



NEXUS

CAPLA

Canadian Association of Petroleum Land Administration

IN THIS ISSUE

**CAPLA's 25th Anniversary & Awards
Leadership Resilience: A Pre-Historic Tale
Redwater Impact**

Summer 2019

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Association of Petroleum Land Administration.

3 Presidents & Executive
Director's Message

7 Leadership: Resilience -
A Pre-Historic Tale

13 CAPLA Awards Luncheon:
Acknowledging Our
Amazing Volunteers

16 CAPLA's 25th Anniversary

19 Redwater Impact on Loan
Redetermination Process
'Meaningful'

25 Did You Know?



Kathryn Payne
President



Mike Flynn
Executive Director

President & Executive Director's Message

It's been a very busy and exciting few months since the last edition of NEXUS! Of course the major highlight was the celebration of the major milestone of CAPLA turning 25 on May 2nd on the top floor of the beautiful Bow Tower. It was a splendid evening of great friends, food and memories of significant CAPLA accomplishments over the years, complete with a picture perfect full rainbow at the conclusion of our presentations!

At CAPLA's 25th Annual General Meeting on May 23rd, we said farewell to an outgoing members of the Board of Directors who have served our organization exceptionally well. Thank you Tim Laws for your many dedicated years of service to CAPLA as Board members. You will be missed!

This year's Board, which represents a great depth of land knowledge as well as a solid understanding of our association and its mission, will be led by Kathryn Payne as President, Deb Watson as Vice-President, Melanie Ottenbreit-Smith as Treasurer and Carla Kruschel as Past-President. We are happy to welcome one new member – Randon Slaney, who joined the Board in February of 2019. The Board is rounded out with former past president, Tracey Stock and returning Directors Kirstie Egan, Norine Miller, and John Wallace.

At this time, I would like to turn over this article to your new CAPLA President, Kathryn Payne, to update you on your Association.

At our 25th AGM, we were very pleased to acknowledge some extraordinary volunteers and companies that help make CAPLA what it is. This was in May, and since then I've had the opportunity to come face to face or otherwise see a number of volunteers in action.

This has been an absolute honour, and quite humbling for me. I am developing a much better appreciation for the passion and dedication each of you brings, whether on a committee or to helping out with an event. Though the CAPLA Volunteer Awards each year are limited to a select few, the reality is that all of our volunteers are the lifeblood of our organization. Seriously, you folks are incredible.

Congratulations to all of the recipients and a special thank you to the members of the CAPLA Awards Committee for all of their hard work. Please see page 11 that highlights this year's recipients.

On May 13th, the Board of Directors held a special planning session to discuss CAPLA Certification. This was followed by a Board strategy and planning session on June 11th.

Outlined is a summary of the discussion and decisions from the June planning session. The outcomes were informed a great deal by the results of the member survey from early this year. On that note, please know that when you take the time to answer survey questions, it is much appreciated. The Board pores over the results and reviews every comment. We must focus our efforts in order to be effective, which means we cannot implement all of the suggestions or make every recommended change. But rest assured, all ideas are heard and welcome.

Strategy & Planning Session - June 2019

Focus Areas 2019 - 2020

Educational
Strategic Partnerships
Financial Stability

Organizational Competencies:

Volunteerism/committee strength
Membership diversity & experience
Strong office team

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Background and Context (Yesterday - 5 years)

Over the last 5 years, CAPLA has experienced membership decline in line with the downturn in the Oil and Gas Industry. Membership decline has slowed during the last year.

During this period, graduates of post-secondary institutions still made up the majority of growth in new membership.

A suite of full day and half day courses were offered throughout the year in addition to professional development sessions like Lunch n Learn, Leadership Breakfast, etc...

CAPLA had prudently placed money in reserve in its chequing account, as well as a GIC portfolio. However, some of these reserves were drawn upon during this period.

