Saskatchewan

Ministry of Energy and Resources

Notice of Proposed Directive Amendments
Directive PNG025: Financial Security Requirements

Background

The Ministry of Energy and Resources (ER) is consulting on proposed amendments to *Directive PNG025: Financial Security Requirements* (the amended Directive).

The Process

ER is launching industry consultations on the amended Directive from February 25, 2026, to March 25, 2026. Once this consultation period has concluded, ER will review all consultation feedback in preparation of a final draft of the amended Directive. The amended Directive is expected to come into effect in 2026.

Summary of Proposed Changes

The proposed changes featured in the amended Directive will assist in flagging financially at-risk oil and gas companies and strengthen ER's authority to require security, set rules for closure companies, and obtain financial information from non-oil and gas licensees. The new measures are also aimed at reducing the occurrence of unfunded orphan wells and aiding in reducing industry's costs for the Orphan Fund.

The key amendments include:

- The introduction of two new mathematical tools, the Corporate Health Assessment and the Risk Adjusted Licensee Liability Rating (LLR), which are aimed at providing greater clarity and advanced notice of when oil and gas companies may be starting to experience financial strain, better enabling ER to request security to ensure that these companies can meet their end-of-life asset retirement obligations.
- New measures providing ER with the ability to require security and financial information from non-oil and gas licensees such as those involved in lithium, helium, hydrogen and potash production, geothermal energy or carbon sequestration.

Miscellaneous items of note

- A new provision codifying ER's practice of holding certain LLR information as confidential.
- Revisions that introduce a five-year limit for obtaining an Acknowledgement of Reclamation (AOR) after approval of a Reclamation Declaration Application, with the option for licensees to request an extension.
- Original section 6.2 (Use of Security Toward Annual Reduction Target) has been repealed and replaced with a new section 6.2 that includes a new table to provide clearer guidance to licensees on reporting ILRP.
- Rules and guidance for closure companies acquiring inactive infrastructure to carry out closure work.

Review of Draft Directive

ER is seeking written comments on the amended Directive. A side-by-side detailing key amendments and a draft of the amended Directive are attached to this notice as Appendix A and Appendix B, respectively.

Please direct any comments or questions about the proposed amendments to:

ER Service Desk at er.servicedesk@gov.sk.ca
Attn: Brad Wagner, Director Liability Management
Energy Regulation Division

The deadline for submitting written comments is March 23, 2026.

Appendix A

Changes to *Directive PNG025: Financial Security Requirements*

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
1. Introduction	**1. Introduction**	No Changes.
1.1 Governing Legislation	**1.1 Governing Legislation**	No Changes.
1.2 Scope and Applicability of the Directive The requirements outlined in this Directive apply to licensees that hold one or more licences authorizing oil and natural gas operations. Pursuant to section 3-1(1)(e) of the FSSCR, ER may require any licensee to submit a security deposit if there is financial risk related to the closure work of a well, facility and any associated structure or infrastructure.	**1.2 Scope and Applicability of the Directive** The requirements outlined in this Directive primarily apply to licensees that hold one or more licences authorizing oil and natural gas operations. ~~Pursuant~~ Notwithstanding, pursuant to section 3-1~~(1)(e)~~ of the FSSCR, ~~ER~~ the Minister may require the submission of security deposits from any licensee holding one or more licences, or an applicant for a licence, licensed in accordance with the OGCA. Additionally, pursuant to subsections 6(3) and 9(2) of the OGCA, any licensee or applicant, as described above, shall submit to the minister any corporate financial information that the Minister may require to evaluate the financial capacity of the licensee or applicant, to meet its obligations as described in section 15 of the OGCA. The minister may consider this information in assessing the amount of security that may be required for the purpose of ensuring those obligations are met, and also in the determination of whether to approve or refuse a licence application or licence transfer application.	This revision clarifies that the FSSCR grants authority to request security from any individual or entity holding a licence that was issued pursuant to the OGCA. This includes wells or facilities licensed for purposes other than oil and gas, such as (but not limited to), lithium, helium, hydrogen, potash and geothermal. Additionally, the ministry may require corporate financial information from the abovementioned licensees for the purposes mentioned.
1.3 Definitions	**1.3 Definitions**	No Changes.
New Section Added	**1.4 Confidential Licensee Liability Rating Information** ER produces a number of reports with respect to the Licensee Liability Rating (LLR) Program. To increase transparency, the reports are made available to the public where possible. However, information specific to the licensee related to invoices, refunds, and the deemed asset and liability associated with a particular licence remains confidential to ER and a given licensee.	New section has been added to confirm that such information is held confidential by the ministry. Please note that the ministry has always treated this information confidentially in practice, though there was previously no explicit legal provision granting that authority.
2. Security Deposit Requirements Under the FSSCR, there are several reasons for which the Minister may require a licensee to submit a security deposit. These are:	**2. Security Deposit Requirements** Under the FSSCR, there are several reasons for which the Minister may require a licensee to submit a security deposit. These are:	The first bullet has been revised to remove the reference to an LLR of 1. With the

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
• If the Licensee Liability Rating (LLR) of a licensee becomes less than 1 following a monthly LLR assessment and the amount of security owed is greater than $10,000.00, a deposit may be required. • If a licensee does not meet their Annual Reduction Target (ART) with respect to their inactive liabilities. • As condition of a licence transfer. • Corporate financial information supplied by the licensee indicates that the company is at risk of insolvency. Note that although the Minister may request security in cases where a licensee has not met their ART, as indeed there will be circumstances that prevent companies from meeting their ART, such as weather conditions, posting security is not an acceptable long-term (year over year) alternative for meeting the requirements of the ILRP. In order to meet compliance with the ILRP, licensees will be required to carry out actual abandonment, decommissioning, reclamation and remediation work.	• If ~~the Licensee Liability Rating (LLR)~~ a licensee ~~becomes less than 1 following~~ has not passed a monthly LLR assessment and the amount of security owed is greater than $10,000.00, ~~a deposit may be required~~. • If a licensee does not meet their Annual Reduction Target (ART) with respect to their inactive liabilities. • As a condition of a licence transfer. • ~~Corporate financial~~ Financial information supplied by the licensee, as well as unpaid debt information, indicates that the company is at risk of insolvency. ~~Note that although the Minister may request security in cases where a licensee has not met their ART, as indeed there will be circumstances that prevent companies from meeting their ART, such as weather conditions, posting security is not an acceptable long-term (year over year) alternative for meeting the requirements of the ILRP. In order to meet compliance with the ILRP, licensees will be required to carry out actual abandonment, decommissioning, reclamation and remediation work.~~	introduction of the Risk Adjusted LLR, licensees may now be required to submit security at LLR thresholds other than 1 (see new section 7.4 Risk Adjusted LLR). The last paragraph in the section was removed since it did not add anything of value and was deemed unnecessary.
2.1 Payment of Security Deposit	**2.1 Payment of Security Deposit**	No Changes.
2.2 Enforcement Actions for Non-Compliance of Security Deposit Payment	**2.2 Enforcement Actions for Non-Compliance of Security Deposit Payment**	No Changes.
3. Licence Transfer Assessments	**3. Licence Transfer Assessments**	No Changes.
3.1 Upper Threshold PRT Assessments	**3.1 Upper Threshold PRT Assessments**	No Changes.
4. Deemed Liability Values	**4. Deemed Liability Values**	No Changes.
4.1 Deemed Liability for Problem Sites	**4.1 Deemed Liability for Problem Sites**	No Changes.
4.1.1 Potential and Unassessed Problem Sites	**4.1.1 Potential and Unassessed Problem Sites**	No Changes.
4.1.2 Assessed Problem Sites	**4.1.2 Assessed Problem Sites**	No Changes.
4.1.3 Transferring a Licence Designated as Unassessed Problem Sites	**4.1.3 Transferring a Licence Designated as Unassessed Problem Sites**	No Changes.
4.2 Reduction in Deemed Reclamation Liability with Reclamation Declaration Application Where licensees have reclaimed well or facility sites in accordance with the OGCR and only the establishment of vegetation is still required, licensees may be eligible for a reduction in the deemed reclamation liability via a Reclamation Declaration Application.	**4.2 Reduction in Deemed Reclamation Liability with Reclamation Declaration Application** Where licensees have reclaimed well or facility sites in accordance with the OGCR and only the establishment of vegetation is still required, licensees may be eligible for a reduction in the deemed reclamation liability via a Reclamation Declaration Application.	

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
A Reclamation Declaration Application for a well or facility site must be submitted by a qualified third-party consultant (as defined in *Directive PNG016: Acknowledgement of Reclamation Requirements*) on behalf of licensees. Once the application is approved, the associated deemed reclamation liability of the licence will be decreased to $5,000.	A Reclamation Declaration Application for a well or facility site must be submitted by a qualified third-party consultant (as defined in *Directive PNG016: Acknowledgement of Reclamation Requirements*) on behalf of licensees. Once the application is approved, the associated deemed reclamation liability of the licence will be decreased to $5,000. The licensee has five (5) years from the authorization date to obtain an Acknowledgement of Reclamation (AOR). After 5 years, if no AOR has been obtained, the reclamation liability will be reset to the deemed amount. However, licensees can request an extension to the 5-year limit.	The Directive has been updated to include a five-year deadline for obtaining an AOR after a reduction in liability is approved, with the option for licensees to request an extension. This addition supports timely completion of reclamation work and strengthens accountability within the process.
4.3 Multiple Licences on a Lease Where a licensee has more than one well or facility licence on a single surface lease, the licensee may qualify for a reclamation liability reduction. For the application to be accepted, the well and facility licences must be non-abandoned and currently hold reclamation liability. Should ER approve the reduction request, the reclamation liability of the highest well or facility licence would be retained, and the remaining licences would be reduced to 10 per cent of their original reclamation amount. Where a licensee holds multiple facility licences on a single site, the licence with the highest liability retains the full liability amount and IRIS automatically reduces the reclamation liability of any secondary facility licences. Therefore, there is no need to apply for this reduction for sites with only facility licences. To apply, ER requires the licensee to submit the completed *Multi-Licensed Site Reclamation Liability Reduction Form* and required attachments for consideration. Refer to www.saskatchewan.ca for more details regarding the IRIS application process.	**4.3 Multiple Licences on a Lease** Where a licensee has more than one well or facility licence on a single surface lease, the licensee may qualify for a reclamation liability reduction. For the application to be accepted, the well and facility licences must be non-abandoned and currently hold reclamation liability. Should ER approve the reduction request, the reclamation liability of the highest well or facility licence would be retained, and the remaining licences would be reduced to 10 per cent of their original reclamation amount. Note that licensees holding a reclamation liability of $5100 or less are not eligible for the 10 per cent reduction. Where a licensee holds multiple facility licences on a single site, the licence with the highest liability retains the full liability amount and IRIS automatically reduces the reclamation liability of any secondary facility licences. Therefore, there is no need to apply for this reduction for sites with only facility licences. To apply, ER requires the licensee to submit the completed *Multi-Licensed Site Reclamation Liability Reduction Form* and required attachments for consideration. Refer to www.saskatchewan.ca for more details regarding the IRIS application process.	Wording was added to the second paragraph to clarify that licensees with a reclamation liability of $5100 or less are not eligible for the reduction. This is because $5100 for site reclamation is already lower than what it would realistically cost to reclaim most sites and therefore cannot be reduced further.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
5. Refund of a Security Deposit	**5. Refund of a Security Deposit**	No Changes.
5.1 Refund Eligibility	**5.1 Refund Eligibility**	No Changes.
5.1.1 LLR and PRT Deposit Refunds	**5.1.1 LLR and PRT Deposit Refunds**	No Changes.
5.1.2 ILRP Deposit Refund	**5.1.2 ILRP Deposit Refund**	No Changes.
6. Management of Liabilities, Inactive Liability Reduction Program (ILRP)	**6. Management Liabilities, Inactive Liability Reduction Program (ILRP)**	No Changes
New Section Added	**6.1 ART Compliance**	Section number revision, the title of section 6.1 has been changed since new subsections have been added to the section.
6.1 Application for Decrease in a Licensee's ART As per the FSSCR, licensees may apply to the Minister for a reduction in their ART in situations where a licensee's ART would result in it having to abandon or decommission infrastructure that it intends to reactivate or use for a future purpose. The application must identify the affected infrastructure and provide an explanation as to the purpose for which the infrastructure will be reactivated or used in the future and the timing or scheduling of the reactivation. If approved, ER will set a timeline in which the reactivation or use of the infrastructure must commence and be completed. ER may also require the submission of a securitydeposit at any time during the process or as a requirement to approve the plan. ER may also authorize a reduction in a licensee's ART on application for licensees in extenuating financial circumstances. In either case, the licensee must clearly describe their circumstances and provide a detailed explanation as to why the current ART should be reduced. To apply for a decrease in a licensees ART, please email the ER service desk at er.servicedesk@gov.sk.ca with the subject line "Request for a decrease in ART".	**6.1.1 Application for a Decrease in a Licensee's ART** As per the FSSCR, licensees may apply to the Minister for a reduction in their ART in situations where a licensee's ART would result in it having to abandon or decommission infrastructure that it intends to reactivate or use for a future purpose. The application must identify the affected infrastructure and provide an explanation as to the purpose for which the infrastructure will be reactivated or used in the future and the timing or scheduling of the reactivation. If approved, ER will set a timeline in which the reactivation or use of the infrastructure must commence and be completed. ER may also require the submission of a security deposit at any time during the process or as a requirement to approve the plan. ER may also authorize a reduction in a licensee's ART on application for licensees in extenuating financial circumstances. ~~In either case~~, To apply for a decrease in a licensee's ART, an ART Decrease Request must be submitted to IRIS. The application must be in the form of a PDF where the licensee must clearly describe their circumstances and provide a detailed explanation as to why the current ART should be reduced. ~~To apply for a decrease in a licensees ART, please email the ER service desk at er.servicedesk@gov.sk.ca with the subject line "Request for~~	Section number revision, section 6.1 has become Section 6.1.1. The last paragraph has been revised for clarity, and a final sentence was added to confirm that these applications are not approved automatically.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
	~~a decrease in ART".~~ The ministry will review all applicable information to determine whether the reduction should be approved.	
New Section Added	**6.1.2 Deficit Carryover** In accordance with the FSSCR, if a licensee's ART for a calendar year is less than the amount necessary to carry out a single well abandonment or a single site reclamation then the licensee may carry its deficit forward for a maximum of three consecutive years or until the ART for a calendar year is enough to carry out a single well abandonment or a single site reclamation. To apply to use the carryover for the deficit, an email must be sent to the ER service desk at er.servicedesk@gov.sk.ca with the subject line "Request to use deficit carryover". In the email, the licensee must state their current ART for the program year and clearly describe their circumstances.	New section added to provide licensees with information on how to apply for a deficit carryover pursuant to section 5-5 of the FSSCR.
New Section Added	**6.1.3 Non-Compliance with ILRP and Licence Applications** In addition to requesting security deposits, the minister may deny licence applications or licence transfer applications if a licensee is non-compliant respecting the ILRP.	New section added to establish that licence applications and licence transfer applications can be denied if a licensee is not compliant with the ILRP. This relates to the Minister's power to deny licences based on a person's compliance history pursuant to subclause 12(2)(c)(i) of *The Oil and Gas Conservation Regulations.*
6.2 Use of Security Toward Annual Reduction Target In accordance with the FSSCR, licensees can apply to the Minister to use any type of security deposits (LLR, PRT, ILRP) on account with ER, for the purpose of putting it toward meeting their ART, by having abandonment, decommissioning, reclamation or remediation work carried out. Note that this process is not the same as a refund. Unlike a refund, the licensee must carry out closure work in order to be able to access their security for this purpose. Licensees must also be compliant with respect to security owing in order to qualify to use security for closure work.	**REPEALED**	Section 6.2 is being repealed is it generated little interest among licensees and was burdensome to administer.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
To apply to use security please email the ER service desk at er.servicedesk@gov.sk.ca with the subject line “Request to use security for ART”. If a licensee’s application to use security to meet their ART is approved, the licensee can then procure the necessary services to complete the planned closure work. In order to provide proof of the expenditures made, licensees will be required to have the vendor(s) submit a signed acknowledgement certifying the work completed and that full payment was received. The acknowledgement template is called “Acknowledgement of Payment for Service.pdf”. Once the closure work is complete, and the licensee has paid all associated invoice(s), ER will then issue the required security to the licensee. However, licensees should be aware that ER will not provide any payment to a licensee that is in excess of the deemed liability associated with the closure work that has been carried out, unless otherwise approved by the Minister.		
6.3 Reporting of Expenditures Incurred to Meet Annual Reduction Target The FSSCR establishes licensees’ obligations with respect to reporting of expenditures incurred to meet their ART. In addition to those requirements, licensees will be required to report the actual expenditures attributable to each closure activity carried out at each corresponding well, facility or flowline within 90 days following the program year end. For the purposes of this reporting, licensees shall use the excel file named “ILRP Expense Reporting.xls”, available on www.saskatchewan.ca. Once complete, the information is to be submitted through IRIS.	**6.2 Reporting of Expenditures Incurred to meet Annual Reduction Target** The FSSCR establishes licensees’ obligations with respect to reporting expenditures incurred to meet their ART. ~~In addition to those requirements~~ Licensees will be required to report the actual expenditures attributable to each closure activity carried out at each corresponding well, facility or flowline within 90 days following the program year end. For the purposes of this reporting, licensees shall use the excel file named “ILRP Expense Reporting.xls”, available on www.saskatchewan.ca. Once complete, the information is to be submitted through IRIS. Note that reported expenditures should include PST but not GST.	Updated section number, Section 6.3 now become section 6.2. The section has been revised and expanded with the addition of a table to provide better guidance to licensees on how to report their expenditures for the ILRP.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
Note that reported expenditures should include PST but not GST.	Licensees must submit the following information about the closure activities, where applicable:	

