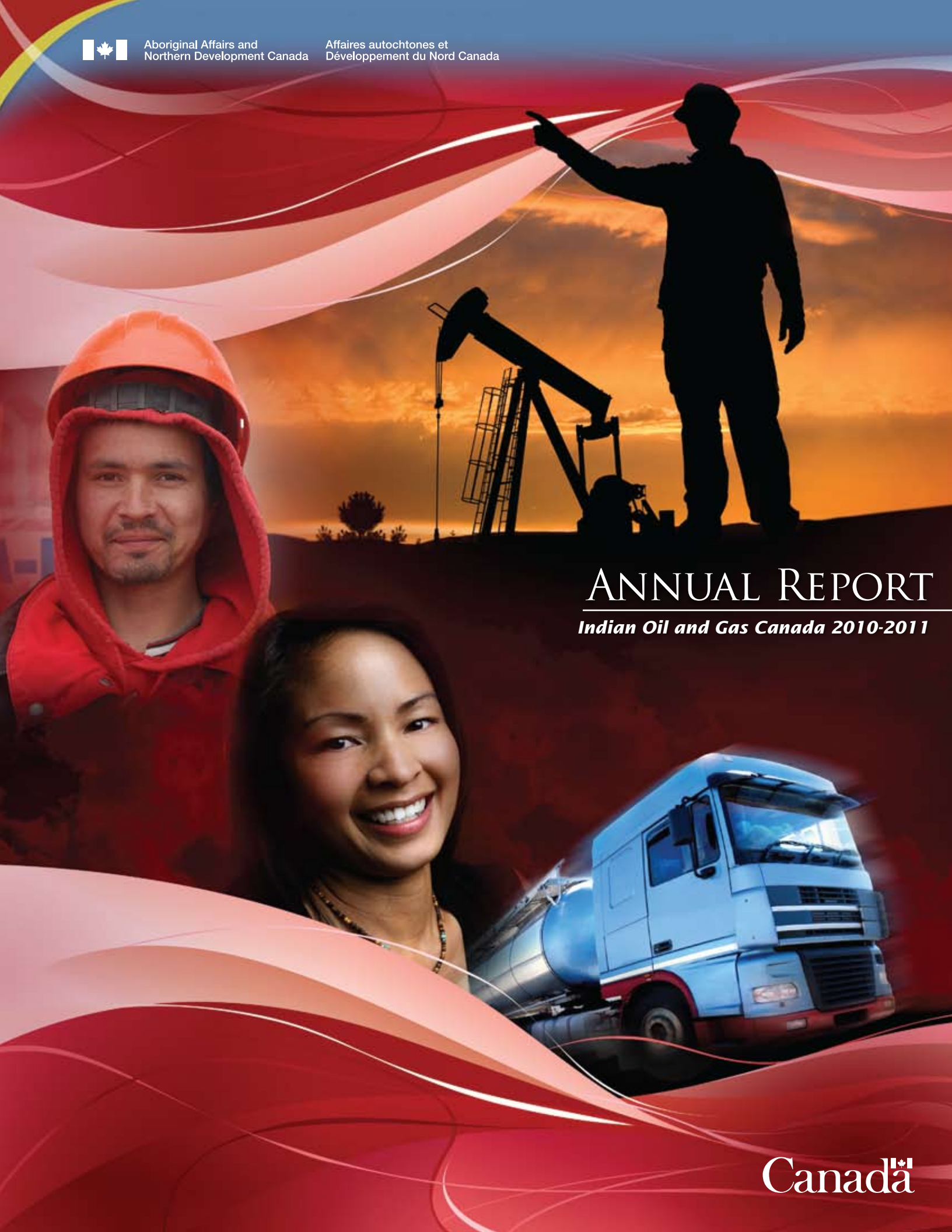




Aboriginal Affairs and
Northern Development Canada

Affaires autochtones et
Développement du Nord Canada



ANNUAL REPORT

Indian Oil and Gas Canada 2010-2011

Canada

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MESSAGE FROM THE CEO

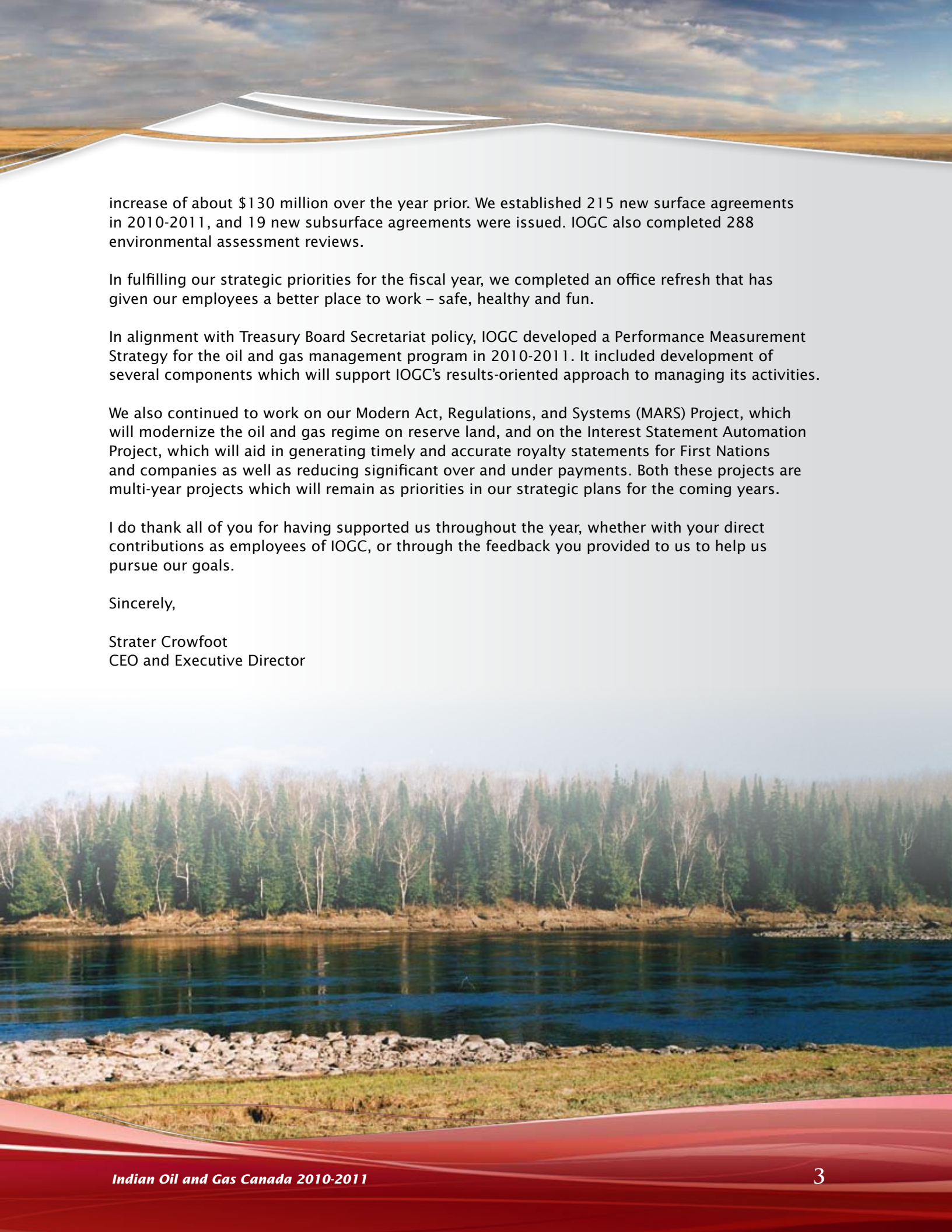
Ten years ago we set out to transform Indian Oil and Gas Canada (IOGC), gradually but permanently, towards becoming a modern regulator. We believed this was the best way to fulfill the Crown's fiduciary and statutory obligations related to the management of oil and gas resources on First Nation reserve lands. Ultimately, we are striving to:

