manner parallel to the use of funding received by the Association from the orphan fund pursuant to the *Orphan Fund Delegated Administration Regulation*, thereby accelerating the abandonment and reclamation of orphan wells and sites.

Alberta Energy and the Association therefore agree as follows:

1. INTERPRETATION

1.1 Definitions - In this Agreement, the following expressions have the following meanings (and where applicable their plurals have corresponding meanings):

“**Completion Date**” means March 31, 2011, being the date by which the Association has undertaken to complete the Work Plan, and includes any extension of that date consented to by Alberta Energy;

“**Grant**” means the grant of \$30,000,000 described in Section 2.1;

“**Grant Proceeds**” means the amount of the Grant plus all interest or other return obtained by the Association from investing all or part of the Grant pending disbursement in carrying out the Work Plan;

“**Orphan Fund**” means the orphan fund referred to in and continued by section 69(1) of the *Oil and Gas Conservation Act* (Alberta) and administered by the Association pursuant to the *Orphan Fund Delegated Administration Regulation* made under that Act;

“**Regulation**” means the *Energy Grants Regulation*, A.R. 103/2003, made under the *Government Organization Act* (Alberta), as amended from time to time; and

“**Work Plan**” means the “2009/10 and 2010/11 work plan”, attached to and forming part of this Agreement, proposed by the Association for applying the Grant Proceeds in the abandonment and reclamation of orphan wells and sites, and includes any modifications made in accordance with Section 3.5.

1.2 Section Numbers - References in this Agreement to Section numbers are to the corresponding numbered provisions of this Agreement.

1.3 Entire Agreement - This Agreement constitutes the entire agreement between Alberta Energy and the Association with respect to the Grant, and supersedes all previous agreements, negotiations and understandings. There are no representations, warranties, terms, conditions or commitments regarding the Grant except as expressed in this Agreement.

2. THE GRANT

2.1 Payment of Grant - Alberta Energy will as soon as practicable following execution of this Agreement pay a grant of \$30,000,000 (the “**Grant**”) to the Association for the purposes of the Work Plan.

3. USE OF GRANT PROCEEDS

3.1 Permitted Use of Grant Proceeds - The Association must use the Grant Proceeds exclusively for carrying out the Work Plan. Any portion of the Grant Proceeds expended by the Association other than in carrying out the Work Plan shall become immediately repayable to Alberta Energy upon demand.

3.2 Investment of Grant Proceeds - Any portion of the Grant Proceeds not immediately required to be expended in furtherance of the Work Plan shall be invested by the Association in such manner that (i) the interest rate or other rate of return, and (ii) the amount of unexpended Grant Proceeds, are readily identifiable.

3.3 Orphan Fund – The Association acknowledges that the Grant Proceeds are not part of the Orphan Fund, even though the Grant Proceeds and the Orphan Fund will each be deployed in carrying out the Work Plan. The Association undertakes to separately track expenditures of the Grant Proceeds and expenditures from the Orphan Fund, such that at all times the amount of the

unexpended Grant Proceeds and the balance in the Orphan Fund are each readily identifiable.

3.4 Work Plan - The Association undertakes all reasonable efforts to proceed diligently and in a timely manner with the Work Plan, with a view to completing the carrying out of the Work Plan by the Completion Date. On the Completion Date, the Association must at the request of Alberta Energy repay to Alberta Energy all or any portion of the unexpended Grant Proceeds.

3.5 Alteration of Work Plan - The Association shall not suspend the carrying out of the Work Plan or alter the Work Plan in any respect material to this Agreement, except with the prior consent of Alberta Energy. Alberta Energy will not unreasonably withhold its consent to alterations of the Work Plan, provided such alterations do not (i) delay the carrying out of the Work Plan beyond the Completion Date, or (ii) significantly alter the scope of the Work Plan.

3.6 Conduct of Work Plan – Alberta Energy acknowledges and agrees that the manner and means of carrying out the Work Plan shall be determined from time to time by the Association, without direction from Alberta Energy.

4 OTHER OBLIGATIONS OF THE ASSOCIATION

4.1 Compliance with Regulation - In addition to complying with the terms of this Agreement, the Association must comply with the Regulation.

