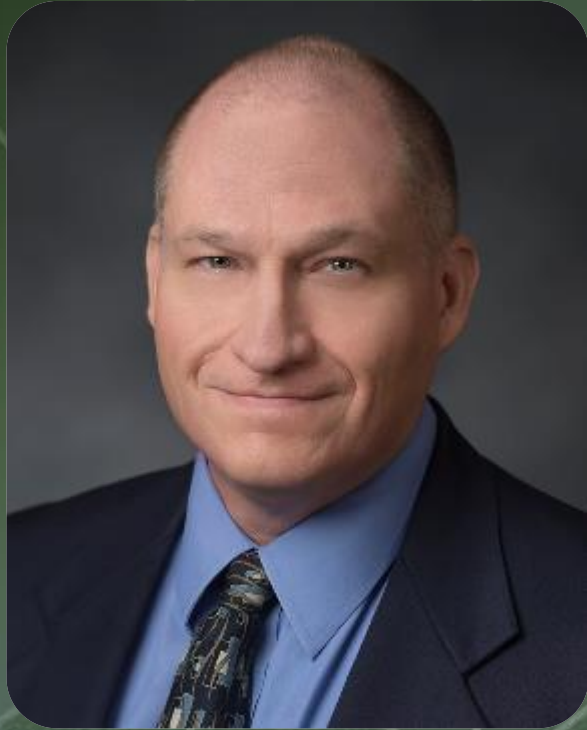


MILES PALKE, P.E.



Managing Senior Vice President – Simulation


Ryder Scott Board of Directors


Miles Palke, P.E., Managing Senior Vice President and member of the board of directors at Ryder Scott Company, has over 25 years of diverse experience as a reservoir engineer, working for E&P companies and Petroleum Engineering consultancies in a wide variety of roles.

Prior to his current position as the manager of the reservoir simulation group at Ryder Scott, Miles worked at Arco and BHP Billiton on operated and non-operated offshore properties in the Gulf of Mexico and Trinidad. Miles has a wide span of expertise, ranging from the practical application of technical reservoir engineering tools to field development, optimization, and reserves estimation, with heavy emphasis on the application of reservoir simulation.

Contact Me

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SEC RESERVES COMMENTS

By: Miles Palke – Managing Senior Vice President

DISCLAIMER

The information conveyed in the following presentation represents informed opinions about certain laws, regulations and interpretations but should not be considered as advice or counsel about any specific provision or topic. The applicability of the guidance provided herein should be considered on a case-by-case basis.

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PURPOSE OF PRESENTATION

- Nature of SEC comment letters
- Why we try to review SEC comment letters
- What letters are being discussed today
- Capital Availability
 - PUD Conversion Rate
- Commitment
 - Marginal Assets
- Third Party Reports
- Reserves Definitions
- Disclosure
 - Extensions and Discoveries
- Reconciliation

NATURE OF SEC COMMENT LETTERS

- When public filers submit documents to the SEC for public disclosure, comment letters are the first direct form of communication between the SEC and the filer.
- Filers are obligated to respond to comments submitted by the SEC staff.
- Letters (and returned correspondence) become public after the issues discussed are concluded to the satisfaction of the SEC.
 - Some redaction of responses is permitted under certain circumstances.

WHY DO WE PAY ATTENTION TO COMMENT LETTERS?

- Other than the Compliance and Disclosure Interpretations (C&DIs), comment letters represent only other written indication of how the SEC staff interprets or expects the rules to be interpreted by filers.
- C&DIs are created for the oil and gas industry very infrequently.
 - 1 C&DI issued in 2013.
- Comment letters allow us to understand thinking of SEC staff.
 - But comment letters cannot change the regulations.
 - Comment letters should not be considered definitive for many circumstances.