- Increase legal certainty
- Improve the Government of Canada's ability to regulate oil and gas development on First Nations reserve lands
- Enhance environmental protection and ensure preservation of First Nation sites of cultural, historical, and ceremonial significance
- Regularize certain practices unique to operations on First Nation reserve lands while also reflecting a measure of consistency with modern industry practices, and
- Initiate a regular legislative and regulatory review (previously known as the continuous improvement process) that will facilitate the development of First Nations energy resources

We knew that changing the Indian Oil and Gas regulations was not going to be an easy process, especially while continuing to deliver the same service standards that First Nations have come to expect from us. As the next few years unfolded, it turned out to be an even more daunting task than we had thought at the outset, in that we were going to have to change our processes and supporting computer systems to reflect regulatory and industry changes.

So how have we been doing? Looking at 2010 as a milestone toward our goal, it was indeed a very good year. We collected \$256.6 million on behalf of First Nations, which represented a total





increase of about \$130 million over the year prior. We established 215 new surface agreements in 2010-2011, and 19 new subsurface agreements were issued. IOGC also completed 288 environmental assessment reviews.

In fulfilling our strategic priorities for the fiscal year, we completed an office refresh that has given our employees a better place to work – safe, healthy and fun.

In alignment with Treasury Board Secretariat policy, IOGC developed a Performance Measurement Strategy for the oil and gas management program in 2010-2011. It included development of several components which will support IOGC's results-oriented approach to managing its activities.

We also continued to work on our Modern Act, Regulations, and Systems (MARS) Project, which will modernize the oil and gas regime on reserve land, and on the Interest Statement Automation Project, which will aid in generating timely and accurate royalty statements for First Nations and companies as well as reducing significant over and under payments. Both these projects are multi-year projects which will remain as priorities in our strategic plans for the coming years.

I do thank all of you for having supported us throughout the year, whether with your direct contributions as employees of IOGC, or through the feedback you provided to us to help us pursue our goals.

Sincerely,

Strater Crowfoot
CEO and Executive Director

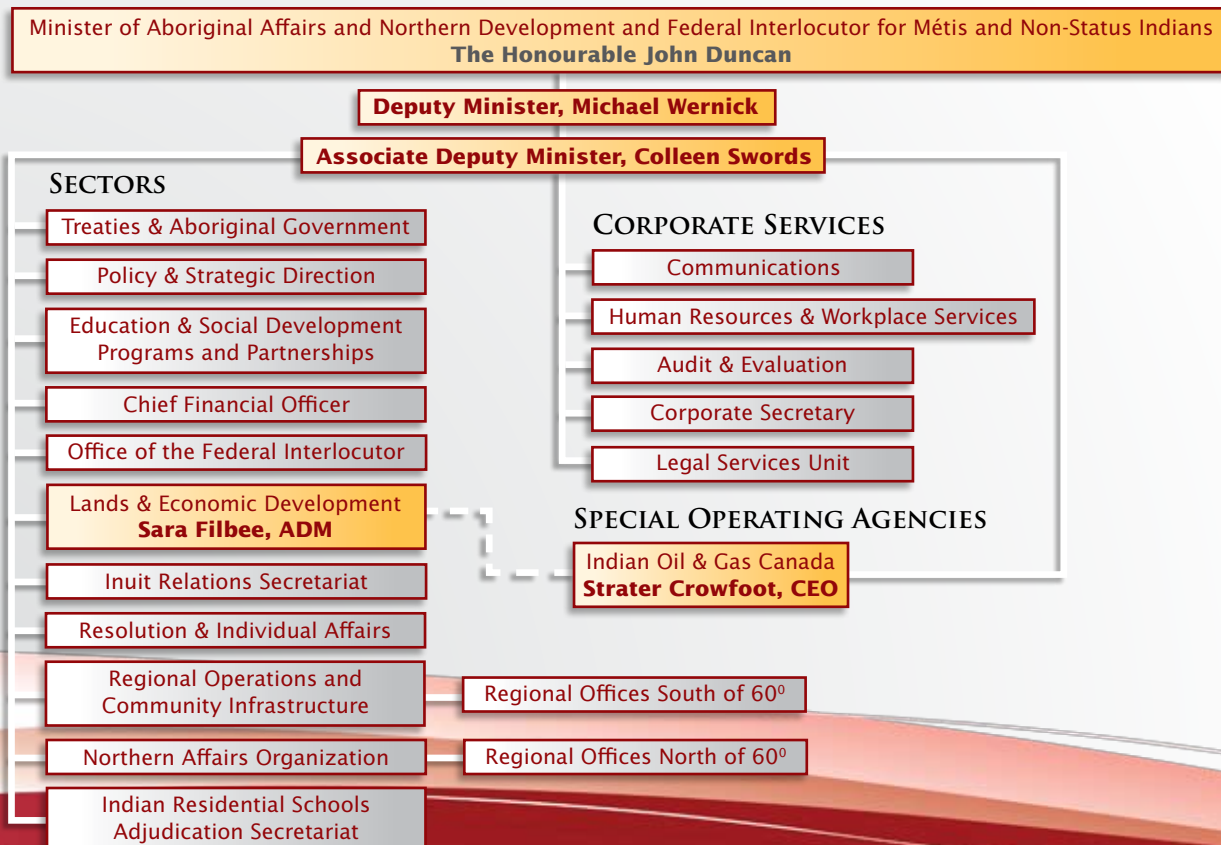



OVERVIEW

History of 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 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, 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 Advisory Board. The Advisory 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 Advisory Board focuses on areas of collective interest such as IOGC issues, policies, plans, priorities and resources.

