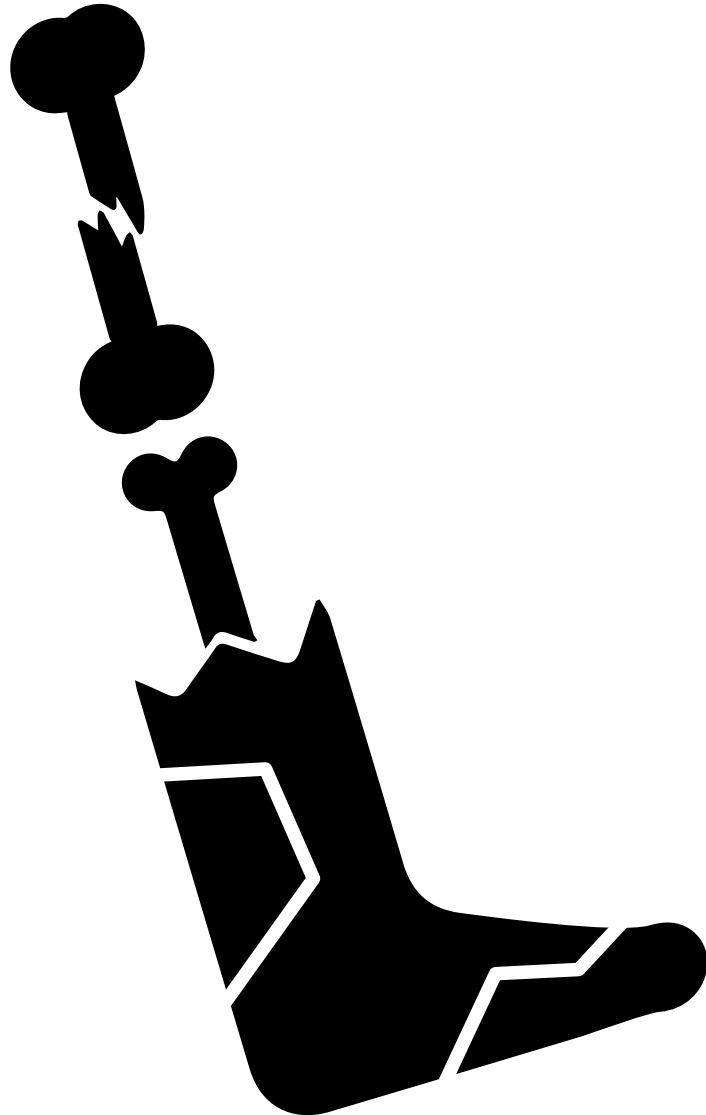


Barely Stands on Its Own



Zombies aren't dead, but they can barely stay upright. The hands-off approach of the AER and their lack of response to zombie companies through their Liability Management Rating (LMR) system has resulted in over 400 companies barely standing with an LMR of less than 2.0.

The purpose of the LMR is to monitor a company's risk in relation to its ability to fund its abandonment, remediation, and reclamation obligations. This is based on determining the ratio of a company's deemed asset to its deemed liabilities. The AER uses an LMR rating below 2.0 (a two-to-one asset to liability ratio) to identify a company that is operating at a high risk of not being able to meet its reclamation obligations.

While it is fair to ask whether a 2.0 LMR rating is an adequate risk threshold, an even bigger question is what action, if any, the AER takes to mitigate the risks associated with a company's LMR sinking below 2.0. While the LMR should act as a zombie outbreak warning system and the AER should be Alberta's zombie slayer, nothing much seems to happen when zombies are created.

We don't know which 400 companies have LMRs of less than 2.0, because the AER no longer makes that information publicly available. However, it is safe to assume that many of the companies on the hook for unpaid property taxes and surface leases are operating as zombies, and would simply enter into bankruptcy if they were required by the AER to immediately meet their property tax obligation.

If hundreds of zombie companies were to sink, thousands of wells would be abandoned and placed in the Orphan Well Association (OWA). The abandonment of so many wells at once would strain the OWA and create risks around liability management for the abandoned wells. As a result of the AER's inaction, despite having a zombie outbreak warning in place, zombies can continue to profit while not meeting their regulatory obligations.

The AER should be our main defence against zombie companies, but its current approach has put Albertans in a risky situation.