



Aboriginal Affairs and
Northern Development Canada

Affaires autochtones et
Développement du Nord Canada



2014-2015

Indian Oil and Gas Canada (IOGC) Annual Report

Canada 

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Strater Crowfoot
Executive Director
and CEO

Message from the CEO

To Our Stakeholders

Fiscal year (FY) FY2014-2015 was another busy year for Indian Oil and Gas Canada (IOGC). Throughout the year; aside from daily operations, there were three ongoing key projects that remain as priorities for IOGC:

- Modern Act, Regulations, and Systems (MARS)
- Interest Statement Automation
- Royalty Management


The MARS project was initiated in FY2010-2011 to guide the modernization of the *Indian Oil and Gas Regulations, 1995* and the implementation of the *Indian*

Oil and Gas Act, 2009 and the new regulations. This project remains IOGC's top priority for FY2014-2015.

To complete the MARS project, various phases were identified. The first phase of the project was completed with the granting of Royal Assent to the amended *Indian Oil and Gas Act* in May 2009. Subsequent phases of the project include:

- the development of new regulations;
- the coming into force of the 2009 Act and new Regulations; and,
- implementation of the new Act and regulations through modernized business practices supported by informatics enhancements.

A Joint Technical Committee (JTC) – comprised of First Nation oil and gas technicians, Government of Canada officials from IOGC, Aboriginal Affairs and Northern Development Canada, and Justice Canada – had originally worked on the *Indian Oil and Gas Act, 2009*; they are currently working on the development of new supporting regulations.



THE NEW ACT AND REGULATIONS WILL BE IMPLEMENTED THROUGH MODERNIZED BUSINESS PRACTICES SUPPORTED BY INFORMATICS ENHANCEMENTS.

In FY2013-2014, an agreement was reached between the department and First Nations to implement a phased approach for regulatory development; firstly with a new set of core regulations that is compatible with the 2009 Act. The end-result of this process – 2009 Act and core regulations – will then become law with minimal delay.

During FY2014-2015 IOGC worked on accommodating the recommendations and feedback of the JTC regarding the 1st Consultation Draft, Phase 1 regulations. The benefit and importance of the JTC's inclusion has allowed for an earlier release of the 2nd

Consultation Draft, Phase 1 regulations that will be sent to all stakeholders – First Nations, industry and the oil and gas producing provinces – for detailed review and feedback.

The new Act and regulations will be implemented through modernized business practices supported by informatics enhancements. Last year, I reported that IOGC's request for membership in PETRINEX (**PET**roleum **IN**formation **EX**cellence, formerly the Petroleum Registry of Alberta) was granted in October 2013. PETRINEX is the provincial and industry recognized authoritative source for hydrocarbon volume and pricing information. Once fully implemented, PETRINEX and IOGC will be able to exchange data that will improve both the accuracy and timeliness of IOGC's royalty assessment process. This also addresses a major source for disagreements between First Nations and their business partners – volume measurement and pricing. During FY2014-2015, the proposed informatics project, dubbed the 'RIMS2 Project', received the required departmental approvals that precede seeking Treasury Board's Project Approval.

On the operations side, weak natural gas prices since early 2014 continued to be reflected by movement away from dry gas plays to oil plays and liquids-rich gas plays. Consequently, this resulted in fewer wells drilled and decreased gas royalties. In total, IOGC collected \$163,151,591 million on behalf of First Nations and issued a total of 43 new surface agreements and 10 sub-surface agreements. More details on our operations activity are contained in this report.

In closing, I will take this opportunity to mention and acknowledge the contributions made by IOGC staff, our partners, and our clients over the past year. Through hard work and commitment, we have established a strong foundation that has allowed IOGC to continue with the planning and preparation for the day our new Act and regulations will become law.

Sincerely,

Strater Crowfoot
Executive Director and CEO



Overview

History of Indian Oil and Gas Canada and Related Legislation

The Government of Canada has a broad mandate for First Nation issues, which arises from existing legislation and from legal obligations contained in section 91(24) of the *Constitution Act, 1867*. Aboriginal Affairs and Northern Development Canada (AANDC) is entrusted with fulfilling various obligations of the federal government to Aboriginal people as outlined in the Constitution, treaties, the *Indian Act*, and other legislation. Included in this obligation is the management of natural resources on First Nations reserve lands, including oil and gas.

Oil and gas development on First Nations reserve lands has been legislated since 1974 under the *Indian Oil and Gas Act, 1974*. Prior to that, oil and gas activities were administered under the *Indian Act*. In 1977, the *Indian Oil and Gas Regulations* were promulgated and brought under the *Indian Oil and Gas Act, 1974*. Those regulations were last revised in 1995.

In 1987, Indian Oil and Gas Canada (IOGC) was established and it replaced Indian Minerals West as a special operating agency within the Department of Indian Affairs and Northern Development¹. IOGC's mandates are to manage oil and gas development on First Nations reserve lands and to further First Nation initiatives to manage and control their resources. In 1993, IOGC was established 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, 1974* and the *Indian Oil and Gas Regulations, 1995*.

IOGC also operates in accordance with other federal legislation including provisions of the *Indian Act*, the *Canadian Environmental Assessment Act, 2012*, and the *Financial Administration Act*.

IOGC Co-Management Board

IOGC operates under the direction of an Executive Director and Chief Executive Officer (CEO) 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 between the Minister of Indian Affairs and Northern Development and the Indian Resource Council (IRC), an Aboriginal organization that advocates on behalf of 189 member

First Nations with oil and gas or the potential for such resources. The Board focuses on areas of common interest.

There are nine members on the IOGC Co-Management Board. The Board is comprised of the IRC Chair and five other members appointed by the IRC. Two positions are named AANDC positions; the Assistant Deputy Minister of Lands and Economic Development and the Executive Director and CEO of IOGC. One position is appointed by the Minister from the oil and gas industry.

Roles and Responsibilities

IOGC is a Special Operating Agency and separate employer within Aboriginal Affairs and Northern Development Canada with responsibility for managing and regulating oil and gas resources on designated² First Nations reserve lands across Canada.

IOGC currently manages 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.

IOGC works closely with First Nation Chiefs and Councils, and their approval is required for all agreements. For First Nations that have designated their reserve lands for oil and gas activities, IOGC's main functions are to:

- Negotiate, issue and administer agreements with oil and gas companies;
- Conduct environmental reviews;
- 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.

¹ The legal name of the department is the "Department of Indian Affairs and Northern Development", or DIAND, and this name appears on all legal documents. The department also has an approved name for everyday use, "Aboriginal Affairs and Northern Development Canada" or AANDC.

² Land Designation is a process by which a community has assented, via a referendum vote, that described lands are to be used for a certain purpose – in this case, for oil and gas exploration and / or development. Designations can be considered as analogous to "zoning" land off a reserve for residential, commercial or industrial development purposes.



Strategic Priorities for FY2014-2015

Modernization of Act, Regulations, and Systems (MARS)

Legislation modernizing the *Indian Oil and Gas Act, 1974* received Royal Assent in May 2009 and resulted in the *Indian Oil and Gas Act, 2009* which now addresses the essential requirements for managing all aspects of industry operations on First Nations reserve lands by:

- ensuring environmental protection of First Nations reserve lands; and,
- increasing regulatory compliance.

The IOGA, 2009 will come into force once new Indian Oil and Gas Regulations have been completed and promulgated. The IOGA, 2009 provides for modernized regulations that would align with provincial regimes in key competitive areas and, therefore, industry would be working with rule sets that are familiar to them. In this manner, it is expected that First Nations reserve lands would be as competitive for industry investment as equivalent lands off reserve.

The IOGA 2009 Act was developed with the assistance of the Indian Resource Council (IRC) along with the participation of a Joint Technical Committee (JTC) made up of departmental officials, experienced First Nation oil and gas technicians, and officials from other federal departments. Their work continues on throughout the development of new regulations.

IOGC'S REQUEST FOR MEMBERSHIP IN PETRINEX WAS APPROVED IN OCTOBER 2013.

The JTC 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 existing *Indian Oil and Gas Regulations, 1995*. This group does not replace individual involvement sessions with First Nations but allows IOGC to access those First Nation technicians with significant oil and gas expertise. Due to the expected complexity of the new regulations, the work was divided into a number of themes with each theme subsequently becoming a distinct regulatory module.