CAPLA has reduced staff from a high of 6 personnel down to 2.5 employees. CAPLA's office lease is due to expire in 2021. Next to salaries, this is the biggest expense.

Today

CAPLA's demographic continues to shrink and become more condensed. We are left with members that are primarily senior in terms of years of experience.

Membership has different education and professional development needs. This necessitates a review of current 'traditional' course offerings.

We are likely missing younger land professionals who may view association events as too formal or "old school" and not relevant.

We are missing connections with those who are no longer renewing their memberships and don't receive invitations to participate in events which could benefit them.

We should consider moving our profession's value statement away from the input ("administration") work, and instead point to the outcome (integral information/data on which decisions are made).

A decision is required on the Certification Program.

Future (15 years):

What will the O&G Industry look like?

How will CAPLA integrate with other Industry Associations as they adapt to changing Industry?

How will the core competencies required for a successful Land Administrator translate to other sectors, such as wind, solar, power transmission, etc.

Goal 1: Revamp our educational offerings

Why: Our traditional half and full day courses are no longer meeting member needs. Drilling Down and Hot Button sessions are fit-for-purpose and timely events that receive excellent feedback in the moment and via member surveys. Our Certification Program has very low uptake because the high effort and time commitment is unreasonable in current economic environment, and is perceived as low value in this climate.

Strategies:

Engage our high-functioning Certification Committee to rebrand itself with a leaning to professional development

Revive networking within and among industry associations, with a view to engaging more of our membership with 'fresh' events

Provide more opportunities for relevant learning and innovate on delivery methods

Understand what essential core competencies make up a superior land administrator and embed these into every educational offering

Goal 2: Deepen relationships among related organizations to explore synergies, increase effectiveness and capacity for collective action.

Why: CAPLA's members often overlap with other associations (CAPL, PJVA, IRWA). Members have much to gain by sharing experiences with each other.

Strategies:

Intentionally foster connections with other related organizations

Finalize MOU's with like-minded strategic partners

Explore re-instatement of CAPL Liaison Committee

Market/Approach other associations for shared networking and educational/session offerings

Goal 3: Financial Stability

Why: CAPLA has successfully weathered declining revenues over the last number of years. The extra attention to our bottom line is a must if we are to continue serving members.

Strategies:

Undertake review of office lease alternatives in light of Calgary's soft downtown commercial real estate market

Continue to investigate opportunities for costs-savings, cost avoidance, and shared services.



I'm going to wrap it up here – this has become longer than I thought it would be. I am very excited (and perhaps a bit nervous?) as I take the President's reins from Carla.

I promise to do the best job I can for this terrific organization. I am also looking forward to meeting many more members over the coming months.

Leadership Resilience - A Pre-Historic Tale

BY FRANC GODRI



Journey with me please to a pre-historic time where Gruk, our hero and leader, is setting out to provide for his family. It's early morning. The sun has not quite risen over the horizon, and the dew is still on the tall grass as Gruk sets out to hunt and bring meat home. After a day filled with near misses with his spear, fleeing from Saber Toothed Tigers, and falling into a raspberry bush, Gruk makes his way back to his domestic cave.

Here he must face his wife and kids with no meat, pointless wounds, and a meagre handful of berries from the bush he fell into. When he does get back to his cave, he realizes his children are sick, the fire is out, and his wife has twisted her ankle. He first starts the fire, warms some water and herbs for the kids, helps his wife with her ankle, then makes supper with the little bit of dried meat they have left. Only then can he sit down with his wife to discuss the current reality of the food stores. Now imagine this scenario repeating itself every day for a week in some form or another – no meat, little food of any kind, and lots of crises. What will Gruk do? Give up or keep going?

The answer will depend on how Gruk assigns meaning to his situation which will then determine his behaviour. He needs to decide who he wants to BE before he can figure out what he needs to DO – in other words - intent precedes content.

The American Psychological Association defines resilience as “the ability to cope with crisis or to return to a pre-crisis status quickly.”