There are up to nine members on the Advisory Board. The Advisory 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 Advisory Board, the Chair of the IRC and the Assistant Deputy Minister of Lands and Economic Development, serve as co-chairs.

The IRC is a First Nation organization that advocates on behalf of more than 130 First Nations nationally with oil and gas interests.

Our 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 2010-2011, we collected over \$256 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, as follows:

- Negotiate, issue and administer agreements with oil and gas companies;
- Conduct environmental screenings;
- Monitor oil and gas production and sales prices;
- Verify/assess and collect moneys such as bonuses, royalties and rents; and
- Ensure 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 2010-2011

Modernization of Act, Regulations and Systems (MARS)

Legislation modernizing the *Indian Oil and Gas Act* received Royal Assent in early 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 new 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 not come into force until the amendments to the Indian Oil and Gas Regulations are complete.

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.

...the amendments to the Act will position the Government of Canada to fulfill its obligation to manage oil and gas resources on reserve lands into the future.

Modern Act, Regulations and Systems (MARS) Project

In 2010-2011, work on the MARS project continued in several key areas:

- 1) First Nation involvement and outreach,
- 2) Refinement 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 module, and the 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 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 refinement of an effective and achievable project plan. Some of the activities in this area include: modification of the project's internal governance structure to coordinate activities in the multiple module areas, and securing expert assistance to guide in the building of skills and strategies to ensure the internal IOGC module teams are effective.

Progress was made regarding 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 was completed this year. Several other modules are also in advanced stages, ready to be shared with First Nations and translated 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 support. IOGC anticipates that amended regulations will be ready for broad consultation with First Nations in 2012-2013, with industry and provincial governments some time after that.

Performance Measurement Strategy (PM Strategy)

In alignment with Treasury Board Secretariat policy, IOGC developed a Performance Measurement Strategy for the oil and gas management program in 2010-2011. It included development of the following components which will support IOGC's results-oriented approach to managing its activities:

- Program Profile – describing the oil and gas management program characteristics
- Logic Model – depicting the program’s activities and how these activities will contribute to the intended outcomes
- Performance Measurement Matrix – identifying performance indicators, which are a qualitative or quantitative means of measuring an output or outcome
- Implementation Plan – detailing data collection strategies, reporting requirements and monitoring milestones including the addition of some new performance measures which are targeted for collection commencing in 2013-2014.
- Risk Assessment – identifying risks and mitigation strategies
- Evaluation Strategy – outlining how data generated by the PM Strategy will be used to support oil and gas management program evaluation activities

Interest Statement Automation

IOGC collects monies on behalf of First Nations for such things as the leasing of subsurface rights (i.e. bonus and rentals), surfaces leases or rights of way (initial consideration, rentals), exploratory licenses (compensation) and payment for production taken from First Nation lands, in the form of royalties.

The interest statement automation project is a multi-year project with the goal of streamlining operations by automating the First Nations receivables billing and the application of interest within IOGC’s Resource Information Management System (RIMS). Receivables statements can then be generated automatically on a monthly basis and sent to stakeholders. The results of the automation will assist in increasing the timeliness of payments and will contribute towards the reduction of significant over and underpayments.

The automation of the Land statements with interest was completed in previous years. The focus in 2010-2011 was on the automation of Royalty statements without interest, and as a result of the work undertaken automated statements were produced for 134 companies. Work continues to increase the number of companies that will receive automated statements. Analysis and design of the interest calculation process and data clean up has been ongoing and a number of procedural documents were completed.

Office Refresh

The Office Refresh project involved the renovation of the Tsuu T’ina offices while staff were temporarily located downtown at the Sam Livingston building. Public Works and Government Services Canada (PWGSC) advised that this project was going ahead in early March. Staff packed and moved to the Sam Livingston building by the end of July. At the end of December, staff again relocated back to the Tsuu T’ina offices. The refreshed office space is clean, fresh and modern and everyone is glad to be “home.” IOGC staff and stakeholders have been very supportive during the refresh despite the unavoidable disruption to operations.

Occupational Health and Safety

The Occupational Health and Safety project is about developing a robust health and safety program at IOGC. The committee identified training needed to assist in its development. A risk assessment conducted in the previous fiscal year identified a number of risks in IOGC’s day to day activities. During 2010-2011 a job safety analysis was conducted in these high-risk areas in order to develop safe work practices and any training or equipment necessary to mitigate the risks. Job hazard assessments and safe work procedures were completed for six high risk tasks and three medium risk tasks.



OTHER STRATEGIC INITIATIVES

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 modernization of RIMS has been planned as part of the operational implementation associated with the modernization of the *Indian Oil and Gas Act* and regulations. RIMS was initially developed in the early 1990s 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.

Along with the systems changes, we are reviewing our existing business practices and processes to ensure synergy and compliance. As part 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.

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.

RIMS... is a joint initiative
between IOGC and the
Information Management
Branch of Aboriginal
Affairs and Northern
Development Canada.

Both processes require us to collaborate with staff to develop business process changes, modernize IOGC's activities and support the implementation of the regulations. An analysis of the resulting business needs from a systemization point of view is also required.

Progress was made on detailing IOGC's current activities in support of oil and gas management. From this description of the current state, opportunities for improvement

and needed changes to support regulatory developments are identified. Areas in which improvements can be made to processes for the future will serve as the foundation for how the organization will conduct its business once the new regulations become law.

At year end, contractors had their security clearances completed, had begun their work and the new project plan was in effect. IOGC's Executive team has been briefed on the initial steps of the plan.





OPERATIONS

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.

This demonstrates that the larger blocks of land First Nations have to offer are economically attractive...

Executive Unit

The Executive Unit focuses on:

- Setting corporate direction and strategy
- Implementation of the directives of the IOGC 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 have the potential to 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 2010-2011. 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 2010-2011 fiscal year, IOGC collected approximately \$61 million for 19 subsurface dispositions issued on behalf

of First Nations in Alberta and Saskatchewan. This is a significant increase over last fiscal year and can be attributed largely to two large leases on Blood Tribe lands and another lease on O'Chiese First Nation lands. The bonus dollars paid for these leases follow a trend similar to that of the province of Alberta, in which average bonus per hectare also increased significantly during 2010-2011.

In terms of acreage disposed, the three dispositions on the Blood Tribe and O'Chiese First Nation lands accounted for approximately 70 percent of the total lands IOGC leased during this period. This demonstrates that the larger blocks of land First Nations have to offer are economically attractive to the oil and gas industry. Larger blocks of land encourage exploratory type oil plays and also provide industry the land base potential to recover more resources than may have been possible in the past. This is largely due to advances in new technologies.