During FY2014 – 2015, work on the MARS project continued in several key areas:

1. Developing new regulations based upon drafting instructions and policy considerations shared with the JTC;

2. Consultation, engagement, and outreach; and,
3. Planning and preparations to implement and administer the new on-reserve oil and gas regime once the new Act and new regulations become law.

Regulations Development – First Nations Involvement

The previous year had seen the department and First Nations reach agreement on dividing the new regulations into phases. This approach would be beneficial to First Nations since it would allow the new Act and a set of core regulations to come into force much sooner than waiting on a full set of regulations to be completed.

Accordingly, towards the end of FY2013-2014, the 1st Consultation Draft, Phase 1 regulations were provided to the JTC for their review and feedback. This 1st Draft was very preliminary and, in some cases, incomplete. It was agreed that it would be better use of the valuable time of all stakeholders if the next, more-refined and complete iteration were circulated for review and feedback. The remainder of FY2014-2015 was spent responding to questions and accommodating the concerns of the JTC. Their review and input was essential for the development of the 2nd Consultation Draft that was near completion towards the end of FY2014-2015 and which would be provided to all stakeholders (i.e., First Nations, industry with active agreements on First Nations reserve lands, and the oil and gas producing provinces) for their detailed review and input.

Regulations Development – Consultation, Engagement and Outreach

Throughout regulations development, face-to-face consultation and outreach with individual First Nations, Tribal Councils, and Treaty Areas were conducted upon request. In addition to these in-person meetings, First Nations with oil and gas potential, as well as all companies with oil and gas interests on reserve, receive a quarterly newsletter with progress reports on the MARS project.

Business Process Modernization

To optimize the benefits to First Nations of the new on-reserve legislative and regulatory regime, its implementation needs to include modernized business practices supported by enhanced informatics.

IOGC uses business process mapping/modeling tools:

- to review existing business practices and processes to ensure synergy and compliance;
- to identify and eliminate duplication of effort; and,
- to reduce red tape and streamline procedures.

Business process modelling and modernization is important because it helps identify the business and user requirements for informatics – new tools, changes needed to existing tools, or identifying data sources that can replace and retire existing ones.

In FY2011-2012, IOGC completed process mapping of its existing business practices. In FY2013-2014, these process maps were updated to reflect IOGC's new organizational structure. In FY2014-2015, business process mapping for PETRINEX data exchange with IOGC was completed.

Informatics Enhancement – Resource Information Management System 2

IOGC's existing Resource Information Management System (RIMS) is the system that stores data concerning all surface and sub-surface agreements, Indian interest wells, and royalty entities. The informatics enhancements that support the implementation of the new Act and regulations has been dubbed the "RIMS2 Project". The RIMS2 Project is a joint initiative between IOGC and the Information Management Branch of Aboriginal Affairs and Northern Development Canada. The RIMS2 Project needs to undergo several stages of departmental approvals before project approval is sought from the Treasury Board.



The proposed RIMS2 Project provides for IOGC membership and data exchange with PETRINEX (**PET**roleum **I**nformation **EX**cellence). PETRINEX is the provincial and industry recognized authoritative source for hydrocarbon volume and pricing information. IOGC's request for membership in PETRINEX was approved in October 2013. PETRINEX partners currently include the provinces of Alberta and Saskatchewan as well as the oil and gas industry. Manitoba and Statistics Canada are in the process of joining. PETRINEX data exchange with IOGC would provide tangible benefits in the areas of more timely and certain royalty assessments.

Prior to linking and data exchange, any data anomalies between the two sets need to be identified and resolved. This work is underway with the provinces of Alberta and Saskatchewan. Also, all existing royalty formulas were captured into a new database. A Memorandum of Understanding (MOU) with the Province of Alberta was drafted and the timeline for completion will be the end of FY2014-2015.

The proposed RIMS2 Project solution includes:

- New Royalty Management functionality;
- PETRINEX data exchange with IOGC;
- Case Management Capability:
 - since not all oil and gas projects are equal in terms of financial value or urgency, an automated system will be implemented to:
 - track oil and gas projects and files; and,
 - automatically notify IOGC staff when action is required;

- Outside of Royalty Management, the existing RIMS will be used, and modified as required, to serve IOGC's other business needs.

In FY2014-2015, the RIMS2 Business Case was updated to address concerns from the Information Management Branch and ultimately received Gate 3 approvals. The Gate 4 approvals process will include the contracting for a RIMS2 Project Manager and the development of a Treasury Board Submission plus supporting documents for departmental approvals followed by Treasury Board Project and Expenditure Approvals.

IOGC DEVELOPED, AND
CONTINUES TO REFINE,
ITS DATA QUALITY
ASSURANCE PROCESSES.

Interest Statement Automation

IOGC receives moneys on behalf of First Nations relating to the exploration and production of oil and gas from their lands. The goal of this project is to automate the collection of interest on late payments of trust funds through the implementation of effective and efficient business and system processes.

Work continued during the fiscal year to analyze and resolve issues that arose. Changes were made to the existing RIMS to improve the royalty statements by including well information which enables continuance in establishing a solid foundation for future informatics enhancements to support this project. Completion of this project remains a key priority for IOGC.

Royalty Management

The goal of this project is to mirror key changes originating from the Alberta and Saskatchewan royalty regimes plus any other royalty regime changes that apply at the provincial level. This would allow IOGC to assess royalties in a more accurate, complete, and timely manner while minimizing instances of royalty overpayments and underpayments.

IOGC regularly meets with the Canadian Association of Petroleum Producers (CAPP) to get valuable feedback from industry on areas of mutual interest. In FY2014-2015, this again included changes to royalty submission including communications with industry to advise them of such changes.

IOGC's new electronic royalty data submission web interface is designed to be more user-friendly while introducing additional data validation rules to inform users of errors in their data entry. Although the new web interface was ready for launch, its implementation has been delayed due to server system upgrades and the requirement to conduct a threat and risk assessment of the system and data security. The new web interface will be implemented once the informatics threat and risk assessment is completed.

Another priority area for the Royalty Management project is verifying and processing underpayments and overpayments. IOGC developed, and continues to refine, its data quality assurance processes. Directions to Comply for underpayments issued in FY2014-2015 resulted in IOGC collecting more than \$2 million in additional royalties that were owed to First Nations.



SHUT-IN WELL ON POUNDMAKER
FIRST NATION RESERVE,
CUTKNIFE, SASKATCHEWAN.

Operations

IOGC has four distinct divisions that regulate and manage the exploration and development of oil and gas resources on First Nations reserve lands:

1. Executive Division
2. Lease and Royalty Administration Division
3. Regulatory Compliance Division
4. Planning and Corporate Services Division

Executive Division

The Executive Division focuses on:

- Setting corporate direction and strategy;
- Fostering effective working relationships among First Nations, industry, and government via:
 - Consultation and effective partnerships;
 - Implementation of the directives for the IOGC Board of Directors; and,
- Organizational Change Management.

The Executive division contains three units: Strategic Projects, Communications and Executive Services; and, the Project Management Office.

Strategic Projects Unit

- Supporting other IOGC units with business process improvements;
- Leading RIMS2 informatics enhancements;
- Creating strategic partnerships for data exchange with authoritative sources;
- Facilitating IOGC business units' access to services such as:
 - business process mapping and modernization;
 - business analysis / advisory services; and,
 - technical writing.

Communications and Executive Services Unit

- Disseminating information to First Nations, oil and gas industry companies, the public and government;
- Developing Corporate communications and strategies regarding IOGC issues that have the potential to impact First Nations or the private sector;
- Developing and preparing briefing material on IOGC issues for senior departmental officials and the Minister;
- Preparing communications plans, strategies, reports (including the Annual Report, the quarterly MARS Newsletter, and Information Letters or Notices on IOGC's website), and correspondence on IOGC activities; and,
- Maintaining IOGC's Internet and Intranet websites.

Project Management Offices

MARS Project & Organizational Change Management (OCM)

- Providing project co-ordination services for the MARS Project; and,
- Providing services related to Organizational Change Management, which focuses on the "people side" of change, including the procurement of professional services in this area of specialty.



Donna Vickery, IOGC
Production Compliance
Coordinator with Bernie
Brunsch, Preceptive Resource Management Limited,
field inspection at Stoney First Nation Reserve near
Morley, Alberta.

