

Calgary • Houston • Denver

A collage of images related to the oil and gas industry. It includes a 3D geological cross-section of rock layers, an offshore oil rig at sea, a document with a red circular seal, a group of business professionals in a meeting, a large globe showing the Americas, and a man in a white shirt and red tie leaning over a large, colorful geological map or seismic data visualization.

Determining SEC Disclosure for Reconciliation to Proved Reserves

Jennifer Fitzgerald
Ryder Scott Company

RSC Reserves Conference September 2013

Outline



- Issue Summary
- Relevant Regulations and Guidance
- Scenario 1 – Proved locations limited to direct offsets
- Scenario 2 – Proved locations within ring fence
- Scenario 3 – Promotion and addition of offset locations
- Interpretative Opinion

Disclaimer



The comments conveyed herein represent informed opinions of the author about certain laws and regulations. The applicability of the interpretative guidance provided should be considered on a case by case basis.

Opinions expressed regarding U.S. SEC reserves reporting regulations may not be identical to advice to be obtained from the SEC or other legal council.

Issue Overview



FASB Topic 932
Reconciliation for Proved Reserves

Issue

How are reserve changes due to drilling of non-proved locations within known boundary of shale plays recognized in reconciliation of annual reports filed with the SEC?

Issue Overview



FASB Topic 932 Reconciliation for Proved Reserves

Observation

The language contained in 932-235-50-5 defines a framework to track changes in proved reserves. The key criteria is to determine whether or not the location increases the proved acreage. It is important to distinguish the difference between proved acreage and known accumulation.

Interpretative Opinions on Disclosure

This document will explore various sources of guidance and offer an interpretative opinion relating to questions of disclosure.

Issue Overview



FASB Topic 932 Reconciliation for Proved Reserves

Do we reconcile drilling of non-proved locations within the known boundaries of a shale play or other unconventional reservoir as:

1a. Extensions

or

1b. Improved Recovery

or

1c. Revisions

FASB Disclosure Requirements for Reconciliation to Proved Reserves Extractive Activities – Oil and Gas Topic 932



932-235-50-5 Proved Oil and Gas Reserve Quantities.¹

Changes in the net quantities of an entity's proved reserves of oil and of gas during the year shall be disclosed. Changes resulting from all of the following shall be shown separately with appropriate explanation of significant changes:

- a. *Revisions of previous estimates. Revisions represent changes in previous estimates of proved reserves, either upward or downward, resulting from new information (except for an increase in proved acreage) normally obtained from development drilling and production history or resulting from a change in economic factors.*
- b. *Improved recovery. Changes in reserve estimates resulting from application of improved recovery techniques shall be shown separately, if significant. If not significant, such changes shall be included in revisions of previous estimates.*
- c. *Purchases of minerals in place.*
- d. *Extensions and discoveries. Additions to proved reserves that result from either of the following:*
 1. *Extension of the proved acreage of previously discovered (old) reservoirs through additional drilling in periods subsequent to discovery*
 2. *Discovery of new fields with proved reserves or of new reservoirs of proved reserves in old fields.*
- e. *Production.*
- f. *Sales of minerals in place.*

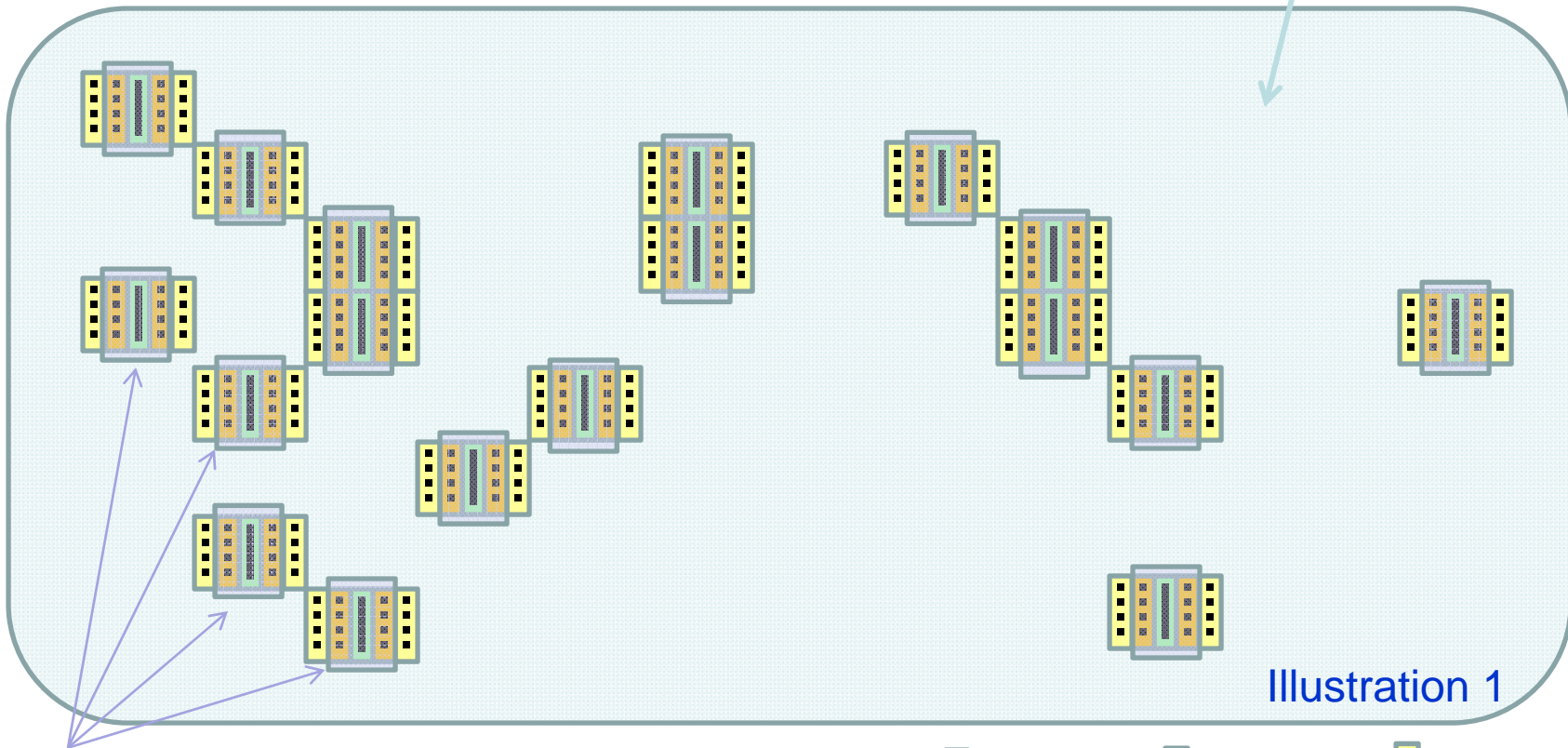
¹Source: Topic 932, FASB Accounting Standards Update, Extractive Activities – Oil and Gas, No. 2010-03, released January 2010.

