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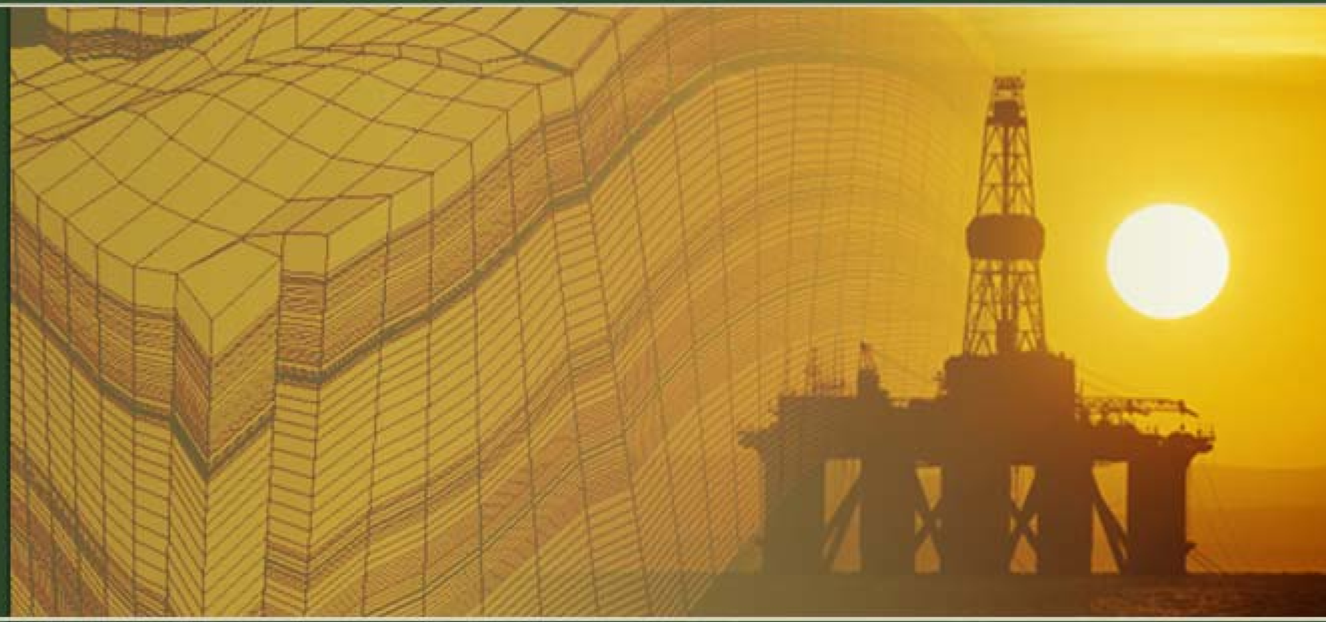

2010 Ryder Scott Reserves Conference
“Evaluation Challenges in a Changing World”

How Do You Count to Five?
“The SEC 5 Year Rule for PUDs Revisited”

Jennifer Fitzgerald – Vice President, Ryder Scott Company

Outline

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Issue Summary
Previous SEC Guidance

Issue of timing and progress relating to proved undeveloped reserves first introduced by SEC in 2001 website guidance:

Division of Corporate Finance: Frequently Requested Accounting and Financial Reporting Interpretations and Guidance (31 March 2001): *Part II F (3)(d)*

*"an **inordinately long delay** in the schedule of development may introduce doubt sufficient to **preclude the attribution of proved reserves**"*

*In the context of proved undeveloped reserves a "**significant lack of progress** on the development of such reserves may be **evidence of a lack of such commitment**"*

Issue Summary
Current SEC Regulations

Specific “5 year rule” is a new disclosure requirement in Regulation S-X 210.4-10 “Modernization of Oil and Gas Reporting Regulations: Final Rule” (14 January 2009)

Undeveloped projects should be developed within 5 years of the initial proved reserves booking, unless specific circumstances are met

For a project to be **“developed”**, the category should progress from undeveloped to a developed status (i.e. producing, shut-in, or behind pipe)

Certain projects require more than 5 years to develop – specific circumstances may justify booking proved undeveloped reserves as an exception to the 5 year rule

Issue 1 – Specific Circumstances That Justify a Longer Time

- SEC Regulations do not provide clarification as to the nature of the specific circumstances that allow an exception to the 5 year rule

- SEC website release of Compliance and Disclosure Interpretations: Oil and Gas Rules (26 October 2009) noted

  "*no particular type of project per se justifies a longer time period, and any extension beyond five years should be the exception, and not the rule*"

- Intent is to further investigate acceptable and unacceptable circumstances to book proved undeveloped reserves for projects beyond the 5 year timeframe

Issue 2 – Does This Guidance Extend to Probable and Possible Undeveloped Reserves