Lease and Royalty Administration Division

The Lease and Royalty Administration Division is responsible for the issuance and administration of oil and gas agreements. The division contains five units: Negotiations, Contracts and Research; Lease Administration; Royalties; Geology; and, Treaty Land Entitlement Support.

Negotiations, Contracts, and Research Unit

- Identifying disposition options with First Nations;
- Assessing proposals from interested companies to ensure fair return;
- Providing negotiation and facilitation expertise to reach agreements between First Nations and companies;

- Drafting and issuing sub-surface oil and gas agreements;
- Administering sub-surface continuances
- Monitoring and verifying regulatory and contractual commitments;
- Verifying legal title and status of minerals for surrendered and designated First Nations reserve lands prior to disposition; and,
- Providing title verification and confirming acreage for pooling purposes.

The royalty changes that were introduced by the Province of Alberta continue to have an impact on IOGC's operations. The Negotiations, Contracts, and Research Unit continued to review agreements to the extent to which First Nation agreements have been affected by the Alberta royalty regime changes. This review confirmed that there is a continued requirement to dedicate significant resources to ensure these royalty changes are properly reflected in both existing and new agreements issued by IOGC on First Nations reserve lands.

The Negotiations, Contracts, and Research Unit worked diligently with all stakeholders and IOGC was able to continue to implement competitive agreements as compared to provincial royalty regimes. The Negotiations, Contracts, and Research Unit was able to ensure every new and amended disposition recommended last fiscal year provided a return to First Nations that was higher than both the Alberta and Saskatchewan royalty regimes.

Lease Administration Unit

- Issuing oil and gas surface leases, rights of way, and exploratory licenses and associated surface rights to companies;
- Administering surface and sub-surface leases;
- Verifying and maintaining corporate information and records; and,
- Registering IOGC transactions in the Indian Lands Registration System (ILRS).

In FY2014-2015, IOGC issued 43 surface agreements and 19 right-of-way agreements. This is a decrease of 13 dispositions over FY2013-2014. IOGC targets normally range between about 145-450 agreements issued in a given year.

The current trend is a continued decrease in dispositions which may be related to a combination of:

- lower industry activity levels as a result of lower commodity prices;
- new technologies such as horizontal drilling, which is increasing recovery rates on existing fields;
- unlocking value in mature pools; and,
- making previously uneconomic finds commercially-viable.

However, during slower periods, industry will re-evaluate its land assets. This typically creates spin-off activity for IOGC through increased volumes of assignments, surrenders, and registrations.

In FY2014-2015, surface land area under disposition amounted to 10,641 hectares. This is an increase of 166 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 FY2014-2015 the total number of surface agreements under IOGC administration was 4,949. This is a slight increase of 72 from the previous year's total of 4,877. We expect this total number of agreements to vary from year to year. At some point in time, the number of surface leases will decrease as hydrocarbon resources eventually become depleted and sites are reclaimed.

In FY2014-2015, IOGC issued 10 sub-surface agreements which represented a decrease of 18 from FY2013-2014. The total number of these agreements under IOGC administration was 682, which represents a slight decrease of 15 from the year prior, comprising 392,573 hectares. Again, the total number of agreements varies from year to year.

Since the decentralization of the ILRS function from headquarters to the regions and IOGC in FY2012-2013, IOGC has seen an increase in the number of registrations. In FY2014-2015, IOGC staff performed 756 registrations into ILRS; this is an increase of 470 from FY2013-2014.

Royalties Unit

IOGC is responsible for verifying and collecting royalty moneys generated by the production and sale of oil and gas resources from First Nations reserve lands:

- Ensuring accuracy and completeness of royalty submissions;
- Conducting royalty assessments;
- Managing gas cost allowance deductions;
- Managing trucking deductions; and,
- Monitoring and addressing royalty moneys in suspense.

Geology Unit

- Maintaining annual drilling statistics/summary;
- Conducting reviews for the continuation or termination of leases.

Drilling on First Nations reserve lands was at a pace similar to that of FY2013-2014. There were 113 wells drilled in FY2014-2015 compared to 100 wells in FY2013-2014 and 140 in FY2012-2013. However, investment in drilling was up to approximately \$172 million from \$133 million in FY2013-2014, an increase of 29%, despite the fact there was only a 13% increase in the number of wells drilled. This is partially attributable to the fact that as horizontal drilling technology evolves we are seeing an increase in the typical length and cost of these wells. Oil development continues to outpace gas with oil related wells accounting for 80% of wells drilled. Horizontal drilling continues to be the preferred drilling approach that is accountable for 64% of wells drilled.

Treaty Land Entitlement (TLE) Support Unit

Providing advice to TLE First Nations and working to facilitate the implementation of the TLE process:

- Verifying legal title and disposition information for surface and mineral agreements on status of minerals on designated TLE;
- Drafting and issuing surface and sub-surface replacement agreements; and,
- Ensuring all Addition to Reserves (ATR) stakeholders are informed and understand IOGC's role in the ATR process.

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. Today, the TLE process exists to fulfill these outstanding obligations. TLE often results in an ATR – that is, land is added to a First Nation's land base – though First Nations can opt to receive other forms of settlement.

OIL DEVELOPMENT CONTINUES
TO OUTPACE GAS WITH OIL
RELATED WELLS ACCOUNTING
FOR 80% OF WELLS DRILLED.

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 FY2014-2015 IOGC's TLE Support Unit drafted 18 replacement agreements. As of March 31, 2015 there were currently 432 active replacements being administered by IOGC on behalf of several TLE First Nations. There are also another 338 replacement agreements that have been drafted and are ready to fall under IOGC administration as soon as their associated lands achieve reserve status.

Special Subject:

Band-Owned Oil and Gas Companies

Many First Nations are no longer passive recipients of oil and gas royalties for their natural resources. In fact, they are becoming more involved in the oil and gas

operations on their lands. First Nations have created Band-owned oil and gas companies (BOC). The structure of each BOC can be different for every First Nation as it reflects their desired level of participation and their community goals. A BOC provides a First Nation with greater control, additional economic rent, and an opportunity for capacity building.

At the end of FY2014-2015, there were 17 BOC's holding 163 sub-surface agreements comprising 151,285 hectares (24% of all sub-surface managed by IOGC) of First Nations reserve lands.

WATERFALL IN THE KANANASKIS REGION
OF THE CANADIAN ROCKIES.





REMOTE ACCESS, SURVEYED LOCATION OF PROPOSED WELL HEAD. RED PHEASANT FIRST NATION, TREATY LAND ENTITLEMENT LANDS SOUTH OF PIERCELAND, SASKATCHEWAN.

Regulatory Compliance

The Regulatory Compliance Division is responsible for maintaining a clear and transparent on-reserve oil and gas regulatory framework – supported by clear policy and enforceable rules – so as to encourage industry compliance and to instill confidence in First Nations that resource development on their lands is conducted in a manner that minimizes environmental impact while conserving resources. The division contains five units: Environment, Resource Analysis and Compliance; Technical Business Support; Review; and, Policy.

Environment Team

- Ensuring environmental reviews are completed and potential environmental impacts are mitigated;
- Ensuring compliance through environmental protection measures such as environmental audits and field inspections;

- Ensuring First Nation reserve lands are returned to equivalent land capability via remediation and reclamation of oil and gas sites;
- Outreach and participation with industry, First Nations, other federal departments and the provinces;
- Supporting and facilitating the abandonment of orphan wells and reclamation within each provincial jurisdiction.

The overall goal for the team is to ensure that companies are compliant with environmental protection legislation, regulations, and IOGC's environmental protection terms. To meet this goal, the team works closely with industry clients and in partnership with First Nations and provincial oil and gas regulators. The Environment Team has been extremely busy and prides itself on meeting its service standards and encourages and seeks opportunities with First Nations and industry for continuous improvement.

In FY2014-2015, the team reviewed a total of 107 environmental reviews for new or amended projects. This number of new or amended projects is down from the 213 reviews it conducted in the last fiscal year and reflects current market conditions. The team also reviewed 769 environmental audits for compliance. In addition to environmental audits, the Environment Team also conducts inspections particularly at older sites where environmental audits are not required or at sites that may be considered higher risk such as being located near residents. The team will also inspect sites if there are complaints raised by the First Nation members. Depending on the situation, the team may request that a provincial oil and gas regulator also accompany IOGC to a site or vice versa.