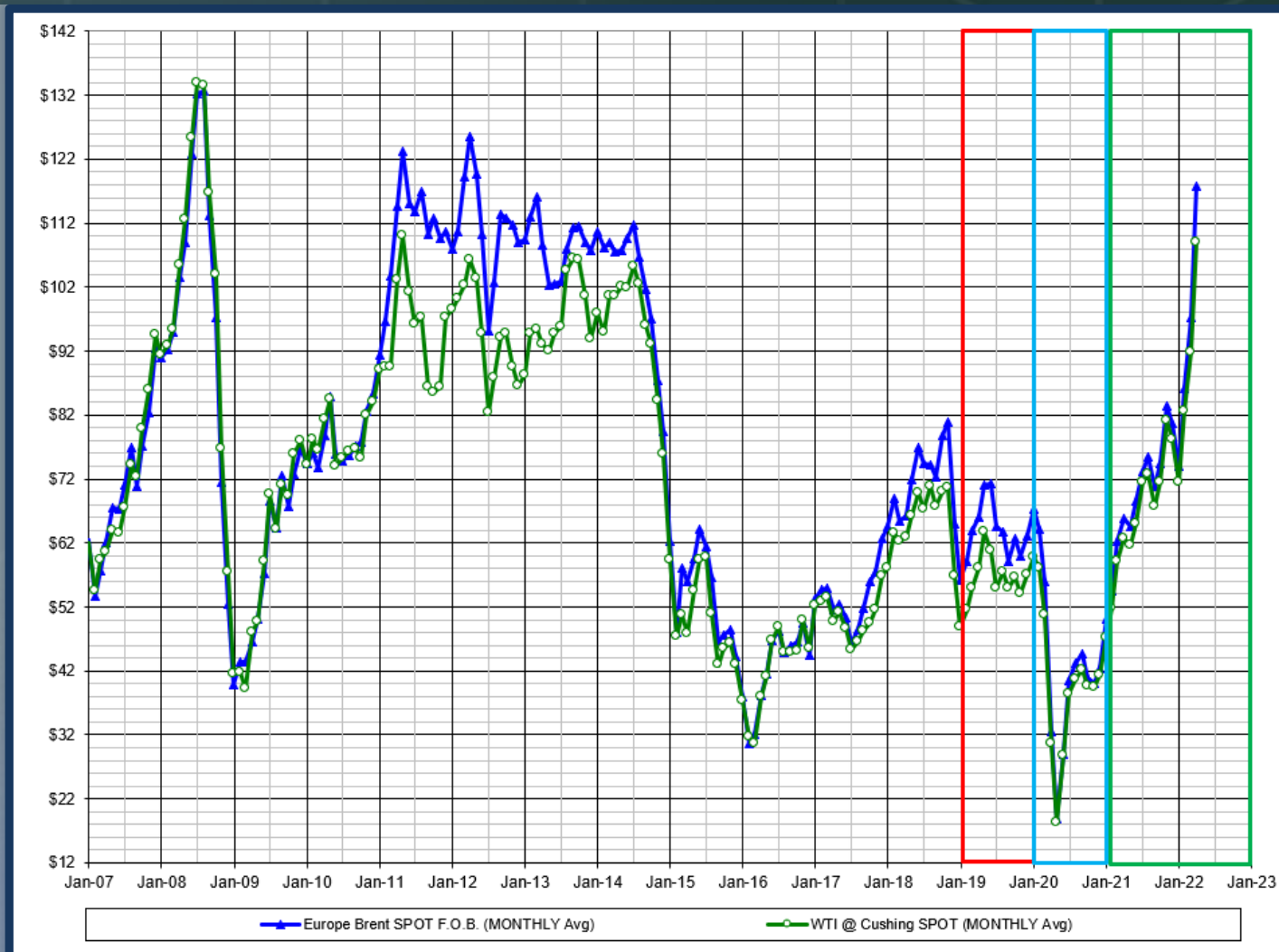
WHAT LETTERS ARE BEING DISCUSSED TODAY

- Looking at letters sent to oil and gas filers (SIC = 1311 and 2911) between April 17, 2020 to October 19, 2021.
- Comments respond to many types of filing, predominately 10-K and 20F forms for years ending 12/31/2019 and 12/31/2020, along with other filings.

