

December 1, 2017

By email and registered mail

To: Gary Schellenberg
Lorne Hill

Calgary Head Office
Suite 1000, 250 – 5 Street SW
Calgary, Alberta T2P 0R4
Canada

www.aer.ca

Declaration naming Gary Schellenberg and Lorne Hill under section 106 of the *Oil and Gas Conservation Act*

Dear Messrs. Schellenberg and Hill:

On October 30, 2017, the Alberta Energy Regulator (**AER**) sent a letter by registered mail to Gary Schellenberg and Lorne Hill notifying them of the AER's intention to name them in a declaration pursuant to section 106 of the *Oil and Gas Conservation Act (OGCA)*. In accordance with section 106, time was provided to permit the named individuals to show cause as to why a declaration should not be made. The AER notes that it has not received any response from Mr. Schellenberg or Mr. Hill on this matter. The AER feels it made reasonable attempts to contact both individuals and does not consider a lack of response a reason for not pursuing this matter further.

The AER hereby issues a declaration under section 106(1) of the *OGCA* naming Gary Schellenberg and Lorne Hill as persons in direct or indirect control of Golden Coast Energy Corp. (**Golden Coast**), a company that contravened or failed to comply with an AER order and has a debt to the AER. Golden Coast holds eight operational well licenses, five operational pipeline licenses, and three abandoned well licenses. This does not include any other entities with which the named individuals are involved. The declaration, with its terms and conditions, is found in attachment.

Section 106 of the *OGCA* applies where the AER considers it in the public interest to make a declaration naming one or more directors, officers, agents, or other persons who, in the AER's opinion, were directly or indirectly in control of a licensee, approval holder, or working interest participant that has (i) contravened or failed to comply with an order of the AER; or (ii) has an outstanding debt to the AER, or to the AER to the account of the orphan fund, in respect of suspension, abandonment, or reclamation costs.

In March 2016, Golden Coast informed the AER that the company was ceasing operations, that the company's last two directors, Mr. Schellenberg and Mr. Hill, had resigned, and that all of the company's remaining assets would be forfeited to the AER. The AER issued Golden Coast a closure and abandonment order, and AER inspectors later discovered that a sour gas well licensed to Golden Coast was leaking. Golden Coast has failed to comply with the closure and abandonment order, and failed to initiate immediate action in response to calls the AER inspectors made to the company's emergency phone number regarding the leaking sour gas well. Golden Coast has also not paid its debt to the AER arising from (i) the AER's emergency response to the leaking sour gas well; (ii) Golden Coast's 2016 Orphan Fee Levy; (iii) Golden Coast's Administrative Fees Levy; and (iv) their associated penalties for nonpayment.

These noncompliances and nonpayment of debts were the result of Golden Coast's decision to "walk away" from its AER licensed properties. Golden Coast's actions in this regard are of particular concern to the AER. Simply notifying the AER of a licensee's intention to "walk away" from its licensed properties does not absolve that licensee of its ongoing obligations under AER legislation. One of Golden Coast's licensed properties subsequently posed a potential public safety and environmental risk, a fact highlighted by Golden Coast's failure to ensure that calls to the company's emergency telephone number regarding the leaking sour gas well initiated an immediate response. Golden Coast's decision to "walk away" from its licensed properties and the company's ongoing failure to comply demonstrate a blatant disregard for AER requirements. Further, the failure to pay amounts owing to the AER poses a financial risk.

The AER is of the opinion that as directors of Golden Coast at the time of the company's noncompliances and nonpayment of debts owing to the AER, the named individuals were and are persons in control of Golden Coast. As previously found by the AER in *Decision 2015 ABAER 005*, the specific reference to directors, officers, and agents in section 106 indicates that the provincial legislature intended that individuals in those positions are presumed to be in direct or indirect control for the purposes of that section.

The AER has held in previous section 106 decisions that the purpose of a section 106 declaration is to prevent a licensee or person in control from continuing to breach requirements or incurring new breaches or debts, thereby safeguarding the public interest. The AER has also previously held that continued confidence in the regulatory system is best assured when licensees comply with AER requirements. The AER finds that Golden Coast's actions have undermined the regulatory system and posed an unacceptable risk to public safety and the environment. On the facts before it, the AER concludes that issuance of a

declaration is necessary to deter future noncompliance and uphold the credibility of the regulatory system and AER enforcement processes. It is not in the public interest to allow licensees like Golden Coast to simply “walk away” from their AER licensed properties and ongoing regulatory responsibilities.

Note that submission of a sworn declaration in accordance with clause four of the attached declaration must be provided by each of the named directors by **January 12, 2018**. Failure to respond appropriately may result in an additional regulatory response from the AER. Should the named individuals wish to discuss how Golden Coast will correct its noncompliances, please contact the undersigned.

Sincerely,

<original signed by>

Blair Reilly

Director, Business Process (Acting) – Operations Division

Attached: 1

APPENDIX I

Section 106 is a reverse onus provision. The burden is on the directors to show why the declaration should not be made. They are in the best position to respond to the notice as they are the ones with the best information regarding why they failed to comply with AER orders or pay outstanding amounts. The directors have provided no evidence to show cause why a declaration should not be made, despite the fact that they have been given ample time

*Be advised that under the Responsible Energy Development Act (**REDA**), an eligible person may appeal decisions that meet certain criteria. Eligible persons and appealable decisions are defined in section 36 of REDA and section 3.1 of the Responsible Energy Development Act General Regulation. Requests for regulatory appeal must be submitted in accordance with the AER's requirements. Filing requirements and forms are available on the AER's website, www.aer.ca, under Applications & Notices > Appeals.*