The bonus and acreage leased in 2010-2011 are also indicative of IOGC's goal of encouraging economic competitiveness as compared to provincial royalty regimes. Each disposition IOGC issued last fiscal year provided a return to First Nations that was higher than both the Alberta and Saskatchewan royalty regimes. The difference between the bonus amounts in 2010-2011 fiscal year and those of 2009-2010 was due, in part, to challenges presented as IOGC and First Nations adjusted to the royalty changes announced by the Province of Alberta in 2009. The difference was also related to the fact that industry capital spending budgets were generally lower. Companies were grappling with low gas prices and uncertainty surrounding the Alberta provincial royalty regime as well.

Negotiated Subsurface Permits initiated from April 2010 through March 2011

First Nation	Company	Area Disposed (hectares)
Birdtail Sioux (MB)	Fort Calgary Resources Ltd.	2,725.80
Muskowekwan (SK)	Muskowekwan Resources Ltd.	6,624.31
Ochapowace (SK)	Ochapowace Mining Corporation	15,862.67
Red Pheasant (SK)	Allstar Energy Limited	4,276.08
TOTAL		29,488.86

Negotiated Subsurface Leases initiated from April 2010 through March 2011

First Nation	Company	Area Disposed (hectares)
Ermineskin Tribe (AB)	One Earth Oil & Gas Inc.	2,235.49
Frog Lake (AB)	Frog Lake Energy Resources Corp.	220.80
Kehewin Cree Nation (AB)	Kehewin Resources Ltd.	3,440.70
O'Chiese (AB)	O'Chiese Energy Inc.	5,120.00
Flying Dust First Nation (SK)	Flying Energy Inc.	129.36
Flying Dust First Nation (SK)	Flying Energy Inc.	128.66
Flying Dust First Nation (SK)	Flying Energy Inc.	127.62
Little Pine (SK)	Avalon Exploration Ltd.	244.80
Little Pine (SK)	Blue Hill Energy Inc.	126.27
Thunderchild (SK)	Tonare Energy Llc	505.05
Thunderchild (SK)	Tonare Energy Llc	92.19
Blood Tribe (AB)	Murphy Oil Company Ltd	53,369.18
Blood Tribe (AB)	Bowood Energy Corp.	24,253.80
Loon River Cree (AB)	Baytex Energy Ltd.	1.32
Woodland Cree First Nation (AB)	Harvest Operations Corp.	821.78
TOTAL		90,817.02

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 2010-2011 IOGC received and reviewed 288 environmental assessment applications. This is more than double the total of 130 environmental assessment applications that were handled by IOGC's Environment Group in 2009. This increase is due to higher oil prices and more drilling occurring on First Nation reserve lands.

In 2010-2011, the Environment Group conducted 95 inspections, which is up from the 67 inspections conducted in 2009-2010. This year was also notable because IOGC's Environment Group conducted our first joint inspection with Saskatchewan Energy and Resources, which is the province's well licensing body. The Environment Group has committed to continue to increase our presence on First Nation reserve lands in 2011-2012.

A total of 29 reclamation inspections were completed this fiscal year. This is also an increase from the previous year when a total

of 15 reclamation inspections were done. The number of reclamation inspections required depends on how many complete reclamation applications we receive prior to the growing season.

In general the Environment Group's workload has increased tremendously from 2009-2010.

The Environment Group was able to hire a Treaty Land Entitlement (TLE) Environmental Analyst in late 2010, who will conduct inspections of oil and gas sites on TLE lands and facilitate the transfer of environmental information from the regional AANDC offices to IOGC in 2011-2012.

IOGC's Information Letter on How to Prepare an Environmental Assessment for Indian Oil and Gas Canada was reviewed and revised this fiscal year as well. This document had last been updated in 2001. IOGC solicited input from environmental consultants, industry and First Nations over the past number of years on this revised information letter. Changes have been incorporated into the current version, which will continue to be updated regularly, especially in light of the development of the new regulations.

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 land
- 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

In 2010-2011, 147 surface agreements were issued, and 68 right-of-way agreements were issued, for a total of 215 surface land agreements issued for the year. This is an increase of 81 dispositions over 2009-2010. IOGC targets normally range between about 145-450 agreements issued in a given year.

This increase in dispositions in 2010-2011 may be largely related to advancements in horizontal drilling and other technologies. Horizontal drilling is increasing recovery rates on existing fields and unlocking value in mature pools, making previously uneconomical finds now commercially viable. On First Nation lands, the number of surface lease applications for multi-well well sites is reducing the production footprint in that multiple wells are increasingly being located within one well site. Fewer well sites reduce the environmental impacts of oil and gas development compared to the traditional vertical wells, which require more sites.

In 2010-2011, surface land area under disposition amounted to 10,108 hectares. This is an increase of 107 hectares over the previous fiscal year. This number includes new dispositions minus surrendered dispositions. Surface area under disposition refers to the actual amount of reserve land impacted by oil and gas development.

In 2010-2011 the total number of surface agreements under IOGC administration was 4740. This is a slight increase from the previous year total of 4676. We expect this total number of agreements to rise from year to year as issuance of surface agreements outpaces surrenders. However, at some point in time, the number of surface leases will decrease as hydrocarbon resources eventually become depleted.

The Surface Land Group also coordinated the amendment of IOGC agreements and partial surrender of interest for oil and gas related agreements impacted by the Highway 43 widening project at Sturgeon Lake. The

amendments were required in order for the transfer of lands to take place from Sturgeon Lake First Nation to the Province of Alberta.

As well, the TLE process has brought what is known as Surface Only Reserves to the forefront, which has presented some challenges for IOGC. As a result of the TLE process some First Nation reserve additions are for Surface Rights only. A Surface Only Reserve is created when a First Nation is unable to purchase the fee title mineral rights to a parcel of lands, even though it may own the surface rights of that land. IOGC, in consultation with Department of Justice has determined that Oil and Gas Surrender and Designations are required for Surface Only reserves to fall within our jurisdiction; otherwise IOGC can grant agreement under 28(2) permit provisions of the *Indian Act*.

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. As of March 31, 2011 the total number of TLE agreements now administered by IOGC are: 239 surface leases, 120 rights of way, and 71 mineral agreements.

The replacement agreement process differs from IOGC standard surface and subsurface disposition processes in that the request for replacement agreements is not driven by industry demand. Rather, the request for replacement agreements comes from TLE First Nations. IOGC's TLE unit works with the TLE First Nation and the existing agreement holder to prepare replacement agreements which become effective when the lands attain reserve status. During the 2010-2011 fiscal year IOGC received requests from TLE First Nations to prepare 18 of these replacement agreements.