In today's complex and fast-paced world, leaders are continually challenged: their ability to meet, cope and deal with these challenges will determine their success. The foundation of that success is the understanding of what happens to us psychologically and physiologically when faced with a crisis.



In his book "Man's Search for Meaning", Victor Frankl describes a space between "stimulus" and "response". In that space, we can choose our response. Frankl argues that we cannot avoid suffering but we can choose how to cope with it, find meaning in it, and move forward with renewed purpose. This is a relatively simple concept but one that is incredibly hard to accomplish. One of the reasons this is so hard to accomplish stems from how our brains are wired.

In simple terms, our brain's primary purpose is to protect us from danger and survive. When an "event" happens, the brain goes back into its memories and identifies a previous event that is similar. Since every memory we have has an emotion attached to it, when the brain retrieves that memory, it also retrieves that emotion. Once it has that memory and emotion -- in the case of a crisis -- it now projects the worst case scenario so it can be prepared to survive anything, and that will then determine our behaviour. So with any action we take, our brains have gone through this process (Event - Memory - Emotion - Action). By using MRI's, research shows the brain can do this in as little as 0.085 seconds from start to finish! So when Gruk sees a Sabre Toothed Tiger coming at him, his brain will go into his memory banks, find the memory he has about the Tiger (this is really bad!), bring the emotion attached to that memory (fear!), then project the worst case scenario (I am going to be food!), and then drive into action (RUN!!!). The brain is hardwired to do this.

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The challenge with that process is that it might not serve us well when the stakes are not quite as dire or clear. The brain is very efficient in going from past memories to future outcomes. The problem arises when there is not an exact memory to connect with the "current event." If the brain can't find that exact experience, it will find the closest thing to it. It will also bring that past emotion and action with it.

Have you ever met someone that you instantly disliked? After some reflection, you realized that this person looked like, spoke like, and dressed like your Uncle Tom who you really did not ... well ... like. In this case, this highly efficient mechanism did not serve you well because your new acquaintance is not Uncle Tom.

The only way to stop this process is to use that big and powerful part of the brain called the neocortex to consciously stop the chain reaction before it starts. This is oftentimes called being "present." We must suspend any future possibility and simply look at the situation for what it is with no judgment or emotion.

This is the "space" to make the choice Victor Frankl intimated and consciously assign positive meaning to the event. The challenge is that we are trying to stop a process that is very finely tuned and is as old as Gruk!

Another contributing factor to this challenge is our physiology. Every emotion attached to our memories creates a chemical cocktail that drives action. A happy memory will bring with it dopamine (feel-good hormone) and serotonin (happy hormone) which can lead to trusting and cooperative behavior.

A bad memory will bring cortisol (focus/stress hormone) and adrenaline (fight-or-flight hormone) which can lead to mistrust through hostile or aggressive behaviour. Combine this information with our brain's default setting of worst case scenario, add in the brain's chemical cocktail choice number one of "fight or flight," and you will NOT end up with a "happy-feel-good-Kumbaya" that assigns positive meaning to the event.

This default to the worst case scenario is great at keeping us alive but not always conducive to being hopeful and optimistic. You can see this in play when you ask someone to describe their qualities. Most of us have no problem seeing our bad qualities and usually have great difficulty seeing our good ones. This "bad" thought of ourselves then triggers this chemical cocktail which determines what component of our brains are triggered and which are shut down. Another way to look at it is:

| | | | | |
|---------------------|---|-------------------------|---|---|
| Good thought | = | good chemicals | = | high reasoning brain |
| | | OR | | |
| Bad thoughts | = | stress chemicals | = | high instinctual brain (low reasoning) |

In the American Psychological Association's article "Road to Resilience", it suggests several activities that will help with filling our own resilience tank (my interpretations of the activities):