Field	Infrastructure	Definition
Licence Type		The type of infrastructure that closure activities were performed on. This would include: Wells, Facilities, and Pipelines.
Completion Status		If an activity is not fully completed on a licence and will require additional expenditures in a future calendar year, report expenditures as **Partial**. If an activity is fully completed on a licence and will not require additional expenditures in a future calendar year, report expenditures on the **Complete**.
Licence No		The unique number issued by IRIS for the infrastructure.
UWI		The Unique Well Identifier (UWI) for the boss wellbore.
Downhole Abandonment ($)	Wells	All costs required to permanently plug all wellbores and completions.
Cut and Cap ($)	Wells	All costs associated with the cut and cap of a well.
Decommissioning ($)	Facilities	All costs associated with bringing a facility to the end of life and removing equipment.
Segment ID	Pipelines	The IRIS generated segment identifier that identifies the segment upon approval (e.g., SK PS 00000123).
Abandonment ($)	Pipelines	Costs associated with permanently deactivating a pipeline or part of a pipeline, whether it is removed.
Surface Casing Vent Flow ($)	Wells	Costs associated with repairing surface release of fluids and/or gas in any combination or volume between the production casing and surface casing.
Gas Migration ($)	Wells	Costs associated with repairing situations where gas from stratigraphic units penetrated by the well is present at surface in soils around the outermost string of well casing.
Phase 1 Assessment ($)	Wells Facilities	All costs associated to completing a Phase I assessment. The desktop study that investigates historical information and background of sites to assess presence of any potential APECs (Area of Potential Concerns) at the site.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes

Phase 2 Assessment ($)	Wells Facilities	All costs associated to further investigating APECs via borehole investigation that were identified during the Phase I assessment.
Remediation ($)	Wells Facilities	All costs associated with decontaminating, excavating, removing, sequestrating, encapsulating, immobilizing, attenuating, degrading, processing or treating the contaminants in the soil or water in a manner so that, in the opinion of the minister, the contaminants no longer pose a threat or risk to human health, public safety, property or the environment. Unassessed or Assessed Problem Site – regardless of whether the associated well, facility or flowline is inactive and includes costs: To obtain a Site Specific Liability Assessment To obtain a Site Specific Risk Assessment Related to monitoring All costs required to obtain an AOR for a site
Reclamation ($)	Wells Facilities	All costs associated with re-contouring, landscaping, replacing or replenishing the topsoil and re-vegetating the surface of the soil so that it is compatible with its surroundings.
Vegetation Monitoring ($)	Wells Facilities	Costs associated to unforeseen vegetation monitoring due to impacts left in place and/or reclamation activities. This would include vegetation monitoring requirements for impacts left in-situ as per PNG0033 and PNG0045.
Groundwater Monitoring ($)	Wells Facilities	Costs associated to unforeseen groundwater monitoring outside of the requirements for Acknowledgment of Reclamation due to contamination impacts or long term monitoring for impact migration.
Detailed Site Assessment ($)	Wells Facilities	All costs associated to performing a DSA as per the criteria.
AOR Applicaton ($)	Wells Facilities	All costs associated to preparing an Acknowledgement of Reclamation application for submission into IRIS.
Other ($)	Wells Facilities Pipelines	Costs not covered in previous categories.
Other Activity Type	Wells Facilities Pipelines	Description of the 'Other' category costs.

7. Corporate Financial Information In accordance with section 4-3 of the FSSCR, licensees are required to submit corporate financial information when requested by the Minister. This information will be used in conjunction with the LLR program to better evaluate the financial capacity of licensees to meet their end-of-life asset retirement obligations. The information may be	**7. Corporate Financial Information** In accordance with section 4-3 of the FSSCR, licensees are required to submit corporate financial information when requested by the Minister. This information will be used ~~in conjunction with the LLR program~~ to better evaluate the financial capacity of licensees to meet their end-of-life asset retirement obligations ~~The information may be~~	Minor changes with the addition of some exceptions.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
used to assess the amount of security that may be required under the LLR program or for a licence transfer. The following are types of financial information that may be requested: **Total Current Assets:** the total amount of assets recorded as current on the balance sheet or statement of financial position. **Total Current Liabilities:** the total amount of liabilities recorded as current on the balance sheet or statement of financial position. **Total Shareholders Equity:** the residual interest in assets after deducting all liabilities. **Total Revenue (net):** total revenue generated from sale of oil/gas products, processing/store/transporting/marketing of oil/gas products, other sales and/or interest income with the subtraction of royalties paid. As well this value excludes revenue from purchased commodities. **Revenue from sale of purchased commodities:** total revenue generated from purchased commodities that were strictly for resale. **Interest Expense:** the total costs of servicing debt including interest and other costs of borrowed funds. **Net Income (or loss):** total revenues less expenses, excluding components of other comprehensive income. This is net income (or loss) after taxes. **Adjusted EBITDA:** net income before interest, taxes, depreciation, and amortization. Along with further deductions in respect of non-cash items, including depletion, depreciation, amortization and accretion of asset retirement obligations, unrealized losses on Hedge Agreements, non-cash compensation expenses and provisions for the impairment of oil and gas assets.	~~used~~ and to assess ~~the amount of~~ security ~~that may be required under the LLR program or for~~ deposit requirements accordingly, either as part of a licence transfer, or a regular LLR assessment. The following are types of financial information that may be requested: **Total Current Assets:** the total amount of assets recorded as current on the balance sheet or statement of financial position. **Total Current Liabilities:** the total amount of liabilities recorded as current on the balance sheet or statement of financial position. **Total Shareholders Equity:** the residual interest in assets after deducting all liabilities. **Total Revenue (net):** total revenue generated from sale of oil/gas products, processing/store/transporting/marketing of oil/gas products, other sales and/or interest income with the subtraction of royalties paid. As well this value excludes revenue from purchased commodities. **Revenue from sale of purchased commodities:** total revenue generated from purchased commodities that were strictly for resale. **Interest Expense:** the total costs of servicing debt including interest and other costs of borrowed funds. **Net Income (or loss):** total ~~revenues~~ revenue less expenses, excluding components of other comprehensive income. This is net income (or loss) after taxes. This must be calculated as a 3-year average using the three most recent years. **Adjusted EBITDA:** net income before interest, taxes, depreciation, and amortization. Along with further deductions in respect of non-cash items, including depletion, depreciation, amortization and accretion of asset retirement obligations, unrealized losses on Hedge Agreements, non-cash compensation expenses and provisions for the impairment of oil and gas assets.	Net Income is to be calculated as a 3-year average as indicated.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
Total Cashflow from Operations: the total amount of cash a company generates (or consumes) from carrying out operating activities over a fiscal period. **Total Debt:** total short-term and long-term debt of the company, excluding lease liabilities and asset retirement obligation (ARO). **Lease Liabilities:** under standard IFRS 16, the financial obligation to make the payments arising from a lease, measured on a discounted basis. **Operating Netback for Saskatchewan Operations:** this is a 12-month calendar year average operating netback for a licensees Saskatchewan production only ($/m3). To calculate the netback, subtract total annual operating costs, royalties, freehold production tax and annual transportation costs from the annual gross production value to obtain an annual net income. Natural gas volumes should be converted to an economic equivalent volume of oil by dividing the gas volume by the ratio of the 12-month average oil price in $/m3 to the 12-month average gas price in $/103m3. Any sales of natural gas liquids should be added to the oil and gas sales value. Also, the netback is to be provided as both a net and a gross value. To obtain the gross value, do not subtract out working interest share amounts. Rather, assume as the licensee, your company would receive all revenue for a well, and pay all operating costs, transportation costs, royalties, taxes, etc. **Company Directors/Officers:** In addition to the above requirements, licensees shall also submit a complete list of the licensee's current directors/officers.	**Total Cashflow from Operations:** the total amount of cash a company generates (or consumes) from carrying out operating activities over a fiscal period. **Total Debt:** total short-term and long-term debt of the company, excluding lease liabilities and asset retirement obligation (ARO). **Lease Liabilities:** under standard IFRS 16, the financial obligation to make the payments arising from a lease, measured on a discounted basis. **Operating Netback for Saskatchewan Operations:** this is a 12-month calendar year average operating netback for a licensees Saskatchewan production only ($/m3). ~~To calculate the netback, subtract total annual operating costs, royalties, freehold production tax and annual transportation costs from the annual gross production value to obtain an annual net income.~~ ~~Natural gas volumes should be converted to an economic equivalent volume of oil by dividing the gas volume by the ratio of the 12-month average oil price in $/m3 to the 12-month average gas price in $/103m3. Any sales of natural gas liquids should be added to the oil and gas sales value.~~ ~~Also, the netback is to be provided as both a net and a gross value. To obtain~~ If the company operates in more than one jurisdiction, do not include any revenue streams, production or cost data from any jurisdiction except Saskatchewan in the evaluation of the netback. Also note the licensees are required to report both a "net" and "gross" netback. In order to evaluate the **gross** ~~value, do not~~ **netback,** licensees should only consider revenue, production and cost data for Saskatchewan infrastructure in which they are the licensee. Further, in the evaluation, do not subtract out working interest share amounts. Rather, assume as the licensee, your company would receive all revenue ~~for a well~~, from the licensed operations and pay all operating costs, royalites/production tax and transportation costs, royalties~~,~~	Paragraphs have been revised to provide more detail and clarity on how netback it is to be calculated.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
	~~taxes, etc~~. For companies that have situations where they have working interest partners that take their production in kind, it is acceptable to divide your company's revenue and royalty share by your working interest percentage in order to derive theoretical gross values. In order to evaluate the **net netback**, licensees should only consider their working interest share of revenue, production and cost data for infrastructure in which they have a working interest (whether or not they are the licensee). In the evaluation of the income for the net netback, licensees should also include revenue from any Gross Overriding Royalties. The formula to calculate the netback is as follows: **Netback ($/m3) = Annual Net Income ($) / Oil Equivalent Sales Volume (OEm3)** **Annual Net Income ($)** = Annual Gross Production Value - Total Annual Operating Costs - Royalties - Freehold Production Tax - Annual Transportation Costs **Annual Gross Production Value ($)** = revenue from the sales of the oil and gas produced at the wellhead, plus any natural gas liquids sales, as reported via Petrinex required by Section 66 of *The Oil and Gas Conservation Act, and PNG032: Volumetric and Infrastructure Reporting in Petrinex* **Total Annual Operating Costs ($)** = fixed and variable costs attributable to operating the oil and gas infrastructure **Royalties ($)** = total annual sum of annual Crown royalties (lands in which mineral rights are owned by the province) paid for oil and gas infrastructure **Freehold Production Tax ($)** = total annual sum of annual Freehold tax paid for oil and gas infrastructure	