Also, in FY2014-2015, the Environment Team visited 24 Reserves and inspected 139 surface agreement sites. Joint inspections with provincial oil and gas regulators were conducted at 5 of the 24 reserves and 54 of those 146 inspections. These visits resulted in numerous inspection letters being issued. Once oil and gas activities have ended, it is expected that First Nations reserve lands are returned to equivalent land capability.

In FY2014-2015, the Environment Team reviewed 13 new reclamation applications and conducted 43 reclamation inspections.

The Environment Team is often the face of IOGC in First Nations communities and with industry clients. Last year, the unit attended 45 meetings with First Nations and had 57 meetings with industry environmental consultants.

The team is also involved as active members of provincial and federal oil and gas regulators and industry on various committees including the Saskatchewan Petroleum Industry Government Environmental Committee (SPIGEC), Alberta Orphan Well Committee, Technical Advisory Committee on Public Health, and the Oil and Gas Industry (TACPHOGI) and the Alberta Joint Geophysical Committee.

Special Subjects:

Pigeon Lake Reclamation Committee

As conventional oil and gas development winds down in Alberta, reclaiming assets has become front and centre for the industry. The Environment Team, Four Nation Tribes and Imperial Oil Ltd., formed the Pigeon Lake Reclamation Committee in 2013 to oversee the remediation and reclamation of approximately 60 sites. Existing traditional land use, community consultation and engagement and Four Nation economic business opportunities form the main topics of coordination and discussion within the Committee. The Committee is working on ensuring that the 10 to 15 years of contract work will be directed to First Nation businesses and partnerships. All Committee members are working collaboratively to ensure land is returned to the satisfaction of the Pigeon Lake residents.

Legacy Wells

Some oil and gas activity on First Nations reserve lands pre-date the founding of IOGC and even that of AANDC. There are oil wells nearly a century old on

reserve land. Though they were abandoned according to the industry standards of the day, over time some have begun to leak. With the passage of so much time, it is often difficult or impossible to determine the responsible company and hold them accountable for fixing the problem. Utilizing a risk-based assessment approach, in FY2013-2014, IOGC worked with the AANDC Regional Office and the Wikwemikong Nation to re-abandon 11 such wells in Ontario.

Orphan Wells

When oil companies go bankrupt or current ownership cannot be established, facility abandonment and reclamation work is required to handle the existing liabilities. IOGC negotiated with provincial authorities to have 1 well on Tsuu T'ina Nation and 11 wells on Bigstone Cree Nation declared "Orphan Wells". Since oil and gas companies operating on reserve pay orphan levies via the provinces, wells declared "orphan" are remediated and reclaimed by industry orphan levies.

Review Team

- Providing litigation support, including assisting Justice Canada and the Litigation Management and Resolution Branch (LMRB) at AANDC with legal actions;
- Compliance and enforcement;
- Monitoring quality assurance of instruments that have compliance/enforcement impacts.

Resource Analysis and Compliance

Maintaining well files on all newly-drilled wells:

- Managing trespass and potential drainage situations, including enforcement;
- Preparing revenue forecasts;
- Conducting ongoing and routine engineering and geology work including review of notices and applications; and,
- Maintaining hydrocarbon resource inventory.

The Resource Analysis and Compliance unit has two main goals – the first is to support conservation of the oil and gas resources of First Nations, and the second is to provide First Nations with information regarding oil and gas activity and ensuing revenues on their reserve lands. The unit strives to provide a high level of service to First Nations related to its assigned functions.

THE UNIT STRIVES TO PROVIDE A HIGH LEVEL OF SERVICE TO FIRST NATIONS RELATED TO ITS ASSIGNED FUNCTIONS.

One of its most important functions is to conduct drainage monitoring and issue drainage notices. To carry out this function, the unit monitors for off-reserve wells producing close to reserve boundaries. Each of these situations is reviewed to determine whether or not drainage may be occurring. Where IOGC believes that drainage may be occurring and the relevant on-reserve lands are leased, the relevant First Nation's band council is contacted so that a joint determination of potential drainage may be made. Where such a determination is made, IOGC will prepare and issue a drainage notice to the relevant lessee(s) in consultation with the band council. If the unit believes that drainage may be occurring but the reserve lands are not leased, then the IOGC's Negotiations Unit and the First Nation are advised so that any opportunities for leasing the reserve lands can be investigated.

One of the most popular services is the revenue forecast service, whereby assigned engineers prepare royalty revenue forecasts and land revenue forecasts for First Nations with oil and gas activity. In FY2014-2015, the unit completed 43 revenue forecasts, 30 of which were for First Nations in Alberta and the remaining 13 for First Nations in Saskatchewan. Usually each revenue forecast is comprised of two scenarios, a base case and a low case, and separate numbers are provided for each. On occasion, a high case scenario may also be provided for a First Nation where warranted.



OIL WELL PAD AND 400 BARREL
STORAGE TANK, RED PHEASANT
FIRST NATION, CANDLO, SASKATCHEWAN.

Special Subject:

Oil Price Drop and its Impact on First Nation Royalties

Within the past year, crude oil prices have undergone one of the largest decreases ever experienced in history. The West Texas Intermediate (WTI) crude oil price, measured in U.S. dollars per barrel, is used as one benchmark. In June 2014 the WTI price was \$106 and, by March 2015 the WTI price fell below \$50. This recent decrease is due to world oil production exceeding world oil consumption.

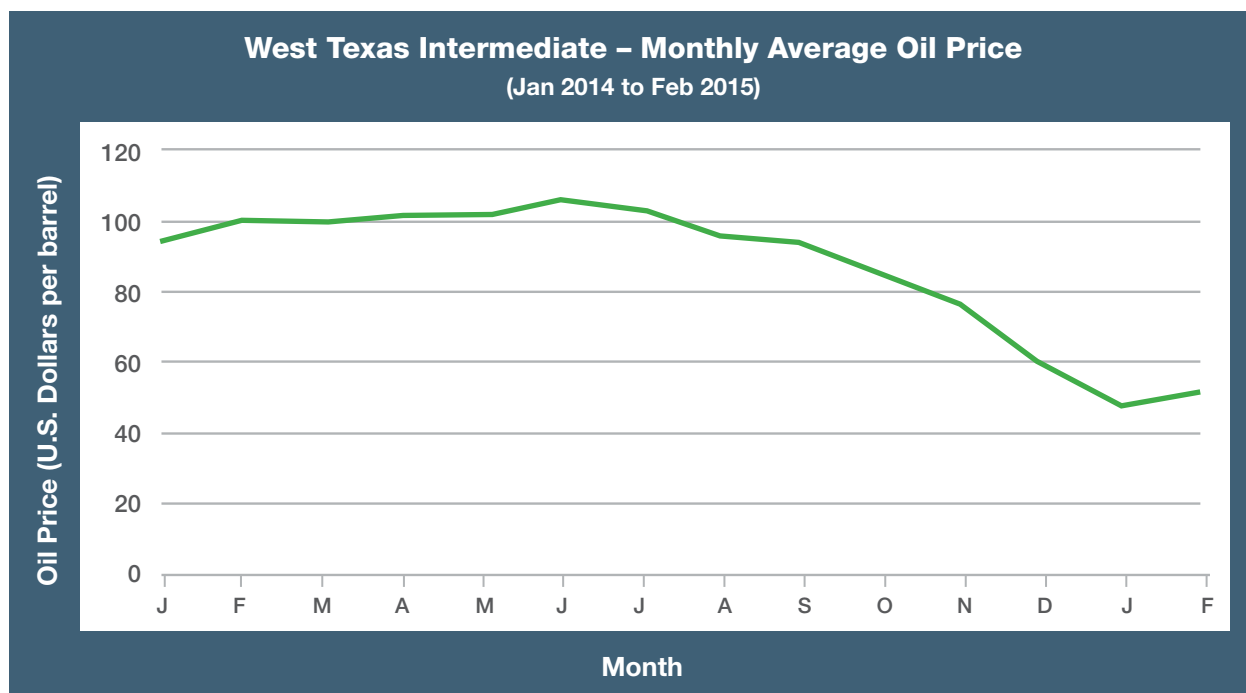


Figure 1– Monthly Average Price of West Texas Intermediate Oil.