1. Make connections – building relationships is the heart of leadership- you can't do this alone
2. Avoid seeing crises as insurmountable problems – you can't change the fact that "stuff" happens, but you can change how you interpret and respond to the "stuff"
3. Accept that change is a part of living – accept circumstances you cannot change and focus on the ones you can
4. Move towards your goals – identify and achieve the small wins
5. Take decisive action – move into the problem instead of trying to avoid it
6. Look for opportunities for self-discovery – what can I learn through this challenge (positive)?
7. Nurture a positive view of yourself – place confidence in your abilities and trust your instincts
8. Keep things in perspective – look at the bigger context in which a challenge is happening (no one is dying)
9. Maintain a hopeful outlook – this too shall pass...
10. Take care of yourself – proactively focus on your emotional, physical, spiritual and relational needs



This is a small checklist of activities that we can focus on daily in order to keep our resilience tank as full as possible.

While striving for this, we also need to give ourselves some grace when it becomes difficult to apply any of these skills. It is hard to apply them consistently and we will fail on occasion.

Grace is the skill of letting go of our failures (and/or those of others) and moving back to our meaning.

The more we work on ourselves (our being), the more we will grow in our capacity to become resilient leaders and lead our teams, families and organizations through challenges and crises. In his article “7 Ways To Become A More Resilient Leader”, Joseph Folkman defines a resilient leader as: “a person who sees failures as temporary setbacks they can recover from quickly.” In his 30 years of research and his thousands of data sets, he has identified seven behaviours that demonstrate leadership resilience (my interpretations of the behaviours):

1. Communicate Powerfully – effective at communicating intentions to others
2. Are Coachable – open to receive and use feedback to improve and get different perspectives
3. Build Positive/Trusting relationships – consistent, transparent, and intentionally following through
4. Are Bold Risk Takers – move into action and evaluate quickly
5. Develop Others – more interested in the development of others than personal development
6. Champion Change – change is inevitable, change can be good, change can be fun
7. Are Decisive – they make decisions quickly and when it’s wrong, they evaluate, learn and make a new decision quickly

As leaders in this fast-paced, quickly changing, and very complex world, we need to have a solid foundation to build resilience in ourselves and others. Focusing on meaning and then building skills and behaviours from that meaning will give you that solid foundation and will give you the ability to keep that “resilience tank” full.

As for Gruk, after a week of crises, injuries and no meat for the family, he called a family meeting to explore how they could rebuild their meat reserves and improve the morale of the family. In that meeting, his eldest daughter commented that they had a lot of extra furs that were taking a lot of room in the cave.

His wife then suggested to speak with the neighbours because in her last conversation with them, they mentioned how they were often cold because the new twins were taking most of the fur blankets. Gruk immediately went over and exchanged some of the extra furs for meat which would last the family for a month. Our first resilient leader (and salesman) was born!

**"Our first resilient leader
(and salesman) was
born!"**

CAPLA AWARDS LUNCHEON

ACKNOWLEDGING OUR AMAZING VOLUNTEERS

We were excited to announce our outstanding volunteer's achievements in Land Asset Management on May 23, 2019 and also honour the Land Asset Management community and the professional endeavors that strengthen our profession and contribute to the community.

2019 CAPLA Award Recipients

Honourary Lifetime Member Award:
Lynn Gregory

President's Award:
Brandy Rimney

Outstanding Volunteer(s) Award:
Cassandra Ervick and Bruce Jamieson

Rising Star Award:
Amber Mundy

Committee of the Year Award:
Contracts Education Development Committee
(Angelica Hernandez, Bruce Jamieson, Charlene Misurelli, Curt Hamrell, Deborah Rodtka, Esmeralda Lemonson, Jerry McIsaac, Melanie Bachand, Randon Slaney and Vickie Darago)

T.Cathy Miller Champion Award:
Encana Corporation, Pandell and Southern Alberta Institute of Technology



We would also like to thank our Awards Committee for their efforts and contribution to this program along with all of our nominators for taking their time to nominate outstanding individuals.