IOGC TLE unit works closely with Aboriginal Affairs and Northern Development Canada (AANDC) in the additions to reserve process. Subsequent to preparing the replacement agreement, IOGC notifies AANDC that the agreements are completed and ready to execute pending reserve creation. The agreements become effective when AANDC notifies IOGC that reserve creation is complete. New reserve land created in 2010-2011 resulted in 12 agreements that were initially classified as pending reserve creation becoming effective. At the end of 2010-2011, the total number of replacement agreements at IOGC pending reserve creation was 205. During the 2010-2011 fiscal year, IOGC also completed 13 agreements which have been added to the total of 205 currently at IOGC which are pending reserve creation.



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 the 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.

Well Type Drilled by Indian Reserve During Fiscal Year 2010-2011

Indian Reserve	Oil	Gas	Cased, D&A* or Other	TOTAL
Alexis Whitecourt #232, AB	1			1
Buck Lake #133C, AB	2			2
Cold Lake #149, AB	3			3
Ermineskin #138, AB	1			1
Little Pine #116, SK	2			2
Loon Lake #235, AB	2		1	3
Ocean Man #69G, SK	2			2
O'Chiese #203, SK		5		5
Onion Lake #119-1, SK	35		3	38
Puskiakiwenin #122, AB	10		1	11
Red Pheasant #108, SK	1			1
Swampy Lake #236, AB	2			2
Unipouheos #121, AB	80		1	81
White Bear #70, AB	1		1	2
TOTAL	142	5	7	154

* Dry and Abandoned

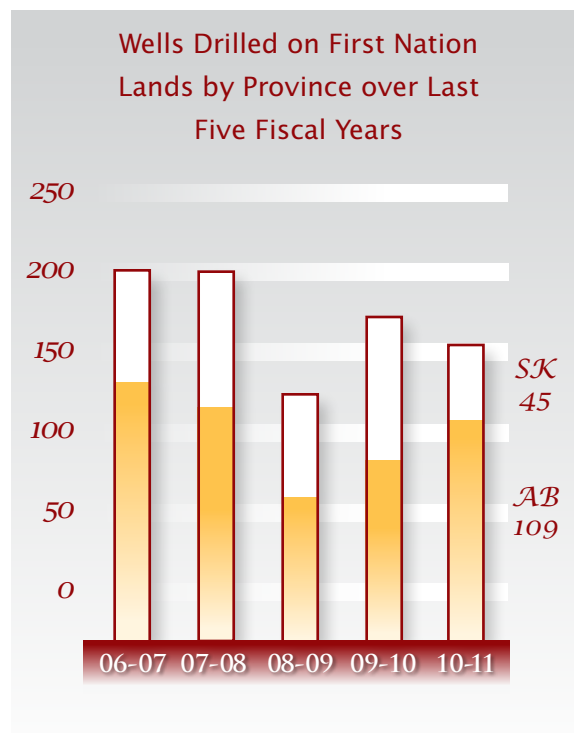
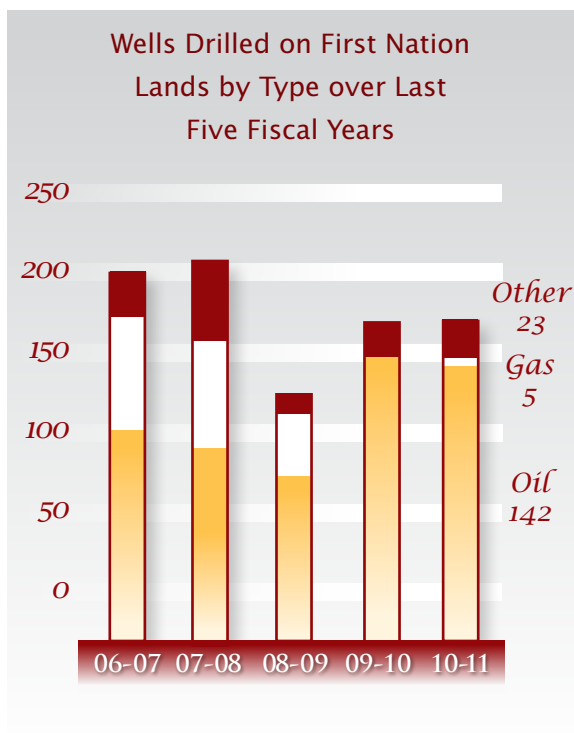
The Production Unit also includes the Informatics Group. This group is responsible for maintenance of the local area network and corporate data systems used by IOGC, and provision of support for corporate software including finance, word processing, spreadsheet and graphics-based programs.

Drilling and Recompletions of Wells

Industry spent about \$96 million to drill 154 new wells on First Nation reserve lands during fiscal year 2010-2011. Companies continued

to target oil resources as oil prices remain strong. Few companies are going after gas resources because gas prices are low and thus reduce the economic viability of drilling a gas well.

Drilling occurred on 14 Indian Reserves, nine of which are in Alberta with the other five in Saskatchewan. About two-thirds of the wells were drilled in Alberta.



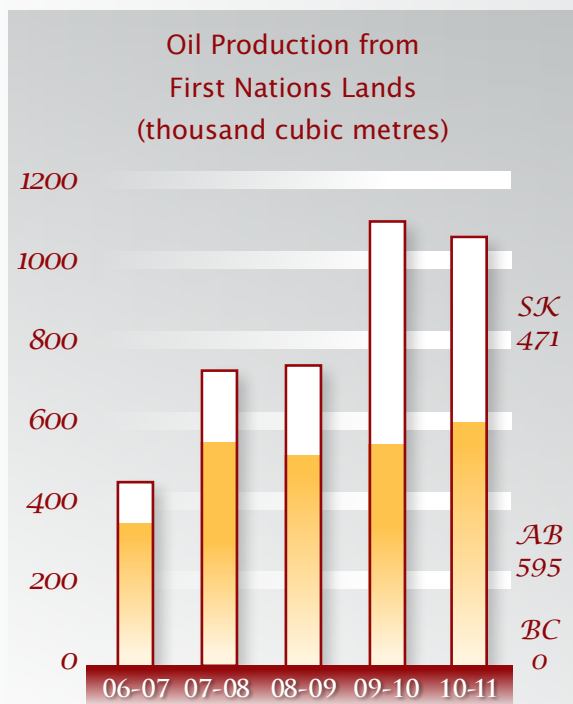
Production of Oil and Gas

Number of Indian Reserves with Oil and/or Gas Production During Fiscal Year 2010-2011

Province	Treaty Area	Number of Indian Reserves
Alberta	6	25
	7	6
	8	16
British Columbia	8	2
Saskatchewan	2	2
	4	1
	6	15
TOTAL		67

Oil

During fiscal year 2010-2011, the volume of oil production from First Nation reserve lands was almost as high as the previous fiscal year's total of 1,100 cubic metres, which was the highest level ever. The second year of high oil production volumes is indicative of continuing industry focus on the development of oil resources. Over the past few years, the industry has drilled many oil wells that are now producing and account for the high volumes. Heavy oil continues to comprise the majority of oil production, with most of the oil wells drilled over the last several years targeting heavy oil resources.



