

DECLARATION NAMING CHRISTOPHER HANNE PURSUANT TO SECTION 106(1) OF THE OIL AND GAS CONSERVATION ACT

For the reasons set out in the accompanying letter, the Alberta Energy Regulator (“AER”) has determined that: (i) Christopher Hanne (the “Individual”) is a person directly or indirectly in control of Arrow Point Oil & Gas Ltd., Big Coulee Resources Ltd., and Drumlin Energy Corp. (collectively, the “Regulated Entities”); (ii) Arrow Point Oil & Gas Ltd. has a debt to the AER; (iii) Big Coulee Resources Ltd. has failed to comply with an order of the AER; (iv) Drumlin Energy Corp. has failed to comply with an order of the AER; (v) the Individual has been in control of the Regulated Entities at all material times; and (vi) it is in the public interest to make a declaration naming the Individual under section 106(1) of the *Oil and Gas Conservation Act*, RSA 2000, c O-6 (“*OGCA*”).

The AER’s legislated mandate under section 2 of the *Responsible Energy Development Act*, SA 2012, c R-17.3 (“*REDA*”) includes a requirement to provide for efficient, safe, orderly, and responsible development of energy resources in Alberta. In accordance with this mandate the AER hereby names the Individual under section 106(1) of the *OGCA* and places the following restrictions on them:

1. The Individual and any licensee or approval holder directly or indirectly controlled¹ by him must inform the AER that a declaration under section 106(1) of the *OGCA* is in effect against the Individual and that the Individual has direct or indirect control of such licensee or approval holder upon the licensee or approval holder’s applying to the AER for any identification code, licence, or approval, or transfer of a licence or approval under the *OGCA* or the *Pipeline Act*, RSA 2000, c P-15 (“*Pipeline Act*”).
2. The AER may refuse to consider any application from the Regulated Entities, the Individual or any other licensee or approval holder over which the Individual has direct or indirect control, for an identification code, licence or approval or transfer of a licence or approval under the *OGCA* or *Pipeline Act*.
3. Where the AER is to consider an application from the Individual or any other licensee or approval holder over which the Individual has direct or indirect control, the AER may require the submission of abandonment and reclamation deposits in an amount to be determined by the AER prior to granting any licence, approval, or transfer of a licence or approval under the *OGCA*.
4. The Individual must submit sworn declarations by May 13, 2019 declaring whether they are in direct or indirect control of any licensee or approval holder, other than the Regulated Entities, that

¹ For the purposes of the *OGCA*, “control” means real, effective, and practical control over a company’s business affairs. Such control may exist in a wide variety of settings and arrangements. Control is ultimately the power to direct the business of the company and make decisions that will be complied with and acted upon by the company.

5. is an applicant to the AER, a licensee, or an approval holder under the *OGCA* or the *Pipeline Act*, or, if they are, a declaration stating the name of any such licensee or approval holder, and specifying the applications each has before the AER and the AER licences and approvals such licensee or approval holder holds.
6. The declaration is in force at the date hereof and will remain in force until the Regulated Entities have rectified their contraventions, and paid any and all debts owed to the AER and to the AER on account of the orphan fund for abandonment and reclamation costs, or until the AER orders otherwise.

Dated: April 11, 2019

Alberta Energy Regulator signed: <Original Signed by Mark Taylor>

April 11, 2019

Calgary Head Office
Suite 1000, 250 – 5 Street SW
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Canada

By e-mail and registered mail

www.aer.ca

Christopher Hanne

Christopher Hanne

E-mail:

Declaration naming Christopher Hanne under section 106 of the *Oil and Gas Conservation Act*

Dear Mr. Hanne,

Having considered Mr. Hanne's request for reconsideration dated March 12, 2019, the Alberta Energy Regulator (AER) has decided to reconsider the March 11, 2019 decision to issue a s. 106 declaration against Mr. Christopher Hanne. This decision confirms the March 11, 2019 decision with certain variations as noted below to the reasons for that decision. The letter that you received on March 22, 2019 was issued without proper delegated authority and is replaced by this decision.

Section 42 of the *Responsible Energy Development Act* (REDA) permits the AER to reconsider decisions. It provides that:

The Regulator may, in its sole discretion, reconsider a decision made by it and may confirm, vary, suspend or revoke the decision.

In Mr. Hanne's case, the submission of January 28, 2019 was inadvertently missed as it was sent to the mailbox of an employee who had recently left the AER. Accordingly, it was determined that this was an appropriate case for reconsideration. However, having considered the entirety of the information provided, including Mr. Hanne's submission of January 28, 2019, the decision to issue a s. 106 declaration against Mr. Hanne is confirmed. Mr. Hanne failed to satisfy the AER that a s.106 declaration should not be made.

On October 29, 2018, the AER sent a letter by registered mail and by e-mail to Mr. Hanne notifying him of the AER's intention to name him in a declaration pursuant to section 106 of the *Oil and Gas Conservation Act* (OGCA), and which set a deadline of November 30, 2018 for Mr. Hanne to provide show cause submissions as to why a declaration should not be made. According to the AER's records, Mr. Hanne holds more than 20% of the outstanding voting securities of Big Coulee Resources Ltd. (Big

Coulee), through 1510499 Alberta Ltd. (1510499), which in turn is the 100% shareholder of Arrow Point Oil & Gas Ltd. (Arrow Point) and Drumlin Energy Corp. (Drumlin).

