FINANCIAL REPORTING: THE IMPACT OF UNCONVENTIONAL RESOURCES

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THE OBJECTIVE OF FINANCIAL REPORTING

- Provide information to make investment decisions
- Attract funding

Users:
- Compare companies
- Often not experts
- Do not have access to proprietary information

Consistency is critical
FINANCIAL REPORTING: SUB-GROUPS

PUBLIC ROLE
- Securities (Equity markets)
  - Public
  - Private
- Securities exchanges
- Underwriters
- *Accounting
- *Mergers and Acquisitions
  * Internal and External

INTERNAL ROLE
- Banks (Debt market)
- Financial Analysts
  - Buy side
  - Sell side
- Contracts
  - Gas purchase
  - Futures and Forwards
A CHANGING BALANCE

History: How do we find it?

Future: How do we get it out?

Large supplies of oil and gas from new “unconventional” reservoirs
FINANCIAL REPORTING

• Does current financial reporting give investors the information they need?
• Reserves
  • Proved reserves: security
  • Proved + Probable reserves: Best guess
• Contingent resources: Continuing supply/revenue
UNITED NATIONS FRAMEWORK CLASSIFICATION FOR PETROLEUM

PROVED RESERVES
RESOURCE GUIDELINES

- Classification framework (PRMS) provides for all resource classes
- Current guidance is general and focused on conventional reserves
- PRMS Application Guidelines
RESOURCES GUIDELINES

- Hundreds of ASC reviews
  - Large increase in Contingent resource disclosure
  - But, lack of consistency
- 2010 Letter from ASC to SPEE Calgary requesting improved COGEH Guidelines on Contingent resources
- SPEE Calgary Resource Guidelines Committee
UNCONVENTIONAL RESOURCES

WHAT IS:

- A reservoir?
- Current definition is for conventional resources

DISCOVERY CRITERIA?

- We know where it is but don’t have a test.
- May not be a discovery under present guidelines!
PROJECTS

- RECOVERY TECHNOLOGY
  - Established technology
  - Technology under development
  - Pilot projects
  - Experimental projects

- EVALUATION SCENARIO
  - Projects often large

- PROJECT STATUS
  - Conceptual
  - Pre-feasibility studies
  - Feasibility studies

- PROJECT MATURITY
  - Unclarified
  - On Hold
  - Pending
CONTINGENCIES

- ECONOMIC STATUS
  - Economic (PRMS Marginal)
  - Sub-Economic (PRMS Sub-marginal)

- TECHNICAL
  - Technology under development

- NON-TECHNICAL
  - Legal, Regulatory approval, Access to Markets
  - Political, Social licence?
IN A SECURITIES CONTEXT

- MATERIAL CONTINGENT RESOURCES
  - Optional to report in Canadian annual filings
  - Must report in an IPO

- BUT NOT REPORTING
  - May be failure to provide material information, AND,
  - Trading on undisclosed material information is \textit{insider trading}!
FINANCIAL REPORTING

- SHOULD INCLUDE ALL MATERIAL RESOURCES
- RESERVES: Proved, Proved + Probable
- CONTINGENT RESOURCES WHEN MATERIAL MATERIAL
  - Recovery technology
  - Evaluation scenario
  - Contingencies
  - Project maturity
- PROSPECTIVE RESOURCES WHEN MATERIAL