4.2 Representations - The Association represents to Alberta Energy that:

(a) the execution by the Association and the carrying out of this Agreement and the Work Plan by the Association have been duly and validly authorized by the Association in accordance with applicable law, such that this Agreement will constitute a binding legal obligation of the Association; and

(b) that the Association (i) has all requisite legal power and authority, and (ii) has or will have the expertise it requires, for the carrying out of this Agreement and the Work Plan.

5. REPORTS AND RECORDS

5.1 Reporting - The Association shall provide the following reporting to Alberta Energy:

(a) until the earlier of the Completion Date or completion of the Work Plan, within 21 days after the end of each calendar quarter (except, in the case of the year-end quarter, being the quarter ending March 31st, within 90 days thereafter), a quarterly report including at least the following:

(i) reporting on expenditures of Grant Proceeds since the last quarterly report, and a statement of the amount of unexpended Grant Proceeds; and

(ii) a progress report on the Work Plan, including a reasonable level of detail, and including at least a statement of services procured by the Association for carrying out abandonment or reclamation and a listing, by municipality, of all sites abandoned and reclaimed under the Work Plan; and

(b) within 90 days of the earlier of the Completion Date or completion of the Work Plan, a final report that includes:

(i) a final summary of all matters required to be reported on under clause (a); and

(ii) an evaluation by the Association of the results of and benefits achieved by the Work Plan; and

(c) in a timely manner, a response to any specific inquiry reasonably made by Alberta Energy at any time before, or within one year after, the earlier of the Completion Date or completion of the Work Plan, regarding:

(i) the Grant Proceeds or the Work Plan; or

(ii) any quarterly report provided under clause (a) or the final report provided under clause (b).

5.2 Records - During the carrying out of the Work Plan, the Association shall maintain appropriate accounting records regarding the Grant Proceeds and the Work Plan, available for inspection at all reasonable times and upon reasonable notice by Alberta Energy (including the Auditor General or any other representative of Alberta Energy). the Association shall provide any cooperation and assistance reasonably required to facilitate such inspection. Apart from this right of inspection and the right of audit in Section 5.3, the Association's records regarding the Work Plan shall be in the exclusive custody and control of the Association, and Alberta Energy shall have no general right to obtain copies of such records.

5.3 Audit - The cost of any special third party audit, examination or report arising from an inspection under Section 5.2 shall be borne by Alberta Energy, unless the audit, examination or report reveals material breaches of this Agreement or indicates that the accounting records are inadequate to permit a determination of how the Grant Proceeds were used by the Association, in which case the Association shall upon demand reimburse Alberta Energy for the cost of such audit, examination or report.

6. COMMUNICATIONS

6.1 Announcements - The Association shall not make any public announcement or issue any press release regarding the entering into of this Agreement or the making of the Grant except in consultation with Alberta Energy.

6.2 Notices - Any notice, consent, approval or other communication under this Agreement must be in writing to be effective, and is effective when delivered by any means, including fax transmission or e-mail, to the following respective addresses:

(a) if to Alberta Energy:

Alberta Energy
10th Floor, Petroleum Plaza North
9945 - 108 Street

Edmonton, AB
T5K 2G6

Attention: David Breakwell, Assistant Deputy Minister
fax: 780-427-6370
e-mail: david.breakwell@gov.ab.ca

(b) if to the Association:

Orphan Well Association
640 – 5th Ave SW
Calgary, AB
T2P 3G4

Attention: Patricia Payne, P. Eng., Manager
fax: 406-297-8981
e-mail: pat.payne@ercb.ca

Either party may change its address information by giving written notice to the other in the above manner.

6.3 Liaison - Alberta Energy designates and authorizes David Breakwell, Assistant Deputy Minister, Energy Policy and Research Division, as having authority to communicate to the Association on behalf of Alberta Energy any notice, approval, consent or other communication under this Agreement. The Association designates Patricia Payne, Manager, as having authority to communicate to Alberta Energy on behalf of the Association any notice or other communication under this Agreement. In the absence of any further designation or limitation communicated by either party to the other, each party may assume that any communication from the above individuals (other than a purported amendment of this Agreement) has been duly authorized.