Reconciliation of Proved Reserves: Determination of Proved Acreage versus Known Accumulation



Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

Known Accumulation



Proved Acreage



Reconciliation of Proved Reserves: Scenario 1



Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

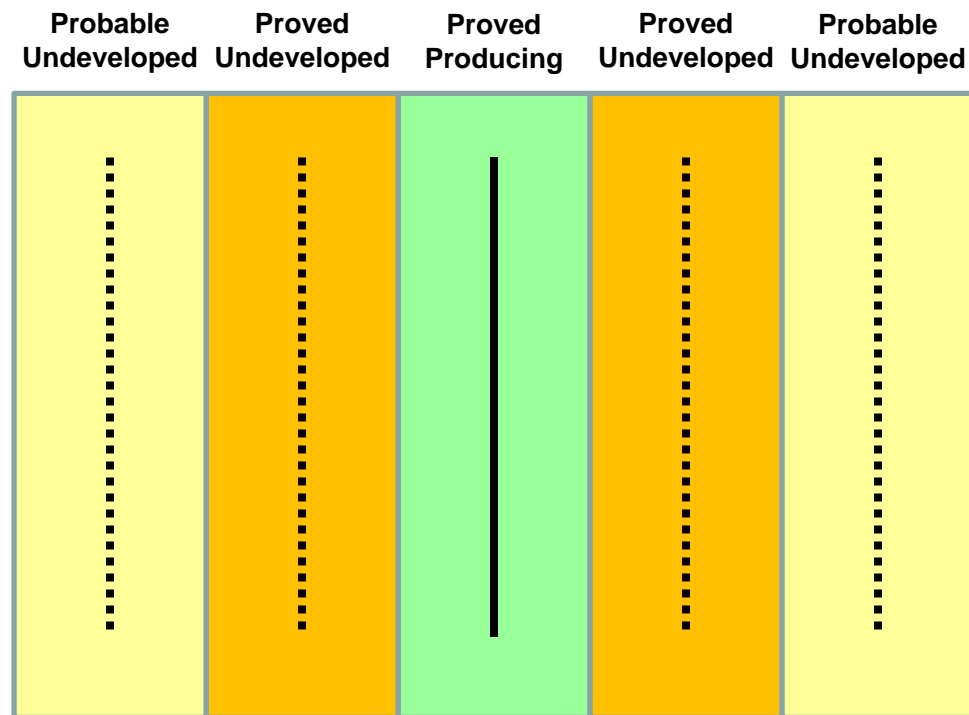


Illustration 2

Scenario 1

Proved locations limited to direct offset to existing production.