2018/2019 Awards Committee

(Angie Martin, Linda Bernier, Mike Flynn, Lori Robertson, Chris MacLellan, Esmeralda Lemonson, Melanie Storey, Kari Whipple, Sherry Batke, Carly LeClair)



Bruce Jamieson
(Outstanding Volunteer Recipient)



Brandy Rimney (President's Recipient)



Cassandra Ervick
(Outstanding Volunteer Recipient)



Lynn Gregory
(Honourary Lifetime Member Award)

M&A lessons we learned in Kindergarten:

- ▶ Share everything.
- ▶ Play fair.
- ▶ Don't hit people.
- ▶ Clean up your own mess.
- ▶ Don't take things that aren't yours.
- ▶ Say you're sorry when you hurt somebody.
- ▶ When you go out into the world, watch out for traffic, hold hands, and stick together.



"All I Really Need to Know I Learned in Kindergarten"
by Robert Fulghum

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Committee of the Year Award: Contracts Education Development Committee

(Randon Slaney, Angelica Hernandez, Melanie Bachand, Deborah Rodtka, Esmeralda Lemonson, Curt Hamrell, Charlene Misurelli, Jerry McIsaac, Bruce Jamieson)
Missing: Vickie Darago



2019 CAPLA Board of Directors
(Kathryn Payne, Deb Watson, Randon Slaney, Norine Miller, John Wallace, Melanie Ottenbriet-Smith, Carla Kruschel, Tracey Stock)
Missing: Kirstie Egan

CAPLA's 25th Anniversary

On May 2, 2019, CAPLA held its 25th Anniversary Celebration with over 150 individuals from the 54th floor of the Bow. We cheered the success of CAPLA, our members, volunteers and sponsors. We would like to send a huge thank you to our “25th Anniversary Planning Celebration Taskforce”! Angela Martin, Caroline Price, Cathy Lotwin and Melanie Storey stepped up to volunteer their time in early March to help create the event. Many of meetings, collaboration and time went into the success of this event. They went through archives of the Nexus, created reports and collected the history of CAPLA.

Their next step was on how they wanted to present this information. They decided to create videos on trying to incorporate the information. Using a classification system they separated out CAPLA into milestones, volunteers, education and networking.

If you were unable to attend, we would like to share these video's with you (or if you did attend – share again with you).

Make sure you turn up your volume!

CAPLA MILESTONES



[Click here to watch Milestone Video](#)

EDUCATION AND PROFESSIONAL DEVELOPMENT



[Click here to watch Education Video](#)

CAPLA Volunteers and Awards



[Click here to watch Volunteer Video](#)

CAPLA in the Community and CAPLA Networking



[Click here to watch Networking Video](#)

CAPLA's 25th Anniversary



25th Presenters: Cathy Miller, Jonathan Chapman and Carla Kruschel



**Thank you for all those
who attended & support
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RedWater Impact On Loan Redetermination Process 'Meaningful'

By Paul Wells

Article Reprint from Daily Oil Bulletin - Monday, July 8, 2019

Trying times for Alberta oil and gas producers continue to ramp-up as the recent RedWater decision has only layered in more angst as liability concerns are affecting bank loan redeterminations and credit limits trend down.

As bank loan redetermination season ebbs to a close, a better understanding of how the RedWater decision is impacting companies is becoming clearer. And in many cases, it's been "meaningful," says Tristan Goodman, president of the Explorers and Producers Association of Canada (EPAC).

"I think this has now evolved to a point where we can start to see some clarity as to what banks are going to do. And I think it's more significant than I think people thought it would be. I think we're still at a point where we're not 100 per cent sure how dramatic this will be. But things are looking pretty negative," he said.

"We're seeing lines of credit being reduced anywhere from 30 to 40 per cent on a regular basis, causing serious concerns from a liquidity perspective for these companies."