Before Screening		After Screening
26	Companies	24
36	Letters	33
227	Reserves Related Comments	195

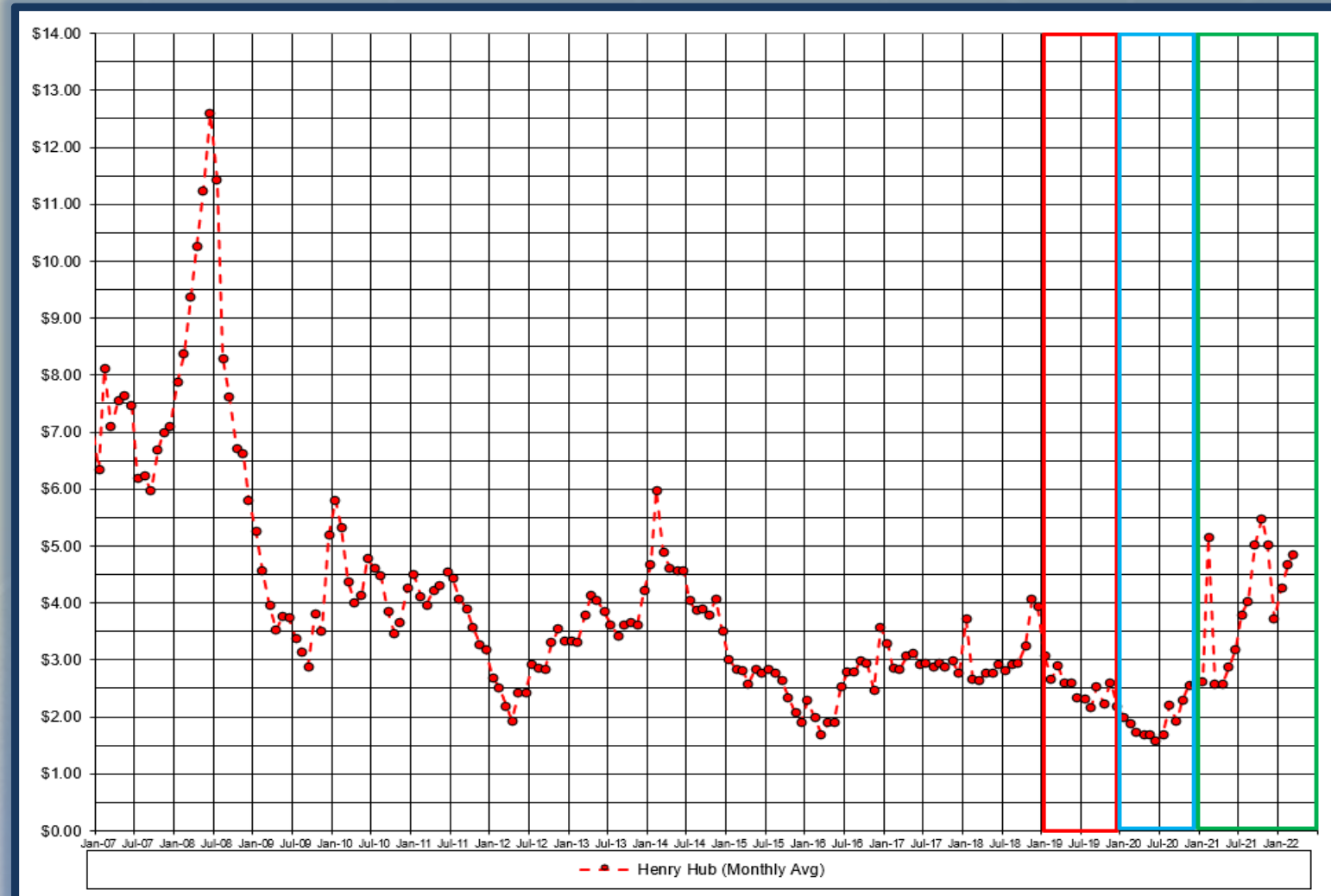
PRICING BACKDROP

- Current Pricing (Green Box)
- Includes many 10K (20-F) for the year ending 12/31/2019 (Red Box)
- Includes many 10K (20-F) for the year ending 12/31/2020 (Blue Box)