Reconciliation of Proved Reserves: Scenario 1



Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

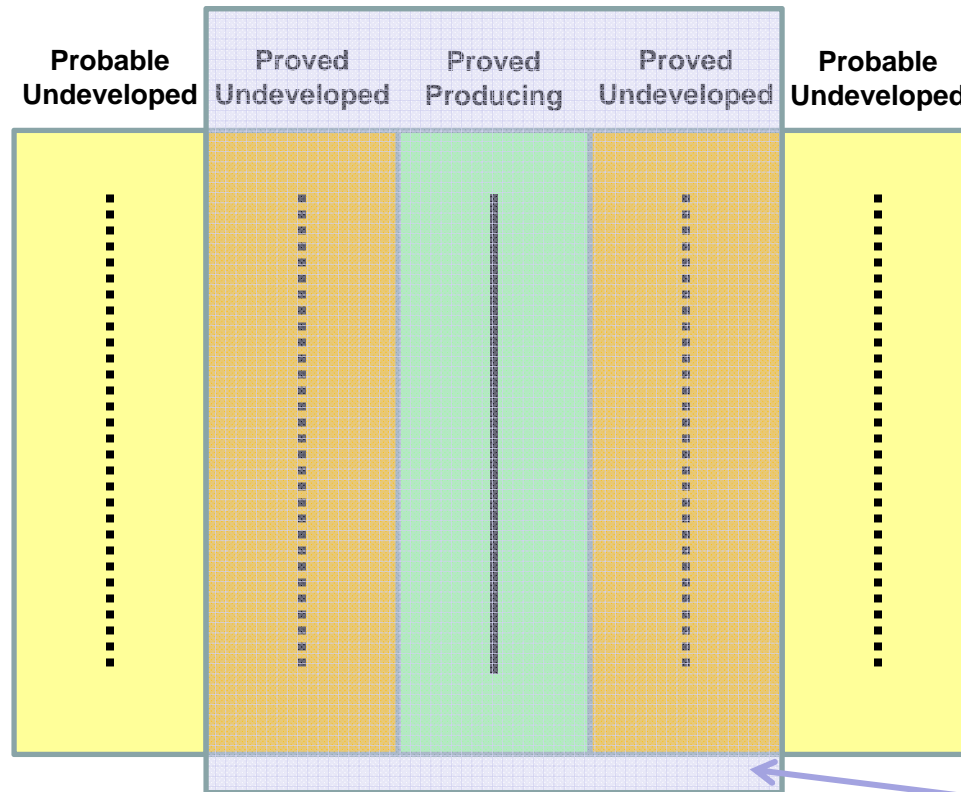


Illustration 2

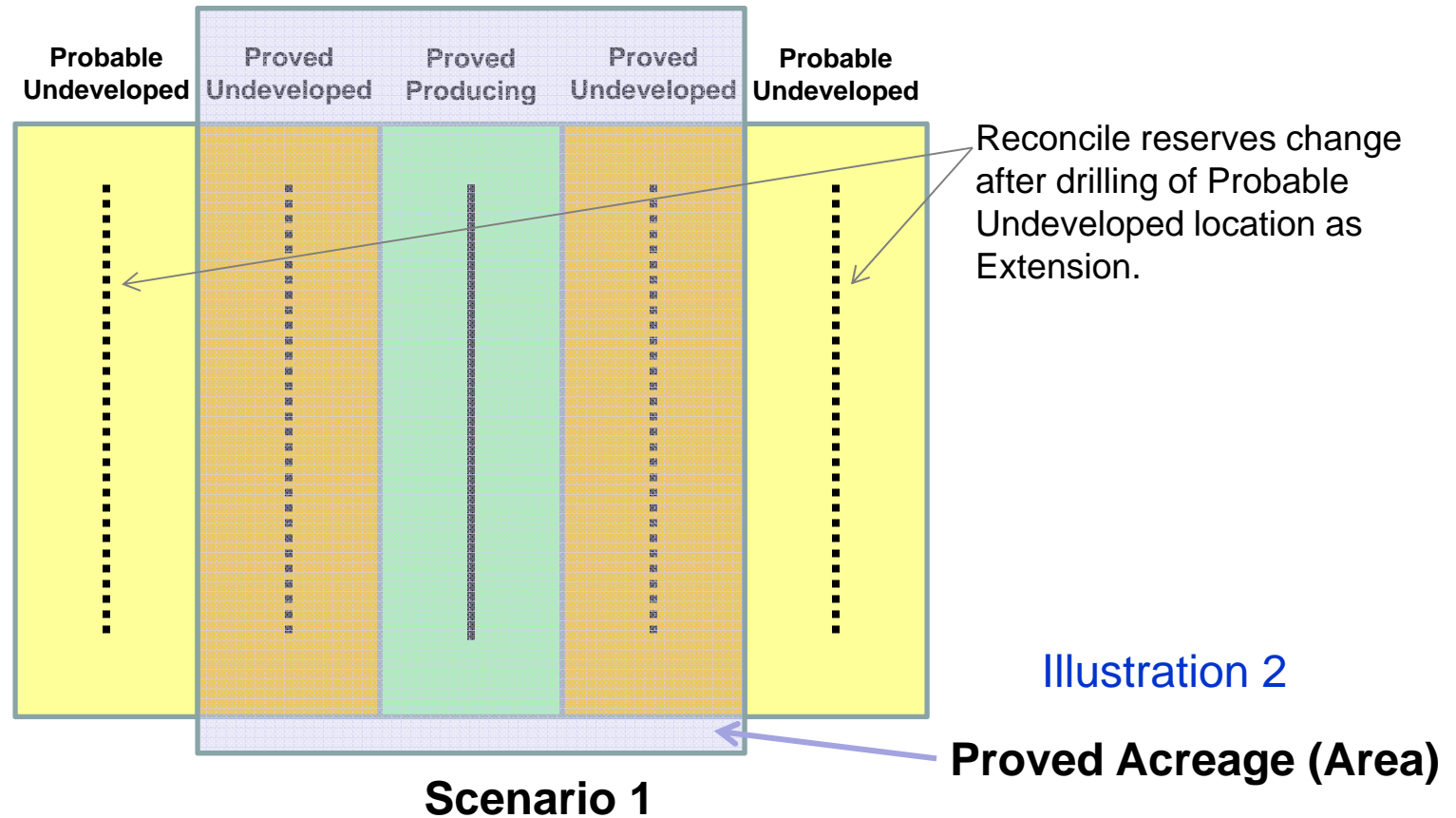
Scenario 1

Proved locations limited to direct offset to existing production.

Reconciliation of Proved Reserves: Scenario 1



Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir



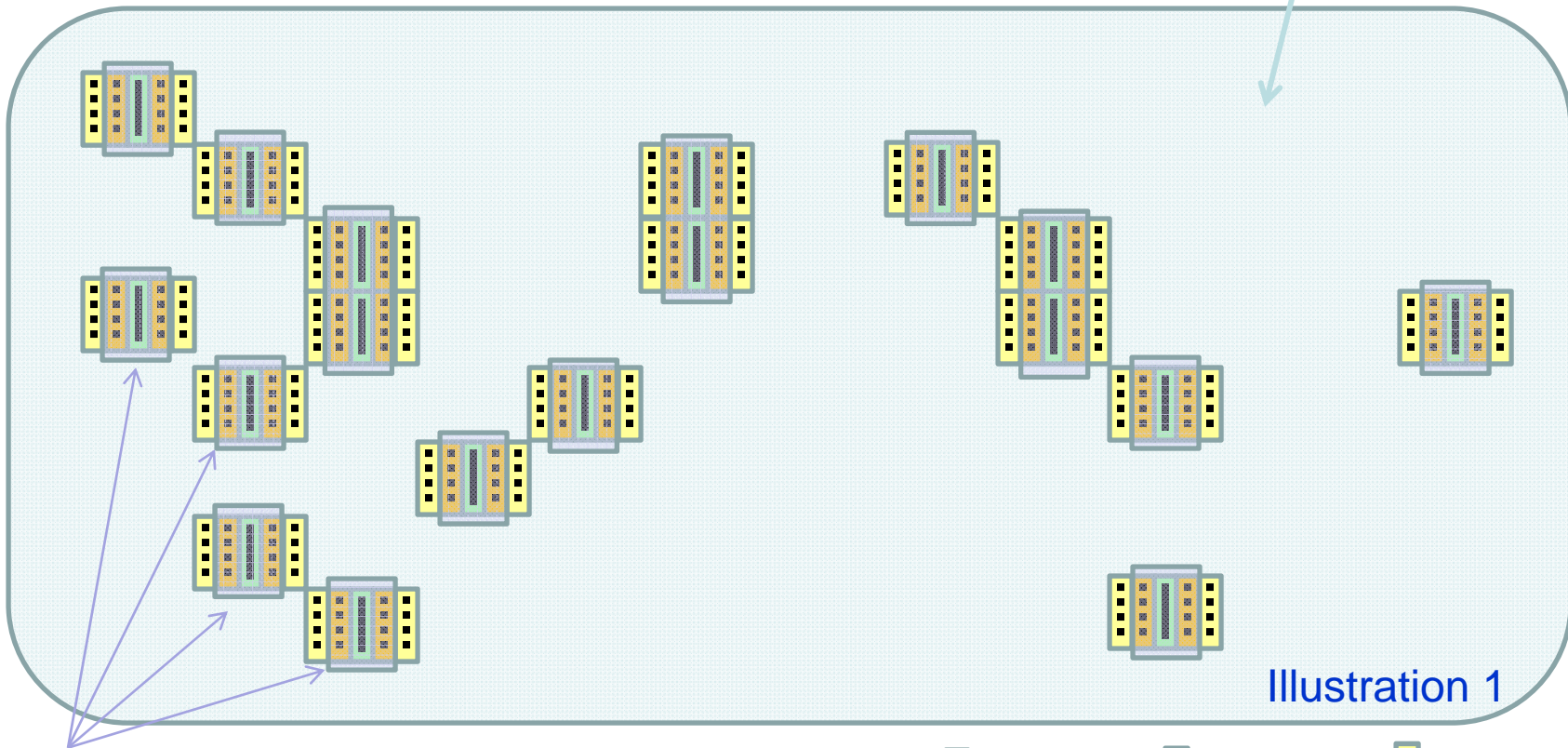
Proved locations limited to direct offset to existing production.

