

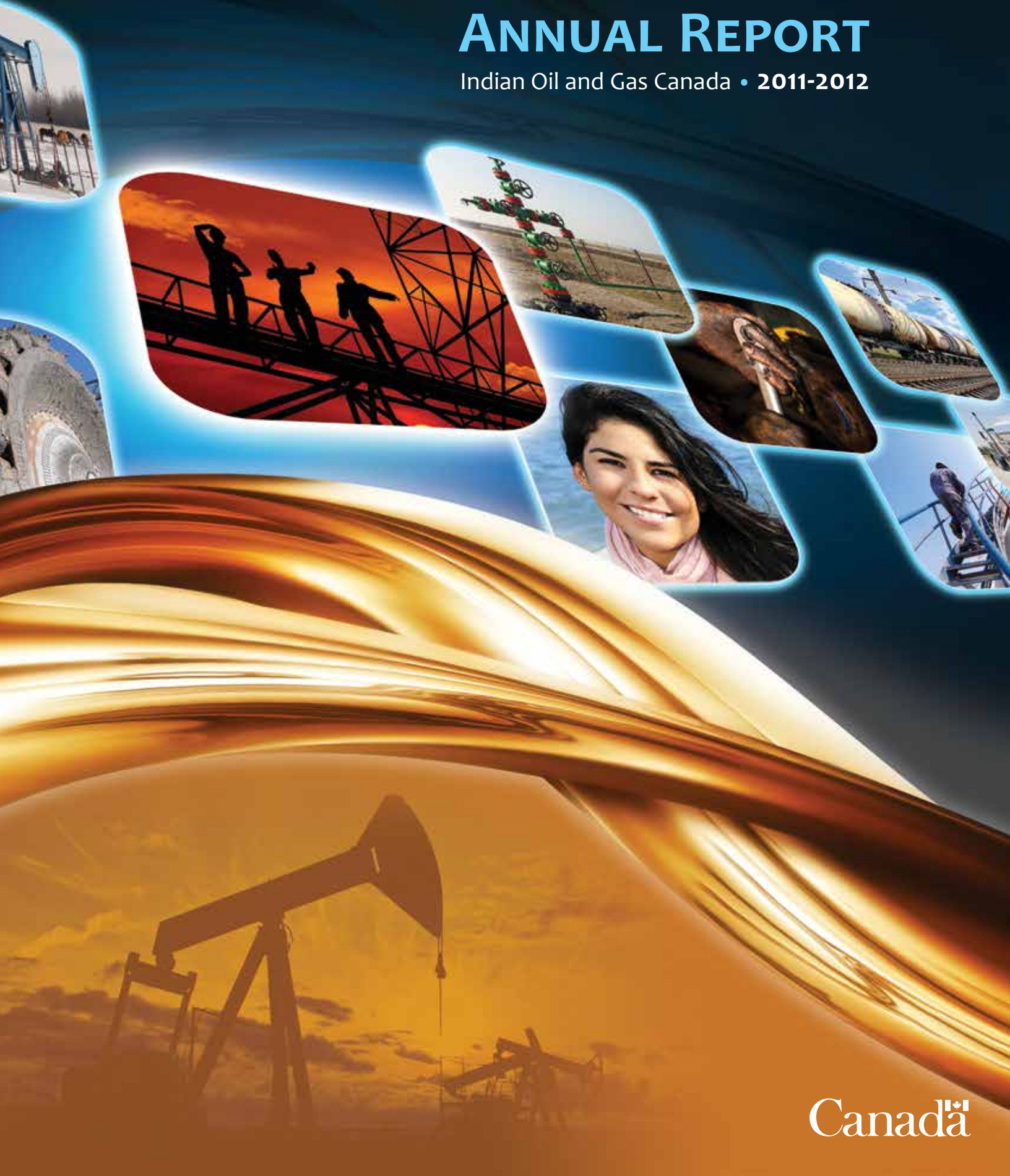


Aboriginal Affairs and
Northern Development Canada

Affaires autochtones et
Développement du Nord Canada

ANNUAL REPORT

Indian Oil and Gas Canada • 2011-2012



Canada

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MESSAGE FROM THE CEO



*...achieving success will
come from ongoing
commitment from our
partners, our stakeholders
and from the high level
of expertise and
professionalism...that I
have come to expect.*

To our stakeholders

Last year was a busy one for IOGC. We continued to build on our Strategic Framework, which sets out our four directional priorities of:

- Excellence in Governance
- Excellence in Oil and Gas Management
- Workplace of Choice; and
- Effective Relationships

While we focused on discharging our managerial and regulatory roles by providing high quality services to First Nations and regulating the operations of industry, we still continued to work on our strategic priorities.

In this regard, we are implementing a major organization-wide change project known as MARS (Modernized Act, Regulations and Systems) that sees us charting a future path for the organization through legislative, regulatory, process, policy, and system changes. The MARS project will continue to test our capacity and ability to manage multiple key strategic initiatives while still ensuring that day to day operations remains our main priority.

During this fiscal year and over the next year as well, IOGC will continue to consult First Nations in this change, both through the ongoing involvement of the Indian Resource Council, and directly with individual Chiefs and Councils. Consultation with industry will begin in 2013 by contacting companies operating on First Nation lands as well as industry associations.

We have, and will continue to send updates to First Nations and Industry through quarterly newsletters and individual presentations. We also conducted an oil royalty symposium in Alberta in March that saw many oil and gas producing First Nations in Alberta come together to give us input on the development of the royalty regulatory regime. We are scheduled to hold another symposium in Saskatchewan in September.

The development of new systems to support the legislative and regulatory change is kicking into high gear as we work to meet the government's requirements for such major information technology changes.

This year, we also saw higher but differing levels of volatility in both oil and gas prices, yet industry activity on First Nation lands remained steady as companies continued to realize the benefits of working with First Nations. As a result, a total of 205 new wells were drilled and approximately 4802 are being administered by IOGC.

During fiscal year 2011-2012, IOGC collected \$253.9 million in revenues on behalf of First Nations. Oil royalties continued to show strength while gas royalties dwindled, as volumes and prices continued to fall due to oversupply and limited access to markets. This trend will continue for the foreseeable future. The result for IOGC is continuing high workloads in all areas of the organization.

We have many challenges ahead and achieving success will come from ongoing commitment from our partners, our stakeholders and from the high level of expertise and professionalism that I have come to expect from our staff.

Sincerely,

Strater Crowfoot
Chief Executive Officer (CEO) and Executive Director



Strater Crowfoot

OVERVIEW

IOGC currently manages
the oil and gas
resources of more
than 50 First Nations
with active oil and
gas agreements.



History of Indian Oil and Gas Canada (IOGC) and Related Legislation

The Government of Canada has a broad mandate relating to Indian affairs, which is derived largely from existing legislation and legal obligations arising from section 91(24) of the *Constitution Act, 1867*. Aboriginal Affairs and Northern Development Canada (AANDC) is entrusted with fulfilling various legal obligations of the federal government to Aboriginal peoples as outlined in the constitution, the treaties, the *Indian Act* and other legislation. Included in this obligation is the management of natural resources on Indian lands, including oil and gas.

Oil and gas development on First Nation reserve lands has been legislated since 1974 under the *Indian Oil and Gas Act* and, before that, under the *Indian Act*. In 1977, the *Indian Oil and Gas Regulations* were promulgated and brought under the *Indian Oil and Gas Act* from the *Indian Act*. The Regulations were revised in 1995.



In 1987, Indian Oil and Gas Canada (IOGC) was established, replacing Indian Minerals West as a dedicated branch within the Department of Indian Affairs and Northern Development, to manage oil and gas development and to further First Nation initiatives to manage and control their resources. In 1993, IOGC was affirmed as a Special Operating Agency to increase its client focus.

Statutory Authorities

IOGC operates in accordance with provisions of the *Indian Oil and Gas Act* and the *Indian Oil and Gas Regulations*, 1995.