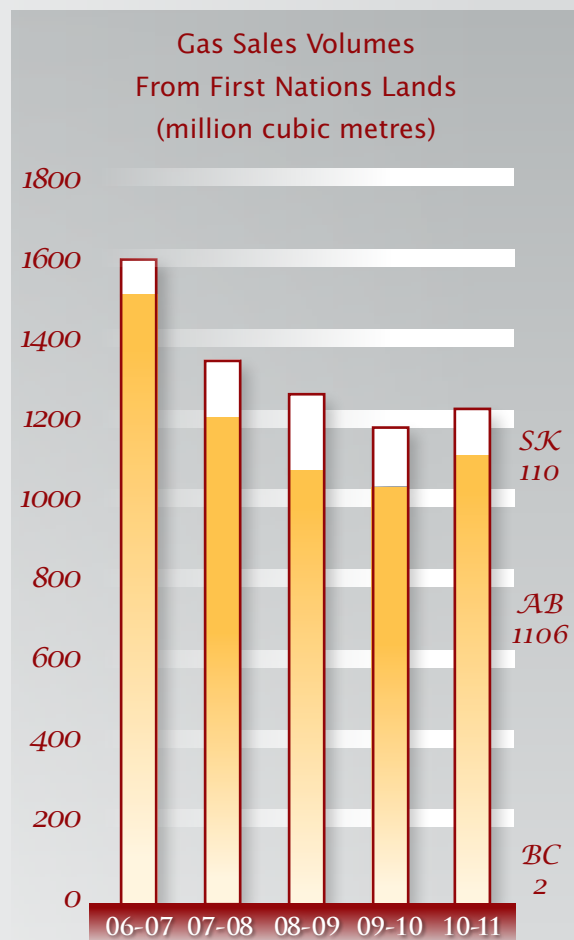
The provincial breakdown of total oil production in fiscal year 2010-2011 returned to the typical pattern with Alberta having the majority of oil production, but with Saskatchewan a strong second. So far, the previous fiscal year of 2009-2010 has been the only year in which more than half the oil production from First Nation reserve lands occurred in Saskatchewan.

During the fiscal year, oil production occurred from 35 Indian reserves, corresponding to the lands of 28 First Nations. Oil volumes

from the top three oil producing First Nations comprised more than 75 percent of the total oil volumes from First Nation reserve lands.

Gas

Fiscal year 2010-2011 saw total gas sales volumes from First Nation reserve lands remain about the same as the previous fiscal year, slowing a decade-long trend of decreasing gas production. Gas sales volumes totalled 1.2 billion cubic metres. Although gas production from most First Nations decreased, there were increases in production at a few of the larger First Nations during the fiscal year.



With few gas wells being drilled and low gas prices expected to continue for some time, we anticipate that the predominant trend of overall First Nation gas production will continue to decline.

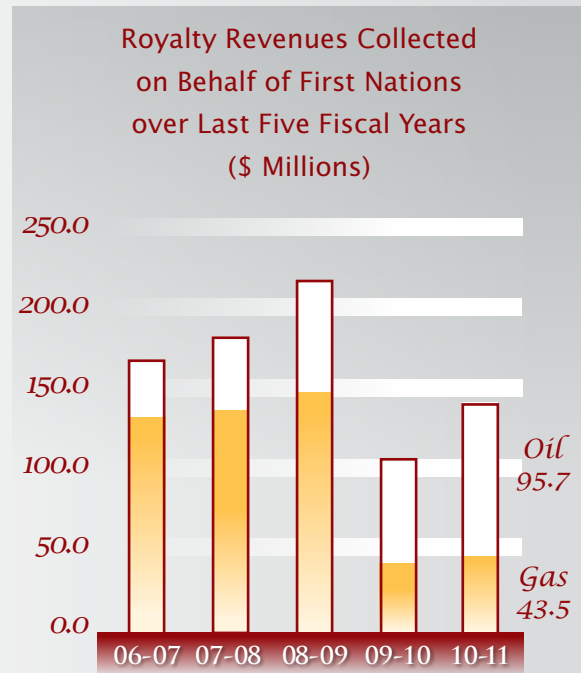


During fiscal year 2010-2011, gas production occurred on 57 Indian reserves, corresponding to the lands of 42 First Nations. Gas sales volumes from the top three gas-producing First Nations comprised about 60 percent of the total gas sales volumes from First Nation lands.

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 2010-2011, IOGC collected \$139.2 million in royalties on behalf of First Nations, of which \$95.7 million were from oil and \$43.5 million were from gas.

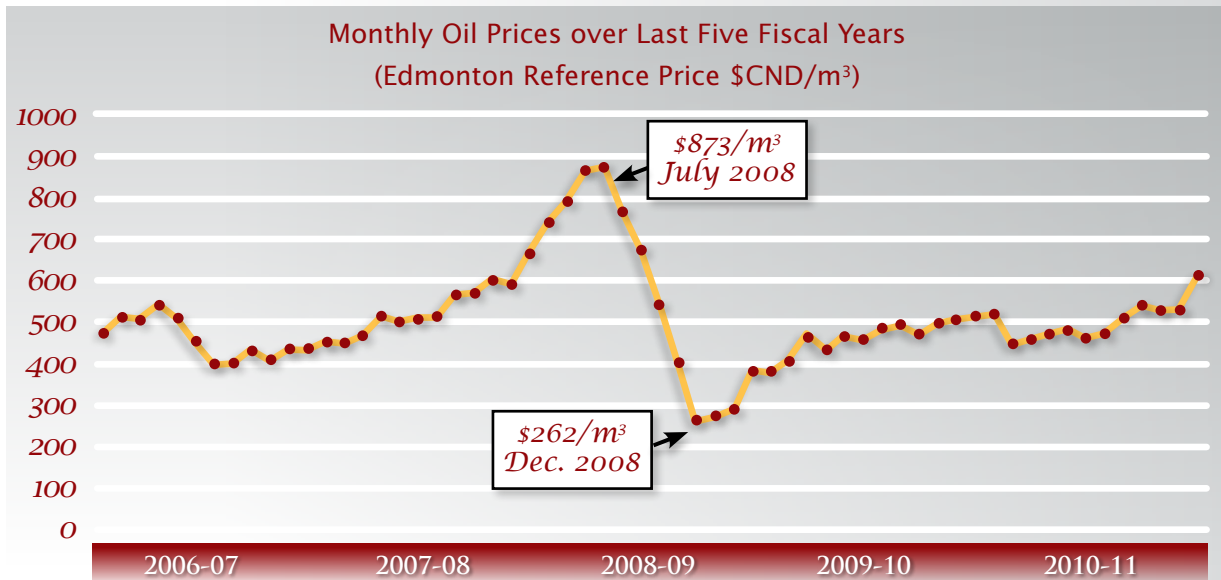
The ratio of oil to gas royalties is weighted very heavily to oil as the low gas prices that began a couple years ago continued through the year. Traditionally, the majority of royalties collected on behalf of First Nations was for gas, but this trend switched when gas prices dropped and oil prices remained strong.