Reconciliation of Proved Reserves: Scenario 2



Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

Known Accumulation



Proved Acreage

Scenario 2

- Proved Producing
- Proved Undeveloped
- Probable Undeveloped

Proved locations within ring fence infill to existing production.

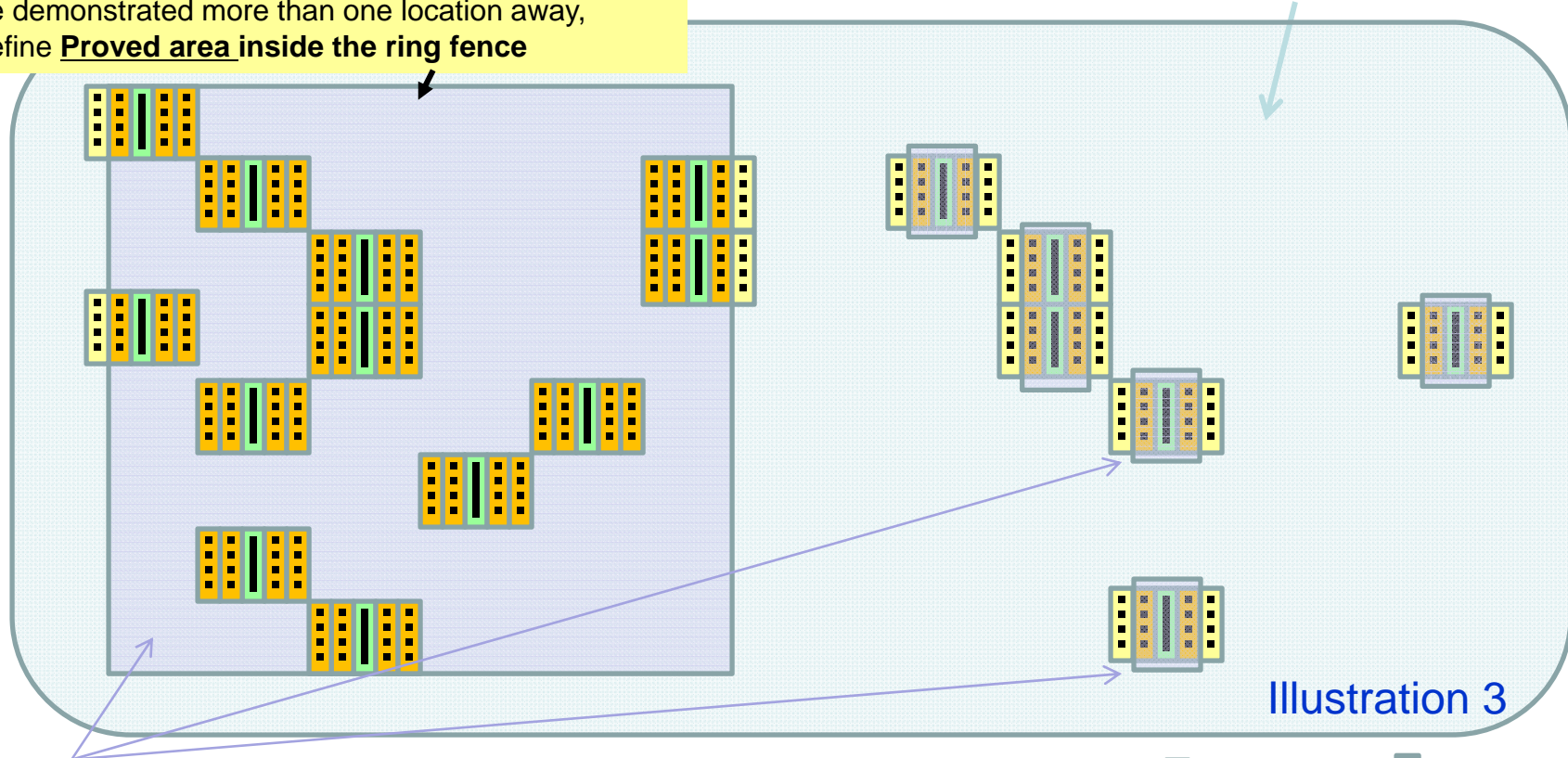
Reconciliation of Proved Reserves: Scenario 2



Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

Interpretative Guidance: If reasonable certainty can be demonstrated more than one location away, define **Proved area inside the ring fence**