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
	Annual Transportation Costs ($) = expenses related to moving oil/gas product to market for sale **Oil Equivalent Sales Volume (OEm3) = Natural Gas Sales Expressed as Economic Equivalent volume of oil (m3) + Oil Volume (m3)** **Natural Gas Sales Expressed as Economic Equivalent volume of oil (m3)** = Annual Natural Gas Volume Sales (103m3) / ((12-month average oil price ($/m3) / 12-month average gas price [$/103m3])) **Oil Volume Sales (m3)** = Annual volume of oil sold + Annual volume of natural gas liquids sold **12-month average oil price ($/m3)** = gross value of oil plus natural gas liquids sold/volume of oil plus natural gas liquids sold **Company Directors/Officers:** In addition to the above requirements, licensees shall also submit a complete list of the licensee's current directors/officers and a current email and phone number. Note that when evaluating a licensee's financial capacity and security requirements, in addition to the corporate financial information submitted, ER may also consider credit ratings as provided by major credit rating agencies such as Moody's or S & P.	Paragraph has been added to include credit rating agencies as a standard and reliable source of information regarding a company's financial health.
7.1 Financial Information Submission	**7.1 Financial Information Submission**	No changes.

<table>
<tr><th>Existing Section/Wording</th><th>New Section/Wording</th><th>Explanation of Proposed Changes</th></tr>
<tr>
<td>New Section Added</td>
<td>
7.2 Corporate Health Test Score

The level of financial capacity of a licensee is determined through analysis of the corporate financial information submitted to IRIS. The licensee is evaluated through various metrics to determine if the licensee has adequate financial capability to meet obligations pursuant to FSSCR. The financial evaluation measures the solvency, liquidity, profitability, efficiency, and volatility of a licensee. The following financial metrics are used in the evaluation:

Table 1 – Financial Metrics and Relative Weight

<table>
<tr><th>Financial Metric</th><th colspan="2">Required data</th><th>Measures</th><th>Relative Weight</th></tr>
<tr><td>Equity to Debt</td><td>Total shareholder equity</td><td>Total Current liabilities</td><td>Measures how much a company is financing its operations through debt versus wholly owned funds (solvency)</td><td>10%</td></tr>
<tr><td>Interest Coverage</td><td>Adjusted EBITDA</td><td>Interest Expense</td><td>Measures ability to make interest payments (solvency)</td><td>20%</td></tr>
<tr><td>Cash Flow to Debt Coverage</td><td>Cash flow from operations</td><td>Total Liabilities</td><td>Measures ability to meet long-term debt obligations (solvency)</td><td>10%</td></tr>
<tr><td>Current Ratio</td><td>Total Current Assets</td><td>Total Current Liabilities</td><td>Measures a company's ability to pay short-term obligations or those due within 1 year (liquidity)</td><td>30%</td></tr>
<tr><td>Net Profit Margin</td><td>Net Income (loss)(3-yr average)</td><td>Total Net Revenue</td><td>How much each dollar in revenue collected by the company translates to profit (profitability)</td><td>30%</td></tr>
</table>

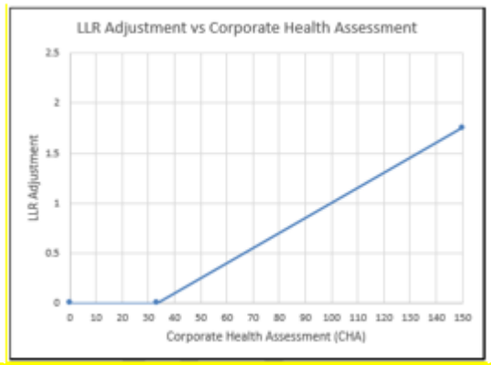
Based on the financial information supplied by the licensee, a corresponding value is calculated for each of the financial metrics listed above. Each of the values is then compared to the table below to evaluate the level of risk for the licensee, with respect to each financial metric.
</td>
<td>New section has been added to explain how the submitted corporate health information is used in the calculation of a “Corporate Health Test Score”, - a value between 1 and 100 for each licensee, where the higher the score, the more risk is assumed with respect to the licensee’s financial health.

See the new Appendix 6, for example calculations of the CHT.</td>
</tr>
</table>

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
	Table 2 – Risk Evaluation for Financial Metrics **Risk Ranges** **Very Low** | **Low** | **Medium** | **High** | **Very High** **Financial Metric** | **To** | **From** | **To** | **From** | **To** | **From** | **To** | **From** **Equity to Debt** | > 1 | ≤ 1 | ≤ 0.83335 | > 0.83335 | ≤ 0.6667 | > 0.6667 | ≤ 0.5 | < 0.5 **Interest Coverage Ratio** | > 4 | ≤ 4 | ≥ 3 | < 3 | ≥ 2 | < 2 | ≥ 1 | < 1 **Cash Flow to Debt Coverage** | > 0.5 | ≤ 0.5 | ≥ 0.36668 | < 0.36668 | ≥ 0.23336 | < 0.23336 | ≥ 0.1 | < 0.1 **Current Ratio** | > 1.2 | ≤ 1.2 | ≥ 0.96668 | < 0.96668 | ≥ 0.73337 | < 0.73337 | ≥ 0.50 | < 0.50 **Net Profit Margin** | > 0.05 | ≤ 0.05 | ≥ -0.21664 | < -0.21664 | ≥ -0.48328 | < -0.48328 | ≥ -0.75 | < -0.75 Each financial metric value is then converted to a value between 0 and 100 based on a linear scale and then multiplied by its relative weight from Table 1. Each of these results are then summed together to produce the licensee's overall Corporate Health Test score. Table 3 below shows the risk levels associated with various CHT score ranges. Please refer to Appendix 6 for a numerical example illustrating how the CHT score is calculated. **Table 3 – Risk Level Applied to CHT Score Ranges** **CHT Score** | **Risk Level** 0 | Very Low 0-33.33 | Low 33.33-66.66 | Medium 66.66-100 | High 100 | Very High Note that licensees that do not submit requested financial information, as per section 7.1, will have their Corporate Health Test Score set to the maximum value, to account for the uncertainty regarding their financial health. This may result in the licensee having to pay security that they otherwise may not have to submit.	

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
New Section Added	**7.3 Corporate Health Assessment** The results of the CHT provide valuable insight into a corporation's ability to manage debts that are typically taken on for strategic purposes, to grow the company. However, there are other types of debts as well as non-compliance issues that when combined with the CHT provide a more complete picture of a company's ability to fulfill closure obligations. For this reason, in addition to the CHT, the Ministry also assesses whether a licensee is in arrears or non-compliance with respect to the following items listed below: **Debt to the Crown**: Any outstanding debt owed to the Crown, such as royalties, admin levy, orphan levy, IRIS non-compliance etc. **An additional penalty of 10 points is added to the CHT.** **Outstanding Surface Lease Payments**: Outstanding surface lease payments that have resulted in an Order for Payment Application for Recovery of Compensation Pursuant to Section 86.1 of *The Surface Rights Acquisition and Compensation Act*. **An additional penalty of 10 points is added to the CHT.** **Outstanding Rural Municipality (RM) Tax and/or Education Tax Payments**: Any outstanding municipal taxes owed to any RM in Saskatchewan. **An additional penalty of 10 points is added to the CHT.** **ILRP Non-Compliance**: When a licensee does not meet the full requirements of the ILRP, this may include the following: no submission of annual closure expenditures, submitting expenditures but not meeting the ART and/or when an ART decrease is requested. **An additional penalty of 10 points is added to the CHT for non-compliance, or 5 points for partial non-compliance.** **Outstanding Spill Related Inspection Items**: Any inspection items related to spill clean up that require industry action and past the due date for the inspection item. **An additional penalty of 10 points is added to the CHT.**	New section added to describe how the Corporate Health Test Score, along with other relevant indicators, are combined to create a more holistic "Corporate Health Assessment. On its own, the Corporate Health Test Score looks at information related to a company's ability to manage what is often considered as "good debt". The measures in this section are more focused on what might be considered "bad debt" as well as compliance issues that are often indicative of financial stress.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
	Additional points are assessed for each of the risk factors as described above and then these are added to the CHT to complete the Corporate Health Assessment (CHA). The CHA is defined mathematically as: **Corporate Health Assessment (CHA) = CHT + Unpaid Crown Debt Pts + Unpaid Surface Lease Pts + Unpaid RM Tax Pts + ILRP Non Compliance Pts + Outstanding Inspection Pts**	
New Section Added	**7.4 Risk Adjusted LLR** As per section 4-1(5) of the FSSCR, the LLR threshold below which licensees may be required to submit security is 1.0. The Risk Adjusted LLR (RALLR) model, as defined in this section, is used to adjust the LLR at which licensees may be required to submit security, using the Corporate Health Assessment (CHA). Essentially, the higher the CHA value, the higher the assumed financial risk that a licensee poses, and hence the higher the LLR threshold at which the licensee may be required to submit security. Under the RALLR method, if a licensee has an LLR of less than the RALLRT, the licensee is considered to have failed the LLR assessment. Pursuant to section 3-1(2) of the FSSCR, the RALLR is taken into consideration as a relevant factor in the calculation of a security deposit.	New section added to introduce the "Risk Adjusted LLR" or RALLR. Conventionally, under the LLR program, the threshold below which security would be required is when a licensee's LLR fell below 1. However, experience has shown that, depending on the level of debt a licensee is servicing, they may not have the financial capability to post security at an LLR of 1 or below. The RALLR uses the results of the Corporate Health Assessment (introduced in section 7.3) to adjust the threshold at which security may be required from a licensee.

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
	The Risk Adjusted LLR Threshold (RALLRT) is defined as follows: RALLRT = 1 + LLR Adjustment, where, the LLR Adjustment is evaluated using figure 1. below.  **Figure 1 – LLR Adjustment vs. Corporate Health Assessment (CHA)** Hence, the equation for the LLR adjustment is as follows: LLR Adjustment = .015 x CHA – 0.5, if CHA <33.3 then 0 The security deposit requirements is calculated as follows: Security Deposit = (RALLRT x Total Liability) – Total Assets RALLRT Note also, that if a licence transfer will result in either the transferor or transferee having an LLR of less than their RALLRT, the transferor or transferee, as the case may be, may be required to submit security as a condition of approving the transfer. Note also that if a licensee has posted a deposit as a result of a PRT assessment on a licence transfer, and then subsequently their LLR falls below their risk adjusted LLR, ER will not request additional security	

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
	until and unless the LLR deposit requirement becomes larger than the PRT deposit held. Please refer to Appendix 7, for a numerical example illustrating how the RALLR is calculated.	
New Section Added	**8. Closure Companies** As per the FSSCR, closure companies are companies whose primary business is the abandonment and reclamation of inactive infrastructure and sites. Closure companies are companies that acquire inactive infrastructure from oil and gas companies. The closure company accepts responsibility for the liabilities and is paid by the oil and gas company to bring all of the liabilities to closure. The following rules pertain to closure companies operating in Saskatchewan: • Closure companies are required to carry insurance to protect against unexpected cost overruns. The policy needs to cover both abandonment and reclamation and be in effect until AOR is granted on the last well. • Closure companies are required to post the full security for the deemed liability associated with any licenses they acquire. The deposit will only be refunded once all closure work is complete and an Acknowledgement of Reclamation (AOR) is obtained. • Closure companies are required to carry out adequate inspection and assessment of sites and infrastructure prior to acquiring any liabilities. • Closure companies are responsible for regulatory obligations and costs like producing licensees. A closure company must meet the relevant eligibility requirements (administrative levy, orphan levy, surface rentals, municipal taxes, etc.). • Closure companies must only be focused on closure. Closure companies must exist solely to bring oil and gas sites to regulatory closure. • Closure companies must ensure that sites are closed in a timely manner. Timelines may be prescribed in licence transfer	New section added to explain the rules pertaining to Closure Companies as defined in clause 2(1)(f.11) of *The Oil and Gas Conservation Regulations, 2012.*

<table>
<tr><th>Existing Section/Wording</th><th>New Section/Wording</th><th>Explanation of Proposed Changes</th></tr>
<tr><td></td><td>approvals.
• Closure companies are not required to meet the requirements of the Inactive Liability Reduction Program (ILRP).

