Petrinex IOGC Inclusion Project
Change Leader Meeting #1 V4

April 25, 2018

Classification: Protected A

Agenda

1. Introductions
2. Project Overview and Timeline
3. Readiness Steps and Activities
4. Updates from Indian Oil and Gas Canada
5. Other
6. Questions / Answers

1. Introductions: Petrinex Attendees

Ross Weaver: Manager, Petrinex Industry Team

Sharon Rudyk: Industry Coordinator – IOGC Lead

Maria Matijevic: Business Desk Unit Manager

Mark Schaefer: Solution Architect – Fujitsu Consulting

Analyn Deguzman: Business Analyst – Fujitsu Consulting

1: Introductions: IOGC Attendees

Bill Currie: Director Strategic Projects

Munir Jivraj: Royalty Manager

Pamela McNeil: Manager, Policy

John Dempsey: Director, Regulatory Compliance

Andrea Manyheads: Supervisor, Royalty Client Services

Agenda

1. Introductions

2. Project Overview and Timeline
   - High-level scope and timing
   - Approaches that apply to both AB and SK
   - Approaches that apply to SK only
   - Approaches that apply to AB only

3. Readiness Steps and Activities
4. Updates from Indian Oil and Gas Canada
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High Level Project Scope & Timing (cont'd)

- Petrinex IOGC Inclusion Project is part of a larger IOGC modernization project that keys off a new Indian Oil and Gas Act which received Royal Assent in May 2009.

- The 2009 Act, along with a set of core regulations, are expected to both become law in early 2019.

- In support of the new laws and regulations, IOGC is implementing new business processes and is introducing new systems through IOGC's Resource Information Management System 2 ("RIMS2") project.

- RIMS2 includes:
  1. the Petrinex IOGC Inclusion Project;
  2. a new royalty management system for IOGC; and,
  3. introduction of elements of a case management system at IOGC.

Petrinex IOGC Inclusion Project

- Design work started in January 2017 in collaboration with Industry stakeholders.

- Implementation will take place in phases defined by **province** (AB/SK) and **functionality** being introduced.

- Medium-term objectives:
  - IOGC will receive all information required to calculate AB and SK IOGC royalties through Petrinex.
  - Industry will no longer submit information (including estimates) manually or through the IOGC website.

- Objectives will be realized once all necessary regulatory and system changes (Petrinex & IOGC systems) are completed.

- Given the interdependencies there will be a period of time, for some functional areas, where existing IOGC systems and processes will run in parallel with new Petrinex & IOGC processes.

"IOGC is Different":

- Multiple Jurisdictions:
    - IOGC operates in multiple jurisdictions. PIIP includes IOGC requirements for AB & SK.
- IOGC Changes:
    - PIIP is a large project for IOGC and for Petrinex, but much of the change relates to IOGC gaining access to data already reported in Petrinex for AER and ECON.
    - Accessing this data is a big change for IOGC; but no change for Industry.
    - The PIIP will lever off this data, and in doing so, eliminate duplicate reporting where possible.
- Industry Changes:
    - PIIP does include some new reporting for Industry.
- **The next section will show the big picture of what is <u>not</u> changing plus what <u>is</u> changing for Industry.**

General: Applies to both SK and AB

Data Submission:

- Medium-long term objectives:
  - IOGC will receive all information required from Industry to calculate AB and SK IOGC royalties through Petrinex
  - Industry will no longer submit information (including estimates) manually or through the IOGC website.
- This objective will be realized once all necessary regulatory and system changes (Petrinex & IOGC) are completed.

General: Applies to both SK and AB (Cont'd)

IOGC / Petrinex Communications:

Companies will continue to pay IOGC royalties based on their estimates.

- As an initial step, IOGC will provide its current statements to BA's through a new area in Petrinex similar to "Ministry Invoices and Statements".