7. NON-COMPLIANCE

7.1 Event of Default - It shall be an “Event of Default” if:

- (a) the Association abandons or fails to proceed with the Work Plan, or without the consent of Alberta Energy materially alters the Work Plan;
- (b) the Association becomes insolvent or ceases to operate; or
- (c) the Association breaches any provision of this Agreement and, upon receiving notice of the breach, fails to take reasonably appropriate remedial action within 14 days thereafter and diligently pursue such remedial action until the breach is remedied.

7.2 Remedies - Upon an Event of Default (as described in Section 7.1), Alberta Energy may take any or all of the following remedial action:

- (a) upon notice to the Association, immediately terminate this Agreement;
- (b) demand immediate repayment of all Grant Proceeds held by the Association,

excepting only such portion of the Grant Proceeds as the Association is irrevocably obligated to pay out under existing contracts entered into for purposes of carrying out the Work Plan; or

(c) pursue any other legal remedy available to Alberta Energy.

7.3 Dispute Resolution - In the event of any dispute regarding the interpretation or application of any provision of this Agreement, the parties agree to refer the matter for joint discussion by their respective senior officials and, if that fails to produce a resolution within 30 days of the dispute being referred to the senior officials, to jointly refer the matter to consensual mediation. Mediation will proceed on the following basis:

(a) if the parties cannot agree on a mediator, they will ask the President or Executive Director of the Alberta Arbitration and Mediation Society (or another mutually acceptable third party) to assist in the selection process;

(b) the parties will share the cost of the mediator equally and bear their own costs incurred in relation to the mediation; and

(c) no evidence of anything said or of any admission or communication made in the course of the mediation shall be admissible in any legal proceeding, except with the consent of both parties.

8. GENERAL PROVISIONS

8.1 Assignment and Contracting - The Association may not assign this Agreement or any right or benefit under it. The Association may enter into contracts in furtherance of the carrying out of the Work Plan, provided that:

(a) the Association shall not contract out responsibility for the Work Plan such that the Association no longer retains direct, hands-on responsibility for the Work Plan; and

(b) no contract entered into by the Association in relation to the Work Plan shall in any way relieve the Association from any of its obligations to Alberta Energy under this Agreement.

8.2 Amendment and Waiver - No amendment of this Agreement is effective unless made in writing and signed by a duly authorized representative of each of Alberta Energy and the Association. No waiver of any provision of this Agreement is effective unless made in writing, and any such waiver has effect only in respect of the particular provision or circumstance stated in the waiver. No representation by either of the parties with respect to the performance of any obligation under this Agreement is capable of giving rise to an estoppel unless the representation is made in writing.

8.3 Additional Assurances - The parties agree to from time to time do all such acts and provide such further assurances and instruments as may reasonably be required in order to carry out the provisions of this Agreement according to their spirit and intent; but this Section 8.3 shall not in any event be construed as obligating Alberta Energy to amend or enact any statute or

regulation.

8.4 Counterpart Execution - This Agreement may be executed in separate counterparts, in which case the executed counterparts together shall constitute one and the same agreement, and communication of execution by fax transmission shall constitute good delivery.

The parties have therefore executed this Agreement, each by its duly authorized representative, on the respective dates shown below.

**HER MAJESTY THE QUEEN IN RIGHT OF
ALBERTA**, as represented by the Minister of
Energy

date: May 25th, 2009

Per: (original signed by, C. Peter Watson,
Deputy Minister)

**ALBERTA OIL AND GAS ORPHAN
ABANDONMENT AND RECLAMATION
ASSOCIATION**

date: May 27th, 2009

Per: (original signed by, David Pryce,
Chairman)



**Alberta Oil and Gas Orphan Abandonment and Reclamation Association
Orphan Well Association**

**2009/10 AND 2010/11 WORK PLAN
Prepared for Alberta Energy**

The mandate of the Orphan Well Association (OWA) is to manage the abandonment of Alberta upstream oil and gas orphan wells, pipelines, facilities and the reclamation (which includes remediation/decontamination) of their associated orphan sites. An orphan is a property, that is a well, pipeline, facility or site that is licensed to a defunct company which has been investigated by the ERCB and Alberta Environment (AENV) to ensure that there is no legally responsible and financially able party to take responsibility for the clean up of the property.