Note that oil and gas licensees can claim expenditures spent on the services of Closure Companies toward their ART. However, this must only include the Closure Company's actual closure costs plus profit (approved by the ministry). Operating costs (i.e. surface rentals and taxes) that are incurred by the Closure Company cannot be claimed by licensees, nor any other costs that are not actual closure costs.</td><td></td></tr>
<tr><td>Appendix 1: Security Deposit Non-Compliance Enforcement Ladder</td><td>Appendix 1: Security Deposit Non-Compliance Enforcement Ladder</td><td>No Changes.</td></tr>
<tr><td>Appendix 2: Provincial Well Abandonment Deemed Liability Values

Area 1. Lloydminster
<table><tr><th>Total Vertical Depth (mkb)</th><th>Empty, Not Perforated</th><th>Empty, Perforated</th><th>Tubing Only</th><th>Tubing & Rods</th></tr><tr><td>modified: 2h ago</td><td>$5,100</td><td>$12,300</td><td>$16,800</td><td>$18,900</td></tr><tr><td>1200 - 1999</td><td>$5,100</td><td>$13,700</td><td>$18,100</td><td>$31,300</td></tr><tr><td>2000 - 2499</td><td>$5,100</td><td>$15,100</td><td>$32,600</td><td>$34,500</td></tr><tr><td>2500 - 2999</td><td>$5,100</td><td>$16,900</td><td>$39,000</td><td>$41,500</td></tr><tr><td>≥ 3000</td><td>$5,100</td><td>$19,800</td><td>$49,500</td><td>$53,900</td></tr></table>Area 2. Kindersley
<table><tr><th>Total Vertical Depth (mkb)</th><th>Empty, Not Perforated</th><th>Empty, Perforated</th><th>Tubing Only</th><th>Tubing & Rods</th></tr><tr><td>0 - 1199</td><td>$5,100</td><td>$11,800</td><td>$17,500</td><td>$20,100</td></tr><tr><td>1200 - 1999</td><td>$5,100</td><td>$13,100</td><td>$26,300</td><td>$28,500</td></tr><tr><td>2000 - 2499</td><td>$5,100</td><td>$14,500</td><td>$30,000</td><td>$32,300</td></tr><tr><td>2500 - 2999</td><td>$5,100</td><td>$16,200</td><td>$38,200</td><td>$40,700</td></tr><tr><td>≥ 3000</td><td>$5,100</td><td>$16,200</td><td>$38,200</td><td>$40,700</td></tr></table>Area 3. Swift Current
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Note: Swab Wells and Water Source Wells are assigned a $5,100 abandonment liability under the LLR Program regardless of their location or depth.</td><td>Appendix 2: Provincial Well Abandonment Deemed Liability Values

Area 1. Lloydminster
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Note: Swab Wells (that existed prior to May 1, 2020) and Water Source Wells have an abandonment liability of $5,100 regardless of their location or depth.</td><td>Historically, swab wells and swab facilities had deemed liabilities of $5100 for abandonment/decommissioning and reclamation. Any new swab wells or facilities after May 1, 2020, will be assigned liabilities as per the tables. See the highlighted parts below.</td></tr>
</table>

<table>
<tr><th>Existing Section/Wording</th><th>New Section/Wording</th><th>Explanation of Proposed Changes</th></tr>
<tr><td>Where applicable, the following parameters are applied in addition to the above abandonment costs:
• Commingled or Multi-zone wells +25% per completion
• Ground Water Protection Cost $25,300
• Surface Casing Vent Flow Repair Cost $30,900
• Gas Migration Cost $33,000</td><td>Where applicable, the following parameters are applied in addition to the above abandonment costs:
• Commingled or Multi-zone wells +25% per completion
• Ground Water Protection Cost $25,300
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• Gas Migration Cost $33,000</td><td></td></tr>
<tr><td>Appendix 3: Well and Facility Reclamation Liability Values

<table><tr><th>ER Field Office</th><th>Licence Type or Status</th><th>Reclamation Cost</th></tr><tr><td>Any</td><td>Re-entered Well
(original well licence that has been re-entered)</td><td>$0.00</td></tr><tr><td>Any</td><td>Cancelled Well or Facility
(no surface disturbance exists related to the cancelled licence)</td><td>$0.00</td></tr><tr><td>Any</td><td>Cancelled Well or Facility
(surface disturbance exists related to the cancelled licence)</td><td>$5,100.00</td></tr><tr><td>Any</td><td>Swab Well or Water Source Well</td><td>$5,100.00</td></tr><tr><td>Any</td><td>Multi Well Swabbing Oil Battery</td><td>$5,100.00</td></tr><tr><td>Area 1
Lloydminster</td><td>Any, excluding above exceptions</td><td>$22,200.00</td></tr><tr><td>Area 2
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Estevan</td><td>Any, excluding above exceptions</td><td>$22,200.00</td></tr></table></td><td>Minor change with the addition of “Prior to May 1, 2020”, see note regarding this above in Appendix 2.</td></tr>
</table>

<table>
<tr><th>Existing Section/Wording</th><th>New Section/Wording</th><th>Explanation of Proposed Changes</th></tr>
<tr>
<td>Appendix 4: Facility Well Equivalent Table

<table>
<tr><th>Facility Licence Type</th><th>Design Throughput Capacity</th><th>Well Equivalent (WE)</th></tr>
<tr><td>Cleaning Plant/Skim Oil</td><td>Any</td><td>5</td></tr>
<tr><td>Custom Treating Plant</td><td>Any</td><td>5</td></tr>
<tr><td>EOR Injection Facility</td><td>Any</td><td>4</td></tr>
<tr><td>Gas Compression Facility</td><td>Any</td><td>5</td></tr>
<tr><td rowspan="3">Gas Processing Plant</td><td>0 - 900 10^3m^3/day</td><td>10</td></tr>
<tr><td>900 - 5700 10^3m^3/day</td><td>WE = [(vol - 900) x C] + 10
where:
• C = 0.00625; and
• vol = design throughput capacity per day of oil (m^3) + gas (10^3m^3) + water (m^3)</td></tr>
<tr><td>>5700 10^3m^3/day</td><td>40</td></tr>
<tr><td>Injection/Production Satellite</td><td>Any</td><td>2</td></tr>
<tr><td>LPG Storage Facility</td><td>Any</td><td>5</td></tr>
<tr><td>Multi Well Gas Battery</td><td>Any</td><td>5</td></tr>
<tr><td rowspan="3">Multi Well Oil Battery</td><td>0 - 50 m^3/day</td><td>5</td></tr>
<tr><td>50 - 6933.3 m^3/day</td><td>WE= = [(vol - 50) x A] + 5
where:
• A = 0.005084745; and
• vol = design throughput capacity per day of oil (m^3) + gas (10^3m^3) + water (m^3)</td></tr>
<tr><td>> 6933.3 m^3/day</td><td>40</td></tr>
<tr><td>Multi Well Swabbing Oil Battery</td><td>Any</td><td>1</td></tr>
<tr><td>Oily Byproduct Storage</td><td>Any</td><td>5</td></tr>
<tr><td>Waste Plant/Reclaimer/Skim Oil</td><td>Any</td><td>5</td></tr>
<tr><td>Water Injection/Disposal Facility</td><td>Any</td><td>0</td></tr>
<tr><td>Water Source Facility</td><td>Any</td><td>2</td></tr>
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*Note: Multi Well Swabbing Oil Batteries have a fixed abandonment cost of $5,100.</td>
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<tr><td>>5700 10^3m^3/day</td><td>40</td></tr>
<tr><td>Injection/Production Satellite</td><td>Any</td><td>2</td></tr>
<tr><td>LPG Storage Facility</td><td>Any</td><td>5</td></tr>
<tr><td>Multi Well Gas Battery</td><td>Any</td><td>5</td></tr>
<tr><td rowspan="3">Multi Well Oil Battery</td><td>0 - 50 m^3/day</td><td>5</td></tr>
<tr><td>50 - 6933.3 m^3/day</td><td>WE= = [(vol - 50) x A] + 5
where:
• A = 0.005084745; and
• vol = design throughput capacity per day of oil (m^3) + gas (10^3m^3) + water (m^3)</td></tr>
<tr><td>> 6933.3 m^3/day</td><td>40</td></tr>
<tr><td>Multi Well Swabbing Oil Battery</td><td>Any</td><td>1</td></tr>
<tr><td>Oily Byproduct Storage</td><td>Any</td><td>5</td></tr>
<tr><td>Waste Plant/Reclaimer/Skim Oil</td><td>Any</td><td>5</td></tr>
<tr><td>Water Injection/Disposal Facility</td><td>Any</td><td>0</td></tr>
<tr><td>Water Source Facility</td><td>Any</td><td>2</td></tr>
</table>

<s>*Note: Multi Well Swabbing Oil Batteries have a fixed abandonment cost of $5,100.</s></td>
<td>Minor changes, note about swab wells removed.</td>
</tr>
<tr>
<td>Appendix 5: ER Field Office Administrative Boundary Map</td>
<td>Appendix 5: ER Field Office Administrative Boundary Map</td>
<td>No changes.</td>
</tr>
</table>

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
	Appendix 6: Example Calculation of CHT In this example, based on the financial information supplied by a licensee, the financial metrics have been calculated as: Debt to Equity (DE) = 1.1 Interest Coverage Ratio (ICR) = 1.0 Cash Flow to Debt Coverage (CFDC) = 0.5 Current Ratio (CM) = 0.8 Net Profit Margin (NPM) = - 0.05 In order to normalize the financial metric values to a value between 0 and 100, use the following straight-line equations: **Financial Ratio** | **m** | **b** | **Risk Score** Equity to Debt | -200 | 200 | (-200 x (1/DE)) + 200 Interest Coverage Ratio (ICR) | -33.333 | 133.33 | (-33.333 x CR) +133.33 Cash Flow to Debt Coverage (CFDC) | -250 | 125 | (-250 x CFDC) + 125 Current Ratio (CM) | -142.86 | 171.43 | (-142.86 x CM) +171.43 Net Profit Margin (NPM) | -125 | 6.25 | (-125 x NPM) + 6.25 Multiply each of the normalized financial metrics by its corresponding relative weight as shown in the table below: | **Relative Weight** Equity to Debt | 0.1 Interest Coverage Ratio | 0.2 Cash Flow to Debt Coverage | 0.1 Current Ratio | 0.3 Net Profit Margin | 0.3	New appendix 6 has been added to provide numerical examples illustrating how the CHT score is calculated, as per section 7.2 Corporate Health Test Score. Previous Appendix 6 is now Appendix 8.

<table>
<tr><th>Existing Section/Wording</th><th>New Section/Wording</th><th>Explanation of Proposed Changes</th></tr>
<tr><td></td><td>The calculations are as follows:

<table><tr><th>Financial Ratio</th><th>Financial Ratio Value</th><th>Very High Risk Range</th><th>Very Low Risk Range</th><th>Risk Score</th><th>Weighted Score</th></tr><tr><td>Net Profit Margin (NPM)</td><td>-0.05</td><td>< -0.75</td><td>> 0.05</td><td>$= (-125 \times -0.05) + 6.25 = 12.5$</td><td>$= 12.5 \times 0.3 = 3.75$</td></tr><tr><td>Current Ratio (CM)</td><td>0.8</td><td>< 0.50</td><td>> 1.2</td><td>$= (-142.86 \times 0.8) + 171.43 = 57$</td><td>$= 57 \times 0.3 = 17$</td></tr><tr><td>Equity to Debt</td><td>1.1</td><td>< 0.5</td><td>> 1.0</td><td>$= \left(-200 \times \left(\frac{1}{1.1}\right)\right) + 200 = 18$</td><td>$= 18 \times 0.1 = 1.8$</td></tr><tr><td>Interest Coverage Ratio (ICR)</td><td>1.0</td><td>< 1.0</td><td>> 4.0</td><td>$= (-33.333 \times 1.0) + 133.33 = 100$</td><td>$= 100 \times 0.2 = 20$</td></tr><tr><td>Cash Flow to Debt Coverage (CFDC)</td><td>0.5</td><td>< 0.1</td><td>> 0.5</td><td>$= (-250 \times 0.5) + 125 = 0$</td><td>$= 0 \times 0.1 = 0$</td></tr><tr><td>Overall CHT Score</td><td></td><td></td><td></td><td></td><td>$= 42.55$</td></tr></table>
The resulting CHT score for this licensee is 42.55, placing them in the Medium risk level.</td><td></td></tr>
<tr><td></td><td>Appendix 7: Example Calculation of Risk Adjusted LLR

In this example, the licensee has the following status in the LLR program:

Total Assets = $5 million
Total Liabilities = $2.5 million
LLR = 2.00

The Corporate Health Assessment (CHA) is calculated as follows:</td><td>New Appendix to provide numerical examples illustrating how the RALLR is calculated, as per section 7.4 (Risk Adjusted LLR).</td></tr>
</table>

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes

CHA	Value	CHA Points
CHT	70.00	70.00
Debt to the Crown	$47,000	10
Outstanding Surface Lease Payments	1 Board Order	10
Outstanding RM Tax Payments	3 unpaid RMs	10
ILRP Non-Compliance	Submitted but did not meet ART	5
Outstanding Spill Related Inspections	2 outstanding inspections	10
Total CHA		115

Linearize the CHA using the LLR Adjustment formula

LLR Adjustment = 0.015 x CHA – 0.5, if CHA < 33.3 then 0
=0.15 x 115 – 0.5
=1.22

RALLRT = LLR Target Ratio + LLR Adjustment
=1.0 + 1.22
=2.22

The current LLR is less than the RALLRT: 2.00 < 2.22, thus a security deposit is required

$$\text{Security Deposit} = \frac{(\text{RALLRT} \times \text{Total Liability}) - \text{Total Assets}}{\text{RALLRT}}$$

$$= \frac{(2.22 \times 2{,}500{,}000) - 5{,}000{,}000}{2.22}$$

$$= \frac{5{,}550{,}000 - ,5{,}000{,}000}{2.22}$$

=247,747.75

Existing Section/Wording	New Section/Wording	Explanation of Proposed Changes
Appendix 6: Refund Policy	**Appendix 8: Refund Policy**	Appendix number has been updated.