- Dates associated with reporting to and communication from IOGC in Petrinex will be posted on the Petrinex website "Calendars" tab under "IOGC Reporting Calendars".

Timing:
   Q1 2019 for AB and SK

Mineral Ownership (First Nations (FN) interest):

- Petrinex will use DOE and ECON ownership records to identify FN wells/facilities "of interest".
- IOGC will rely on IOGC ownership records for the purposes of royalty calculation.
- For AB, Petrinex will have a "First Nations Interest Discrepancy Report" identifying DOE and IOGC "views" of ownership for reference.
- Alberta BAs will also be able to access FN ownership information through Query PE (online) and the PE Report; SK through Query RTA and the RTA Report (Federal Freehold Exempt and Federal 508).

Timing:
SK: January 2019
AB: April 2019

General: Applies to both SK and AB (Cont'd)

Compliance and other Process Changes:

- Historically initial point of contact for IOGC re. IOGC reporting has been the Royalty Tax Payer. Post implementation, initial point of contact will be Operator.
- In SK IOGC will rely on SER compliance assurance processes associated with Oil Valuation.
- In AB IOGC will manage compliance assurance for Oil Valuation.
- IOGC provisional assessment and penalty processes may be introduced by IOGC. Any such changes will be communicated at a future date.
- EPAP is out of scope for this project.
- Change to existing SK EOR reporting is out of scope.

Saskatchewan IOGC Only

Infrastructure:

- No change from current SK reporting

Volumetrics:

- No change from current SK reporting

Allocations:

- Currently there are 2 operators that will report gas allocations on specific properties where royalties are calculated on sales (vs. Production).

  Starting in Q4 2017

- Allocations for royalty purposes are not required on leases where royalties are based on production.

Saskatchewan IOGC Only

Royalty Tax Payer:

- No change from existing SK process. Operators use this functionality to identify parties (RTPs) responsible for paying royalty on FN production.

Pipeline Splits:

- No change from existing SK process. Pipeline Splits will be used to identify (and auto-populate) the Royalty Tax Payers (RTPs) and Purchasers responsible for reporting sales price and purchase price in the OV-RTP and OV-Purchaser processes.

Saskatchewan IOGC Only

Oil Valuation-Royalty Tax Payer:

- No change from existing SK process.
- IOGC RTPs will report prices on volumes to be valued identified in Pipeline Splits.

Oil Valuation- Purchaser:

- No change from existing SK process.
- IOGC Purchasers will report purchase prices on volumes identified from pipeline splits for arm's length transactions.
- IOGC will be able to run a query to identify outstanding discrepancies.

Saskatchewan IOGC Only

Oil Valuation - EVAP:

- No change from existing SK process. IOGC will rely on ECON EVAP audit processes for non-arms-length transactions. Note:

  – EVAP **does not apply** to RTPs that sell their raw crude oil at arm's length at an upstream facility such as a battery, terminal or pipeline inlet (i.e. situations where an arm's length purchaser can validate the RTP reported raw crude oil price).

  – EVAP **does apply** to RTPs that, during a declaration period, have any oil sales that meet the following conditions prior to being sold for the first time at arm's length:

    - their crude oil production is blended with condensate or natural gas liquids;
    - their crude oil is transported downstream of any (SK or out of province) terminal, pipeline inlet or rail transloader facility;
    - their oil is transported to the outlet of a single shipper pipeline via a buy/sell arrangement with the pipeline operator.
    - These situations all require the RTP to calculate and report a raw crude oil price that can't be validated directly by the oil purchaser.

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Saskatchewan IOGC Only

Product Pricing:

- Where leases require valuation to be determined on actual sales (vs. index) a new screen/process will be used for the RTP to enter prices received for Gas/C5-SP/Cond, NGLs and Sulphur (if applicable).

<div align="right">Sept 2018 (for July reporting)</div>

GCA:

- New functionality will be developed in Petrinex for IOGC-specific GCA reporting where lease agreements provide for deductions for Gas Cost Allowance.