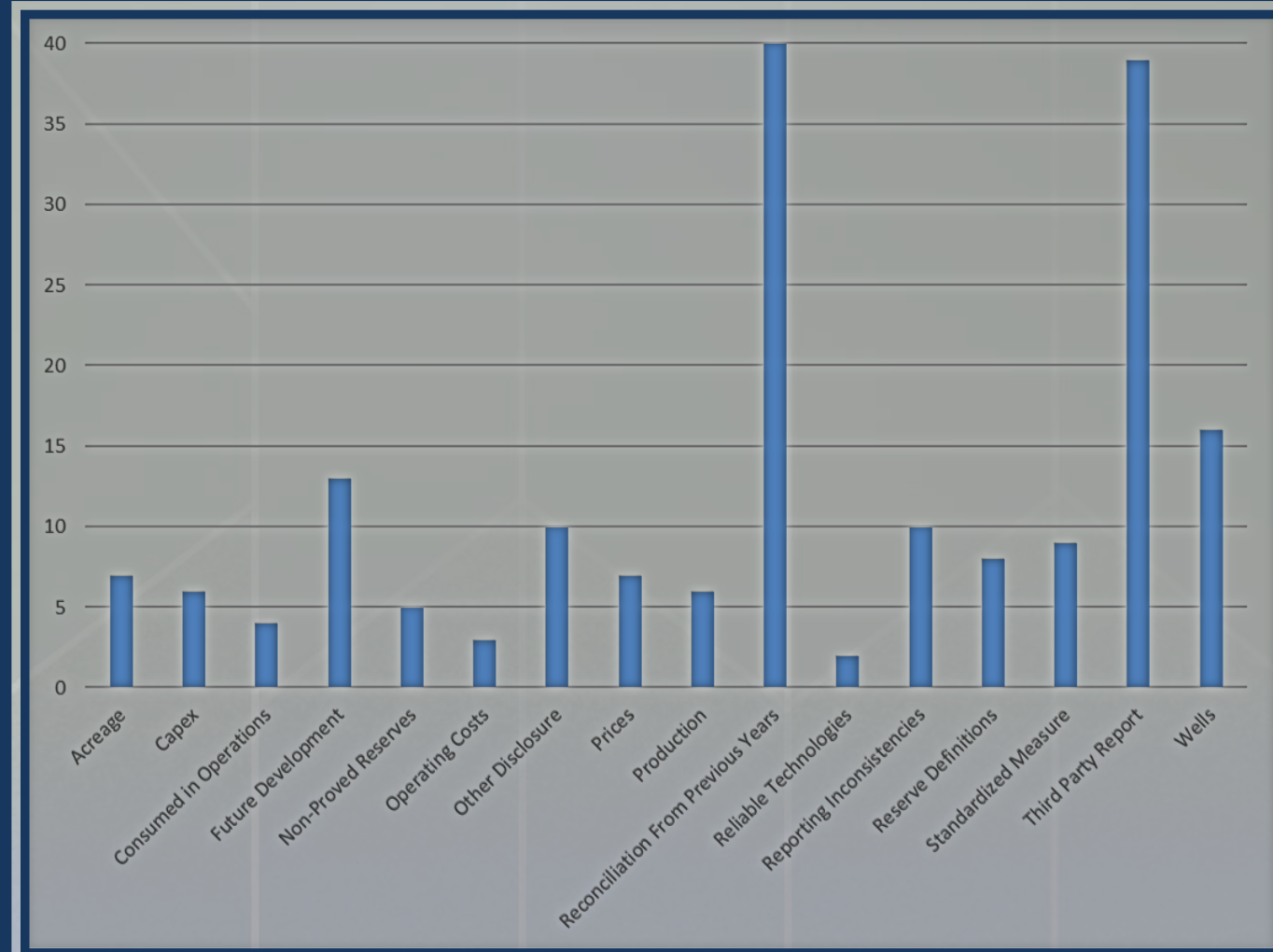


PRICING BACKDROP

- Current Pricing (Green Box)
- Includes many 10K (20-F) for the year ending 12/31/2019 (Red Box)
- Includes many 10K (20-F) for the year ending 12/31/2020 (Blue Box)



RECENT TOPICS



Numbers to Count On. Experts to Trust.