Appendix B

Financial Security Requirements

Directive PNG025

February 2026

Revision 4.0

Governing Legislation:

Act:	*The Oil and Gas Conservation Act*
Regulation:	*The Financial Security and Site Closure Regulations*
Order:	XXXXXXX

Record of Change

Revision	Date	Description
0.0	October 1, 2017	Initial draft (replacing Guideline PNG025)
1.0	May, 2018	Approved first version
2.0	June, 2019	Amendments to complete phase out of PVS factor
2.1	May, 2020	Amendments to facilitate integration into IRIS
3.0	February, 2026	Re-named and revised to align with the requirements of *The Financial Security and Site Closure Regulations*, including the enhanced Licensee Liability Rating program and the new Inactive Liability Reduction Program

Contents

1. Introduction

This directive sets out additional requirements and rules pertaining to *The Financial Security and Site Closure Regulations* (FSSCR).

Other requirements and guidelines that are pertinent to the topics in this Directive are:

- *Directive PNG016: Acknowledgement of Reclamation Requirements; and*
- *Directive PNG031: Site Specific Liability Assessment*

Inquiries regarding *Directive PNG025: Financial Security Requirements* (Directive PNG025) should be directed to the Ministry of Energy and Resources (ER) Service Desk at 1-855-219-9373 or ER.ServiceDesk@gov.sk.ca.

1.1 Governing Legislation

The requirements outlined in this Directive are based on *The Oil and Gas Conservation Act* (OGCA), *The Oil and Gas Conservation Regulations, 2012* (OGCR), and the FSSCR. Licensees should consult these documents in conjunction with this Directive.

It is the responsibility of all licensees, as specified in the legislation, to be aware of and to ensure compliance with these requirements.

1.2 Scope and Applicability of the Directive

The requirements outlined in this Directive primarily apply to licensees that hold one or more licences authorizing oil and natural gas operations. Notwithstanding, pursuant to section 3-1 of the FSSCR, the minister may require the submission of security deposits from any licensee holding one or more licences, or an applicant for a licence, licensed in accordance with the OGCA.

Additionally, pursuant to subsections 6(3) and 9(2) of the OGCA, any licensee or applicant, as described above, shall submit to the minister any corporate financial information that the minister may require to evaluate the financial capacity of the licensee or applicant, to meet its obligations as described in section 15 of the OGCA. The minister may consider this information in assessing the amount of security that may be required for the purpose of ensuring those obligations are met, and also in the determination of whether to approve or refuse a licence application or licence transfer application.

1.3 Definitions

Assessed Problem Site: is the status of a problem site after a site-specific liability assessment (SSLA) has been submitted to ER and reviewed.

Inactive Liability Reduction Program (ILRP): means the program for the management of inactive liabilities established pursuant to Part 5 of the FSSCR.

Unassessed Problem Site (UPS): is a site that has been identified as a problem site, but a SSLA has not been submitted to ER.

1.4 Confidential Licensee Liability Rating Information

ER produces a number of reports with respect to the Licensee Liability Rating (LLR) Program. To increase transparency, the reports are made available to the public where possible. However, information specific to the licensee related to invoices, refunds, and the deemed asset and liability associated with a particular licence remains confidential to ER and a given licensee.

2. Security Deposit Requirements

Under the FSSCR, there are several reasons for which the Minister may require a licensee to submit a security deposit. These are:

- If a licensee has not passed a monthly LLR assessment and the amount of security owed is greater than $10,000.00;
- If a licensee does not meet their Annual Reduction Target (ART) with respect to their inactive liabilities;
- As a condition of a licence transfer; and
- Financial information supplied by the licensee, as well as unpaid debt information, indicates that the company is at risk of insolvency.

2.1 Payment of a Security Deposit

Payment of security is required pursuant to the FSSCR and must be provided within 30 days of invoice issuance. ER may consider installment payments and/or extensions for invoices issued as a result of LLR assessment - see www.saskatchewan.ca for eligibility requirements and application process.

Security deposit payments must be made payable to the **Minister of Finance** and licensees must reference the invoice number to expedite processing. Where another party is providing payment on behalf of the invoiced licensee, please ensure this is communicated at the time of submission to ensure payment is applied to the appropriate licensee's account.

The invoiced amount can be paid by Electronic Funds Transfer (EFT), direct deposit, cheque or Irrevocable Letter of Credit (LOC).

Where a LOC is the chosen method, the LOC must adhere to the following criteria for acceptance by ER:

- Obtained from a recognized Canadian Bank, Credit Union, or Trust Company registered in Canada guaranteeing payment to the beneficiary upon presentation to the issuer;
- Obtained by the licensee who was issued the security deposit invoice and identified as the Applicant on the LOC; and
- Only renewable LOCs that adhere to the applicable ER-standardized *LOC Form* or *Amended LOC Form* (available on www.saskatchewan.ca) will be accepted. Therefore, the licensee must ensure the financial institution is provided the form and adheres to the requirements before submission to ER.

A licensee may change their security deposit payment method at any time. However, the existing form of security deposit will not be released until the replacement security deposit has been received and processed by ER.

Questions regarding security deposit payment should be directed to the ER Service Desk at 1-855-219-9373 or ER.Servicedesk@gov.sk.ca.

2.2 Enforcement Actions for Non-Compliance of Security Deposit Payment

Where a licensee fails to provide security deposit payment within 30 days of invoice issuance, the amount owing is a debt to the Minister and may be collected in any manner the Minister considers appropriate, including in the manner provided in the OGCA. Prior to obtaining a Court issued judgment against the licensee to collect the outstanding debt, ER may issue various Minister's Orders requiring the licensee to suspend operation, abandon wells and associated flowlines, decommission facilities, or reclaim well/facility sites by a given date in lieu of the security deposit payment.

Should the required security deposit payment be received by ER at any time during the enforcement process, any Minister's Orders or judgments issued relating to the recovery of the outstanding security would be rescinded/discharged.

Where a security deposit has not been received in the amount and time specified, ER may take any or all the enforcement actions specified in Appendix 1. Notifications regarding enforcement actions will be sent to licensees through the Integrated Resource Information System (IRIS).

Please be advised that this is public information and will be viewable in IRIS for those with access.

3. Licence Transfer Assessments

If a licensee wishes to transfer a well or facility licence to another licensee, a licence transfer application must be completed in conjunction with the other party and submitted through IRIS. ER conducts an assessment on both licensees involved in the transfer to determine if the transfer will require a security deposit from either the buyer and/or seller to proceed or whether other conditions are required to be met.

To complete the assessment, both an LLR assessment and a Proportional Risk Transfer (PRT) assessment will be conducted as set out in Part 4 of the FSSCR. The security deposit requirement will be the value of whichever of the two assessments is the greatest.

ER may require the submission of quarterly financial data for transfer evaluation purposes.

The LLR and PRT models are both employed in licence transfers because they measure different types of risk. The LLR model is designed to measure individual operator risk and ensure that a licensee has the minimum sufficient cash flow to offset their liabilities. In contrast, the PRT model measures the risk to industry and ensures that transfers are not increasing the risk to the sector as a whole through unsecured flow of inactive liabilities from one operator to another

Note that licence transfer applications will be denied if the required security deposit is not received within 30 days of invoice issuance

3.1 Upper Threshold PRT Assessments

As per section 4-2(3) of the FSSCR, if the prorated LLR of the transferee is above a certain value, post transfer, then the Minister may waive the requirement to pay a security deposit. For the purposes of section 4-2(3), that value shall be set at 1.0.

The upper threshold on PRT assessments is used in recognition of the fact that the higher a licensee's LLR is post-transfer, the less risk they are to the orphan fund. If a licensee's post transfer LLR is sufficiently high, then the risk is minimized and no deposit would be required.

Note that the prorated LLR is used for this purpose rather than the standard LLR because the standard LLR is not sensitive to the level of inactive infrastructure a company might have. Two companies having identical LLR's may represent entirely different levels of risk due to the relative productivity of their producing wells and the amount of inactive infrastructure they each have. The prorated LLR is not impacted by this problem because it is prorated to account for inactive infrastructure.

The formula for the prorated LLR is as follows:

$$\text{Prorated LLR} = \text{LLR} \times \frac{\text{liabilities attributable to active infrastructure (\$)}}{\text{total liabilities (\$)}}$$

4. Deemed Liability Values

For purposes of the FSSCR, the deemed abandonment, decommissioning and reclamation values are specified in Appendices 2, 3, and 4.

Note that liability is not assigned to a newly drilled well until one year after its spud date unless it is abandoned during that time, and in that case the reclamation liability is immediately assigned.

The abandonment and reclamation costs of a facility are calculated based on the well equivalent assigned to a facility. The well equivalent is obtained from Appendix 4 and is a term used to capture the relative liability of a facility as compared to a well. It considers factors such as facility type and design throughout capacity (i.e. total inlet rate for oil, gas, and water) as provided within the facility licence application. The abandonment cost of a facility is $10,000 per well equivalent. The reclamation cost of a facility can be derived from Appendix 3 multiplied by the well equivalent and is based on the surface location of the facility in relation to the applicable ER field office administrative boundaries as shown in Appendix 5.

Liability is not assigned to a new facility until one year after its construction date unless it is decommissioned during that time, and in that case reclamation liability is immediately assigned.

Note that these values are subject to change as they are updated from time to time based on actual expenditure data submitted under the ILRP

4.1 Deemed Liability for Problem Sites

4.1.1 Potential and Unassessed Problem Sites

Potential problem sites are identified through self-disclosure by the licensee or through an on-site inspection conducted by ER personnel. Inspections may be conducted during normal ER field activities or at the request of the landowner.

ER will notify a licensee of any well/facility site identified as a potential problem site and provide the licensee with an opportunity to respond. If a licensee cannot establish that the potential problem site identification was in error, ER will classify the well or facility site as an Unassessed Problem Site (UPS) and set the liability of the site at four times the standard reclamation liability or greater depending on the severity of the issue identified.

When a UPS classification is assigned to a well or facility, ER will notify the licensee in writing that a SSLA is required in accordance with Directive PNG031: Site Specific Liability Assessment, within a specified timeframe.

4.1.2 Assessed Problem Sites

The site will be reclassified as an Assessed Problem Site (APS) if the estimated cost and recommendations of the submitted SSLA are acceptable to ER. The assessed liability as determined by the SSLA will be used to set the reclamation liability of the site and will remain in effect until reclamation related progress has been made at the site.

For an APS, both monthly and licence transfer LLR assessments are conducted using the assessed value as determined in the SSLA.

4.1.3 Transferring a Licence Designated as Unassessed Problem Sites

If an UPS is transferred, the total reclamation liability associated with the licence as determined by ER during the UPS designation, will be multiplied by a factor of 10 post-transfer. This is to account for the uncertainty and risk involved in transferring a well/facility licence in the absence of a SSLA to quantify the exiting liability.

A licensee acquiring an UPS will have the UPS liability calculated at the higher rate for all security assessments until the UPS classification is removed or changed to an APS.

4.2 Reduction in Deemed Reclamation Liability with Reclamation Declaration Application

Where licensees have reclaimed well or facility sites in accordance with the OGCR and only the establishment of vegetation is still required, licensees may be eligible for a reduction in the deemed reclamation liability via a Reclamation Declaration Application.

A Reclamation Declaration Application for a well or facility site must be submitted by a qualified third-party consultant (as defined in *Directive PNG016: Acknowledgement of Reclamation Requirements*) on behalf of licensees.

Once the application is approved, the associated deemed reclamation liability of the licence will be decreased to $5,000. The licensee has five (5) years from the authorization date to obtain an Acknowledgement of Reclamation (AOR). After 5 years, if no AOR has been obtained, the reclamation liability will be reset to the deemed amount. However, licensees can request an extension to the 5-year limit.

4.3 Multiple Licences on a Lease

Where a licensee has more than one well or facility licence on a single surface lease, the licensee may qualify for a reclamation liability reduction. For the application to be accepted, the well and facility licences must be non-abandoned and currently hold reclamation liability.

Should ER approve the reduction request, the reclamation liability of the highest well or facility licence would be retained, and the remaining licences would be reduced to 10 per cent of their original reclamation amount. Note that licensees holding a reclamation liability of $5100 or less are not eligible for the 10 per cent reduction.

Where a licensee holds multiple facility licences on a single site, the licence with the highest liability retains the full liability amount and IRIS automatically reduces the reclamation liability of any secondary facility licences. Therefore, there is no need to apply for this reduction for sites with only facility licences.