Shortly after the Jan. 31, 2019, Supreme Court of Canada's RedWater decision was announced, Borden Ladner Gervais LLP offered a summation of how the ruling could impact the oil and gas industry. And the firm warned there would be repercussions as lenders calculate borrowing limits for the purposes of renewals and new loans.

"The majority decision impacts the ability of the oil and gas industry to raise money to operate. The industry is starved of capital and credit and this decision will likely worsen the situation. It is obvious that lenders will be unwilling to extend capital and credit if they cannot realize on their security. This will negatively impact existing and future investments in the energy industries," BLG said.

"Smaller oil and gas companies that require financing may have significant trouble obtaining some from private lenders. Further, there will likely be an immediate effect on borrowing bases of upstream companies as lenders will have to take abandonment liabilities into account."

In addition, BLG said that should secured creditors and insolvency professionals walk away, there will "likely be more wells ending up in the already over-burdened orphan well program" funded by the surviving oil and gas companies through the orphan levy that increases significantly every year.

“Oil and gas companies unable to pay the levy face enforcement by the AER and potential insolvency with more liabilities to the OWA [Orphan Well Association]. It will be a catch-22 situation,” BLG said.

Torys LLP had a similar take on how RedWater will change the dynamics of the bank redetermination process.

“On the lending side, the banks will become a second position creditor, at best, behind the regulator’s environmental claims. The cost of capital will increase as the realization risk has intensified. Lenders will have to spend more time monitoring their borrowers’ asset retirement obligations and practices,” the firm said.

“This will likely be a major point in the course of renegotiation of these loans, and stricter terms will be imposed for their renewal. At least for the immediate future, there will be a chill in lending into the energy sector until RedWater is more fully digested.”

According to Malcolm McKean, vice-president ELM Inc. (ELM stands for environmental liability management), the real problem with RedWater is how banks or lenders calculated ARO (asset retirement obligation), calculating liabilities,” he said.

“If a company was using the LLR [licensee retirement management] as their ARO it was completely unreasonable. The real problem is there is no clear definition of how to calculate ARO. NI51-101 states very clearly how to calculate reserves and who can do that, but then has a one paragraph statement about calculating liabilities,” he said.

“Unfortunately, industry typically only does the minimum it can to retire liabilities; it is a very competitive industry so spending money on asset retirement when your competitors are ignoring asset retirement, and instead is adding reserves, makes you look bad and them look good.”

So, McKean contends, responsible companies have great balance sheets with manageable liabilities. But with the LLR, many smaller- and intermediate-sized companies have ignored the liability side, “because they could, and quite frankly” until RedWater, it “wasn’t that material.”

“Post-RedWater, if your liabilities have been ignored and are too big no one is going to lend to you so your source of cash is gone. So now you have companies without the ability to raise cash, lots of liability, and reduced cash due to commodity pricing,” he said.

“They are stuck in a horrible situation and, unfortunately, it is the government, industry and the regulator that are all to blame for this mess.”



MOST COMPANIES IMPACTED

EPAC's Goodman said it just isn't junior and small intermediates that are seeing their line of credit being reduced vis-à-vis RedWater. It's more far-reaching.

"I'm a little surprised by that. It's affecting a larger diversity of companies than I anticipated. Obviously, if you're trying to start-up, it's problematic. It's not just small companies — those that are 10,000 boe/d or below — there are some more significant players," he said.