On November 26, 2018, the AER received submissions from Mr. Hanne purporting to show cause as to why a declaration should not be made. However, those submissions failed to provide evidence that although he held more than 20% of the voting securities of Big Coulee through 1510499, he was not a control person. By letter dated January 24, 2019, the AER gave Mr. Hanne a further opportunity to provide evidence that he was not a control person. In response, Mr. Hanne provided an e-mail dated January 28, 2019. This information was considered, however, as explained below, it also failed to provide evidence to demonstrate that he was not a control person at the relevant times.

According to the AER's records, Mr. Hanne holds more than 20% of the outstanding voting securities of Big Coulee, through 1510499, which in turn is the 100% shareholder of Arrow Point and Drumlin. On November 26, 2018, Mr. Hanne provided a submission to the AER. In his submission, Mr. Hanne asserted that his involvement in Arrow Point, Big Coulee, and Drumlin was as a passive investment and that he was not familiar with oil and gas operations. The submission also asserted that Mr. Hanne could not legally control Arrow Point or Drumlin since he is not a director, officer, or employee of either company. In addition, Mr. Hanne claimed that he was unaware that a minority shareholder could be held liable for the actions of the companies. Pursuant to the *Securities Act*, RSA 2000, c S-4, absent evidence to the contrary, a person or company who holds more than 20% of the voting securities of a corporation holds a sufficient number of voting rights to materially affect control and is therefore a "control person."

Mr. Hanne's November 26, 2018 submission did not include evidence to support his position that he was not a "control person" at the material times. Accordingly, the AER requested by letter dated January 23, 2019 that he submit evidence, such as signed minutes of shareholder meetings or signed resolutions in lieu of shareholder meetings, to support that he was not a control person for Big Coulee, at the relevant times when the contraventions occurred and the debts arose.

In his January 28, 2019 correspondence, Mr. Hanne indicated that Big Coulee had not held shareholder meetings or issued shareholder resolutions since 1510499 became shareholder. He asserted that he had not received copies of financial statements of Big Coulee and that the Big Coulee shares acquired by 1510499 were not acquired for cash consideration. Further while not disputing that he held more than 20% voting shares of Big Coulee, Mr. Hanne stated that he did not assert control over Big Coulee as two other shareholders held a higher percentage of ownership than he did. Alberta Corporate Registry records for Big Coulee indicate Federal Housing Corp. of Miami, Florida is a 18.182% shareholder and Mr. Alexander Gramatzki is the remaining 60.606% shareholder. There is a presumption that a person holding 20% of the voting shares of a company is a control person as they have the ability to influence

management decisions. Merely asserting that a person is not participating actively in the management of a company, without evidence to support that claim, is not sufficient to rebut that presumption.

Accordingly, the AER finds that Mr. Hanne indirectly holds more than 20% of the voting securities of Arrow Point, Big Coulee, and Drumlin, and is therefore a control person who holds a sufficient number of the voting rights of the associated securities to materially affect the companies. Mr. Hanne is a control person of Arrow Point, a company that has not paid its debt to the AER arising from its failure to pay the 2018 Orphan Fund Levy and 2018 Administration Fee, totaling \$22, 180.26. He was also a control person of Big Coulee at the time that it failed to comply with the AER's Amended Closure/Abandonment Order No. AD 2016-10A. Further, he was a control person at the time Drumlin failed to comply with Order 2018-006 issued to Artisan Energy Corporation and working interest participants, including Drumlin. Mr. Hanne's position satisfies section 106 of the *OGCA*, which empowers the AER to issue 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 the licensee or working interest participants at the time of the contraventions, failures to comply or failures to pay.

Mr. Hanne has failed to satisfy the AER that a declaration should not be made. The AER hereby issues a declaration under section 106(1) of the *OGCA* naming Christopher Hanne as a person in direct or indirect control of Arrow Point Oil & Gas Ltd. (Arrow Point), Big Coulee Resources Ltd. (Big Coulee), and Drumlin Energy Corp. (Drumlin), companies that have contravened or failed to comply with orders of the AER or have debts to the AER. The declaration, with its terms and conditions, is found in Attachment 1.

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 person 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.

The AER has held in previous decisions under section 106 of the *OGCA* that the purpose of a declaration under section 106 of the *OGCA* is to prevent a licensee or person in control from continuing to breach requirements or incur 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 the actions of Arrow Point, Big Coulee, and Drumlin 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 the issuance of a declaration is necessary to deter future noncompliance and uphold

the credibility of the regulatory system. It is not in the public interest to allow licensees and working interest participants under Mr. Hanne's direct and/or indirect control to continue to contravene orders of the AER and leave debts to the AER and to the AER on account of the orphan fund.

Note that submission of a sworn declaration in accordance with clause four of the attached declaration must be provided by the named individual by May 13, 2019. Failure to respond appropriately may result in an additional regulatory response from the AER.

Section 106 of the OGCA is a reverse onus provision. The burden is on the individuals 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 best information regarding why they failed to comply with AER orders or pay outstanding debts.

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 AER requirements. Filing requirements and forms are available on www.aer.ca.

Sincerely,

<original signed by Mark Taylor>

Mark Taylor
Executive Vice President, Operations

Enclosure