To apply, ER requires the licensee to submit the completed *Multi-Licensed Site Reclamation Liability Reduction Form* and required attachments for consideration. Refer to www.saskatchewan.ca for more details regarding the IRIS application process.

5. Refund of a Security Deposit

5.1 Refund Eligibility

To obtain a security deposit refund, ER requires the licensee (for which the security is held) to provide a formal refund request in writing using the standardized Security Deposit Request Form (available on www.saskatchewan.ca). Licensees should submit the completed form through IRIS.

In addition to the rules and regulations pertaining to refunds, ER may also consider the following when making a decision regarding a security deposit refund:

- Non-compliance with respect to the Act or regulatory requirements. This includes non-compliance with respect to ER regulatory programs and/or outstanding field inspection items;
- Knowledge of any issues of contamination at problem sites that have not been properly assessed in terms of remediation costs;
- Outstanding debts owed to ER.

As stated in section 2, there are a few distinct reasons under the FSSCR for which the Minister may require a licensee to submit a security deposit. These various security deposit types are required for different purposes to offset different types of risks and therefore the rules pertaining to the refund of these deposits may also differ.

The sections below describe the refund rules for the various deposit types described in section 2. In addition, please refer to the flowchart in Appendix 8 for a schematic detailing the refund process.

Note that a licensee's corporate financial information will also be reviewed as a part of the refund process (see section 7) and may have an impact on the amount of security refunded.

5.1.1 LLR and PRT Deposit Refund

Licensees may be eligible for a LLR or PRT deposit refund based on the following criteria:

1. Licensee is compliant with the ILRP; and
2. Licensee's prorated LLR is greater than or equal to 1.0 for a minimum of 6 months; or
3. Licensee's security deposit amount is greater than their total liabilities.

The above rules pertain to LLR security that was required as a consequence of a monthly LLR assessment as well as an LLR or PRT transfer assessment.

Note that a licensee's corporate financial information will also be reviewed as a part of the refund process (see section 7) and may have an impact on the amount of security refunded.

5.1.2 ILRP Deposit Refund

Licensees may be eligible for an ILRP deposit refund when the licensee has reduced their liability by an amount that is greater than or equal to the deposit amount, either through completing closure work or licence transfers that occurred after the deposit has been collected.

As a part of the review, compliance with the LLR program will be considered. If the licensee is not compliant with the LLR program, the deposit amount required to be compliant with the LLR program will be deducted from the ILRP deposit amount prior to issuing the refund. This now becomes an LLR deposit. If the licensee is compliant with the LLR program, then the full ILRP deposit will be refunded.

Note that a licensee's corporate financial information will also be reviewed as a part of the refund process (see section 7) and may have an impact on the amount of security refunded.

6. Management of Liabilities, Inactive Liability Reduction Program (ILRP)

In accordance with the FSSCR, licensees are required to meet an ART with respect to the licensee's inactive liabilities.

6.1 ART Compliance

6.1.1 Application for a Decrease in a Licensee's ART

As per the FSSCR, licensees may apply to the Minister for a reduction in their ART in situations where a licensee's ART would result in it having to abandon or decommission infrastructure that it intends to reactivate or use for a future purpose.

The application must identify the affected infrastructure and provide an explanation as to the purpose for which the infrastructure will be reactivated or used in the future and the timing or scheduling of the reactivation.

If approved, ER will set a timeline in which the reactivation or use of the infrastructure must commence and be completed. ER may also require the submission of a security deposit at any time during the process or as a requirement to approve the plan.

ER may also authorize a reduction in a licensee's ART on application for licensees in extenuating financial circumstances.

To apply for a decrease in a licensees ART, an ART Decrease Request must be submitted to IRIS. The application must be in the form of a PDF where the licensee must clearly describe their circumstances and provide a detailed explanation as to why the current ART should be reduced. The ministry will review all applicable information to determine whether the reduction should be approved.

6.1.2 Deficit Carryover

In accordance with the FSSCR, if a licensee's ART for a calendar year is less than the amount necessary to carry out a single well abandonment or a single site reclamation then the licensee may carry its deficit forward for a maximum of 3 consecutive years or until the ART for a calendar year is enough to carry out a single well abandonment or a single site reclamation.

To apply to use the carryover for the deficit, an email must be sent to the ER service desk at er.servicedesk@gov.sk.ca with the subject line "Request to use deficit carryover". In the email, the licensee must state their current ART for the program year and clearly describe their circumstances.

6.1.3 Non-Compliance with ILRP and Licence Applications

In addition to requesting security deposits, the minister may deny licence applications or licence transfer applications if a licensee is non-compliant respecting the ILRP.

6.2 Reporting of Expenditures Incurred to Meet Annual Reduction Target

The FSSCR establishes licensees' obligations with respect to reporting expenditures incurred to meet their ART.

Licensees will be required to report the actual expenditures attributable to each closure activity carried out at each corresponding well, facility or flowline within 90 days following the program year end. For the purposes of this reporting, licensees shall use the excel file named "ILRP Expense Reporting.xls", available on www.saskatchewan.ca. Once complete, the information is to be submitted through IRIS. Note that reported expenditures should include PST but not GST.

Licensees must submit the following information about the closure activities, where applicable:

Field	Infrastructure	Definition
Licence Type		The type of infrastructure that closure activities were performed on. This would include: Wells, Facilities, and Pipelines.
Completion Status		If an activity is not fully completed on a licence and will require additional expenditures in a future calendar year, report expenditures as **Partial**. If an activity is fully completed on a licence and will not require additional expenditures in a future calendar year, report expenditures on the **Complete**.
Licence No		The unique number issued by IRIS for the infrastructure.
UWI		The Unique Well Identifier (UWI) for the boss wellbore.
Downhole Abandonment ($)	Wells	All costs required to permanently plug all wellbores and completions.
Cut and Cap ($)	Wells	All costs associated with the cut and cap of a well.
Decommissioning ($)	Facilities	All costs associated with bringing a facility to the end of life and removing equipment.
Segment ID	Pipelines	The IRIS generated segment identifier that identifies the segment upon approval (e.g., SK PS 00000123).
Abandonment ($)	Pipelines	Costs associated with permanently deactivating a pipeline or part of a pipeline, whether it is removed.
Surface Casing Vent Flow ($)	Wells	Costs associated with repairing surface release of fluids and/or gas in any combination or volume between the production casing and surface casing.
Gas Migration ($)	Wells	Costs associated with repairing situations where gas from stratigraphic units penetrated by the well is present at surface in soils around the outermost string of well casing.
Phase 1 Assessment ($)	Wells Facilities	All costs associated to completing a Phase I assessment. The desktop study that investigates historical information and background of sites to assess presence of any potential APECs (Area of Potential Concerns) at the site.
Phase 2 Assessment ($)	Wells Facilities	All costs associated to further investigating APECs via borehole investigation that were identified during the Phase I assessment.
Remediation ($)	Wells Facilities	All costs associated with decontaminating, excavating, removing, sequestrating, encapsulating, immobilizing, attenuating, degrading, processing or treating the contaminants in the soil or water in a manner so that, in the opinion of

		the minister, the contaminants no longer pose a threat or risk to human health, public safety, property or the environment. Unassessed or Assessed Problem Site – regardless of whether the associated well, facility or flowline is inactive and includes costs: To obtain a Site Specific Liability Assessment To obtain a Site Specific Risk Assessment Related to monitoring All costs required to obtain an AOR for a site
Reclamation ($)	Wells Facilities	All costs associated with re-contouring, landscaping, replacing or replenishing the topsoil and re-vegetating the surface of the soil so that it is compatible with its surroundings.
Vegetation Monitoring ($)	Wells Facilities	Costs associated to unforeseen vegetation monitoring due to impacts left in place and/or reclamation activities. This would include vegetation monitoring requirements for impacts left in-situ as per PNG0033 and PNG0045.
Groundwater Monitoring ($)	Wells Facilities	Costs associated to unforeseen groundwater monitoring outside of the requirements for Acknowledgment of Reclamation due to contamination impacts or long term monitoring for impact migration.
Detailed Site Assessment ($)	Wells Facilities	All costs associated to performing a DSA as per the criteria.
AOR Applicaton ($)	Wells Facilities	All costs associated to preparing an Acknowledgement of Reclamation application for submission into IRIS.
Other ($)	Wells Facilities Pipelines	Costs not covered in previous categories.
Other Activity Type	Wells Facilities Pipelines	Description of the 'Other' category costs.

7. Corporate Financial Information

In accordance with section 4-3 of the FSSCR, licensees are required to submit corporate financial information when requested by the Minister. This information will be used to better evaluate the financial capacity of licensees to meet their end-of-life asset retirement obligations and to assess security deposit requirements accordingly, either as part of a licence transfer, or a regular LLR assessment. The following are types of financial information that may be requested:

Total Current Assets: the total amount of assets recorded as current on the balance sheet or statement of financial position.

Total Current Liabilities: the total amount of liabilities recorded as current on the balance sheet or statement of financial position.

Total Shareholders Equity: the residual interest in assets after deducting all liabilities.

Total Revenue (net): total revenue generated from sale of oil/gas products, processing/store/transporting/marketing of oil/gas products, other sales and/or interest income with the subtraction of royalties paid. As well this value excludes revenue from purchased commodities.

Revenue from sale of purchased commodities: total revenue generated from purchased commodities that were strictly for resale.

Interest Expense: the total costs of servicing debt including interest and other costs of borrowed funds.

Net Income (or loss): total revenue less expenses, excluding components of other comprehensive income. This is net income (or loss) after taxes. This must be calculated as a 3 year average using the three most recent years.

Adjusted EBITDA: net income before interest, taxes, depreciation, and amortization. Along with further deductions in respect of non-cash items, including depletion, depreciation, amortization and accretion of asset retirement obligations, unrealized losses on Hedge Agreements, non-cash compensation expenses and provisions for the impairment of oil and gas assets.

Total Cashflow from Operations: the total amount of cash a company generates (or consumes) from carrying out operating activities over a fiscal period.

Total Debt: total short-term and long-term debt of the company, excluding lease liabilities and asset retirement obligation (ARO).

Lease Liabilities: under standard IFRS 16, the financial obligation to make the payments arising from a lease, measured on a discounted basis.

Operating Netback for Saskatchewan Operations: this is a 12-month calendar year average operating netback for a licensees Saskatchewan production only ($/$m^3$).

If the company operates in more than one jurisdiction, do not include any revenue streams, production or cost data from any jurisdiction except Saskatchewan in the evaluation of the netback. Also note that licensees are required to report both a **"net"** and "**gross**" netback.

In order to evaluate the **gross netback**, licensees should only consider revenue, production and cost data for Saskatchewan infrastructure in which they are the licensee. Further, in the evaluation do not subtract out working interest share amounts. Rather, assume as the licensee, your company would receive all revenue from the licensed operations and pay all operating costs, royalties/production tax and transportation costs. For companies that have situations where they have working interest partners that take their production in kind, it is acceptable to divide your company's revenue and royalty share by your working interest percentage in order to derive theoretical gross values.

In order to evaluate the **net netback**, licensees should only consider their working interest share of revenue, production and cost data for infrastructure in which they have a working interest (whether or not they are the licensee). In the evaluation of the income for the net netback, licensees should also include revenue from any Gross Overriding Royalties.

The formula to calculate the netback is as follows:

Netback ($/m^3) = Annual Net Income ($) / Oil Equivalent Sales Volume (OEm^3)

Annual Net Income ($) = Annual Gross Production Value - Total Annual Operating Costs - Royalties - Freehold Production Tax - Annual Transportation Costs

Annual Gross Production Value ($) = revenue from the sales of the oil and gas produced at the wellhead, plus any natural gas liquids sales, as reported via Petrinex required by Section 66 of *The Oil and Gas Conservation Act*, and *PNG032: Volumetric and Infrastructure Reporting in Petrinex*

Total Annual Operating Costs ($) = fixed and variable costs attributable to operating the oil and gas infrastructure

Royalties ($) = total annual sum of annual Crown royalties (lands in which mineral rights are owned by the province) paid for oil and gas infrastructure

Freehold Production Tax ($) = total annual sum of annual Freehold tax paid for oil and gas infrastructure

Annual Transportation Costs ($) = expenses related to moving oil/gas product to market for sale

Oil Equivalent Sales Volume (OEm^3) = Natural Gas Sales Expressed as Economic Equivalent volume of oil (m^3) + Oil Volume (m^3)

Natural Gas Sales Expressed as Economic Equivalent volume of oil (m^3) = Annual Natural Gas Volume Sales (10^3m^3) / ((12-month average oil price ($/m^3) / 12-month average gas price [$/$10^3$m^3]))

Oil Volume Sales (m^3) = Annual volume of oil sold + Annual volume of natural gas liquids sold

12-month average oil price ($/m^3) = gross value of oil plus natural gas liquids sold/volume of oil plus natural gas liquids sold

Percentage of Operations in Saskatchewan: percentage of total corporate revenue stream that is attributable to Saskatchewan operations.

Company Directors/Officers: In addition to the above requirements, licensees shall also submit a complete list of the licensee's current directors/officers and a current email and phone number.

Note that when evaluating a licensees financial capacity and security requirements, in addition to the corporate financial information submitted, ER may also consider credit ratings as provided by major credit rating agencies such as Moody's or S&P.

7.1 Financial Information Submission

The due date for the submission of required financial information will normally be June 30th of each year (note however, as per the FSSCR, the minister may request financial information at any time and set deadlines other than June 30th).