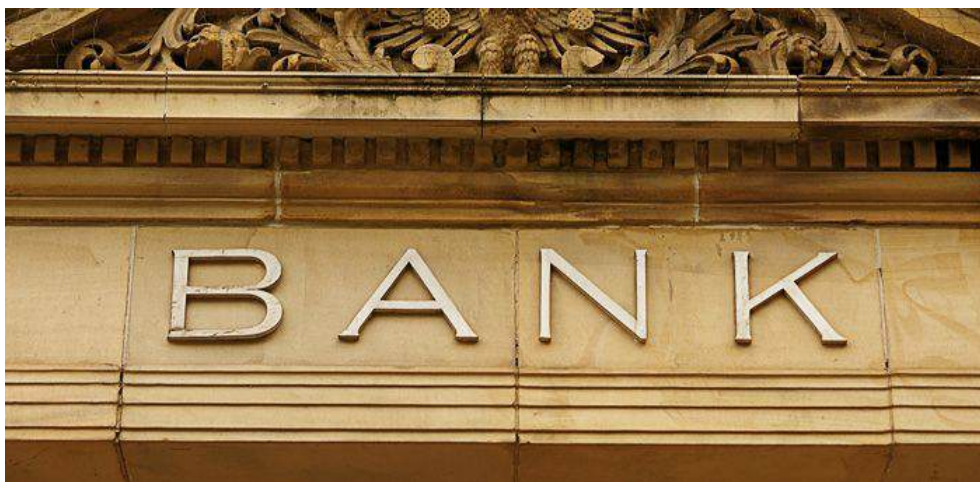
"It's really affecting anyone with bank lines of credit almost without exception. Some of those lines of credit are big, they're large. And those people also will see their lines potentially decrease, as well," Goodman added.

"I think where we're at is we're just starting to learn what the problem is here and the order of magnitude of the problem. That's starting to become clearer."

Goodman was quick to point out that lenders are not the bad guys in the situation.

"Banks are simply not going to be absorbing this level of risk. They need stability and they need predictability. They need government to not change policies every couple of years ... I'm genuinely not being critical of the banks. They're just saying, 'I'm happy to lend you money but I don't want to absorb all your risk.' Well no offense, I don't blame them," he said.

"I really want to stress this isn't sort of a bank versus industry program. This is a collaborative thing that the banks and the industry together will work out."



A CASE STUDY

(In January, EdgeMark Capital and Advisory Services Inc. was hired by a small, privately-held oil and gas company to help guide it through its upcoming annual review with its banking syndicate.

Bruce Edgelow, EdgeMark's managing partner and founder, said that the company was worried heading in as it's a dry gas producer, prices were in the toilet and the liability concerns from RedWater were top-of-mind.

"The president felt this might be a tough ride — they're a dry gas producer and they were concerned about how all this would unfold," Edgelow said.

It, indeed, was a tough ride. Already behind the eight ball as a predominantly dry gas producer in a very weak natural gas price environment, the RedWater-related impact on such things as asset retirement obligation, licensee liability rating and/or liability management rating (LMR) was also front and centre.

"I'm going to give it to you in real numbers because it's a private company and it's not going to matter as no one will know who it is. We were around a \$35 million borrowing base in December. So it was time to do the calculations, so we provided the year-end engineering and people then did the math," Edgelow said.

"So one of the lenders said I can get to \$35 million. Another one of the lenders said I can get to \$25 million. The third lender said I can get to \$5 million. And the low man wins the race because everyone has to be unanimous. And by that definition, the low guy wins the race. It was like, 'Just a minute. How can we have a 35, a 25 all the way down to five?'" he added.

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“They said that’s because you’re a dry gas producer, we’ve run your reserves at strip and then we deducted all of your ARO obligations out of what we think the present value is. And our math gets us to a \$5 million borrowing base. So here’s a company that’s got a LMR or an LLR — we kind of use those terms synonymously — and they’ve got a lender liability ratio with the [Alberta Energy Regulator] of 5.6. So they’re well ahead of the assets versus liability ratio. That’s in really good shape.”

But the lender who submitted the low-end \$5 million borrowing base number didn’t see it that way.

“They said, ‘No, this is how our math works.’ It didn’t make any sense to us. But at the end of the day the net effect of the new way to calculate ... the new way they ground the borrowing base numbers at the very end with early asset retirement obligations, took us all the way down to \$5 million. You’re paralyzed. How do you manage this? How can you actually manage through this when you’ve got something that’s that dramatic?” Edgelow said.