Known Accumulation



Proved Acreage

Scenario 2

- Proved Producing
- Proved Undeveloped
- Probable Undeveloped

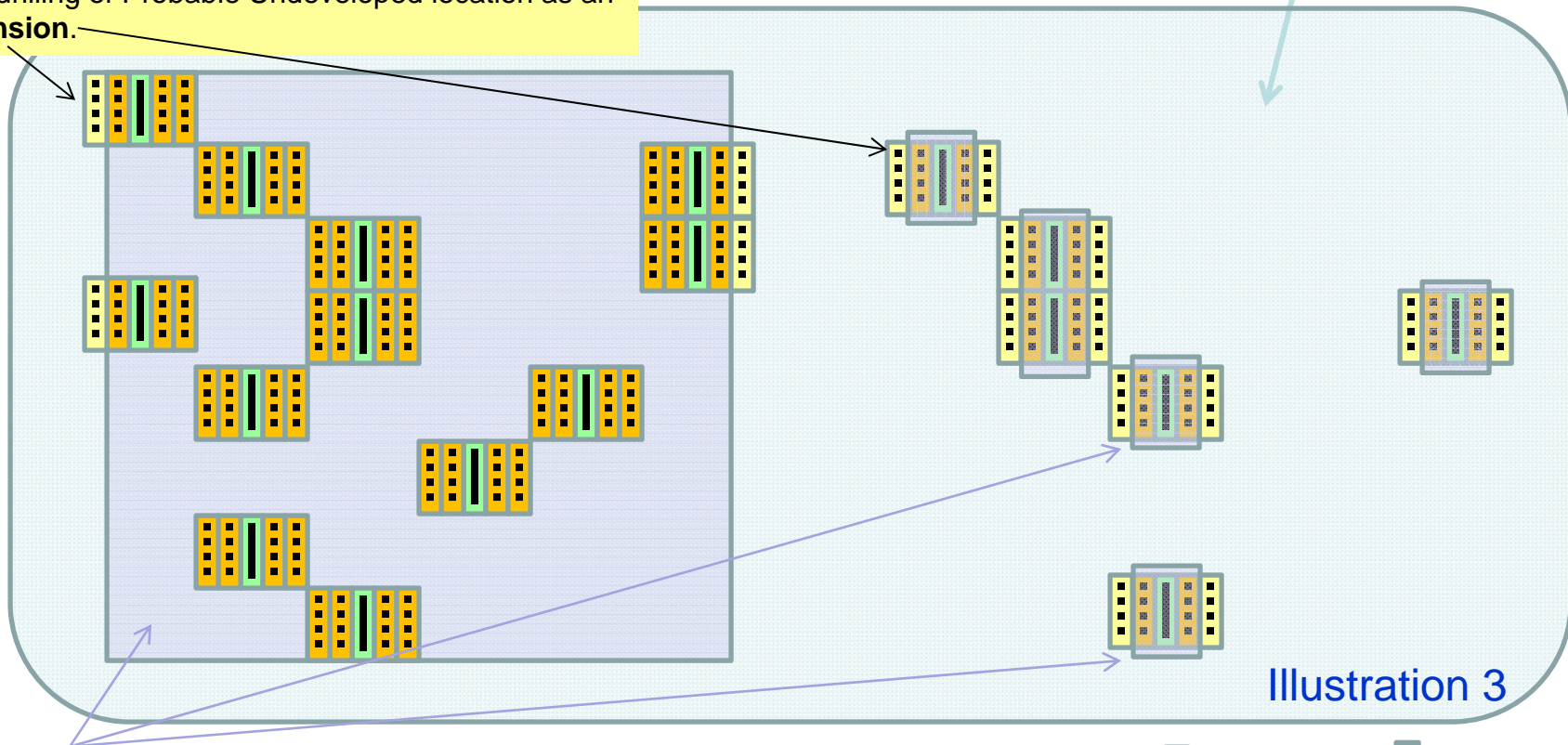
Proved locations within ring fence infill to existing production.

Reconciliation of Proved Reserves: Scenario 2

Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

Interpretative Opinion: Reconcile reserves change after drilling of Probable Undeveloped location as an **Extension**.

Known Accumulation



Proved Acreage

Scenario 2

 Proved Producing
  Proved Undeveloped
  Probable Undeveloped

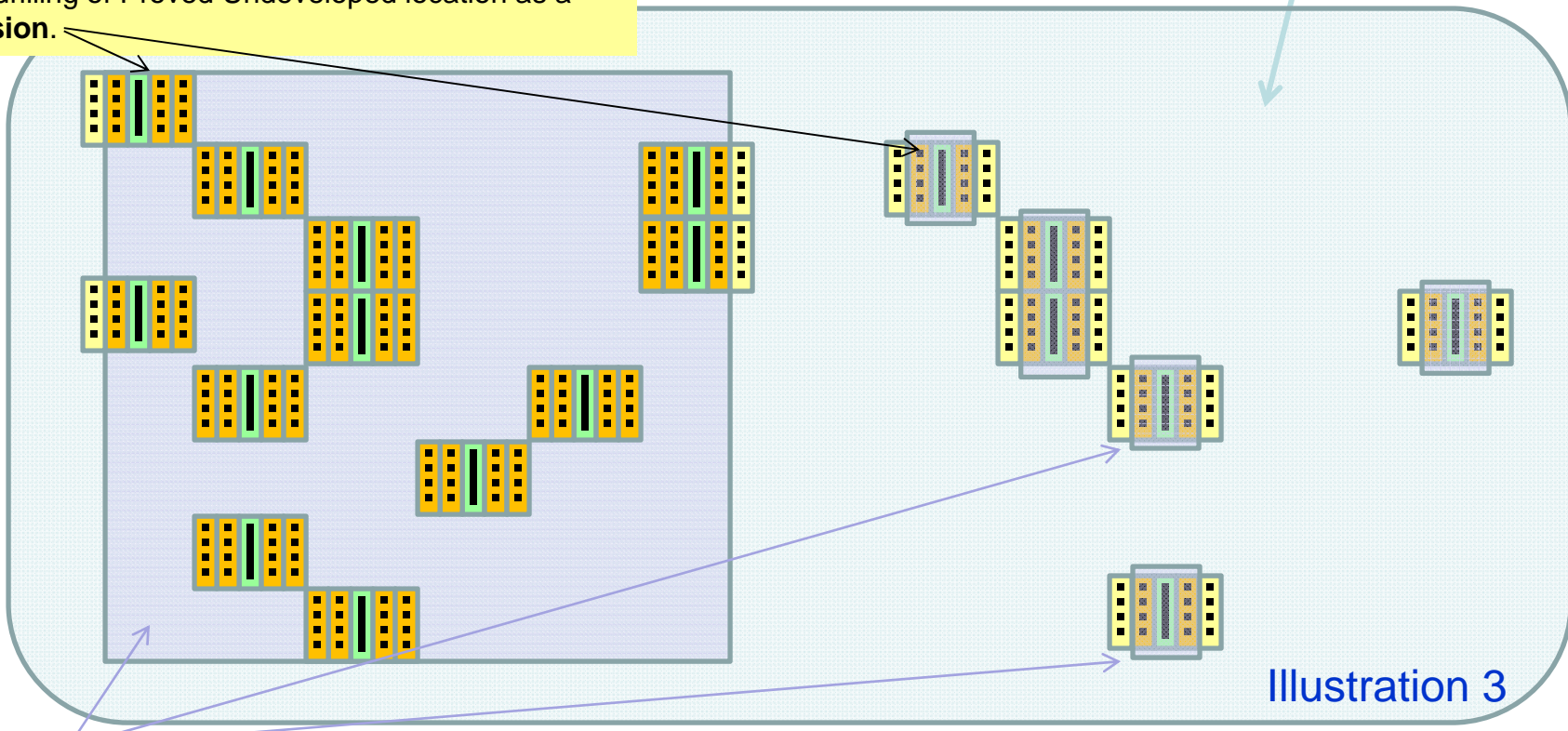
Proved locations within ring fence infill to existing production.