Background

In recent years, horizontal drilling and multi-stage fracturing technologies have allowed oil to be produced from tight formations. These new technologies have captured a larger market share and added a new source to world oil supplies. Meanwhile, oil production from other sources has continued to increase.

The Organization of Petroleum Exporting Countries (OPEC) is concerned about losing market share and, therefore, has maintained its production levels even as oil prices continue to drop. As oil production exceeds oil consumption, the over-supply or excess is being stored in tank farms on land or in supertankers at sea. Oil is being stored due to a contango (i.e., the contractual difference between an expected higher price of oil in the future and oil delivered at today's lower price) in oil prices. New oil development projects around the world that require high oil prices may be halted or deferred.

Impact on Oil and Gas Producing First Nations

Many oil and gas producing First Nations have expressed concern over what impact the world situation will have on their oil and gas revenues. The decrease in WTI price is reflected in reduced prices for both oil and natural gas liquids produced in Western Canada. These reduced prices will affect the value of First Nations' royalty share of production. There will be increasing risk that projects be deferred until oil prices improve. Each First Nation's situation is unique due to variations in both oil and gas leases and production volumes. Therefore, the decrease in world oil prices will have a different impact for every First Nation.

The anticipated impacts on oil and gas revenues are included in the annual revenue forecasts that IOGC prepares for First Nations. Additionally, IOGC has met with several concerned First Nations and discussed the anticipated effects in more detail. IOGC is available to meet with other First Nations who are also interested in learning more.

Technical Business Support Unit

The TBS Unit contributes to the division mandate by:

- Leading and coordinating production and royalty-related audits and inspections to ensure fair return for First Nation resources and safe field operations;
- Leading and coordinating research with respect to technical and economic issues; and,
- Supporting IOGC, other Government of Canada bodies and provincial agencies.

The unit responds to many and various requests from other IOGC sections, from First Nations, from other government agencies and from the oil and gas industry. Those requests encompass the development or modification of royalty structures, coordination with and participation in federal and provincial initiatives, support for specific claims, investigation into existing and emerging issues, provision of technical data and information to support royalty assessment, and initiating and supporting compliance actions.

During FY2014-2015, unit staff conducted 5 field inspections for purposes of ensuring operating safety as well as compliance with oil and gas production measurement, allocation and reporting requirements, and other related investigations. Meanwhile, unit staff also completed over one hundred oil and gas price analyses and verification desk reviews plus over fifty less comprehensive price reviews.

Oil Production from First Nation Lands

During FY2014-2015, oil was produced from 36 Indian reserves in 29 First Nations. The oil production history chart indicates that oil production from First Nation lands declined approximately 15% from the previous year. Total First Nation oil production in FY2014-2015 was just below 785,000 cubic metres, down from 925,000 in FY2013-2014. Although just under 60%

of the FY2014-2015 oil total was produced from Alberta First Nations, almost 33% of the total comes from one First Nation in Saskatchewan. As in previous years, most of the oil produced from First Nations is heavy oil.

The majority of oil production, approximately 60%, comes from First Nations in Alberta with the balance coming from First Nations in Saskatchewan. In FY2014-2015, there was no oil production from First Nations in Manitoba and British Columbia. Due to a change in ownership and perhaps impacts from the recent decline in oil prices, the wells in the one Manitoba First Nation that had produced oil during FY2013-2014, were shut in for FY2014-2015.

Prices

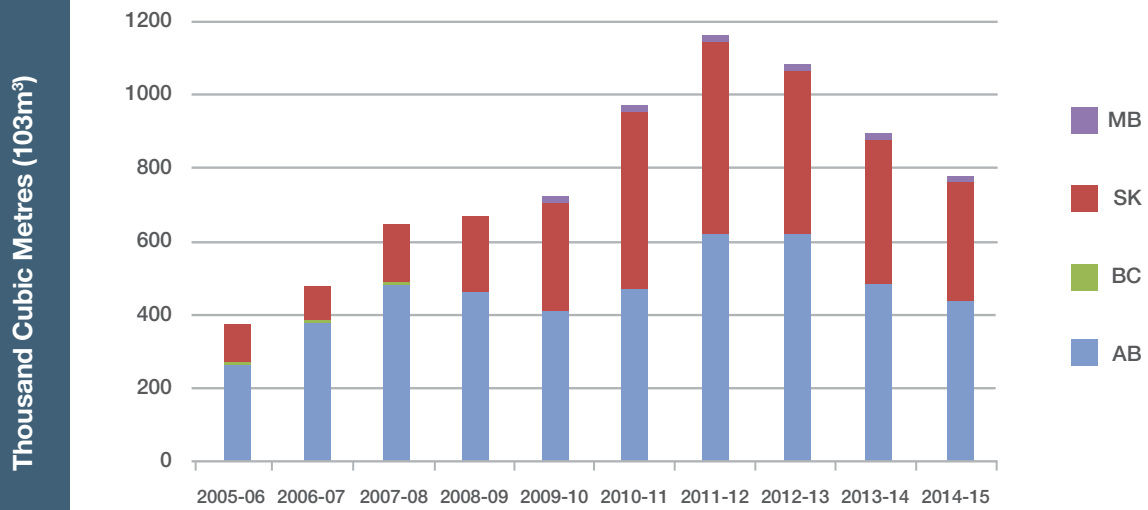
Oil

It has been widely observed for many years that the prices for oil, natural gas and natural gas products fluctuate according to a wide variety of influences. But by far the biggest news story in the world-wide oil and gas industry during fiscal year FY2014-2015 was the deflation of crude oil prices beginning in late November 2014 – please refer to the oil prices chart – when the Organization of Petroleum Exporting Countries (OPEC), led by Saudi Arabia, began to seek to regain their share of the world supply of crude oil. Since then, several geopolitical and geoeconomic factors have seemingly conspired to keep crude oil prices at a level approximately one-half what they were in the summer of 2014.

The effects have been felt world-wide: companies everywhere have slashed their capital spending programs and thousands of jobs have been lost. Analysts have yet to be able to predict when oil prices might rise to even approximately where they were in times gone by. Presently, there is a consensus that prices may not reach \$100 per barrel again for years, if ever.

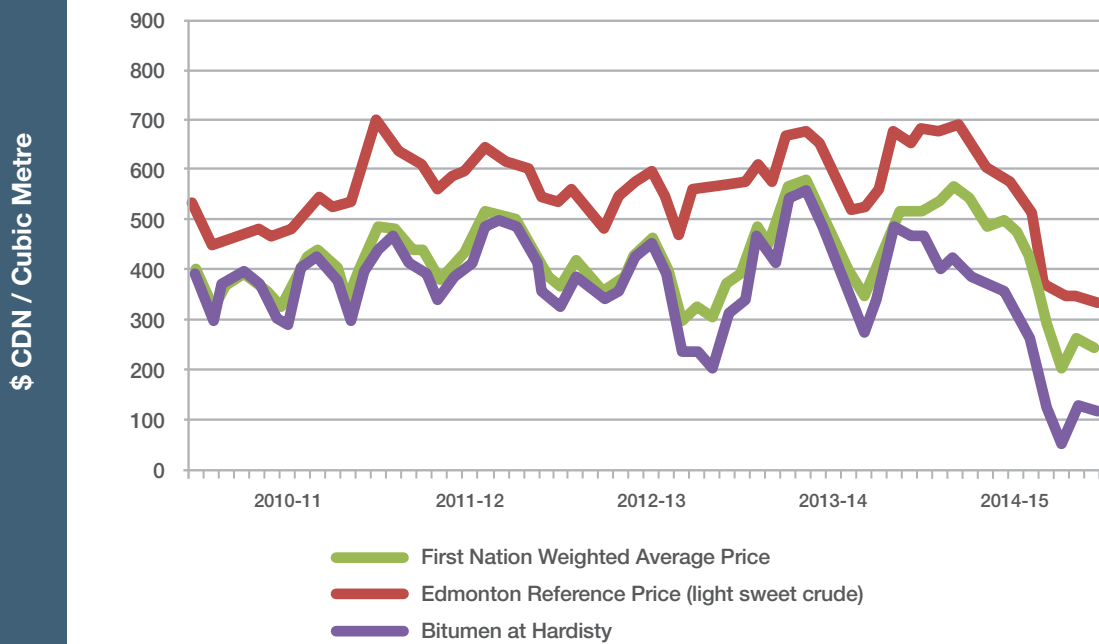
The average prices for First Nation oil – which is mainly comprised of heavy oil and bitumen – continue to track close to those prices.