“It just gave us the sense that one of the lenders was kind of business as usual. The second one had a more dramatic effect with some of the asset retirement obligations and they were a bit more punitive, but at the end of the day it wasn’t that much of a grind. And the other one was, you’re getting out of this space.” Edgelow said it appears that lenders are acting independently of each other, except when it comes to agreement on “common language” regarding conveyance and in the event of default.

“But when it comes to the calculation of the borrowing base, banks are acting independently. There’s clearly no collusion. They each have a view as to how they want to assign the super priority calculation that the regulator has in front of them,” he said.

“In this case it eroded almost every dollar of lending value that the company historically had. So the challenge for the producer community is how to manage through this piece.”

An updated approach to industry redetermination planning is required

Edgelow, who has about 50 years of banking experience with a focus on lending to the oil and gas industry including a long stint with ATB Financial, believes oil and gas companies operating in Alberta have to adopt an updated approach when preparing for the redetermination process.

“Each of the companies have to sit with their lenders in advance of handing their information to the bank and say, ‘Walk me through what your calculations are going to look like this year. Help me understand last year versus this year. And help me understand that super charge that you’re now going to apply in your math,’” Edgelow said.

“It’s the homework up front that will really force the companies and their lenders to work collaboratively so that when all that math gets applied, you don’t have a big surprise or you’re managing around what could be a very negative number and you’re trying to get on top of it as much as you can,” he added.

“But some companies haven’t done that homework.... They’re just waiting to see how it goes. And there’s been a lot of negative surprises. More often than not, a lot of companies have had their borrowing bases chopped and they just say it’s the net effect of RedWater. The reality is it is RedWater because of the super priority the regulator has that now needs to come off the lending value because the banks have to be aware that someone else is going to have to be at the table first if we ever have to put this thing [a company] down.”

Past Mistakes

According to ELM’s McKean, the regulator set up a faulty system (with input from industry) with the “LMR/LLR hoping that industry would abandon or decommission wells and facilities and do the reclamation remediation without any timelines or requirements” to do liability retirement.

“The belief that when a company’s liabilities exceeded their assets that they could or would post deposits was misguided,” he explained.

“In the late ‘90s when they were in the process of getting rid of the 10-year inactive program which started after 10 years you either abandoned a well, put back on production or posted a deposit for the liability. That program is a whole other discussion,” McKean added.

“The ERCB [now known as AER] came to Abandonrite (the former moniker of ELM) and asked what we would suggest to assess well abandonment and reclamation liabilities. Obviously depth, number of zones, pumping or flowing and area specific for reclamation were criteria we suggested.”

McKean said the ERCB set up the LLR/LMR and did not have a built-in method to update the liability numbers. And that proved to be a problem.

“They have done some adjustments based on industry input but it is out of touch with current pricing. Some would argue that the LLR should be lagging to adjust to commodity price swings,” he said.

“At present we have Directive 11; well abandonment costs are too high, by about 30 per cent, and reclamation costs to low — anywhere from 20-200 per cent to low. This is the main reason so little reclamation work is being done at present. Why spend more money that you might get credit for in the LLR to clean up something you do not have a timeline forcing you to touch? The LLR does not account for flowline abandonment costs at all.”

DO YOU KNOW?

A representative of the Ministry of Energy and Resources of Saskatchewan confirmed with CAPLA that under Definitions 1-2 of the Oil and Gas Tenure Registry Regulations of Saskatchewan the definition of a “person” includes a partnership and partnerships can hold a registered interest as Lessee in Crown Petroleum and Natural Gas agreements in Saskatchewan.

The representative of the Ministry of Energy and Resources of Saskatchewan also confirmed execution can be made by the Partnership or by its managing Partner.

9

OIL AND GAS TENURE REGISTRY

C-50.2 REG 31

“person” includes a partnership;



NEXUS

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