- Optional disclosure of Probable and Possible Reserves
- SEC definition of “undeveloped reserves” applies to reserves of any category
  - Subpart (i) and (iii) include reference to demonstration of reasonable certainty - specifically apply to proved
  - Subpart (ii) does not specify
- No specific public guidance offered by SEC
  - Are Probable and Possible subject to the 5 year rule
  - If non-proved reserves justify an exception to the 5 year rule, how long is appropriate
- Ryder Scott to engage members of SEC staff for further clarification and seek informal guidance via teleconference

Issue 3 – When Does the Clock Start for the 5 Year Period

- SEC noted that *“previous reported quantities shall not be revised retroactively”*
- However, certain aspects do appear to be retroactive
- If the 5 year clock is retroactive to the date of the initial SEC booking, some existing but “stale” proved undeveloped reserves may be subject to debooking
- Ryder Scott to engage members of SEC staff and Dr. John Lee for further clarification and seek informal guidance as to when the clock starts for the 5 year period

Relevant SEC Regulations and Guidance

SEC Regulations: S-X 210.4-10

(31) Undeveloped oil and gas reserves.

SEC Guidance: Reference in Compliance and Disclosure Interpretations: Oil and Gas Rules (26 October 2009)

Question 131.03

Question 108.01

Question 131.05

Interpretative Options

- If a project has been reported in a filing with the SEC as Proved Undeveloped for more than 5 years or is not scheduled to be developed within 5 year timeframe
  - Develop compelling case to justify circumstances to support longer than 5 years to develop
  - Consider debooking the reserves if a compelling case cannot be made
- Application of 5 Year Rule to Probable and Possible
  - Only report Probable and Possible undeveloped reserves in a filing to the SEC that are scheduled to be developed within 5 years
  - Assuming the 5 year rule only applies to Proved, schedule Probable and Possible beyond 5 year timeframe while demonstrating intent with a development schedule in place

Interpretative Position Issue 1

- SEC regulations require that undeveloped projects should be developed within 5 years of the initial proved reserves booking, unless specific circumstances are met
- Specific circumstances may justify booking proved undeveloped reserves as an exception to the 5 year rule
- Extensions to the 5 year rule are exceptions, not the rule
- Justification for exceptions should be well documented and should be reevaluated each year
- SEC website guidance in October 2009 provides examples of factors to consider

Interpretative Position Issue 1

Historical Activity Level for the Project in Question

- Company's level of ongoing significant development activities in the area to be developed
  - If only drilling minimum number of wells necessary to maintain the lease, not generally considered significant
- Amount of time in which the company has maintained the leases without significant development activities
- Extent to which the company has changed its development plan and if any significant steps have been taken to implement any of the plans

Interpretative Position Issue 1

Additional factors to consider

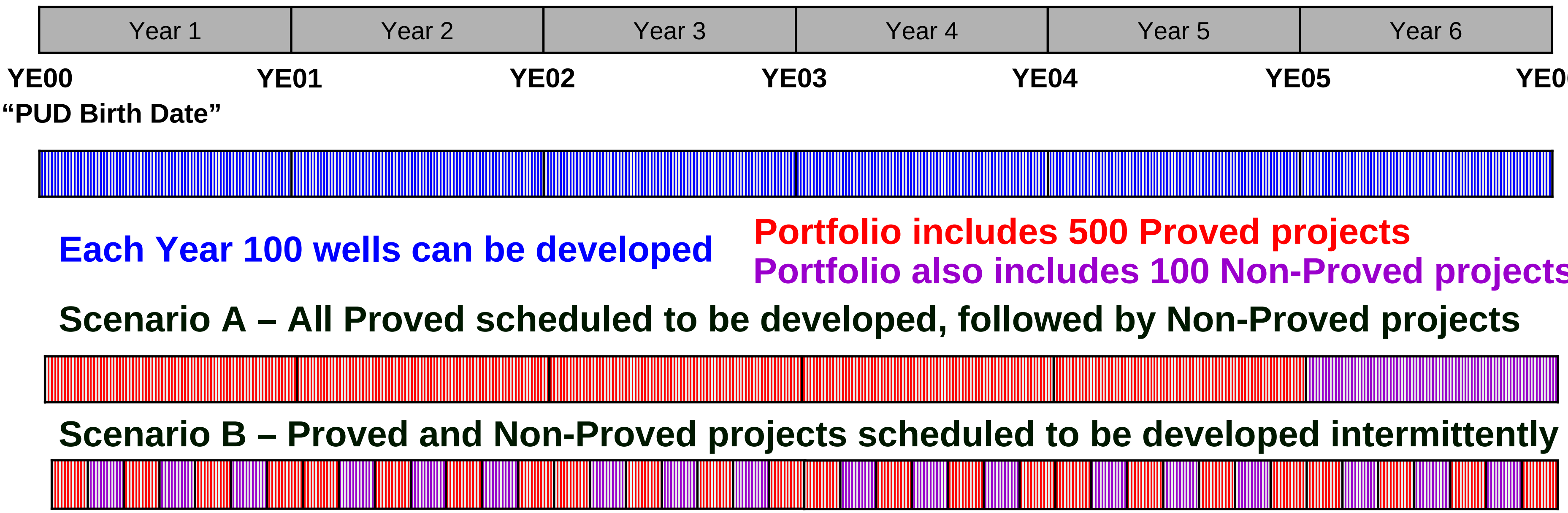
- Company's historical record at completing development of comparable long-term projects
  - May provide supporting documentation for assumptions
- Whether delays in development are related to external or internal factors
  - Some external factors may justify an extension to the 5 year rule
    - Delays due to restrictions on development on Federal land
  - Some external factors do not justify an extension to the 5 year rule
    - Delays due to obtaining government permits
  - Typically, internal factors do not justify an extension to the 5 year rule
    - Company's decision to shift resources to develop projects with higher priority
    - Company's decision to slowly develop a field in order to extend its economic life