IOGC also operates in accordance with associated federal legislation including provisions of the *Indian Act*, *Canadian Environmental Assessment Act*, the *Financial Administration Act* and other relevant legislation.

IOGC Co-Management Board

IOGC operates under the direction of a Chief Executive Officer/Executive Director who participates as a member of the IOGC Co-Management Board. The Board was established in 1996 by the signing of a Memorandum of Understanding (MOU) between the Minister of Indian Affairs and the Indian Resource Council (IRC) to provide advice for the co-management of IOGC operations. The Board focuses on areas of collective interest such as IOGC issues, policies, plans, priorities and resources.

There are up to nine members on the IOGC Co-Management Board. The Board is made up of the IRC Chair and five other members appointed by the IRC plus three members appointed by the Crown. The Crown members are the Assistant Deputy Minister of Lands and Economic Development at Aboriginal Affairs and Northern Development

Canada; the CEO and Executive Director of IOGC; and an industry representative. Two members of the IOGC Co-Management Board, the Chair of the IRC and the Assistant Deputy Minister of Lands and Economic Development, serve as co-chairs.

Roles and Responsibilities

IOGC is a special operating agency within Aboriginal Affairs and Northern Development Canada. We are responsible for managing and regulating oil and gas resources on First Nation reserve lands across Canada.

We currently manage the oil and gas resources of more than 50 First Nations with active oil and gas agreements. All funds collected on behalf of First Nations are placed in their trust accounts. In fiscal year 2011-2012, we collected \$253.9 million on behalf of First Nations. These funds demonstrate the large potential that oil and gas development has to improve the participation of First Nations in the Canadian economy.

Our main functions are to assist First Nations that have designated reserve lands in the oil and gas process through the following activities:

- negotiation, issuance and administration of agreements with oil and gas companies;
- conduct of environmental screenings and other environmental stewardship activities;
- monitoring and verification of oil and gas production and sales prices;
- verification, assessment, and collection of moneys such as bonuses, royalties and rents; and
- ensuring that all legislative and contract requirements are met.

We work closely with First Nation Chiefs and Councils, and their approval is required for all deals.

STRATEGIC PRIORITIES FOR 2011-2012



...the amendments will
help to ensure
environmental protection
of First Nation lands,
increase regulatory
compliance, and
facilitate timely
collection of royalties...

Modernization of Act, Regulations and Systems (MARS)

Legislative and Regulatory Amendments

Legislation modernizing the *Indian Oil and Gas Act* received Royal Assent in May 2009. The amendments to the Act address the need to manage all aspects of industry operations on First Nation lands. In addition to modernizing and harmonizing dated regulations and providing greater certainty for all stakeholders, the amendments will help to ensure environmental protection of First Nation lands, increase regulatory compliance, and facilitate timely collection of royalties and other monetary compensation. In short, the amendments to the Act will position the Government of Canada to better fulfill its obligation to manage oil and gas resources on reserve lands into the future.

The amended Act was developed with the Joint Technical Committee #1 (JTC#1) along with the assistance of the IRC. JTC#1 is a working level committee comprised of First Nation and government members charged with the responsibility to review and comment on proposed changes to the legislative and regulatory regime. This group does not replace individual involvement sessions with First Nations but allows IOGC to access those First Nation representatives with significant oil and gas expertise. The amended *Indian Oil and Gas Act, 2009* will come into force when the amendments to the *Indian Oil and Gas Regulations* are completed, currently projected for 2014.

A process is currently underway with IOGC, oil and gas producing First Nations, JTC#1 and the IRC to develop the new regulations. Due to the volume of the regulatory amendments expected, the work has been divided into multiple modules that represent functional areas within IOGC. There are currently 10 modules under development.

Work in 2011-2012 on the MARS project continued in several key areas:

- 1) First Nation involvement and outreach,
- 2) Implementation of an effective project plan, and
- 3) Development of policy basis for new regulations

IOGC, in partnership with the JTC#1 and the IRC, continued its work on jointly reviewing and discussing each regulatory module as they are prepared by IOGC. The details of each regulatory module, and an overall strategic view of the regulatory amendment process, is then shared and discussed with individual First Nations. Given that we are still in the development phase of the regulatory modules IOGC is currently performing outreach to First Nations on an as requested basis. All First Nations with oil or gas production will have an opportunity to be fully engaged on these changes at various times in the process.

During the fiscal year, significant work was put into the implementation of an effective and achievable project plan. Some of the activities in this area included coordinating activities in the regulatory module areas and securing expert assistance to ensure the internal IOGC module teams continue to be effective.

Progress was made on the drafting of new regulations. In this process, IOGC is responsible for initiating and finalizing the policy basis for the new regulations, while the Department of Justice is responsible for translating that policy into regulations. The goal is to amend the regulations to establish a modern regulatory framework that enables IOGC to better deliver on its mandate through a clear, transparent, effective, fair, sustainable, efficient and easily administered set of rules. Milestones reached included the initial work being completed on all modules, including fact finding and strategic policy discussions. One regulatory module progressed to draft regulations this year. Several other modules are also in advanced stages, and their policy considerations and drafting instructions were shared with First

Nations. These modules are being developed into regulations by the Department of Justice. The involvement of the IRC and its members has



been crucial to the process of modernizing the IOG Act and amending the Regulations and we are grateful for their continued support. IOGC anticipates that amended regulations will be ready for broad consultation with First Nations in 2012-2013, with industry and provincial governments shortly after that.

Renewal of the Resource Information Management System (RIMS)

IOGC's Resource Information Management System (RIMS) is the operational database that stores information regarding all surface and subsurface agreements, Indian interest wells and royalty entities. It is also a financial system for both land and royalty transactions, including the calculation of royalties owing to First Nations. It is critical to operations.

The amended legislative and regulatory regime needs to be effectively implemented, monitored, and enforced to optimize benefits to First Nations. The modernization of RIMS has been planned as part of the implementation associated with the modernization of the *Indian Oil and Gas Act* and Regulations. RIMS was initially developed in the early 1990's and over the years, many modifications and enhancements have been made to adjust to changing industry practices and ongoing business improvements. However, much of its underlying data architecture needs to be modified to reflect current industry practices. Given the large number of changes expected as a result of our legislative and regulatory modernization, significant investments must be made to renew RIMS.



The project to renew RIMS is extensive. As such, it is a joint initiative between IOGC and the Information Management Branch of Aboriginal Affairs and Northern Development Canada. Projects of this magnitude are controlled by a staged project management methodology with approvals required at each stage before proceeding. Several stages require seeking approval from the Treasury Board Cabinet Committee, which will determine whether the project can advance and receive funding.

In 2011-2012, IOGC prepared to present its case for spending authority to make informatics enhancements. This is projected to be completed

towards the end of calendar year 2012 and a decision should be reached towards the middle of calendar year 2013. The ultimate goal is to make current and reliable information accessible as close to the community level as possible. By bringing information and decision-making closer to the community level, First Nations will be better-equipped to respond to economic development opportunities closer to the speed that business and industry expects.

The amended legislative and regulatory regime needs to be effectively implemented, monitored, and enforced. Along with the systems changes, we are reviewing our existing business practices and processes to ensure synergy and compliance. An analysis of the resulting business needs from a systemization point of view is also required. As part of this review, we will be considering new functionalities, including geographic information system (GIS) developments, work flow management, and increased communications with First Nations about their oil and gas transactions. In 2011-2012, IOGC initiated and completed process mapping of its current business practices. The current state process maps were then optimized to create efficiencies, reduce duplication, and eliminate gaps. This initiative is now about 40 percent complete. The final stage will be to layer on top of these process maps the administration of the new legislative and regulatory regime, once the regulations are completed.

IOGC has entered into two contracts with consulting groups to address our needs for change management services and the documentation of the business case for system change. A project team is collaborating with staff to develop business process changes, modernize IOGC's activities and support the implementation of the regulations.