POINTS TO DISCUSS

- Capital Availability
 - PUD Conversion Rate
 - Commitment
 - Marginal Assets
 - Third Party Reports
 - Reserves Definitions
 - Disclosure
 - Extensions and Discoveries
 - Reconciliation
- Amount of letters holding steady.
 - Some comments drawn from sources other than 10-K and 20F.
 - Any stressed portions of SEC Comment Letter quotations are added emphasis by Ryder Scott.

CAPITAL AVAILABILITY

“Please submit for review the development plans that you had adopted for the proved reserves as of December 31, 2020, including the development projections and details concerning the availability of capital relative to your development plans, as provided to your auditor and referenced in the report on page 75, as well as the evidence demonstrating your financial backing and development success, as provided to your third party engineer and referenced in the report at Exhibit 99.1. Please clarify as appropriate how you have established a reasonable expectation that financing will be available to develop all of the proved reserves that you booked in 2018 by 2023, as required under Rule 4-10(a)(26) of Regulation S-X, ... Given the definition of reasonable certainty in Rule 4-10(a)(24) of Regulation S-X, tell us the probability that you would assign to the likelihood of obtaining the needed financing and proceeding with development as scheduled, and explain how you have considered your five-year cumulative average rate of development being about 2%, rather than 20%, in formulating your view. Tell us how your rationale for the current outlook differs from each of the past five years, why your current development plans would be more reliable than in the past, and describe any enhancements in your ability to adhere to the plans.” – SEC Staff

CAPITAL AVAILABILITY

This comment was not the only comment the filer received about this topic from the SEC. “If you are able to support the requisite level of confidence, explain how you propose to clarify the disclosures on pages . . . which appear to emphasize uncertainty as to whether you will complete your development plans as scheduled” – SEC Staff

Takeaway Point: *If a filer’s development plan shows a steep departure from prior undeveloped conversion rates, or if prior filings included projected conversion rates that were not realized, the SEC is likely to take notice, comment, and expect detailed explanation of the reason for reasonable certainty in the plan and reasonable expectation of the ability to finance the plan.*

MARGINAL ASSETS

“Your response to comment 18 indicates that the proved undeveloped reserves disclosed in Exhibit 99.4 as of December 31, 2020 include 12,528 MBoe or approximately 12.7% of [Company’s] total proved undeveloped reserves for certain locations that generate positive future net revenue but have negative present worth discounted at 10 percent. We also note disclosure in Exhibit 99.11 indicating the reserves report includes similar estimates of proved undeveloped reserves for one location. Expand the discussion of [Company’s] proved undeveloped reserves to clarify that these reserves are part of a development plan and schedule adopted by management, including approval by the Board if such approval is required, and disclose the marginal nature of these wells and the economic risk that they pose.” – SEC Staff

Takeaway Point: *The SEC knows that there are activities that meet the reserves definitions that may not provide much value, and they want this to be visible to the investment community.*

RESERVES DEFINITIONS

“The tabular summary of the estimated remaining net reserves and future net revenue provided on page 1 indicates that the proved developed non-producing reserves have negative future net revenue, both undiscounted and discounted at 10%. Tell us why these reserves meet the requirements to be classified as proved reserves at December 31, 2019.” – SEC Staff