<div align="right">Q2 2019</div>

Saskatchewan IOGC Only

Non-Compliance Reports:

- Industry will rely on non-compliance reports used in SK for existing functionality.

- The following **new** non-compliance/missing processes and reports will be developed for new IOGC functionality:

  - Product Pricing - sweeps/on demand.

  - GCA   - sweeps/on demand.

Each non-compliance/missing report will be delivered with the functionality as it is promoted to PROD

Alberta IOGC Only

Infrastructure:

- No change from current AB reporting

Volumetrics:

- No change from current AB reporting

Allocations:

- Gas sales allocations already exist in AB and IOGC will use the SAF data by wells/units of interest.

Alberta IOGC Only

Royalty Tax Payer:

- Royalty Tax Payer functionality, a modification of the SK process, will be introduced in AB for operators to identify RTPs for production/sales on FN interest land.

Q4 2019

Pipeline Splits:

- Not applicable in AB for IOGC purposes.

Oil Valuation-Royalty Tax Payer:

- The oil volume to be valued will be based on volumes from Volumetrics and RTPs from RTP functionality.
- In OV-RTP the RTP will identify the purchasers and the price received for their oil. This is a modification of the SK OV-RTP in SK.

Q4 2019

Oil Valuation- Purchaser:

- Purchasers identified in the OV-RTP functionality will report prices paid in a process similar to OV-Purchaser in SK.

Q4 2019

Oil Valuation – EVAP:

- N/A for Alberta at this time.

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Alberta IOGC Only

Product Pricing:

- Where leases require valuation to be determined on actual sales (vs. index) a new screen/process will be used for the RTP to enter prices received for Gas/C5-SP/Cond, NGLs and Sulphur (if applicable).

Q4 2019

GCA:

- New functionality will be developed in Petrinex for IOGC-specific GCA reporting where lease agreements provide for deductions for Gas Cost Allowance.

Q2 2019

<u>Non-Compliance Reports:</u>

- Industry will rely on non-compliance reports used in AB for existing functionality.
  - Product Pricing - sweeps/on demand.
  - RTP   - sweeps/on demand.
  - Oil Valuation   - sweeps/on demand.
  - GCA   - sweeps/on demand.

Each non-compliance/missing report will be delivered with the functionality as it is promoted to PROD

Implementation Timing

SASKATCHEWAN	2017	2018				2019			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Allocations (for BAs pay royalties based on sales)	★								
Product Pricing (where valuation based on sales)				★					
Mineral Ownership (FN Interest) available in RTA						★			
Communications in Ministry Invoices and Statements						★			
GCA							★		
Non-Compliance Reports (Product Pricing, GCA)					←———————→				

ALBERTA	2019			
	Q1	Q2	Q3	Q4
Communications in Ministry Invoices and Statements	★			
Mineral Ownership (FN Interest) available in RTA		★		
Royalty Tax Payer				★
Oil Valuation: Royalty Tax Payer				★
Oil Valuation: Purchaser				★
Product Pricing (where valuation based on sales)				★
GCA		★		
Non-Compliance Reports (Product Pricing, RTP, OV, GCA)		←————————→		

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Industry Readiness Activities

- Industry company SME engagement in design workshops
- IOGC "Official" information releases
- Change Leader identification/Readiness scorecard tracking & follow-up
- IOGC "Initiatives Page" on Petrinex website
- Design, development and testing (in phases)
  - Petrinex Industry Team will do most of the testing for Industry
  - Industry can test spreadsheet uploads for **new functionality***
  - Not aware of any vendor systems requiring IIO
- Industry Readiness Handbook (plus updates)
- Change Leader Meetings (3-4)
- Data conversion (mainly IOGC/SK/AB) but some Industry
- Training (Job Aids, training modules, videos) for **new functionality***