Interest Statement Automation

IOGC continued its work on the multi-year interest project which has as its goal the automation of First Nation receivables statements and the application of interest. The results of the

automation will assist in increasing the timeliness of payments and will contribute towards the reduction of significant over and underpayments.

Previous years' achievements have included the automation of land-related statements with interest, and the issuance of a number of Band/ Company statements without interest. During 2011-2012, work with the Production Group resulted in the automation and issuance of statements for all band/company combinations that are currently being assessed. Ongoing meetings were also held to resolve key royalty issues, review pertinent reports and resolve statements issues.

Occupational Safety and Health Program Development

The Occupational Health and Safety project is about developing a robust health and safety program at IOGC.

During the 2011-2012 fiscal year, the health and safety committee met monthly to discuss and follow-through on health and safety matters. They conducted monthly workplace inspections; undertook committee-focused training to expand the knowledge base of duties and responsibilities; coordinated ergonomics and lifting training; developed an ergonomic assessment process and internal procedures for reporting hazardous occurrences (such as slips, trips and falls); and made policy recommendations on health and safety matters affecting staff.

Public Sector Equitable Compensation Act

The *Public Sector Equitable Compensation Act* (PSECA) regulations, which were due to be released in 2011, were delayed. The regulations are now anticipated in 2012-2013. Once the regulations are finalized, PSECA will require that IOGC's positions be analyzed in accordance with the new regulations in order to ensure that employees in female predominant jobs are receiving equitable compensation.



OPERATIONS



*In the past year,
the Surface group and
Environment group
worked together to
implement a new parallel
surface application and
environmental assessment
review process...*

IOGC has four distinct units that regulate and manage the exploration and development of First Nation reserve lands. The Executive Unit is accountable for overall agency planning and direction, consultation, policy development, communications, and overall executive and legal services. The Land Unit issues and administers agreements on First Nation reserve lands. The Production Unit monitors production from First Nation reserve lands and ensures the accurate collection of royalties. The Planning and Corporate Services Unit is responsible for corporate planning, finance, administration and human resources.

Executive Unit

The Executive Unit focuses on:

- Setting corporate direction and strategy
- Working with the IOGC Co-Management Board of Directors
- Operational policy development (including legislative/regulatory amendments) and consultation
- Communications, operational policy and corporate executive services

Operational Policy Group

- Support of operational policy development
- Support of new legislation, including the *Indian Oil and Gas Act*
- Advancing proposed changes to the Indian Oil and Gas regulations
- Guiding regulatory module development and progress related to IOGC's MARS (Modern Act, Regulations and Systems) Project
- Involving key parties to obtain input into the above

Communications/Executive Services Group

- Disseminating information to First Nations, oil and gas industry companies, the public and government
- Development of corporate communications and strategies regarding IOGC issues that can potentially impact First Nations or the private sector
- Development and preparation of briefings on IOGC issues for senior departmental officials and the Minister
- Preparation of communications plans, strategies, reports (including the Annual Report) and correspondence on IOGC activities
- Maintenance of IOGC's website

IOGC Communications personnel provided support to IOGC Executive and other units within IOGC throughout 2011-2012. Efforts focused around providing writing, editing, advice and assistance with briefings, presentations, and correspondence, as needed. IOGC Communications also provided support and communications assistance with the MARS project, and responded to requests related to First Nation, government, media, and public inquiries for information.

Land Unit

The Land Unit contains three groups: Negotiations and Subsurface Land Contracts and Administration; Environment; and Research and Surface Land.

Negotiations and Subsurface Land Contracts Group

- Identifying, developing and promoting disposition options with First Nations to increase exploration and development of First Nations oil and gas resources
- Assessing proposals by interested companies and assisting First Nations in reaching agreements with companies by providing expertise to support the negotiations process
- Providing advice to Treaty land Entitlement (TLE) First Nations and working to facilitate the implementation of the TLE process
- Drafting and ensuring the execution and administration of oil and gas agreements, amendments and contractual commitments in accordance with negotiated terms and conditions and with appropriate regulations



During the 2011-2012 fiscal year, IOGC collected approximately \$17 million for 14 negotiated subsurface dispositions, and approximately \$1 million for 16 lease selections from permits on behalf of First Nations in Alberta and Saskatchewan. This is a significant decrease in bonus dollars collected when compared to the last fiscal year. However, the large bonus dollars collected last year were attributable to two large leases on Blood Tribe lands and another lease on O'Chiese First Nation lands. The increased bonus dollars paid for those leases followed a trend similar to that of the province of Alberta, in which the average bonus per hectare rose significantly during 2010-2011 due to the newly discovered oil plays. In 2011-2012, IOGC did not receive any offers for similar plays on First Nations lands. As a result, the overall bonuses for First Nation oil and gas rights were lower.

Significant royalty changes introduced by the Province of Alberta in 2009 have had an impact on IOGC's work in the last couple of years. IOGC Negotiations and Contracts Group began a review of agreements this past year to determine how many agreements, and the extent to which those agreements had been affected by the Alberta Royalty changes. This review revealed that we still need to dedicate significant resources to addressing both existing and new agreements issued by IOGC on First Nation lands.

The effect of the provincial royalty changes on IOGC agreements that reference the Alberta Royalty required that the IOGC Negotiations and Contracts Group made amendments to several existing agreements and developed template agreements for new issuances. These royalty amendments were necessary in cases in which companies could demonstrate that not allowing the changes would seriously affect their economics.

Given that the reduction in the Alberta Royalty was significant, the threat of reducing future drilling programs on existing leases, and the possibility of sterilizing some First Nations lands were challenges that both First Nations and IOGC had to come to terms with in the past year. The Negotiations and Contracts Group worked diligently with all stakeholders, and IOGC was able to reduce the impact of these royalty changes to First Nations by allowing royalties close to the provincial rates.

This change was implemented in support of IOGC's goal of encouraging economic competitiveness as compared to provincial royalty regimes. The Negotiations and Contracts group was able to ensure every new disposition and every royalty amendment recommended last fiscal year provided a return to First Nations that was higher than both the Alberta and Saskatchewan royalty regimes.

Negotiated Subsurface Permits Completed from April 1 2011 through March 2012

First Nation	Company	Area Disposed (hectares)
Birdtail Sioux (MB)	Fort Calgary Resources	2725.80
Alexander (AB)	Sundance Energy Corporation	6946.17
O'Chiese (AB)	O'Chiese Energy (GP) Inc.	5023.60
Sunchild First Nation (AB)	Petrospirit Resources Ltd.	3301.90
Onion Lake (SK)	Onion Lake Energy Ltd.	1768.05
Poundmaker (SK)	Poundmaker Oil Ltd.	7151.82
Poundmaker (SK)	Poundmaker Oil Ltd.	1013.85
Red Pheasant (SK)	Allstar Energy Limited	3944.27
Sweetgrass (SK)	Broadview Energy Ltd.	2590.00
Loon River Cree (AB)	Border Petroleum Corp.	7477.30
TOTAL		41942.76

Negotiated Subsurface Leases Completed from April 1 2011 through March 2012

First Nation	Company	Area Disposed (hectares)
O'Chiese (AB)	O'Chiese Energy (GP) Inc.	5,120.00
Paul (AB)	Hyperion Exploration Corp.	192.00
Little Pine (SK)	Blue Hill Energy Inc.	412.52
Siksika (AB)	Siksika Energy Resources Corporation	512.00
TOTAL		6,236.52

Environment Group

- Ensuring that oil and gas surface facilities and activities, including seismic, construction, access roads and pipeline rights-of-way undergo an environmental assessment or screening as required by the *Canadian Environmental Assessment Act (CEAA)*
- Reviewing environmental assessments and imposing environmental protection terms, as necessary, to ensure all oil environmental requirements are met and any potential environmental effects mitigated.
- Performing field inspections and reviewing environmental audits to monitor industry compliance with environmental requirements
- Ensuring the adequacy of reclamations prior to industry surrender of surface agreements

In 2011-2012 the Environment Group reviewed 328 environmental assessments which is up from 288 in 2010-2011 and a significant increase from 130 in 2009-2010. The workload has continued to increase over the last three years.