“These cases are marginally uneconomic using first-day-of-the month average pricing for the previous 12 months (‘SEC pricing’) and therefore do not meet the definitions of economically producible, proved reserves and reserves according to Rule 4-10 of Regulation S-X. However, the Company also considers the impact of forward market pricing, drilling obligations and reservoir performance in its evaluation of whether or not to keep marginally uneconomic reserves using SEC pricing.” – Filer

RESERVES DEFINITIONS

“Your response to prior comments 3 and 11 acknowledges that the disclosed proved developed non-producing reserves for certain shut-in wells at December 31, 2019 did not meet the definitions of economically producible, proved reserves or reserves according to Rule 4-10(a)(10), (a)(22) and (a)(26), respectively. The intent to develop these uneconomic quantities in and of itself does not justify recognition of reserves. Remove any quantities in filings made with the U.S. Securities and Exchange Commission that do not meet all of the requirements to be classified as reserves.” – SEC Staff

“The Company acknowledges that the disclosed proved developed non-producing reserves included certain shut-in wells at December 31, 2019 that did not meet the definition of economically producible, proved reserves. The Company proposes in future filings to exclude any reserve quantities related to wells that do not meet all of the requirements to be classified as proved reserves under the Commission’s rules.” – Filer

Takeaway Point: *The SEC expects the filer to follow their definitions, and not to “roll their own.”*

THIRD PARTY REPORTS

“The disclosure under the section Disclaimers includes the statement that without the express written consent of [*Third Party Engineering*], only [*Original Client*] is entitled to rely on this report and any information, conclusions, and/or opinions contained herein. Since the referenced report is included in, and required as part of, a filing made with the United States Securities and Exchange Commission pursuant to Item 1202(a)(8) of Regulation S-K, please obtain and file revised reserves reports to remove language that limits the distribution of the reports to an exclusive audience.” – SEC Staff

Takeaway Point: *Read your third party reports thoroughly, because the SEC will.*

THIRD PARTY REPORTS

“The reserves reports submitted as Exhibits 99.1 through 99.9 do not appear to address all of the requirements of the report pursuant to Item 1202(a)(8) of Regulation S-K. Please obtain and submit revised reserves reports to address the following points.

- The reserves report should disclose the producing status category for the estimated probable and possible reserve in the report, e.g. developed and/or undeveloped, to comply with Item 1202(a)(8)(ix) and Item 1202(a)(2) of Regulation S-K, respectively.
- The reserves report should disclose the proportion of the registrant’s total reserves, e.g. total proved, total probable and total possible, covered by the report to comply with Item 1202(a)(8)(iii) of Regulation S-K.
- The reserves report should disclose that the estimates of proved, probable and possible reserves presented in the report were prepared in conformance with the Securities and Exchange Commission (SEC) definitions and requirements as set forth in Rule 4-10(a) of Regulation S-X to comply with Item 1202(a)(8)(iv) of Regulation S-K.
- The reserves report should discuss the inherent uncertainties with respect to the probable and possible reserves included in the report to comply with Item 1202(a)(8)(vii) and Item 1202(a)(5) of Regulation S-K, respectively.” – SEC Staff

Takeaway Point: *Make sure your third party reports include all required disclosures.*

DISCLOSURE - EXTENSIONS AND DISCOVERIES

“The change in the total net quantities of proved reserves attributed to extensions and discoveries appears to be significantly greater than the corresponding change in the net quantities of proved undeveloped reserves for the last two fiscal years presented, e.g. differences between the comparable figures on a barrels of oil equivalent basis of approximately 26% and 10% for the periods ending December 31, 2019 and 2018, respectively. Expand the discussion of the changes in your total proved reserves attributed to extensions and discoveries to explain the reason(s) for these differences. Refer to FASB ASC 932-235-50-5.” – SEC Staff

“We ... advise the Staff that the table below shows the impact of extensions and discoveries on proved and proved undeveloped reserves along with the differences over the past two years. The differences are due to proved extensions and discoveries that were not recognized as proved undeveloped reserves in prior periods but rather were recognized directly as proved developed.” – Filer

Thanks to Ryder Scott, Jonathan Lee, and the
Conference Attendees.