*New Functionality	
• SK Gas Allocations	• AB Royalty Tax Payer
• AB/SK Product Pricing	• AB Oil Valuation Royalty Tax Payer
• AB/SK IOGC GCA	• AB Oil Valuation Purchaser

Steps to Readiness Summary

1.	Identify and Register a Change Leader for your Company.	✔
2.	Understand the impacts of PIIP on your Company.	Now
3.	Have a Plan to respond to New Changes.	Now
4.	Prepare your Systems.	Now
5.	Ensure your staff members are Trained.	Q3-4
6.	Implement required Pre-Go-Live activities.	Ongoing
7.	Go-Live and get the benefits.	Nov. 5

- IOGC Change Leaders are the primary point of contact between Petrinex and each BA.

- Change Leaders are expected to manage communication and other activities within their company.

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- Review PIIP Industry Readiness Handbook and all updates.

- Create a plan to determine which members of your company must be engaged in readiness actions.

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- Take the opportunity to test upload files as applicable.

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7.	Go-Live and get the benefits.	Nov. 5

- Petrinex will communicate what/when learning resources are available.

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- Review details and important dates presented today. Implementation is staged by province and functional area. Petrinex implementation affecting Industry is subject to change depending on IOGC system implementation timing.

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IOGC presentation to
PIIP Industry Change Leaders

IOGC Business Change

April 25, 2018

MARS* Project Overview - IT Enhancements

Informatics Enhancements:

    a) IOGC data exchange with Petrinex:

    b) New functionality for royalty management:

- Replaces the old Royalty calculation mechanisms in our existing RIMS application

    c) Introduction of a Shared Case Management System (provisioned by Public Services and Procurement Canada):

- Case management system will ensure projects and files get timely attention

- Royalty Management Module

  - High Level Scope

    - Receives from Petrinex, the collection of data as identified in the IOGC Industry Change Summary and stores same for record keeping purposes.

    - This data is then exported to a working area for use in the new Royalty Calculation Engine.

    - Data derived from **RIMS as well as new views of data from our contract files is input into another section of the database, and from there it is made available for use in the Royalty Calculation Engine to define the calculation methodology and key parameters to be used for the calculation.

- *Modern Act Régulations and Systems ** Resource Information Management System

- The core is the Royalty Calculation Engine, which combines these data sources, creating a flexible formulae suited to the specifics of the well, which in turn calculates the royalty assessment. This assessment can be displayed and shared via a royalty calculation worksheet, which details the specific calculation including source of data for a well / RTP combination per month. The results are stored in the database for future reference.

- When a well / month may need to be calculated again, the new result (and associated data) can be compared to the previous calculation (s) and the difference in data used can be highlighted.

This is the first major system and organizational transformation project undertaken in nearly 30 years, at IOGC.

Our high level approach is based upon an incremental conversion from RIMS to RIMS2.

IOGC

- We plan to start with lands we manage in Saskatchewan and our interest in those lands as identified as FHFEDEXEMPT and FH508EXEMPT.

- Critical work underway

  – Confirm that our lands are correctly identified as either of those types and that the interest value is in agreement with our records.

  – From our lease files, we can match a well to the "type" of royalty schema based upon the agreement / Regulations.

  – Sierra Systems is building the Royalty Calculation Engine and the Petrinex Interfaces at this time.

- Subsequent work will be built to provide the assessed data to RIMS for inclusion in the financial reports to industry and for the deposit of funds in the departmental systems.

- Availability of Petrinex developments may be completed before we can properly utilize the data in the new calculation and or provide results to RIMS.

- One of our project goals is to enable IOGC to be better positioned to explain to industry how our calculation is done and the data that was sourced.

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IOGC

- Our Petrinex approach includes a limited data extract from Petrinex based upon that required for royalty determination, and full access to the Petrinex database as a user for audit and other purposes of confirmation.

In addition before being allowed to go live with the project we must satisfy a number of internal requirements regarding information and data management, Business Process changes, including staff training and roles.