In 2011-2012, the Environment Group conducted 111 inspections of active well sites on approximately 30 reserves which is also an increase from 95 in 2010-2011 and 67 inspections in 2009-2010. Also notable is that, in addition to the 111 inspections, the unit conducted another 69 joint inspections with the provincial well licensing authorities including the Energy and Resources Conservation Board in Alberta, Saskatchewan Energy and Resources and the Oil and Gas Commission in British Columbia.

IOGC hired a Treaty Land Entitlement (TLE) environmental analyst in mid-2010 who conducted an additional 42 inspections on five TLE reserves in 2011-2012. The Environment Group has continued to increase IOGC presence on First Nation reserve lands.

A total of 21 joint reclamation inspections were conducted with representatives from industry and First Nations compared to 29 in 2010-2011 and 15 in 2009-2010. The number of reclamation inspections required depends on how many complete reclamation applications are received prior to the growing season.

IOGC's Information Letter on *How to Prepare an Environmental Assessment for Indian Oil and Gas Canada – Interim Guidelines (March 2011)* was posted to our website in 2011-2012. The Environment Group also worked to update the environmental audit requirements for well sites and pipelines and sent the new requirements with the annual environmental audit reminder letters and Direction to Comply letters.

The Environment Group continues to work on the development of the new environmental regulations and make changes to improve the overall environmental management of oil and gas resources on First Nation reserve land. In the past year, the Surface group and Environment group worked together to implement a new parallel

surface application and environmental assessment review process in light of First Nation and industry concerns over surface application turnaround times. The goal is to reduce the application and review time.



Surface and Research Group

- Drafting, executing and administering surface agreements in accordance with negotiated terms and conditions
- Monitoring contractual commitments, rent reviews, assignments and surrenders on First Nation reserve lands
- Verifying title and status of minerals for reserve lands to be surrendered or designated
- Verifying title and acreage leased on First Nation reserve lands
- Providing mineral title status of reserve land for the purposes of monitoring activity, land claims and litigation

The Surface Land Group processed a total of 214 applications in 2011-2012, compared to 215 in 2010-2011, and ended the year with 4802 agreements under administration. This brings the total land area under IOGC administration to a total of

10,246 hectares, compared to 10,180 hectares in 2010-2011. As well, in the last quarter of the 2011-2012 fiscal year, IOGC Surface Land Group reduced land-related monies in suspense over 180 days by 36 percent.

IOGC's Research Group verified and added 54,233 hectares of new TLE lands into RIMS in 2011-2012 and this group has been working on changes to the current RIMS system to identify Surface-only reserve lands and capture the designation status of these lands.

The Surface Land Group contributed to the modules for Exploration, Surface, and Assignments, as part of the work on the MARS project this year. In addition to the work on the drafting instructions, the Surface Land and Research Groups completed a review of our current business processes and have made recommendations for process improvements for the RIMS2 system based on the regulations currently in development. Though this project, the Surface Land Group identified changes and improvements needed to our current and future business processes. One outcome has been a new parallel surface application and environmental assessment review process in light of First Nation and industry concerns over surface application turnaround times.

Treaty Land Entitlement

Treaty Land Entitlement (TLE) claims are a type of land claim arising from the fact that some First Nations did not receive all the land they were entitled to under treaties signed with the Federal Crown.

For Alberta and Saskatchewan First Nations that signed or adhered to Treaties 4, 6, 7, 8 and 10, which were concluded between 1874 and 1906, treaties generally required the Government of Canada to allocate reserve land to First Nations based on the size of each family. Many of the reserve land obligations, however, were not

fulfilled at the time of treaty due to inaccurate counts of band members or because not enough land was set apart when reserves were first surveyed. Today, the TLE process exists to fulfill these outstanding obligations.

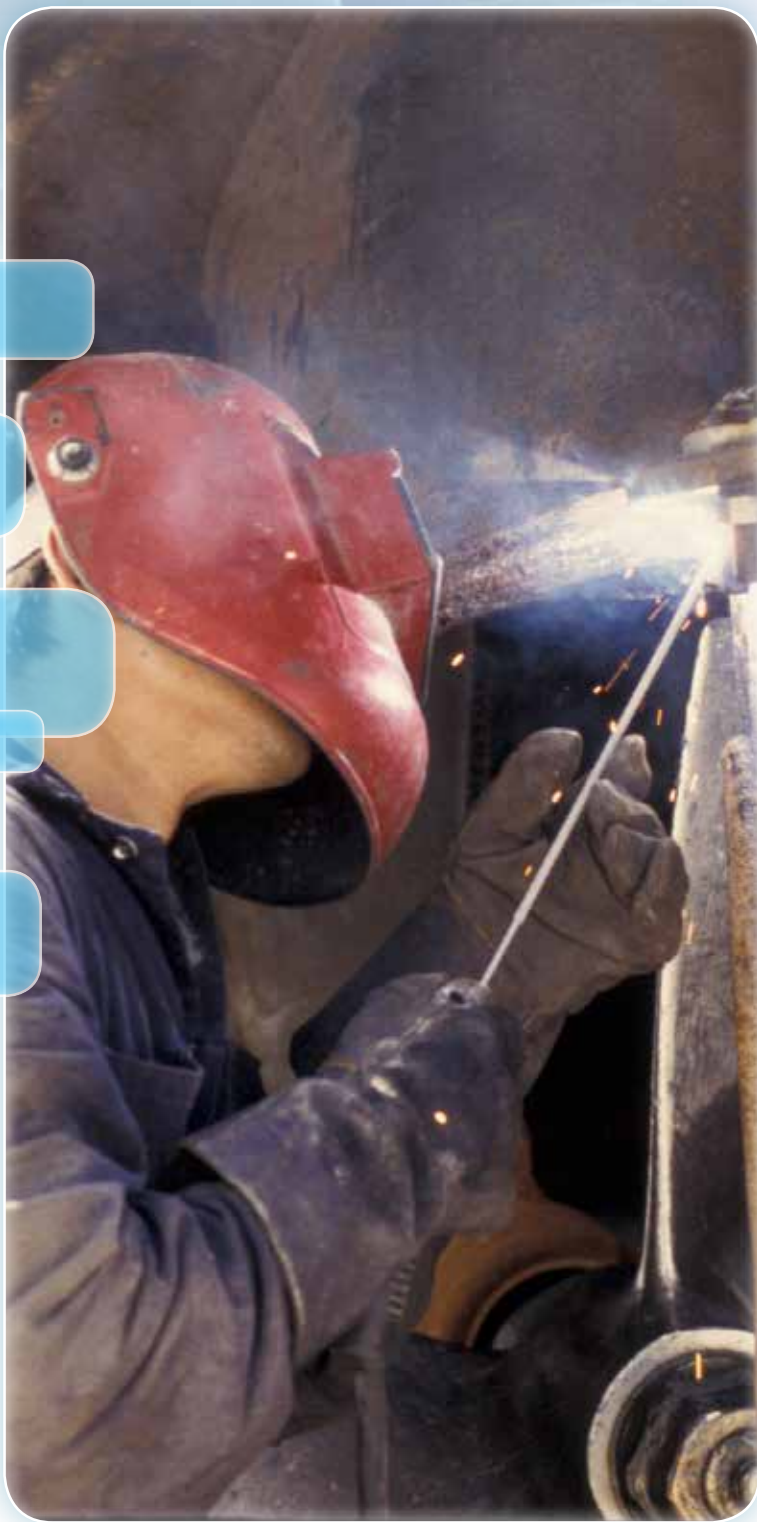
One of IOGC's primary roles under the TLE process is to assist with the replacement of third party interests when reserves are being created pursuant to a TLE claim. IOGC replaces agreements that are oil and gas related and can be administered according to the *Indian Oil and Gas Act and Regulations* once the lands become reserve under Federal title.