Reconciliation of Proved Reserves: Scenario 2

Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

Interpretative Opinion: Reconcile reserves change after drilling of Proved Undeveloped location as a **Revision**.

Known Accumulation



Proved Acreage

Scenario 2

Proved Producing
 Proved Undeveloped
 Probable Undeveloped

Proved locations within ring fence infill to existing production.

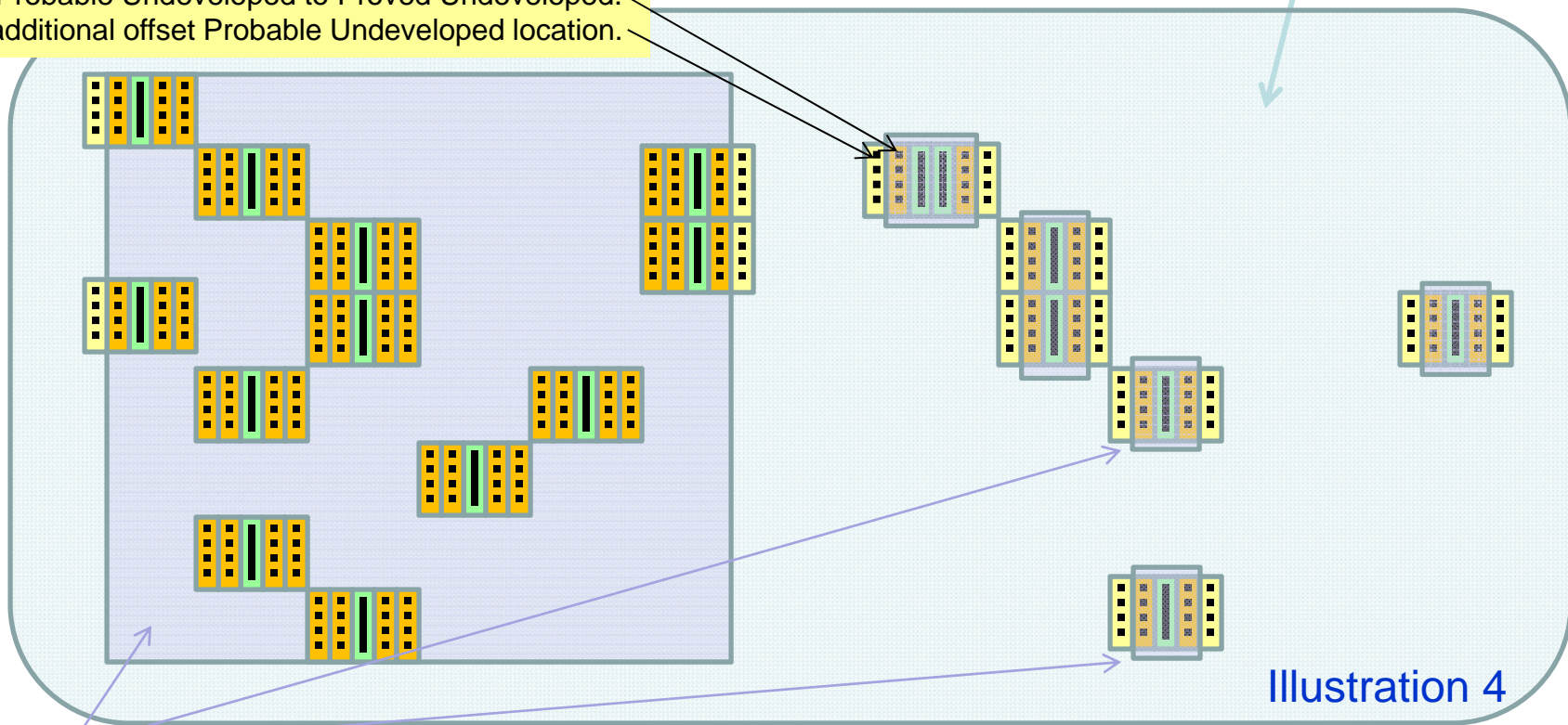
Reconciliation of Proved Reserves: Scenario 3



Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

Interpretative Guidance: Promote offset location from Probable Undeveloped to Proved Undeveloped. Add additional offset Probable Undeveloped location.