PRICES

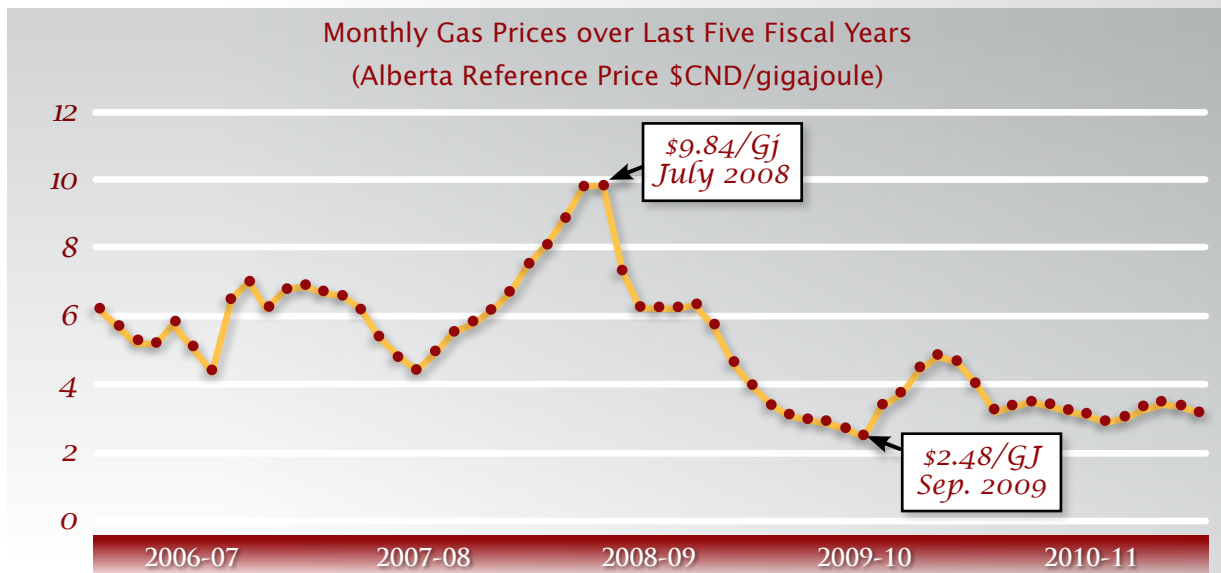
Oil

Oil prices remained strong and relatively stable during fiscal year 2010-2011 compared to the high and low spikes seen two fiscal years prior. The Edmonton reference price during the fiscal year ranged between \$447/m³ and \$613/m³. As a result, industry is continuing to invest in the development of oil resources.



Gas

The gas prices during fiscal year 2010-2011 remained at the low levels that began the previous fiscal year. During the fiscal year, the Alberta reference price ranged between \$2.92/GJ and \$3.49/GJ. As a result of these low gas prices industry has curtailed investment in the development of gas resources.



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. The Division also acts as secretariat to the IOGC Co-Management Board and fosters the IRC relationship.

The PCS Division includes three distinct groups: Contracts and Administration, Finance and Human Resources.

Contracts and Administration Group

- Managing the contracting process
- Providing office administration, facility and security services. A major accomplishment this year was the office refresh.
- Managing records and information, maintaining the resource library and providing *Access to Information and Privacy Act* (ATIP) services
- Coordinating purchasing

Finance Group

- Providing corporate financial services
- Administering decentralized IOGC operating budget and centralized salary budget
- Receiving and administering trust funds. This year significant progress was made on the interest project and the collection of \$256.5M (which included \$42M TLE 5.08 funds) on behalf of First Nations as a result of oil and gas operations on their lands.

Human Resources Group

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

In 2010-2011, PCS coordinated a governance training session for the IOGC Co-Management Board, and coordinated the development of the IOGC 2011-2012 Management Plan. PCS also ensured the collection and administration of \$256.5 million in revenues, (including \$42 Million in TLE 5:08 funds) on behalf of First Nations. Work was completed on the Performance Measurement Framework and PCS also coordinated and led activities around the Office Refresh, both of which were strategic priorities for IOGC in 2010-2011.

2010-2011 was the period during which IOGC's offices were temporarily relocated to downtown Calgary so that our office on the Tsuu T'ina Nation could be refurbished. Considerable work was done to ensure that staff who are recognized as Status Indians were aware of the tax implications of the move and that these implications were dealt with correctly. In relation to training and development, every staff member prepared their annual learning plans. The Human Resources (HR) Group arranged and/or delivered training sessions on: Professionalism in the Workplace; Awareness and Prevention of Harassment; Navigating Life's Transitions; Resilience; and presentations on the taxable implications of IOGC's temporary move off reserve.

IOGC's relocation to downtown Calgary presented IOGC's HR with certain challenges of its own. While IOGC continues to face challenges in staffing some of our positions, 11 staffing actions resulted in applicants being appointed in 2010-2011.

A number of new positions were created through the year and other existing positions were reviewed to ensure that their work descriptions were current and the positions were classified properly. In terms of policy development two current policies were updated and two new policies were developed and approved by our Executive Team.





Actions taken to address concerns raised through the 2008 Public Service Employee Survey continued. As well, preliminary work on the transition from our current HR information system to a new system (PeopleSoft) was begun. This transition will also include the adoption of the Common Human Resources Business Processes that are being developed through the Office of the Chief Human Resources Officer at Treasury Board.

In 2010-2011, at IOGC more than 44 percent of our employees were of Aboriginal descent.

Going into 2011-2012 HR continues its work in the areas of staffing, classification and

review of positions, training and development, planning and reporting, staff relations, and promotion of workplace wellness.

In addition to these ongoing operational responsibilities, HR has a number of projects that should come to the forefront in the coming year. The *Public Sector Equitable Compensation Act* (PSECA) regulations are due to be released in the summer of 2011. This 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.

Over the next few years, our current HR information system will be replaced with the PeopleSoft application used by most of the

public service. As part of this change, IOGC will be adopting and implementing Treasury Board's Common Human Resources Business Processes (CHRBP). The impact of the change will move beyond HR and across the entire organization as the new system and HR business processes are adopted.

The 2011 Public Service Employee Survey will be conducted in September and HR will be working with Statistics Canada to ensure the survey is conducted smoothly. Survey results will be reviewed and analyzed when they are released in early 2012.