In 2011-2012 the TLE Group processed 45 requests for replacement agreements. As of March 31, 2012 there were currently 442 active replacements being administered by IOGC on behalf of several TLE First Nations. With dedicated resources over the past two years a trend has emerged which demonstrates that IOGC TLE has been able to stay in front of demand with respect to the preparation of TLE replacement agreements. This past fiscal year, IOGC has processed every TLE First Nation request for replacement agreements and the Additions to Reserve (ATR) process is not being delayed as a result of any activity pending at IOGC.

A key area of focus in 2011-2012 was standardization of the TLE surface templates which were reviewed by the Department of Justice and completed by the end of the first quarter. These templates are now being used for all IOGC TLE surface replacement agreements. The new replacement agreements contain a surrender clause which is an improvement from the previous process because a surrender no longer has to be sought under separate agreement.

During the past year IOGC TLE has worked closely with the Environment Group and the Saskatchewan Region of AANDC to establish protocols that ensure all IOGC TLE surface files will have an accessible environmental file that can be accessed for audit purposes.





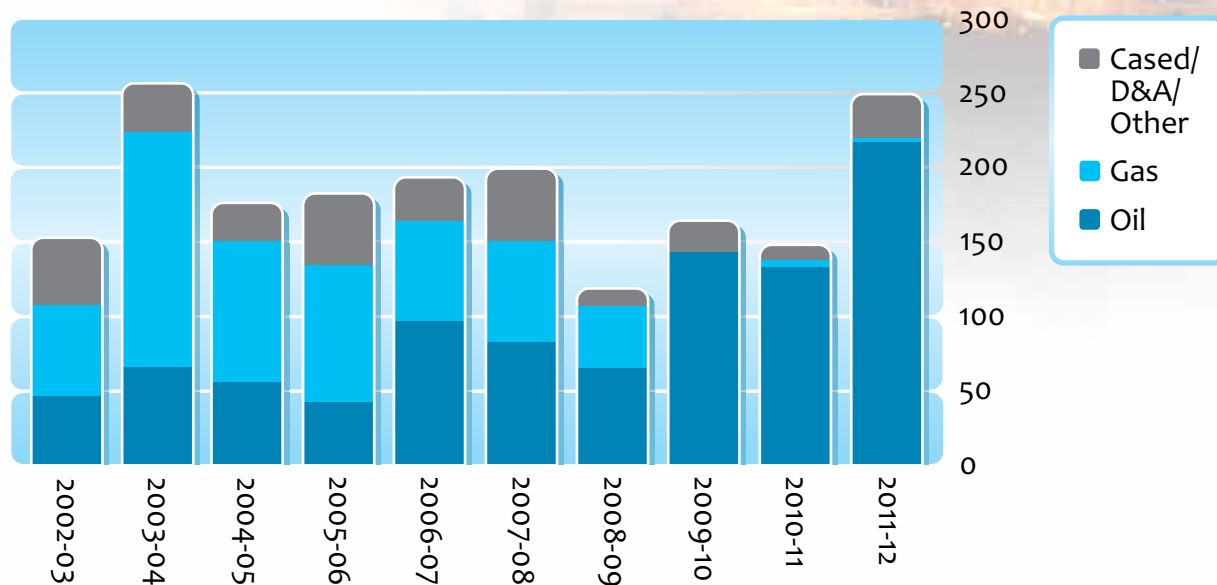
In 2011-2012, IOGC TLE staff participated in a working group for Thunderchild First Nation, one of the busiest TLE First Nations. Members of the group included: representatives of IOGC, Thunderchild First Nation, Saskatchewan First Nation and Metis Relations, AANDC Saskatchewan Region, as well as oil and gas representatives. This working group was formed to assist in defining the roles of all TLE stakeholders and to provide technical advice, as needed. The working group has proven to be very effective in resolving challenges that all stakeholders in the ATR process were facing. IOGC participation in a new working group has since been requested by another TLE First Nation.

Production Unit

IOGC's Production Unit is responsible for those operations most closely related to the production of oil and gas. The main operational areas of the division are:

- Tracking and monitoring the drilling of oil, gas and service wells
- Ensuring proper measurement and reporting of oil and gas production volumes
- Ensuring First Nations' royalty share of oil and gas volumes are valued at fair prices
- Accurately assessing oil and gas royalties for First Nations and ensuring royalties are collected
- Reviewing technical applications submitted by companies to provincial regulatory authorities and which could potentially impact First Nation reserve lands
- Providing yearly revenue forecasts to First Nations and AANDC regional offices for budgeting purposes
- Evaluating oil and gas leases for continuance and
- Providing technical evaluation where required as part of the review and processing of leases at the end of their primary and succeeding terms

Number of Wells Drilled on First Nation Lands



2011-2012 at March 31: Oil 172, Gas 1, Cased 32, Total 205

The Production Unit also includes the Informatics Group. This group is responsible for maintenance of the local area network and corporate data systems used by IOGC, and provision of support for corporate software including finance, word processing, spreadsheet and graphics-based programs.

Drilling and Recompletions of Wells

Drilling on First Nation lands followed the drilling trend in the Western Canadian Sedimentary Basin. With strong oil prices and weak gas prices, drilling was heavily weighted to oil. The vast majority of our oil wells were drilled on two developing heavy oil plays at Frog Lake and Onion Lake First Nations.

Horizontal drilling, coupled with multi-stage fracture completion techniques for oil and gas in tight reservoirs, continues to grow in momentum and importance. The Cardium play in Alberta and the Bakken play in Saskatchewan are typical examples. As technology continues

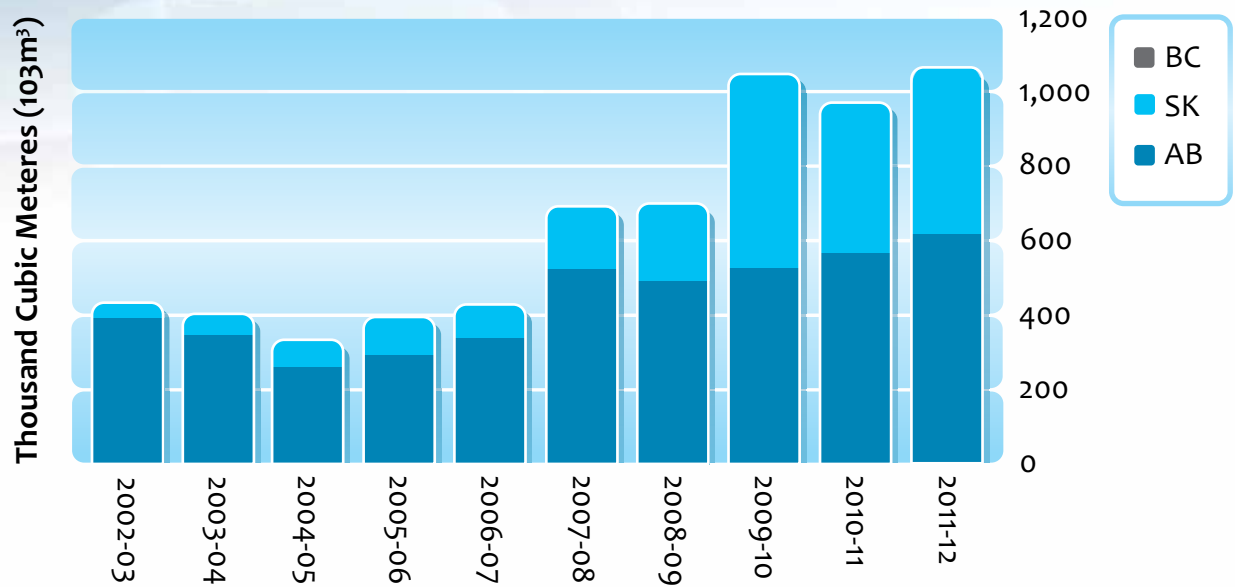
to evolve, in particular completion technology, previously untested or uneconomic intervals are increasingly being targeted, making for a very optimistic future outlook.