Oil Production from First Nation Lands



Fiscal Year 2014-15 (10³m³): AB 466.9, SK 318.0, BC 0, MB 0

First Nation Oil Prices & Monthly Benchmarks



Natural Gas Production from First Nation Lands

During fiscal year FY2014-2015, natural gas was produced from 51 Indian reserves in 37 First Nations. The natural gas production history chart indicates that natural gas sales from First Nation lands, by contrast to the declining oil production described above, leaped to over 1.7 billion cubic metres, an increase of over 50% from FY2013-2014. The vast majority of Indian interest gas is produced from Alberta First Nations, over 97%, with 70% of the total coming from one First Nation alone.

It's worth noting that the production of natural gas liquids (NGLs) also increased significantly during FY2014-2015. On average, 66% more NGLs by volume were produced from Indian lands in FY2014-2015 than during FY2013-2014. This continues a trend that began in FY2010-2011, and reflects industry's continuing

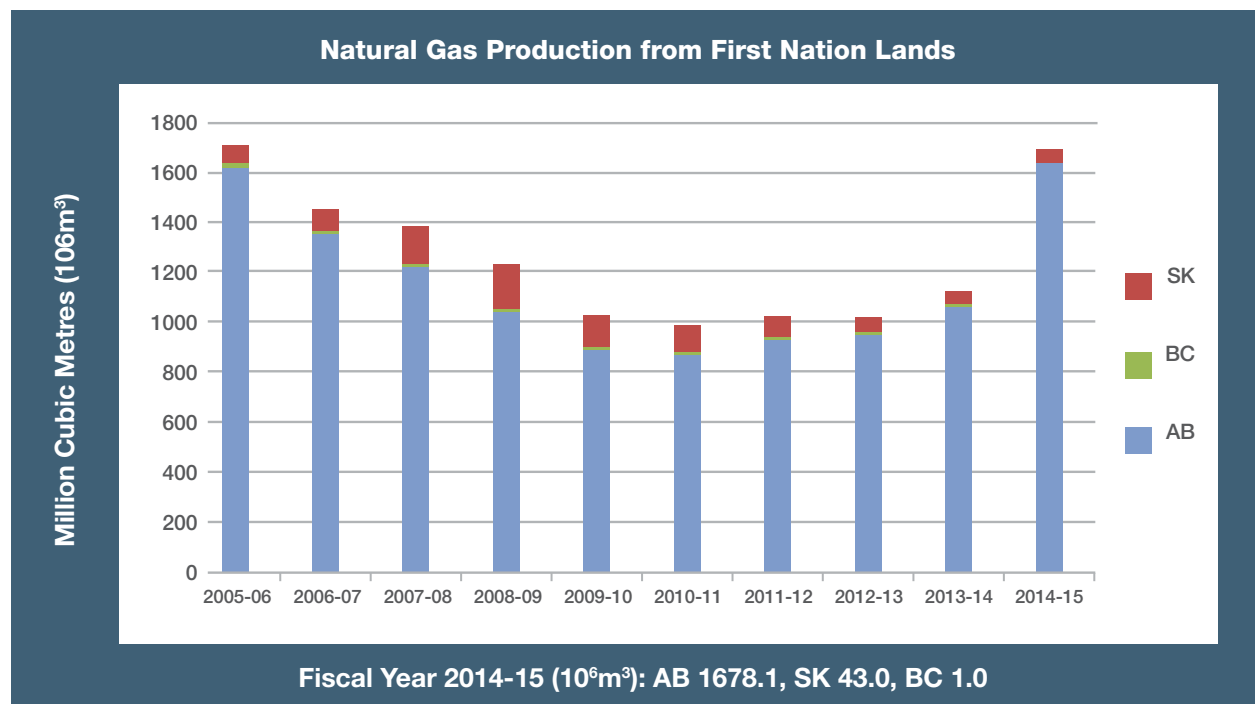
strategy of drilling for more lucrative liquids-rich natural gas, as opposed to less economic "drier" gas elsewhere.

Natural gas and NGLs production increased most significantly in Alberta, where there are more liquids-rich natural gas formations.

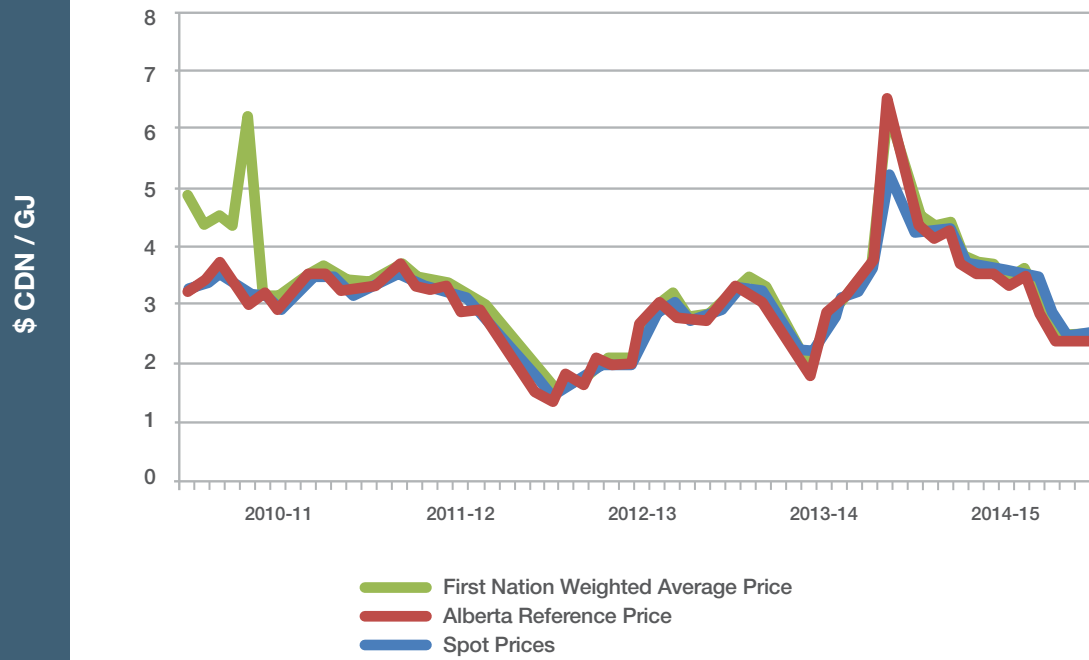
Prices

Natural Gas

The prolific shale gas fields all over the United States, especially those of the northeastern American states, have combined to "back out" Canadian gas during the past couple of years. In other words, to compete in their traditional markets, Canadian producers have had to negotiate much lower prices than they ever expected. That's why, in the natural gas price history chart, the First Nation and benchmark prices continue to languish below or near \$3.00 per gigajoule. Most analysts concur that these low-price conditions will continue for several years.



First Nation Gas Prices & Monthly Benchmarks





Compressor Station,
Stoney First Nation
Reserve near
Morley, Alberta.

- Advising on strategic policy;
- Researching and developing operational policy;
- Monitoring and preparing responses to Parliament on changes to provincial regimes;
- Consulting on operational and strategic policy changes.

Policy Unit

The Policy Unit's primary focus has been the development of new regulations.

The Department (Aboriginal Affairs and Northern Development Canada) approved a phased approach for regulations development that allows for minimal delay for the 2009 Act to become law. This approach

ensures that First Nations will benefit sooner from the improvements embodied within the IOGA, 2009 which provides new authority for IOGC in the following areas:

- Audit companies working on First Nations reserve lands;
- Determine and advise industry of longer records retention time for auditing purposes;
- Deal more effectively with surface and sub-surface trespass;
- Protect First Nation sites of cultural importance;
- Order companies to take remedial action under certain circumstances; and,
- Issue fines and penalties for offences under the Act or regulations.