The Government of Alberta is giving a \$30,000,000 grant to the OWA to support our activities. In addition to this grant funding, the ERCB will continue to collect the annual Orphan levy of \$12,000,000 from the upstream oil and gas industry. Using the combined government and industry funding, the OWA's work plan is for over \$50,000,000 of clean up work on orphans over the next two fiscal years. This will ensure that the Government of Alberta's objective to spend the \$30,000,000 in grant moneys over two years will be met.

The OWA's Work Plan is based on our two major operating activities which are described below. The grant moneys from the Government of Alberta will be directed specifically towards the abandonment and reclamation of very old sites with a focus on dealing with a back log of remediation (decontamination) and reclamation work on orphan sites. This will ensure that the grant money is used to clean-up very old sites and is distributed throughout the province to benefit as many landowners and service providers as possible.

Site Reclamation (regulated by AENV)

- Site investigation includes activities such as conducting well file review, site visit, landowner interview, and intrusive subsurface investigations to sample soil and groundwater for the presence of contaminants.
- Remediation (also referred to as decontamination) includes activities such as dealing with any identified soil or groundwater contamination as per Alberta Environment requirements. Typically, contaminated soil is removed and hauled to land fill and then is replaced with clean fill.
- Reclamation includes activities such as re-contouring the disturbed land to re-establish drainage, replacing topsoil and establishing vegetation so that the land is returned to its equivalent land capability.
- Closure includes activities such as monitoring vegetation on reclaimed sites and applying to AENV for a reclamation certificate when the site is ready. Closure is typically obtained when either a) AENV issues a reclamation certificate on the site or b) the site is handled by being taken over by another party.

Abandonment (regulated by ERCB)

- Well abandonment includes activities such as plugging a well and repairing any leaks so it is in a safe and stable condition, protecting the groundwater, and surface abandonment which is removing the well head and lowering the casing stub and capping it 1 m minimum below ground level.
- Pipeline abandonment includes activities such as flushing and purging a pipeline so it is empty and clean and capping the line below the ground at grade.
- Facility decommissioning includes activities such as cleaning and removing surface facilities such as tanks, vessels, buildings, pump jacks, cement pads, pilings and debris.

The following is the OWA's proposed Work Plan for the next two years:

2009/10 OWA Work Plan		
Site Reclamation	\$20,100,000	Site Reclamation includes activities on all 427 orphan sites. This includes expenditures of \$17,090,000 (85%) for remediation activities on 105 sites and \$740,000 (4%) for major reclamation activities on 46 sites. Closure is expected on 32 sites.
Abandonment	\$5,100,000	Abandonment includes site inspections on all 29 orphan wells in inventory, the abandonment of nine wells, remedial repairs on three wells, investigation and prep work on six additional wells. This also includes three pipeline abandonments and facility decommissioning work at three wells.
Total	\$25,200,000	

2010/11 OWA Work Plan		
Site Reclamation	\$20,500,000	Site Reclamation activities on forecasted 395 orphan sites. This includes expenditures of \$18,670,000 (91%) for remediation activities on 52 sites and \$890,000 (4%) for major reclamation activities on 45 sites. Closure is estimated on 40 sites.
Abandonment	\$5,000,000	Abandonment includes site inspections on forecasted 20 orphan wells remaining in inventory, remedial repair attempts on three wells and investigation and prep work on six wells. No new facility or pipeline work is anticipated.
Total	\$25,500,000	

The OWA Work Plans are developed based on best available information at the time this document is written. Over time, the details of these Work Plans will change. For example, additional investigation information may increase or decrease cost estimates on individual projects and some projects may be delayed because of weather or access issues and be replaced with others. To best reflect the planned activity by the OWA, these Plans may be revised from time to time with agreement between Alberta Energy and the Orphan Well Association.