In the 2011-2012 fiscal year, a total of 205 wells were drilled, including 172 oil wells, one gas well and 32 cased wells.

Oil

Oil production remained healthy with total volumes of about 1.1 million cubic metres during fiscal year 2011-2012, in line with the total volumes of 1.1 and 1.0 million cubic metres during the previous two fiscal years. Oil production is expected to remain strong with the relatively high oil prices of the past few years forecast to continue. Virtually all drilling in the last couple years has been for oil, so the natural production decline of existing wells is being offset by production brought on from new wells. On First Nation lands, the majority of the oil production is heavy oil.

Oil Production from First Nation Lands



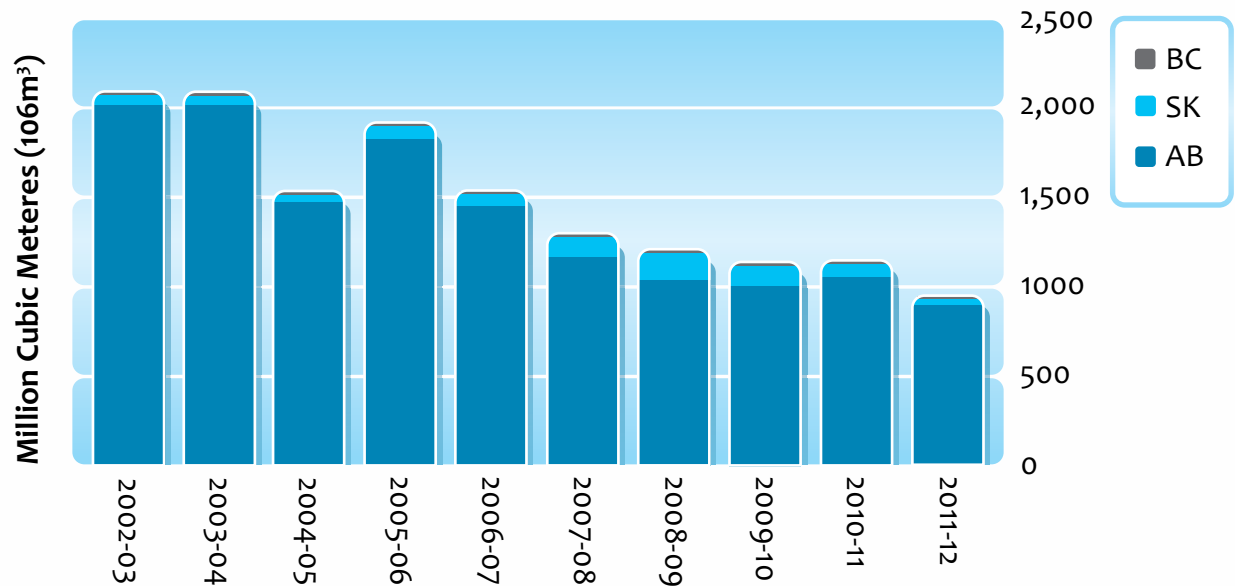
2011-2012 at March 31: AB 645.0, SK 476.1, BC 0, **Total 1,121.1 thousand cubic metres**

Gas

Sustained low gas prices resulted in slightly decreased overall gas sales volumes from First Nation lands. Gas sales volumes in fiscal year 2011-2012 were approximately 1.0 billion cubic

metres compared to about 1.1 billion cubic metres in each of the two previous fiscal years. As little to no new gas drilling is occurring because of the low gas prices, the overall gas volumes are expected to continue to decline.

Gas Production from First Nation Lands



2011-2012 at March 31: AB 921.5, SK 57.1, BC 1.4, **Total 1 million cubic metres**

Royalties

IOGC is responsible for collecting royalty moneys generated by the production and sale of oil and gas resources from First Nation reserve lands. During fiscal year 2011-2012, IOGC collected \$188.9 million in royalties on behalf of First Nations.

In 2011-2012, oil royalties continued to show strength while gas royalties dwindled as volumes and prices continue to fall due to oversupply and limited access to markets. This trend will continue for the foreseeable future.

Oil and Gas Prices

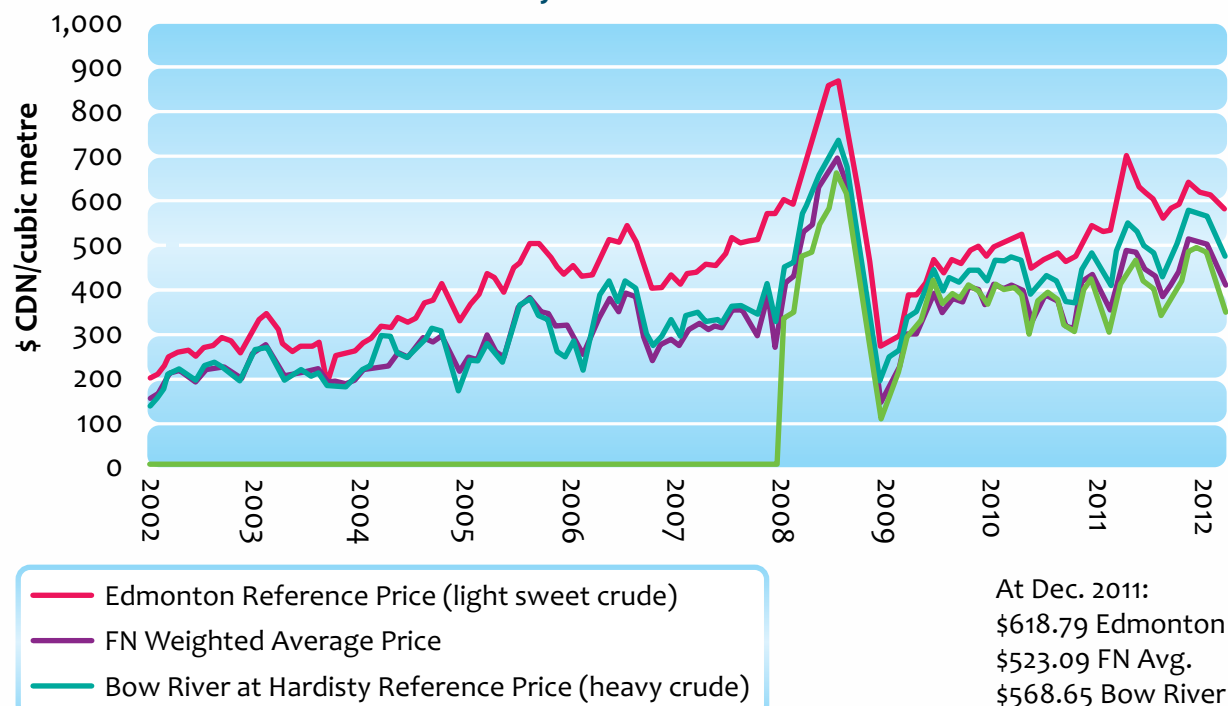
The sales prices of oil and gas produced from First Nations lands are based on current market trends.

Crude Oil Prices

Canadian crude oil, which is tied to the US benchmark price for West Texas Intermediate (WTI) crude oil, has been discounted for the last 18 months relative to the international benchmark crude oil price for Brent crude oil. The WTI discount was due to a bottleneck at Cushing, Oklahoma (a main pricing and delivery point for North American crude oil) with crude oil storage full in Cushing and pipelines bringing crude oil to Cushing forced to cut back on deliveries.