Furthermore, the phased approach will require updates to the *Indian Oil and Gas Regulations, 1995* – ensuring they are in congruence with the IOGA, 2009 – including new regulations in the areas of:

- Drainage and Compensatory Royalty;
- Sub-surface Tenure;
- First Nations' Audit (a component of Royalty Management); and,
- Reporting requirements to facilitate royalty verification.

The remaining regulatory modules would become law once they are completed and, at the end of the process, IOGC will have jurisdiction to oversee and enforce a complete set of new, modern regulations. In consideration of the time required to accommodate input from stakeholders and the government's regulations review and approval process, it is projected that the 2009 Act and its regulations will come into force in October 2016.

The Policy Unit spent much of the year working on the new regulations while consulting, engaging, and informing First Nations via the Joint Technical Committee (JTC) and, the Indian Resource Council's Annual General Meeting. Throughout the regulations development process, face-to-face meetings have taken place with individual First Nations, Tribal Councils, and Treaty areas, upon request.

IOGC received feedback from JTC on the 1st Consultation Draft, Phase 1 Regulations that was mailed out in February 2014. Though individual First Nations did not provide feedback, the input received from the JTC was accommodated via a set of amended regulatory drafting instructions that was used to create the 2nd Consultation Draft, Phase I Regulations.

At the end of FY2014-2015, an information package was mailed out that included the 2nd Consultation Draft, Phase 1 Regulations and used to consult with JTC, individual First Nations, industry and the oil and gas producing provinces. As an additional verification to ensure the new regulations meet First Nations' needs, IOGC funded three major oil and gas producing First Nations to obtain independent legal and technical advice on the 2nd Consultation Draft, Phase 1 Regulations. These results, as well as independent legal and technical advice obtained by the JTC, will be shared with all producing First Nations and those with oil or gas potential. IOGC is also exploring options to obtain feedback from the general public or from First Nations' citizens by posting the draft regulations either on the departmental website or to have the material published in the *First Nations Gazette* (<http://www.fng.ca/>). IOGC developed and implemented a gap analysis tool, which allowed operational staff to review and comment on the regulations for Phase 1, as well as to prepare IOGC to begin administering and enforcing the new Act and regulations once they become law.

THESE RESULTS, AS WELL AS
INDEPENDENT LEGAL AND
TECHNICAL ADVICE OBTAINED BY
THE JTC, WILL BE SHARED WITH
ALL PRODUCING FIRST NATIONS...



Wellhead – Gas Well at
Stoney First Nation Reserve
near Morley, Alberta.

Planning and Corporate Services Division

The Planning and Corporate Services (PCS) Division's key responsibilities include management planning, administrative policy, human resources, finance, procurement, office administration, and information technology. PCS also acts as secretariat to the IOGC Co-Management Board. The PCS division includes five groups: Contracts and Administration, Finance, Human Resources, Planning, Administrative Policy & Corporate Coordination, and Information Technology.

Contracts and Administration Unit

- Contract and procurement services;
- Material management services;
- Office administration and tenant services;
- Security services;
- Records and information management, resource; library and *Access to Information and Privacy Act* (ATIP) services.

Finance Unit

- Corporate financial services;
- Resource planning;
- Trust fund administration;
- Accounts payable and accounts receivable.

Human Resources Unit

- Human resources planning and reporting;
- Employee recruitment;
- Staff relations and workplace well-being;
- Compensation and benefits;
- Training and career development;
- Classification and organizational development;
- Human resources policy development;
- Official languages.

Planning, Administrative Policy & Corporate Coordination Unit

- Annual IOGC Management Plan;
- Quarterly reporting;
- Funding arrangement administration;
- IOGC inputs into AANDC plans and reports;
- IOGC Co-Management Board secretariat services;

- Implementing corporate-wide AANDC and government directed initiatives and administrative policy development;
- Occupational Safety and Health (OSH);
- Management Accountability Framework (MAF).

Information Technology Unit

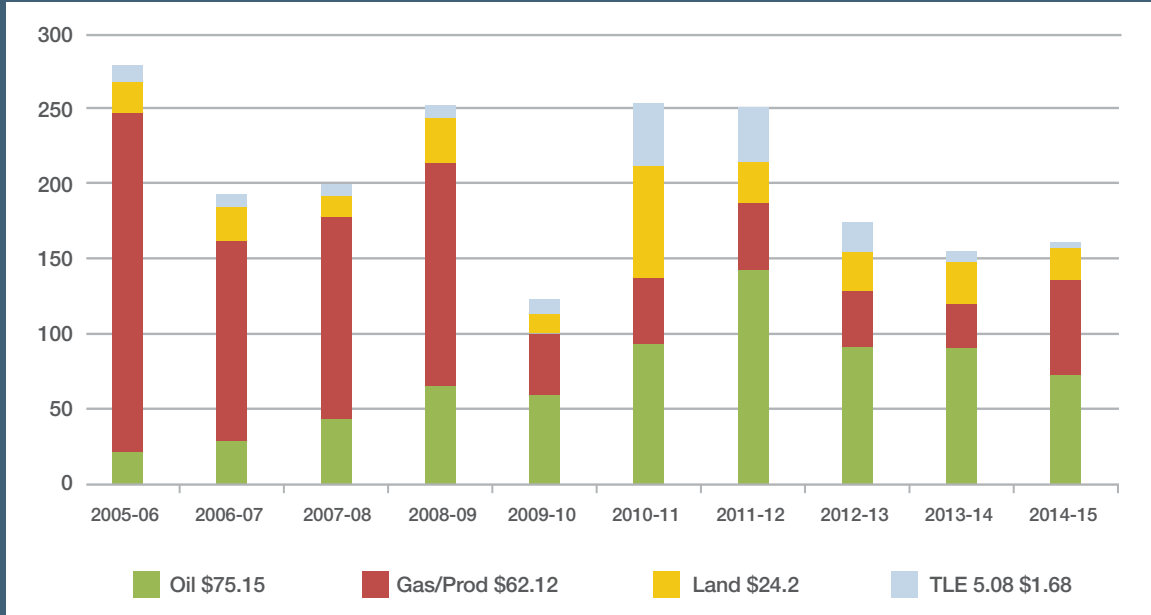
- Database administration;
- Linkage/support to application development (RUGS), RIMS Steering Committee Governance, RIMS issue resolutions and enhancements;
- Distributed computing including end user support (via call centre), computer ever-greening, and software management;
- Shared services implementation;
- IT security;
- Technical support for video-conferencing, smart-boards and rollout of other HQ technology and systems.

Revenues Collected on Behalf of First Nations

During FY2014-2015, IOGC received \$163 million on behalf of First Nations. This included \$75.15 million as a result of oil royalties, \$62.12 million as a result of gas royalties \$12.8 million in bonus and rentals, \$11.4 million in surface consideration and rentals and \$1.66 million in royalties from Treaty Land Entitlement 5.08 lands.

Reductions in world oil prices are expected to have a significant impact on future royalty dollars.

Total Moneys Collected on Behalf of First Nations (\$Millions)





SADDLE LAKE BATTERY – CANADIAN NATURAL
RESOURCES LIMITED AUDIT AT SADDLE LAKE
CREE NATION, SADDLE LAKE, ALBERTA.

Emergency at IOGC – Recovery handled by IOGC staff

Flood

On November 12, 2014, a frozen sprinkler pipe burst and flooded approximately 50% of IOGC floor space. Offices in the direct area of the burst were completely damaged and all furniture, carpet, lower drywall and insulation were removed. Other walls and areas impacted by the flooding also sustained damage. Blowers/dryers and dehumidifiers were placed in the office. The carpet and lower drywall was removed. While operations recommenced within a week, reconstruction did not occur until Q1 of FY2015-16. The effect of the flood impacted overall IOGC operations and timelines. Emergency procedures were followed and action taken to ensure the safety of all staff.

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 our employment equity representation levels which exceed labour market availability. Tremendous synergy results when differing viewpoints, skill sets, and experiences are brought together. IOGC employees are professional and bring their best to the achievement of our organization's mandate, vision, and values.

OUR PRIDE AND RECOGNITION PROGRAM IS USED TO REWARD EMPLOYEE ACHIEVEMENTS AND RECOGNIZE STAFF WITH LONG-TERM SERVICE.