Interpretative Position Issue 1

- If a project meets specific circumstances, an extension to the 5 year rule may be justified
  - Justification should be well documented
  - Reevaluate circumstances each year
- When a delay does not justify an exception to the 5 year rule, the project should not be reported in a filing to the SEC until the scheduled development is within the 5 year timeframe

Interpretative Position
Issue 1 – Specific Examples

Impact of non-proved projects on timing of proved projects, even if only proved reserves are reported to the SEC



SEC indicated, during a private teleconference with Ryder Scott, that the development schedule should

- Represent realistic conditions
- Reflect what a company intends to actually drill in the next 5 years

Proved projects pushed beyond the 5 year timeframe to accommodate other priorities in the portfolio would not qualify as an exception to the 5 year rule

Interpretative Position
Issue 1 – Specific Examples

Impact of year end price on a project's 5 year clock

- After a project in initially reported to the SEC as proved reserves, the year end price will subsequently change
- If project is uneconomic at a subsequent year end
  - Becomes a Contingent Resource
  - Cannot be reported as Proved Reserves at that year-end filing
- Once the project becomes economic again, the 5 year clock restarts
  - Assuming all other requirements for proved reserves are met
  - Including corporate commitment to develop

Interpretative Position Issue 2

Unclear whether or not the 5 year rule applies to all reserves categories or only Proved reserves

- No specific public guidance offered by SEC
- Clarification obtained from teleconference with members of SEC staff indicated
  - The 5 year rule does not apply to Probable and Possible reserves
  - There is no set guideline for how long is appropriate for Probable and Possible reserves
  - A company must demonstrate intent with a development schedule in place
- Probable and Possible reserves may be scheduled to be developed beyond the 5 year timeframe if a demonstration of intent is documented

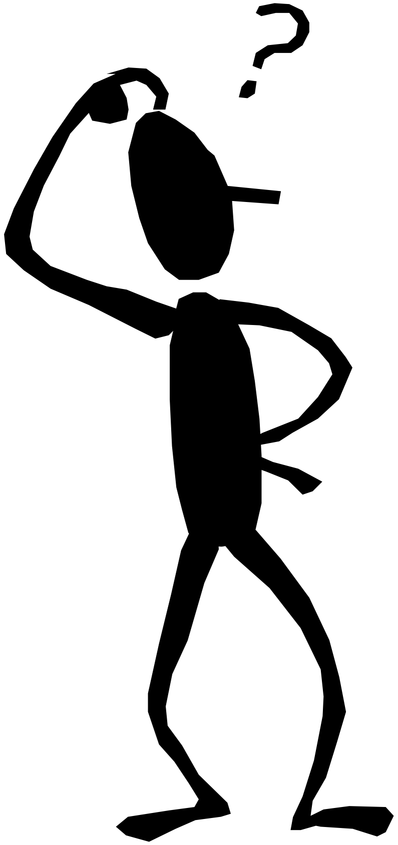
Interpretative Position Issue 3

- Clarification obtained from teleconference with members of SEC staff indicated that the 5 year rule is retroactive
  - Clock starts when reserves for the project were first reported and included in a filing with the SEC
  - No grandfathering of previously reported undeveloped projects
  - Some old projects may need to be debooked

Interpretative Position Issue 3

- Dr. John Lee, former SEC fellow, clarified how to apply 5 year rule
  - Single 5 year clock for each project which begins the date the project was first reported in a filing to the SEC
    - If a project has already more than 5 years old
      - The clock is done
      - Unless specific circumstances justify an exception, the reserves should be debooked
    - If a project was first reported at YE07
      - At YE10 booking, three years done
      - There are only two years remaining in the clock
      - The project needs to be scheduled to be developed within 2 years – should transfer from undeveloped to developed by YE12
      - Justify specific circumstances for a longer development

Questions



References

SEC Regulations, “Modernization of Oil and Gas Reporting: Final Rule”, 14 January 2009

SEC Division of Corporate Finance, “Frequently Requested Accounting and Financial Reporting Interpretations and Guidance”, 31 March 2001

SEC Compliance and Disclosure Interpretations, “Oil and Gas Rules”, 26 October 2009

Dr. John Lee, Email Correspondence with Ryder Scott, 2 March 2010

SEC Staff, Teleconference with Ryder Scott, 15 December 2009