

New SEC Oil and Gas Rules

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Background and history

- 1975 Energy Policy and Conservation Act
- 1978 Rule 4-10 of Regulation S-X
- 1982 Item 102 of Regulation S-K
Industry Guide 2

Goals/Principles

- Investor Protection
- Comparability
- Transparency
- Long-term applicability (principles-based)

Modernization of Oil and Gas Reporting

- Adopted December 2008
- Effective for audited periods beginning December 31, 2009
- First disclosures began in March 2010

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Changes

- Revisions to Rule 4-10 of Regulation S-X
- Revision to Item 102 of Regulation S-X
- Industry Guide 2 moves to Subpart 1200 of Regulation S-K

Revisions to Rule 4-10(a)

- Year-end price replaced with average price
- O&G producing activities: determined by product rather than methodology
- Reasonable certainty defined

Revisions to Rule 4-10(a)

- Concept of reliable technology
- New definitions of probable and possible reserves

Revisions to Rule 4-10(a)

- PUDs
 - Relaxation of one offset requirement
 - Five year standard

New Item 1201

- Provides instructions about complying with the new 1200 series
- Raises concept of geographic area
 - Meaningful disclosure
 - Country
 - Groups of countries within a continent
 - By continent

New Item 1202(a)(1)-(6)

Summary of oil and reserves at year-end

- Tabular presentation
- Horizontal axis: product type (oil, natural gas, synthetic oil, synthetic gas, and other products)
- Vertical axis: reserves category (Proved developed and undeveloped)

New Item 1202(a)(1)-(6)

Summary of oil and reserves at year-end

- By geographic area: 15% of reserves
 - Meaningful disclosure
 - Country
 - Groups of countries within a continent
 - By continent

New Item 1202(a)(1)-(6)

Summary of oil and reserves at year-end

- Optional disclosure of probable and possible reserves
- Sensitivity analysis (Optional)
 - Show effect of different price case on different categories and products

New Item 1202(a)(7)

Preparation of reserves estimate or reserves audit

- Disclose internal controls used in reserves estimation effort
- Technical qualifications of primary person
- If third party, qualifications of third party

New Item 1202(a)(8)

Third Party Reports

- 10 Items:

1. Purpose

2. Dates completed and effective

3. Proportion of reserves covered and geographic areas in which covered reserves are located

4. Assumptions, data, methods and procedures used and a statement that those are appropriate for the purpose of the report

5. Discussion of the primary economic assumptions

New Item 1202(a)(8) Third Party Reports (cont.)

6. Effects of regulation
7. Discussion of the inherent uncertainties
8. All methods and procedures necessary have been used
9. Summary of conclusions
10. Signature

Item 1203 - PUDs

- Total PUDs at year end
- Material changes
- Investments and progress in converting PUDs to proved
- Explain reasons for PUDs over 5 years old
- PUDs beyond 5 years

Item 1204 - Production

- Disclose production by product for each of the last three years by geographical area
- Disclose average sales price and production cost for each of the last three years
- Prior Item 2 of Industry Guide 2

Item 1205 – Drilling, exploration and development

- For each of the last three years by geographical area:
 - Net productive and dry exploratory wells drilled
 - Net productive and dry development wells drilled
- Prior Item 6 of Industry Guide 2

Item 1206 Present Activities

- By geographical area disclose such as wells in process of being drilled, waterfloods in process of being installed, etc.
- Prior Item 7 of Industry Guide 2

Item 1207 Delivery commitments

- Sources to meet those commitments
- Quantities subject
- Steps to ensure availability
- Facts and circumstances
- Prior Item 8 of Industry Guide 2

Item 1208 Properties

- Total gross and net productive wells
- Total gross and net developed acreage
- Undeveloped acreage
- By geographic area
- Prior Items 4 and 5 of Industry Guide 2

Other related issues

- BOE pricing
- Explanation of impact of new rules on reserves
- MD&A

Recap

- Goals:
 - Investor Protection
 - Comparability
 - Transparency
 - Long-term application (principles based)

We get questions

- October 26, 2009: staff posted guidance on SEC website at
 - <http://www.sec.gov/divisions/corpfin/guidance/oilandgas-interp.htm>

Questions?