Known Accumulation



Proved Acreage

Scenario 3

Proved Producing
 Proved Undeveloped
 Probable Undeveloped

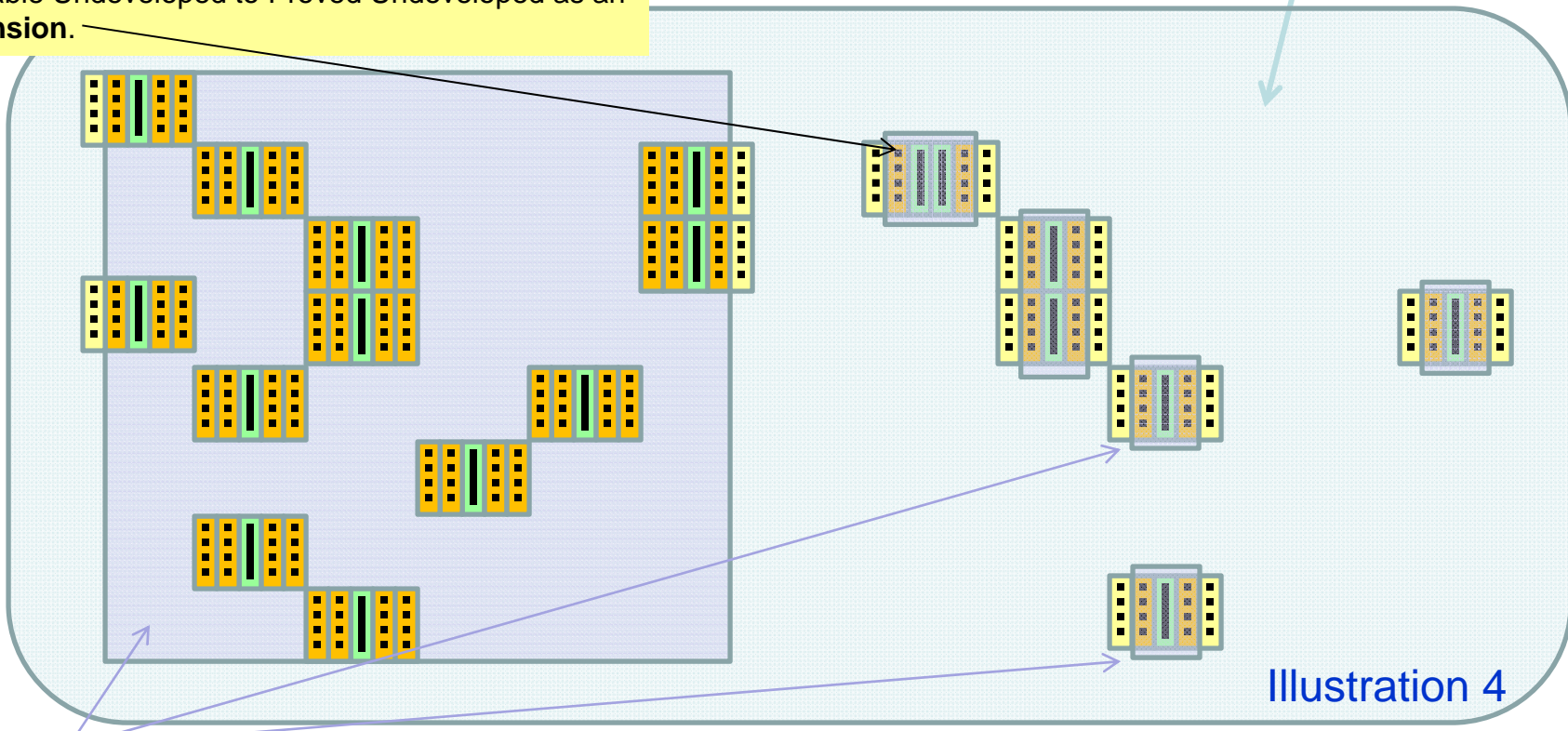
Promotion and addition of offset locations.

Reconciliation of Proved Reserves: Scenario 3

Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

Interpretative Opinion: Reconcile promotion from Probable Undeveloped to Proved Undeveloped as an Extension.

Known Accumulation



Proved Acreage

Scenario 3

 Proved Producing
  Proved Undeveloped
  Probable Undeveloped

Promotion and addition of offset locations.

Illustration 4

Reconciliation of Proved Reserves: Scenario 3



Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

Interpretative Opinion: Following year upon drilling, reconcile reserves change to Proved Undeveloped as a **Revision**.