The information provided must be from the licensee's most recent available financial statements. ER will set the due date for financial information submission through obligations in IRIS. Licensees will be responsible for setting appropriate permissions to receive notifications of the creation and maintenance of corporate financial information obligations. Licensees must submit the following financial documents through IRIS:

1. "Corporate Financial Data Submission.xls" spreadsheet template with the updated financial information from the most recent financial statement.
2. A PDF of the audited or management-prepared financial statement related to that submitted in the Corporate Financial Data Submission spreadsheet. If available fully audited financial statements are to be submitted.
3. Template "Financial Submission Declaration.pdf" with the signature of a director or officer.

Upon the June 30th due date, if a licensee is a new company that does not yet have financial history details, then the licensee must submit the required financial information by the end of the following quarter (September 30th).

Additionally, ER may request the submission of a licensee's most current financial metrics in the case of licence transfers.

As per section 10 of the FSSCR, financial information will be kept confidential unless that information is already public.

7.2 Corporate Health Test Score

The level of financial capacity of a licensee is determined through analysis of the corporate financial information submitted to IRIS. The licensee is evaluated through various metrics to determine if the licensee has adequate financial capability to meet obligations pursuant to FSSCR. The financial evaluation measures the solvency, liquidity, profitability, efficiency, and volatility of a licensee. The following financial metrics are used in the evaluation:

Table 1 – Financial Metrics and Relative Weight

Financial Metric	Required data		Measures	Relative Weight
Equity to Debt	Total shareholder equity	Total Current liabilities	Measures how much a company is financing its operations through debt versus wholly owned funds (solvency)	10%

Interest Coverage	Adjusted EBITDA	Interest Expense	Measures ability to make interest payments (solvency)	20%
Cash Flow to Debt Coverage	Cash flow from operations	Total Liabilities	Measures ability to meet long-term debt obligations (solvency)	10%
Current Ratio	Total Current Assets	Total Current Liabilities	Measures a company's ability to pay short-term obligations or those due within 1 year (liquidity)	30%
Net Profit Margin	Net Income (loss)(3-yr average)	Total Net Revenue	How much each dollar in revenue collected by the company translates to profit (profitability)	30%

Based on the financial information supplied by the licensee, a corresponding value is calculated for each of the financial metrics listed above. Each of the values is then compared to the table below to evaluate the level of risk for the licensee, with respect to each financial metric.

Table 2 – Risk Evaluation for Financial Metrics

	Risk Ranges							
	Very Low	**Low**		**Medium**		**High**		**Very High**
Financial Metric	**To**	**From**	**To**	**From**	**To**	**From**	**To**	**From**
Equity to Debt	> 1	≤ 1	≤ 0.83335	> 0.83335	≤ 0.6667	> 0.6667	≤ 0.5	< 0.5
Interest Coverage Ratio	> 4	≤ 4	≥ 3	< 3	≥ 2	< 2	≥ 1	< 1
Cash Flow to Debt Coverage	> 0.5	≤ 0.5	≥ 0.36668	< 0.36668	≥ 0.23336	< 0.23336	≥ 0.1	< 0.1
Current Ratio	> 1.2	≤ 1.2	≥ 0.96668	< 0.96668	≥ 0.73337	< 0.73337	≥ 0.50	< 0.50
Net Profit Margin	> 0.05	≤ 0.05	≥ -0.21664	< -0.21664	≥ -0.48328	< -0.48328	≥ -0.75	< -0.75

Each financial metric value is then converted to a value between 0 and 100 based on a linear scale and then multiplied by its relative weight from Table 1. Each of these results are then summed together to produce the licensee's overall Corporate Health Test score. Table 3 below shows the risk levels associated with various CHT score ranges. Please refer to Appendix 6 for a numerical example illustrating how the CHT score is calculated.

Table 3. – Risk Level Applied to CHT Score Ranges

CHT Score	Risk Level
0	Very Low
0-33.33	Low
33.33-66.66	Medium
66.66-100	High
100	Very High

Note that licensees that do not submit requested financial information, as per section 7.1, will have their Corporate Health Test Score set to the maximum value, to account for the uncertainty regarding their financial health. This may result in the licensee having to pay security that they otherwise may not have had to submit.

7.3 Corporate Health Assessment

The results of the CHT provide valuable insight into a corporation's ability to manage debts that are typically taken on for strategic purposes, to grow the company. However, there are other types of debts as well as non-compliance issues that when combined with the CHT provide a more complete picture of a company's ability to fulfill closure obligations. For this reason, in addition to the CHT, the Ministry also assesses whether a licensee is in arrears or non-compliance with respect to the following items listed below:

Debt to the Crown: Any outstanding debt owed to the Crown, such as royalties, admin levy, orphan levy, IRIS non-compliance etc. **An additional penalty of 10 points is added to the CHT.**

Outstanding Surface Lease Payments: Outstanding surface lease payments that have resulted in an Order for Payment Application for Recovery of Compensation Pursuant to Section 86.1 of *The Surface Rights Acquisition and Compensation Act*. **An additional penalty of 10 points is added to the CHT.**

Outstanding Rural Municipality (RM) Tax and/or Education Tax Payments: Any outstanding municipal taxes owed to any RM in Saskatchewan. **An additional penalty of 10 points is added to the CHT.**

ILRP Non-Compliance: When a licensee does not meet the full requirements of the ILRP, this may include the following: no submission of annual closure expenditures, submitting expenditures but not meeting the ART and/or when an ART decrease is requested. **An additional penalty of 10 points is added to the CHT for non-compliance, or 5 points for partial non-compliance.**

Outstanding Spill Related Inspection Items: Any inspection items related to spill clean-up that require industry action and past the due date for the inspection item. **An additional penalty of 10 points is added to the CHT.**

Additional points are assessed for each of the risk factors as described above and then these are added to the CHT to complete the Corporate Health Assessment (CHA). The CHA is defined mathematically as:

Corporate Health Assessment (CHA) = CHT + Unpaid Crown Debt Pts + Unpaid Surface Lease Pts + Unpaid RM Tax Pts + ILRP Non-Compliance Pts + Outstanding Pts

7.4 Risk Adjusted LLR

As per section 4-1(5) of the FSSCR, the LLR threshold below which licensees may be required to submit security is 1.0. The Risk Adjusted LLR (RALLR) model, as defined in this section, is used to adjust the LLR at which licensees may be required to submit security, using the Corporate Health Assessment (CHA). Essentially, the higher the CHA value, the higher the assumed financial risk that a licensee poses, and hence the higher the LLR threshold at which the licensee may be required to submit security.

Under the RALLR method, if a licensee has an LLR of less than the RALLRT, the licensee is considered to have failed the LLR assessment. Pursuant to section 3-1(2) of the FSSCR, the RALLR is taken into consideration as a relevant factor in the calculation of a security deposit.

The Risk Adjusted LLR Threshold (RALLRT) is defined as follows:

RALLRT = 1 + LLR Adjustment, Where,

the LLR adjustment is evaluated using figure 1 below.

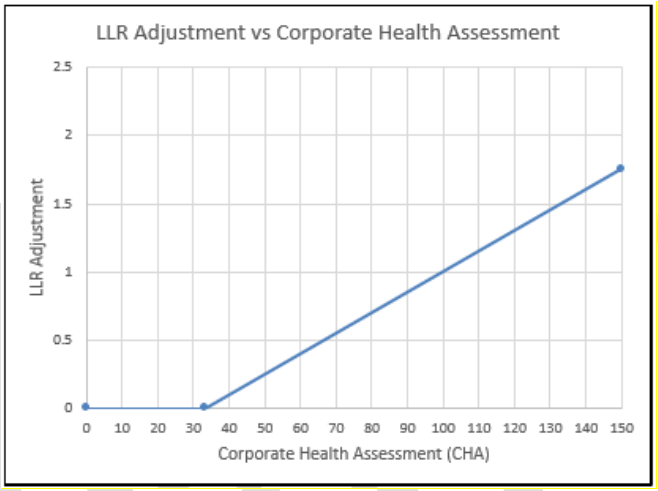


Figure 1 – LLR Adjustment vs. Corporate Health Assessment (CHA)

Hence, the equation for the LLR adjustment is as follows:

LLR Adjustment = 0.015 x CHA – 0.5, if CHA <33.3 then 0

The security deposit requirements is calculated as follows:

$$\text{Security Deposit} = \frac{(\text{RALLRT} \times \text{Total Liability}) - \text{Total Assets}}{\text{RALLRT}}$$

Note also, that if a licence transfer will result in either the transferor or transferee having an LLR of less than their RALLRT, the transferor or transferee, as the case may be, may be required to submit security as a condition of approving the transfer.

Note also that if a licensee has posted a deposit as a result of a PRT assessment on a licence transfer, and then subsequently their LLR falls below their risk adjusted LLR, ER will not request additional security until and unless the LLR deposit requirement becomes larger than the PRT deposit held.

Please refer to Appendix 7, for a numerical example illustrating how the RALLR is calculated.

8. Closure Companies

As per the FSSCR, closure companies are companies whose primary business is the abandonment and reclamation of inactive infrastructure and sites. Closure companies are companies that acquire inactive infrastructure from oil and gas companies. The closure company accepts responsibility for the liabilities and is paid by the oil and gas company to bring all of the liabilities to closure.

The following rules pertain to closure companies operating in Saskatchewan:

- Closure companies are required to carry insurance to protect against unexpected cost overruns. The policy needs to cover both abandonment and reclamation and be in effect until AOR is granted on the last well.

- Closure companies are required to post the full security for the deemed liability associated with any licenses they acquire. The deposit will only be refunded once all closure work is complete and an Acknowledgement of Reclamation (AOR) is obtained.

- Closure companies are required to carry out adequate inspection and assessment of sites and infrastructure prior to acquiring any liabilities.

- Closure companies are responsible for regulatory obligations and costs like producing licensees. A closure company must meet the relevant eligibility requirements (administrative levy, orphan levy, surface rentals, municipal taxes, etc.).

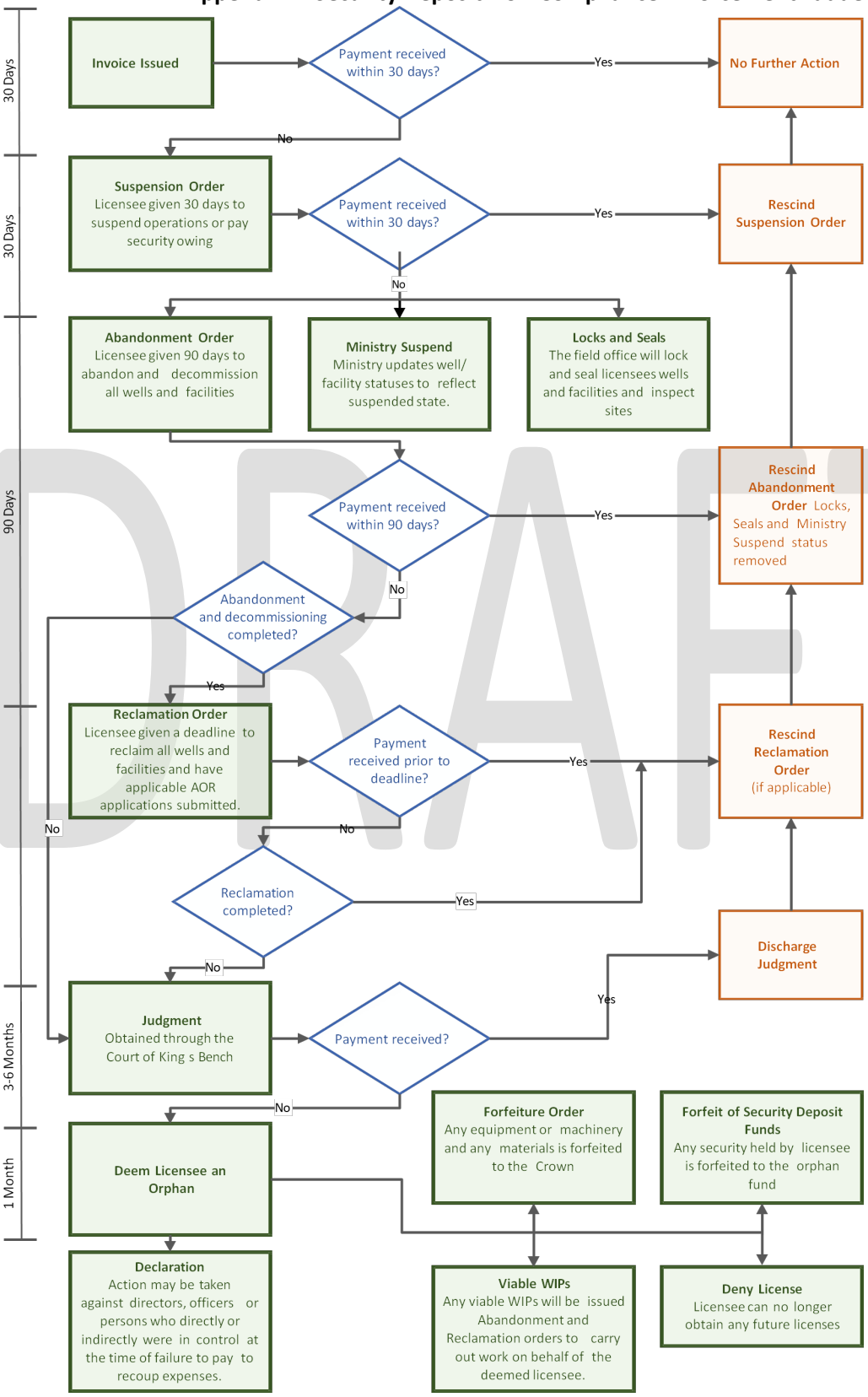
- Closure companies must only be focused on closure. Closure companies must exist solely to bring oil and gas sites to regulatory closure.