The end to the WTI discount may be close at hand, however, as a reversed Seaway Pipeline (now carrying crude oil away from Cushing to refineries in the US Gulf Coast) opened in mid-May. This pipeline's capacity will more than double over the next couple of years. In addition, TransCanada Pipelines has announced that it will be building the southern leg of its Keystone XL project from Cushing to the US Gulf Coast.

Monthly Benchmark Crude Oil Prices



Plans are also underway to add additional pipeline capacity from the Chicago area to Cushing, Oklahoma to meet with pipelines from Canada – as well as TransCanada’s Keystone XL project which would move crude oil from Hardisty, Alberta to Cushing, Oklahoma.

The discount of WTI (and Canadian) crude oil could be eliminated by approximately 2014, when these pipeline projects are completed.

Gas

Natural Gas Prices

North American natural gas prices have been very low for several years since new technology (fracturing or “fracing”) has allowed vast quantities of “tight” natural gas from shale formations in Pennsylvania, New York, Ohio, Virginia and Maryland (close to East Coast US gas

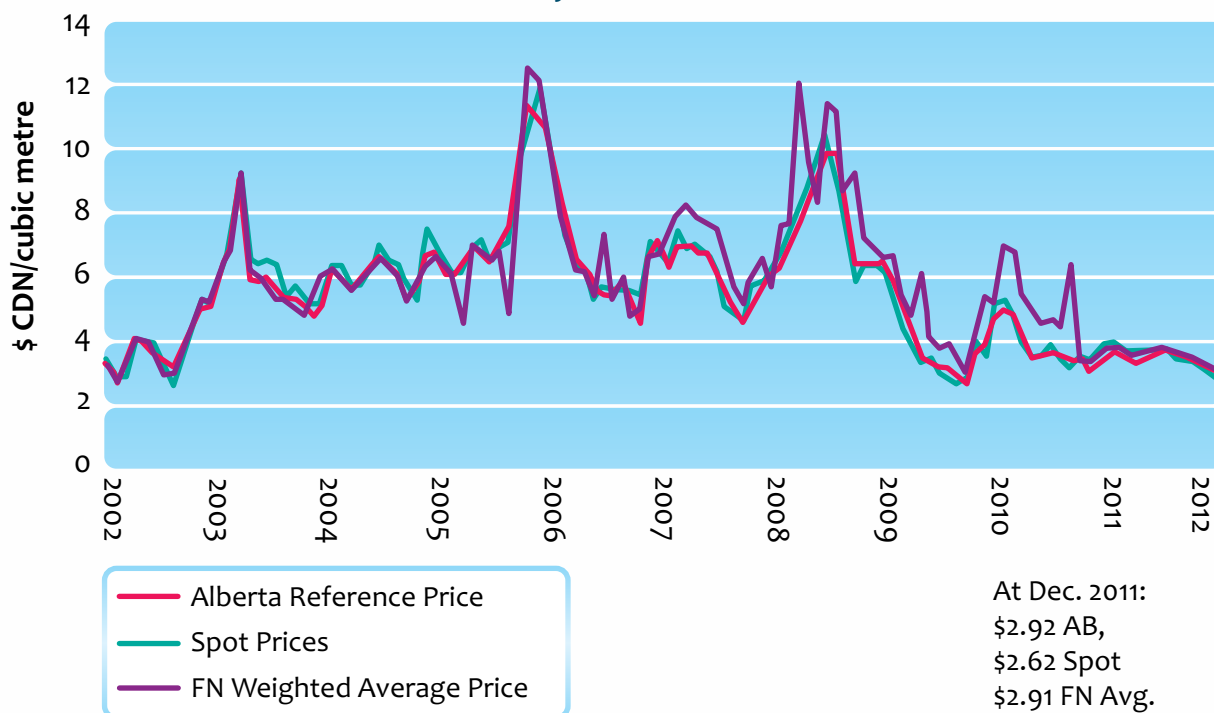
markets) to be produced. This new supply has resulted in reduced purchases of Canadian gas for export to the US.

In addition, due to this new supply of natural gas, many liquefied natural gas terminals in both the US and Canada and now redirecting themselves towards the export of surplus natural gas.

Natural Gas Liquids Prices

The combination of very low Canadian natural gas prices coupled with relatively high crude oil prices has resulted in better than normal economics of producing natural gas liquids (NGLs). This is because when producers of NGLs remove liquid components from the gas stream at straddle plants, the main cost is the cost of replacing the natural gas – which is relatively inexpensive. While NGL producer costs are relatively low because the gas they need to purchase is inexpensive, many of

Monthly Benchmark Gas Prices



the specification products produced (e.g. butane for use in gasoline pools) are priced based on higher crude oil prices.

Planning and Corporate Services Unit

The Planning and Corporate Services (PCS) Unit's key responsibilities include management planning, administrative policy, human resources, finance, procurement and administration. PCS also acts as secretariat to the IOGC Co-Management Board. The PCS Division includes four groups: Contracts and Administration, Finance, Human Resources; and Planning & Coordination.

Contracts and Administration

- Managing the contracting process
- Providing office administration, facility and security services
- Managing records and information, maintaining the resource library and providing Access to *Information and Privacy Act* (ATIP) services
- Coordinating purchasing

Accomplishments in 2011-2012 included: roll-out of a corporate services task management system to help manage requests; roll-out of new procurement requirements set by AANDC; and staffing of a new manager to fill a vacancy from retirement.

Finance

- Provided corporate financial services
- Administered decentralized IOGC operating budget and centralized salary budget
- Receipt and administration of trust funds
- Accounts payable and receivable

Accomplishments in 2011-2012 included: implementation of a new expenditure management process for travel; processing of shared services expenditures; completion of roll-out of automated royalty statement for all First Nation/company combinations that are



being assessed; collection of \$253.9 million in First Nation oil and gas revenues (including \$35.3 million TLE 5.08).

Human Resources

- Providing human resource services under a separate employer regime
- Human resources planning
- Employee recruitment
- Labour relations
- Compensation and benefits
- Training and career development
- Classification

Accomplishments in 2011-2012 included: drafting a revised values and ethics document aligned to that of the Treasury Board (TB) and the department; 62.5 percent Aboriginal hires from external staffing; agreement with TB on compensation for 2011, 2012 and 2013 and implementation of change to severance program.

Planning and Coordination

- Development of an annual IOGC Management Plan and co-ordination of reviews of progress against the plan
- Co-ordination of input to a variety of AANDC plans and reports
- Administrative policy development and implementation of AANDC initiatives
- Co-Management Board support and secretariat services

Accomplishments in 2011-2012 included: coordination of work to support development of three new performance indicators expected for reporting commencing 2013-2014; progress on occupational health and safety program and development of the IOGC 2012-2013 Management Plan.

Human Resources at IOGC

At IOGC, we fully recognize that our people make our organization what it is. We are proud of our diverse workforce and the synergy that can result when differing viewpoints, skill sets and experiences are brought together.

IOGC's level of representation in the four employment equity groups exceeds both Labour Market Availability and the representation levels within the Government of Canada as a whole. As of March 31, 2012, IOGC representation levels, as a percentage of total staff, were: Aboriginal, 45.2 percent; Persons with Disabilities 6 percent; Visible Minorities 16.7 percent; and Women 65.5 percent.

Each staff member has a personal learning plan and corporate training was provided on: Applying Values and Ethics in the Workplace; Harassment Prevention in the Workplace; the Benefits of an Optimistic Attitude; Making Room for Everybody: Creating a Culture of Inclusion; the Art of Relaxation. A number of information sessions were also held on the changes to severance pay.

Our employees are professionals in their areas and bring their best to the achievement of our organization's mandate, vision and values. During 2011-2012, a new Values and Ethics code was drafted in preparation for implementation in 2012. This code combined IOGC and AANDC specific information with Treasury Board's Values and Ethics Code for the Public Sector and the Policy on Conflict of Interest and Post-Employment.