- Subsequent to completing the Saskatchewan based development, we will take on the more complex task of Alberta based royalty.

- Timeline (est)
    - 1st production release of Petrinex functionality   June 2018
    - Possible first extract of data (excludes pricing)   July 2018
    - Possible first extract of pricing data   October 2018
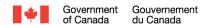   - IOGC targets to go live with the RM activity in the 1st QTR of 2019.

Indian Oil and Gas Regulations

Petrinex Change Leaders

April 25, 2018

IOGC
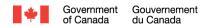
Indian Oil and Gas Regulations - Process

- IOGC's process for regulations development is unique
  - Indian Resource Council (IRC) takes the lead on First Nation input through a Joint Technical Committee (JTC)
  - JTC reports to IRC → IRC reports to IRC Board
  - IRC Board is made up of 11 Chiefs from across Canada
- IRC support for regulations provided by formal letter on March 12
- Proposed date for Treasury Board consideration is May 10
- If approved, pre-publication in *Canada Gazette,* Part I and *First Nations Gazette* for a 90 day comment period (May 19 and May 22, respectively)
- After public comment period closes and before Final regulations become law, IOGC needs to:
  - Respond to comments received during public comment period
  - Complete changes, if any, to regulations before publication in *Canada Gazette,* Part II
- Proposed date of Act and Regulations become law is December 31, 2018
- Coming into force in 2019, TBD

Indian Oil and Gas Regulations – Industry Outreach

- Upon pre-publication, IOGC will be advising all industry lessees on where a copy of the regulations may be found and the process for providing comments, if any.

- In addition to the *Canada Gazette* process, IOGC will be available to lessees to engage on comments and/or concerns

- IOGC will respond, in writing, to all industry comments and advising of our position, if needed

- After the public comment period closes, IOGC subject matter experts will arrange open sessions for industry to discuss:

  – Implementation

  – Policy

  – Procedure

  – Forms; and
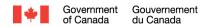
  – Other issues/questions

Indian Oil and Gas Act, 2009 provides:

- Ability for the Minister to audit companies operating on First Nation reserve lands;

- Establishment of a 10 year federal limitation period for Minister to commence an action or collect an amount owing;

- Provisions to deal more effectively with surface and subsurface trespass;

- Provisions to protect First Nation sites of cultural importance;

- Establishment of a comprehensive compliance and enforcement regime:
  - Authority to suspend operations or to take remedial action under certain circumstances;
  - Court issued fines of up to $100,000 per day for the commission of an offence;
  - Regulations for the issuance of administrative monetary penalties of up to $10,000
  - Inspection and search and seizure authorities
  - Corporate Officer and Director liability for commission of an offence
  - Compensation for loss of property

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Proposed Regulations include:

- Drainage and Compensatory Royalty;
- Subsurface Tenure;
- Provisions for First Nations to audit companies doing business on their lands (to verify royalty payable); and,
- reporting requirements to facilitate royalty verification.

At this time, there is further work being completed in the areas of:

- Continuation by mapping;
- Record Search;
- Assignment;
- Audit;
- Offset and Compensatory royalty; and
- Tendering Process.

Changes in these areas will be included in the Final regulations published in CGII.

IOGC

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Other: Key Contacts

- For questions with regard **IOGC changes** please contact **Bill Currie**, Director of Strategic Projects, IOGC
  - 403-813-0467, Bill.Currie@aandc-aadnc.gc.ca

- For **Industry questions** relating to **PIIP & Petrinex**, contact **Sharon Rudyk**, Industry Coordinator, Petrinex
  - 403-297-3313, sharon.rudyk@gov.ab.ca

- For questions relating to **Petrinex Industry Policy**, contact Ross Weaver, Industry Manager, Petrinex
  - 403-297-4411, ross.weaver@gov.ab.ca

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Thanks for coming!