Known Accumulation

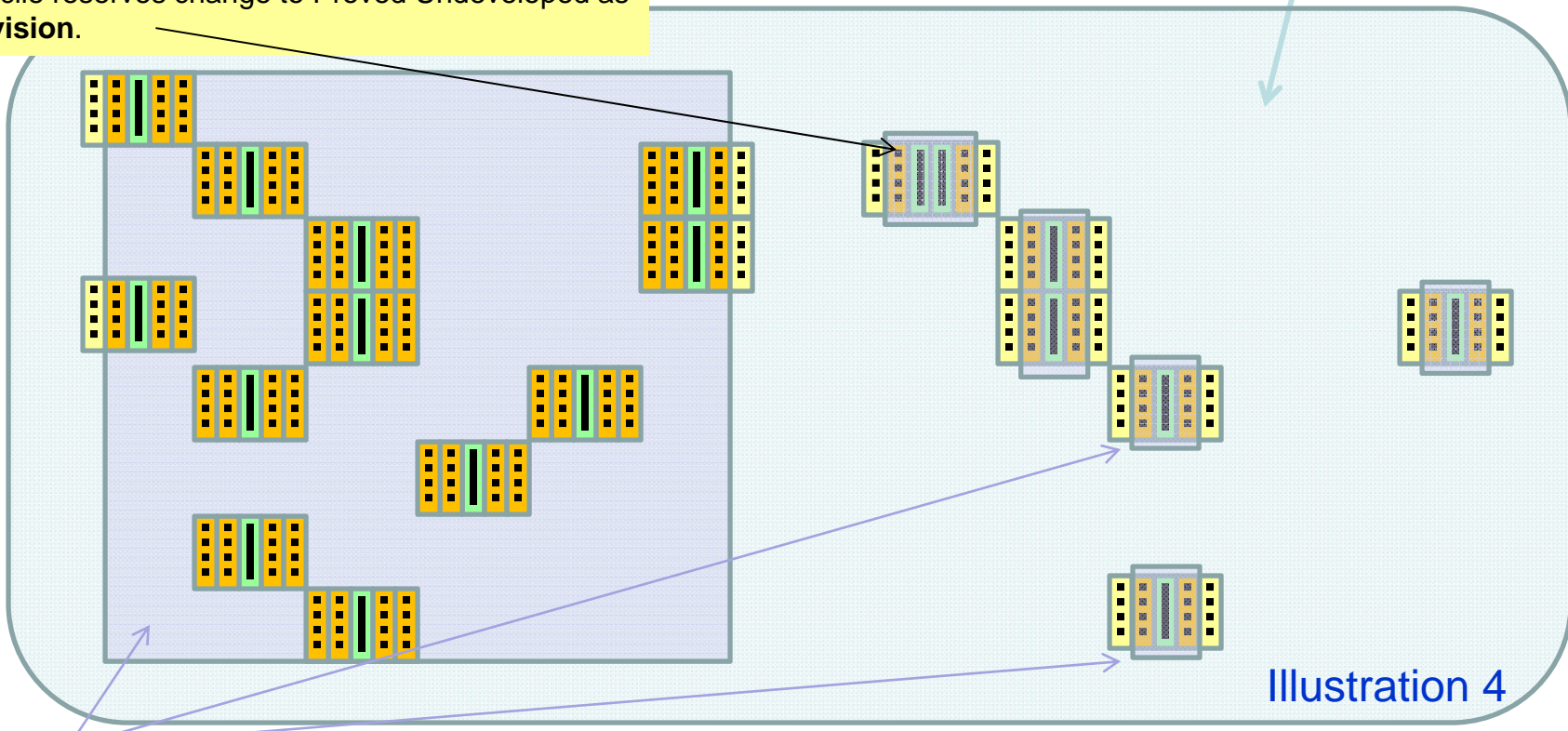


Illustration 4

Proved Acreage

Scenario 3

Proved Producing
 Proved Undeveloped
 Probable Undeveloped

Promotion and addition of offset locations.

Reconciliation of Proved Reserves: Scenario 3

Drilling of Non-Proved Locations Within the Known Boundary of a Shale Play or Other Unconventional Reservoir

Interpretative Guidance: Addition of Probable Undeveloped location is not reconciled as part of reserves change to Proved. Reconcile as an Extension once drilled or promoted to Proved Undeveloped.

Known Accumulation

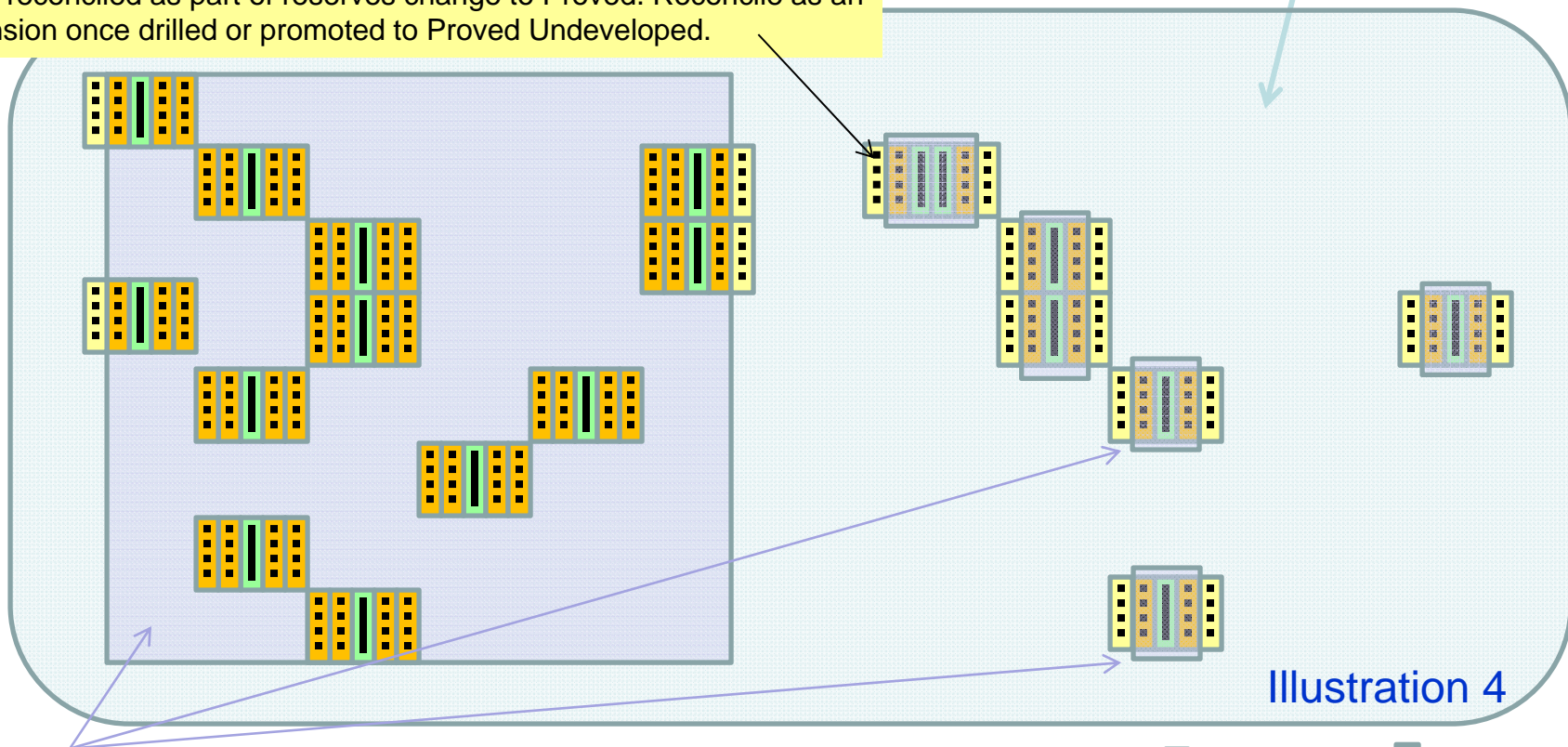


Illustration 4

Proved Acreage

Scenario 3

 Proved Producing
  Proved Undeveloped
  Probable Undeveloped

Promotion and addition of offset locations.

Interpretative Opinion



Question:

Do we reconcile drilling of non-proved locations within the known boundaries of a shale play or other unconventional reservoir as:

1a. Extensions

or

1b. Improved Recovery

or

1c. Revisions

Interpretative Opinion:

Non-proved locations that extend the proved acreage, even within a known accumulation, should be reconciled in accordance with FASB Topic 932 as an Extension when drilled or promoted to proved. Proved acreage may be more than one direct offset away from existing production if reasonable certainty can be demonstrated.

Questions