Actions taken to address concerns raised through the 2008 Public Service Employee Survey were continued and IOGC staff participated in the 2011 Public Service Employee Survey. An initial analysis of the 2011 data was undertaken and in most areas IOGC's results were very good. Some areas of concern were identified and IOGC will be developing a plan to address those areas. Overall, IOGC's results were better than those of the public service as a whole and were better than IOGC's results from the last survey in 2008.



2012-2013

ORGANIZATIONAL PRIORITIES



IOGC values were updated to reflect the new Public Service values and ethics including: respect for democracy, respect for people, integrity, stewardship, and excellence.

During 2011-2012 a management plan for 2012-2013 was drafted which detailed IOGC's strategic direction, key initiatives, high-level operational priorities and deliverables for the fiscal year. The plan was aligned with the objectives of the Lands and Economic Development Sector of AANDC. It was designed to strengthen the contribution IOGC makes to enhancing the value of Aboriginal assets by supporting development of First Nation oil and gas resources. Oil and gas development is an economic opportunity that results in revenues which improve the economic prosperity of First Nations, reducing the gap in economic well-being between oil and gas First Nations and other Canadians.

The 2012-2013 Management Plan continues to be based on IOGC's medium term vision of being a "modern regulator" within the context of the organization's roles as a fiduciary, manager and regulator. IOGC values were updated to reflect the new Public Service values and ethics including: respect for democracy, respect for people, integrity, stewardship, and excellence. The Plan is built on the foundation of these values and the IOGC strategic framework (developed previously and available on the following page), which guides decision-making and provides focus and alignment through the four directional priorities of:

- Excellence in Governance
- Excellence in Oil and Gas Management
- Workplace of Choice; and
- Effective Relationships.

Key environmental factors that impacted on 2012-2013 planning include:

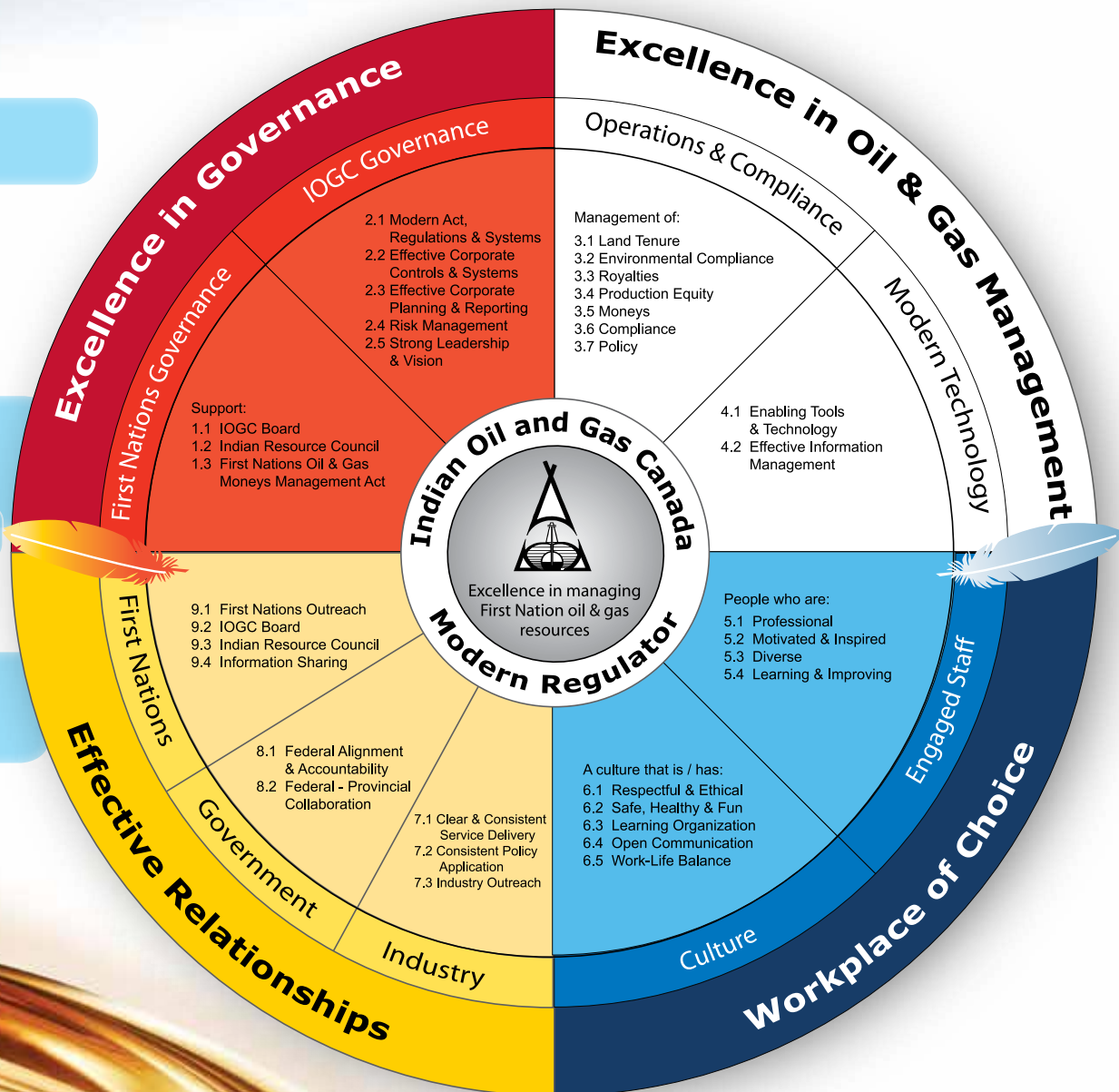
- The fragility of the economy and concerns regarding the Euro zone
- A weak natural gas sector and volatile oil sector
- Government deficit reduction strategies
- Changes to oil and gas regulatory regimes
- Human resourcing and the potential for a return to tight labour markets
- Modernization timelines and commitments, and the need for continued collaboration and consultation with First Nations, industry and government



The centrepiece of IOGC's plan for 2012-2013 continues to be the modernization of the *Indian Oil and Gas Regulations* and the implementation of supporting processes and systems. The MARS (*Modern Act Regulations and Systems*) project remains IOGC's top priority for the year ahead.

Other strategic priorities were limited to continuation of Interest Statement Automation and implementing changes with respect to Royalty Management.

IOGC STRATEGIC FRAMEWORK



FINANCIAL OPERATIONS

Funding – O&M, Contributions & Transfers			15,184,860
O&M			
Salaries		8,061,253	
Expenses			
IOGC Board	2,978		
Inventory Management	8,759		
Negotiations Disposition/Amendment	18,320		
Agreement Management	3,932		
Compliance	869,306		
Policy Management	0		
Informatics	196,763		
Corporate Management	776,566		
Environment	45,303		
Royalty	193,808		
Direct Operations Support	277,520		
IOGA Implementation	1,737,652		
FNOGMMA Implementation	0		
TLE	208,227		
TOTAL EXPENSES		4,339,133	
Contributions			
IRC – Partnership	600,000		
– IOGC Board	80,000		
– Governance & Oil and Gas Symposium	100,000		
Total Contributions		780,000	
Transfers			
Salaries	138,000		
O&M	982,540		
Contributions	875,000		
Total Transfers		1,995,540	
TOTAL O&M, CONTRIBUTIONS & TRANSFERS			15,175,926
SURPLUS/DEFICIT			8,934
Revenues Collected on Behalf of First Nations			
Royalties		188,958,949	
Bonus		14,939,155	
Compensation and Rentals		14,321,668	
Treaty Land Entitlement		35,336,861	
Interest		360,408	
Total Revenues Collected on Behalf of First Nations			253,917,040

IOGC's mandate

To fulfill the Crown's fiduciary and statutory obligations related to the management of oil and gas resources on First Nations lands.

To further First Nation initiatives to manage and control their oil and gas resources (i.e. governance).



Indian Oil and Gas Canada

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