IOGC strives to be a workplace of choice and this is an essential spoke on our Strategic Wheel illustrated on page 34. IOGC believes in being a learning organization and each employee has a personal annual learning plan. IOGC offers in-house French language training, numerous "lunch and learn" training sessions which focus on well-being, and annual Aboriginal Cultural Awareness training. In FY2014-2015, various other in-house training was provided on harassment prevention, SMART performance measures, informal conflict management, and workplace tools such as CIDM, RIMS, Test Track Pro, and e-mail management. In addition, selected staff received training to obtain Certification in Change Management. IOGC offers a tuition reimbursement program for those employees pursuing professional development outside of work hours. IOGC also has available an Employee and Family Assistance program.

IOGC actively promotes work-life balance and utilizes flexible hours of work and telework, as approved through the IOGC Telework Policy. Our Pride and Recognition program is used to reward employee achievements and recognize staff with long-term service. IOGC maintains its own Committee for the Advancement of Native Employees (CANE).

IT – Resource Information Management System 1

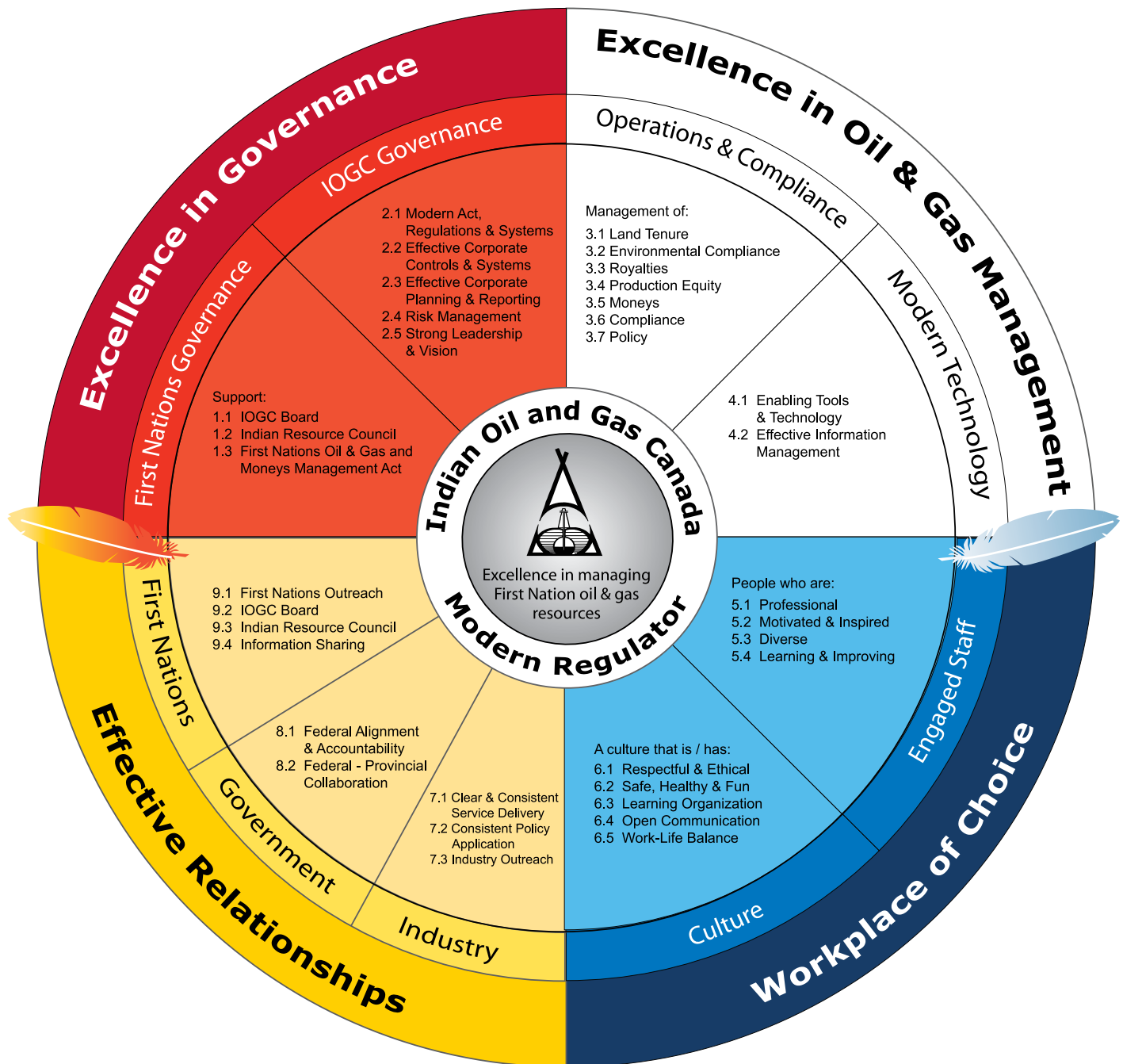
IOGC's existing Resource Information Management System (RIMS) is the operational database that stores information regarding all surface and sub-surface agreements, Indian interest wells, and royalty entities. It supports the departmental trust fund management system with both land and royalty financial transaction records that help IOGC verify that First Nations receive the proper royalties that are due.

As a result of the decision that a new RIMS2 would focus on development of a new royalty module, use of PETRINEX data exchange and the use of case management tools to track and resolve issues, there will be a continued need to maintain the current RIMS. During the year, investigative work was completed to identify required upgrades to ensure current RIMS sustainability.



IOGC Strategic Framework

Excellence in managing First Nation oil and gas resources



Excellence in Governance

First Nations Governance

Support:

- 1.1 IOGC Board
- 1.2 Indian Resource Council
- 1.3 *First Nations Oil & Gas and Moneys Management Act*

IOGC Governance

- 2.1 Modern Act, Regulations and Systems
- 2.2 Effective Corporate Controls and Systems
- 2.3 Effective Corporate Planning and Reporting
- 2.4 Risk Management
- 2.5 Strong Leadership and Vision

Excellence in Oil and Gas Management

Operations & Compliance

Management of:

- 3.1 Land Tenure
- 3.2 Environmental Compliance
- 3.3 Royalties
- 3.4 Production Equity
- 3.5 Moneys
- 3.6 Compliance
- 3.7 Policy

Modern Technology

- 4.1 Enabling Tools and Technology
- 4.2 Effective Information Management

Workplace of Choice

Engaged Staff – People who are:

- 5.1 Professional
- 5.2 Motivated and Inspired
- 5.3 Diverse
- 5.4 Learning and Improving

Culture

A culture that is/has:

- 6.1 Respectful and Ethical
- 6.2 Safe, Healthy and Fun
- 6.3 Learning Organization
- 6.4 Open Communication
- 6.5 Work-Life Balance

Effective Relationships

Industry

- 7.1 Clear and Consistent Service Delivery
- 7.2 Consistent Policy Application
- 7.3 Industry Outreach

Government

- 8.1 Federal Alignment and Accountability
- 8.2 Federal – Provincial Collaboration

First Nations

- 9.1 First Nations Outreach
- 9.2 IOGC Board
- 9.3 Indian Resource Council
- 9.4 Information Sharing

Financial Operations FY2014-2015

FUNDING – O&M, CONTRIBUTIONS & TRANSFERS

12,781,310

O&M

Salaries

7,767,796

Expenses

IOGC Board	1,699
Inventory Management	4,608
Negotiations Disposition/Amendment	9,563
Agreement Management	2,008
Compliance	691,922
Policy Management	1,438
Informatics	116,051
Corporate Management	715,695
Environment	31,175
Royalty	8,890
Direct Operations Support	111,267
IOGA Implementation	197,396
FNOGMMA Implementation	0
TLE	8,155

Total Expenses

1,899,867

Capital

200,000

CONTRIBUTIONS

IRC – Partnership	600,000
– IOGC Board	80,000

Total Contributions

680,000

TRANSFERS

Salaries	0
O&M	444,001
Contributions	908,000

Total Transfers

1,352,001

Total O&M, Contributions & Transfers

11,899,664

Surplus/Deficit

881,646

REVENUES COLLECTED ON BEHALF OF FIRST NATIONS

Royalties	137,272,418
Bonus	10,595,474
Compensation and Rentals	13,608,698
Treaty Land Entitlement	1,656,077
Interest	18,924

Total Revenues Collected on Behalf of First Nations

163,151,591





Indian Oil and Gas Canada

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