

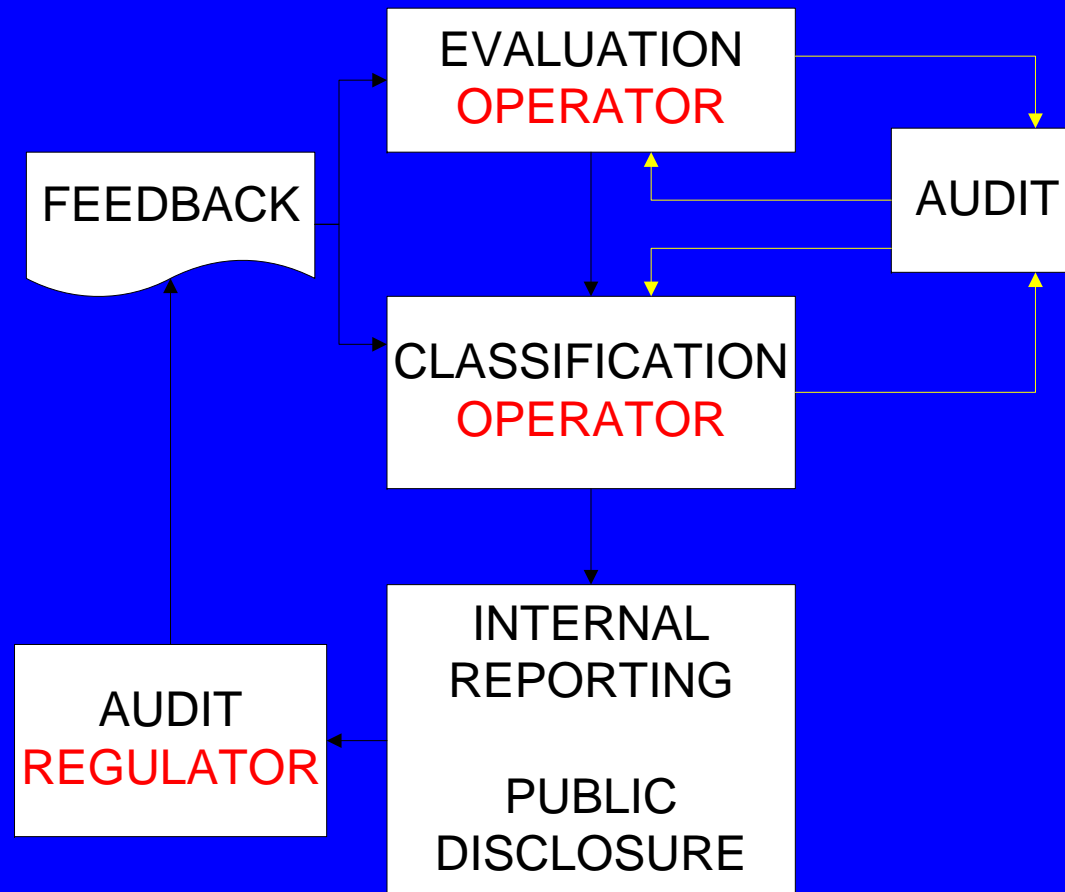
FINANCIAL REPORTING

Session 1

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UNECE Ad Hoc Group of Experts on Harmonization of
Fossil Energy and Mineral Resources Terminology
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WHEN DOES REPORTING HAPPEN?



CRITICAL INFORMATION

- BEST ESTIMATE
- VARIANCE
 - LOW
 - HIGH
- EVERYTHING ELSE IS DETAIL!

WHAT IS “FINANCIAL REPORTING”?

- Limited context in this meeting
(UNFCS/PRMS/CRIRISO, etc.)
- Includes all users:
 - Public Disclosure/Securities
 - Internal operations
 - Governments/NOCs
 - Financial analysts/advisors
 - Etc.

WHAT IS THE OBJECTIVE?

- To provide information that is used to make investment and operational decisions
- Hydrocarbon volumes and values from:
 - Current activities (“Reserves”)
 - Future activity (“Resources”)
- Used by or in conjunction with a formal financial reporting system
- Not just:
 - A mechanical exercise
 - To satisfy regulators and accountants

WHAT IS THE AUDIENCE?

- Governments;
 - Royalties, tax revenue, energy supply
- Regulators
 - Operational, securities
- Producing organisations (incl. NOCs)
 - Budgeting, project planning
- Investors
 - Governments
 - Capital market
- Capital Market: financial advisors, banks
- Accountants – incorporate in financial disclosure

WHAT DO THEY NEED TO KNOW?

- What does an investor (including governments, NOCs) need?
 - Consistent evaluations (unbiased)?
 - Standard categorisation and classification?
 - Standard reporting format?
 - Current SEC exercise
- Should we avoid reporting the uncertainties around estimates because it might be confusing?

TYPICAL INFORMATION

- RESERVES VOLUMES AND VALUES
- PRICING ASSUMPTIONS
- RECONCILIATIONS
- UNDEVELOPED RESERVES (incl. PUDs)
- OTHER INFORMATION
 - **Significant uncertainties**
 - Future costs
 - Undeveloped properties (resources)
 - Exploration and development activities
 - Production estimates and history
- CERTIFICATION

HOW WELL DO WE UNDERSTAND ONE ANOTHER?

- How well does the financial community understand the reserves and resources estimation process and the results?
- How well does the evaluation community understand the financial community's requirements?
- Do we have a disconnect?

THE FUTURE: UNCONVENTIONAL RESOURCES

- Present new challenges in classification and reporting.
- Emphasis changes: from:
 - \From "Exploration" - how do we find it?
 - To "Development" - we know where it is, but how do we get it out?
- What are the implications for:
 - Classification?
 - Reporting?

CLASSIFICATION

- DISCOVERED vs UNDISCOVERED
 - “Known accumulation”:
 - Well and test
- UNRECOVERABLE?
 - We know it’s there and it is potentially recoverable
 - Shale gas, shale oil, some bitumen
 - We will never get it out
 - Irreducible saturation

“FAIR VALUE”

- What is it?
- Is there such a thing?
- Can it be provided by a reserves report?

QUESTIONS ???

- WHAT IS “FINANCIAL REPORTING”?
- WHAT IS THE AUDIENCE?
- WHAT DO THEY NEED TO KNOW?
- HOW WELL DO WE UNDERSTAND ONE ANOTHER?
- WHAT ARE FUTURE CHALLENGES?
- IS THERE SUCH A THING AS “FAIR VALUE”?