HR will also take the lead at IOGC in preparing to adopt Treasury Board's upcoming Values and Ethics Code for the Public Sector and the accompanying Policy on Conflict of Interest and Post-Employment.

2011-2012 Organizational Priorities

During 2010-2011 a management plan for 2011-2012 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, and was designed to strengthen the contribution IOGC makes to enhance the value of Aboriginal assets by supporting development of First Nation oil and gas resources. This development is an economic opportunity, which can improve the economic prosperity of First Nations, reducing the gap in economic well-being between oil and gas First Nations and other Canadians.

The 2011-2012 Management Plan is 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.

The plan is built on the foundation of the IOGC strategic framework (attached 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 2011-2012 planning include:

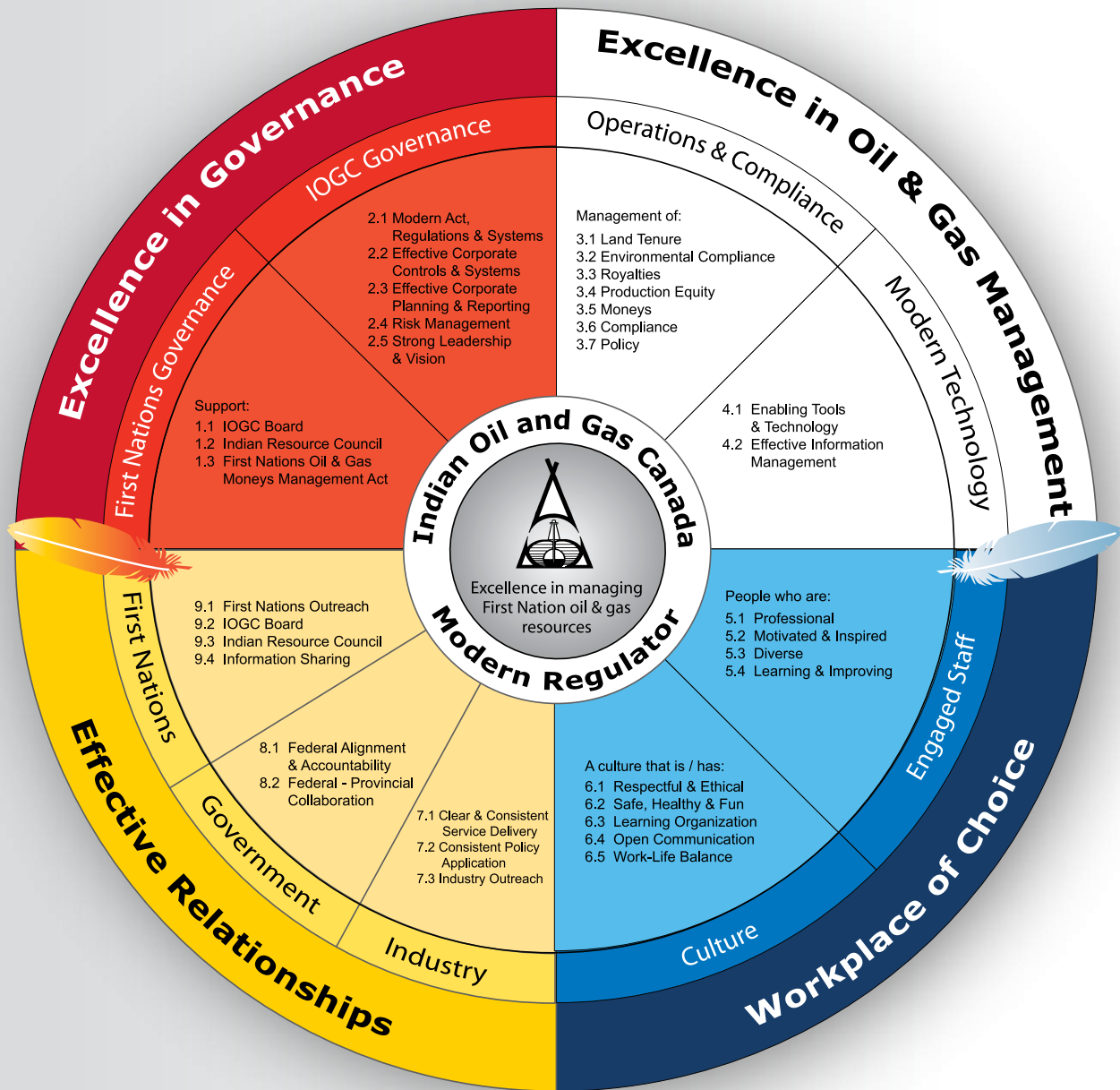
- The pace and fragility of economic recovery
- A weak natural gas sector
- Government deficit and resulting reductions in operating expenditures
- Changes to the regulatory regime in Alberta
- Human resourcing and the potential for a return to tight labour markets
- Modernization timelines and commitments, and the need for continued collaboration and consultation with First Nations, industry and government

The centrepiece of IOGC's plan for 2011-2012 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 is IOGC's top priority for the year ahead.

In addition to the MARS project, IOGC has identified an over-arching initiative for Management of Change to address the people side of the broad change agenda facing the organization.

Other initiatives proposed in the plan include development of the Occupational Health and Safety (OSH) program, Interest Statement Automation related to royalties (land is complete), implementing changes arising from Provincial Royalty Changes; and requirements to assess equitable compensation (equal pay for equal work) as may be required under the *Public Sector Equitable Compensation Act*.

IOGC STRATEGIC FRAMEWORK



FINANCIAL OPERATIONS 2010-2011

Funding – O&M, Contributions & Transfers		15,427,563
O&M		
Salaries		6,539,952
Expenses		
IOGC Board	3,812	
Inventory Management	7,458	
Negotiations Disposition/Amendment	59,769	
Agreement Management	34,357	
Compliance	991,918	
Policy Management	0	
Informatics	206,323	
Corporate Management	1,246,888	
Environment	124,553	
Royalty	219,202	
Direct Operations Support	425,437	
IOGA Implementation	577,217	
FNOGMMA Implementation	58,329	
Total Expenses		3,955,263
Contributions		
IRC – Partnership	600,000	
– IOGC Board	80,000	
First Nations Oil and Gas Management Initiative	671,779	
Total Contributions		1,351,779
Transfers		
Salaries	245,022	
O&M	2,242,616	
Contributions	908,000	
Total Transfers		3,395,638
TOTAL O&M, CONTRIBUTIONS & TRANSFERS		15,242,632
SURPLUS/DEFICIT		184,932
Revenues Collected on Behalf of First Nations		
Royalties		139,132,999
Bonus		62,328,635
Compensation and Rentals		12,944,139
Treaty Land Entitlement 5.08		42,041,281
Interest		98,199
TOTAL REVENUES COLLECTED ON BEHALF OF FIRST NATIONS		256,545,253



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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