- Closure companies must ensure that sites are closed in a timely manner. Timelines may be prescribed in licence transfer approvals.

- Closure companies are not required to meet the requirements of the Inactive Liability Reduction Program (ILRP).

Note that oil and gas licensees can claim expenditures spent on the services of Closure Companies toward their ART. However, this must only include the Closure Company's actual *closure* costs plus profit (approved by the ministry). Operating costs (i.e. surface rentals and taxes) that are incurred by the Closure Company cannot be claimed by licensees, nor any other costs that are not actual closure costs.

Appendix 1: Security Deposit Non-Compliance Enforcement Ladder



Appendix 2: Provincial Well Abandonment Deemed Liability Values

Area 1. Lloydminster

Total Vertical Depth (mkb)	Empty, Not Perforated	Empty, Perforated	Tubing Only	Tubing & Rods
0 - 1199	$5,100	$12,300	$16,800	$18,900
1200 - 1999	$5,100	$13,700	$18,100	$31,300
2000 - 2499	$5,100	$15,100	$32,600	$34,500
2500 - 2999	$5,100	$16,900	$39,000	$41,500
≥ 3000	$5,100	$19,800	$49,500	$53,900

Area 2. Kindersley

Total Vertical Depth (mkb)	Empty, Not Perforated	Empty, Perforated	Tubing Only	Tubing & Rods
0 - 1199	$5,100	$11,800	$17,500	$20,100
1200 - 1999	$5,100	$13,100	$26,300	$28,500
2000 - 2499	$5,100	$14,500	$30,000	$32,300
2500 - 2999	$5,100	$16,200	$38,200	$40,700
≥ 3000	$5,100	$16,200	$38,200	$40,700

Area 3. Swift Current

Total Vertical Depth (mkb)	Empty, Not Perforated	Empty, Perforated	Tubing Only	Tubing & Rods
0 - 1199	$5,100	$11,800	$17,500	$20,100
1200 - 1999	$5,100	$13,100	$26,300	$28,500
2000 - 2499	$5,100	$14,500	$30,000	$32,300
2500 - 2999	$5,100	$16,200	$38,200	$40,700
≥ 3000	$5,100	$16,200	$38,200	$40,700

Area 4. Estevan

Total Vertical Depth (mkb)	Empty, Not Perforated	Empty, Perforated	Tubing Only	Tubing & Rods
0 - 1199	$5,100	$12,300	$16,800	$18,900
1200 - 1999	$5,100	$13,700	$18,100	$31,300
2000 - 2499	$5,100	$15,100	$32,600	$34,500
2500 - 2999	$5,100	$16,900	$39,000	$41,500
≥ 3000	$5,100	$19,800	$49,500	$53,900

Note: Swab Wells (that existed prior to May 1, 2018) and Water Source Wells, have an abandonment liability of $5,100 regardless of their location or depth.

Where applicable, the following parameters are applied in addition to the above abandonment costs:

Commingled or Multi-zone wells	+25% of base deemed abandonment liability
Ground Water Protection Cost	$25,300
Surface Casing Vent Flow Repair Cost	$30,900
Gas Migration Cost	$33,000

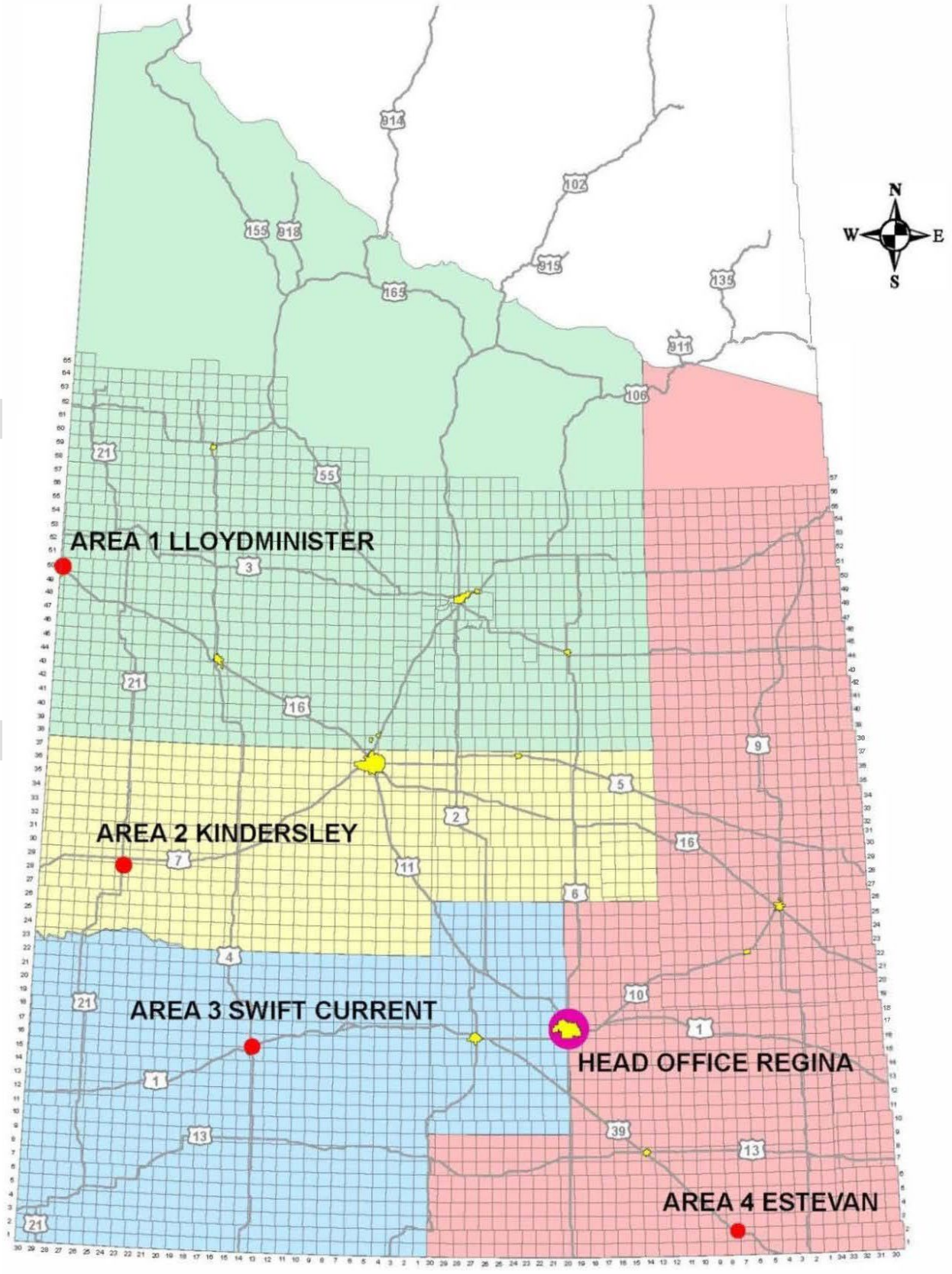
Appendix 3: Well and Facility Reclamation Liability Values

ER Field Office	Licence Type or Status	Reclamation Cost
Any	Re-entered Well (original well licence that has been re-entered)	$0.00
Any	Cancelled Well or Facility (no surface disturbance exists related to the cancelled licence)	$0.00
Any	Cancelled Well or Facility (surface disturbance exists related to the cancelled licence)	$5,100.00
Any	Swab Well (prior to May 1, 2020) or Water Source Well	$5,100.00
Any	Multi Well Swabbing Oil Battery (prior to May 1, 2020)	$5,100.00
Area 1 Lloydminster	Any, excluding above exceptions	$22,200.00
Area 2 Kindersley	Any, excluding above exceptions	$22,200.00
Area 3 Swift Current	Any, excluding above exceptions	$13,600.00
Area 4 Estevan	Any, excluding above exceptions	$22,200.00

Appendix 4: Facility Well Equivalent

Facility Licence Type	Design Throughput Capacity	Well Equivalent (WE)
Cleaning Plant/Skim Oil	Any	5
Custom Treating Plant	Any	5
EOR Injection Facility	Any	4
Gas Compression Facility	Any	5
Gas Processing Plant	0 - 900 10^3m^3/day	10
	900 - 5700 10^3m^3/day	**WE = [(vol - 900) x C] + 10** where: • C = 0.00625; and • vol = design throughput capacity per day of oil (m^3) + gas (10^3m^3) + water (m^3)
	>5700 10^3m^3/day	40
Injection/Production Satellite	Any	2
LPG Storage Facility	Any	5
Multi Well Gas Battery	Any	5
Multi Well Oil Battery	0 - 50 m^3/day	5
	50 - 6933.3 m^3/day	**WE= = [(vol - 50) x A] + 5** where: • A = 0.005084745; and • vol = design throughput capacity per day of oil (m^3) + gas (10^3m^3) + water (m^3)
	> 6933.3 m^3/day	40
Multi Well Swabbing Oil Battery	Any	1
Oily Byproduct Storage	Any	5
Waste Plant/Reclaimer/Skim Oil	Any	5
Water Injection/Disposal Facility	Any	0
Water Source Facility	Any	2

Appendix 5: ER Field Office Administrative Boundary Map



Appendix 6: Example Calculation of the CHT

In this example, based on the financial information supplied by a licensee, the financial metrics have been calculated as:

Debt to Equity (DE) = 1.1
Interest Coverage Ratio (ICR) = 1.0
Cash Flow to Debt Coverage (CFDC) = 0.5
Current Ratio (CM) = 0.8
Net Profit Margin (NPM) = - 0.05

In order to normalize the financial metric values to a value between 0 and 100, use the following straight-line equations:

Financial Ratio	m	b	Risk Score
Equity to Debt	-200	200	(-200 x (1/DE)) + 200
Interest Coverage Ratio (ICR)	-33.333	133.33	(-33.333 x CR) +133.33
Cash Flow to Debt Coverage (CFDC)	-250	125	(-250 x CFDC) + 125
Current Ratio (CM)	-142.86	171.43	(-142.86 x CM) +171.43
Net Profit Margin (NPM)	-125	6.25	(-125 x NPM) + 6.25

Multiply each of the normalized financial metrics by its corresponding relative weight as shown in the table below:

	Relative Weight
Equity to Debt	0.1
Interest Coverage Ratio	0.2
Cash Flow to Debt Coverage	0.1
Current Ratio	0.3
Net Profit Margin	0.3

The calculations are as follows:

Financial Ratio	Financial Ratio Value	Very High Risk Range	Very Low Risk Range	Risk Score	Weighted Score
Net Profit Margin (NPM)	-0.05	< -0.75	> 0.05	$= (-125 \times -0.05) + 6.25$ $= 12.5$	$= 12.5 \times 0.3$ $= 3.75$
Current Ratio (CM)	0.8	< 0.50	> 1.2	$= (-142.86 \times 0.8) + 171.43$ $= 57$	$= 57 \times 0.3 \quad = 17$
Equity to Debt	1.1	< 0.5	> 1.0	$= \left(-200 \times (\frac{1}{1.1})\right) + 200$ $= 18$	$= 18 \times 0.1 \quad = 1.8$

Interest Coverage Ratio (ICR)	1.0	< 1.0	> 4.0	$= (-33.333 \times 1.0) + 133.33$ $= 100$	$= 100 \times 0.2$ $= 20$
Cash Flow to Debt Coverage (CFDC)	0.5	< 0.1	> 0.5	$= (-250 \times 0.5) + 125$ $= 0$	$= 0 \times 0.1 \quad = 0$
Overall CHT Score					$= \mathbf{42.55}$

The resulting CHT score for this licensee is 42.55, placing them in the Medium risk level.

Appendix 7: Example Calculation of the Risk Adjusted LLR

In this example, the licensee has the following status in the LLR program:

Total Assets = $5 million
Total Liabilities = $2.5 million
LLR = 2.00

The Corporate Health Assessment (CHA) is calculated as follows:

CHA	Value	CHA Points
CHT	70.00	70.00
Debt to the Crown	$47,000	10
Outstanding Surface Lease Payments	1 Board Order	10
Outstanding RM Tax Payments	3 unpaid RMs	10
ILRP Non-Compliance	Submitted but did not meet ART	5
Outstanding Spill Related Inspections	2 outstanding inspections	10
Total CHA		115

Linearize the CHA using the LLR Adjustment formula

LLR Adjustment =0.015 x CHA – 0.5, if CHA <33.3 then 0
=0.015 x 115 – 0.5
=1.22

RALLRT = LLR Target Ratio + LLR Adjustment
=1.0 + 1.22
=2.22

The current LLR is less than the RALLRT: 2.00 < 2.22, thus a security deposit is required

$$\text{Security Deposit} = \frac{(\text{RALLRT} \times \text{Total Liability}) - \text{Total Assets}}{\text{RALLRT}}$$

$$= \frac{(2.22 \times 2{,}500{,}000) - 5{,}000{,}000}{2.22}$$

$$= \frac{5{,}550{,}000 - 5{,}000{,}000}{2.22}$$

$$= \frac{550{,}000}{2.22}$$

$$= 247{,}747.75$$

Appendix 8: Refund Policy