

A clear glass jar is filled with various coins, including silver and gold ones. A small green plant with several leaves is growing out of the top of the jar. The jar sits on a wooden surface.

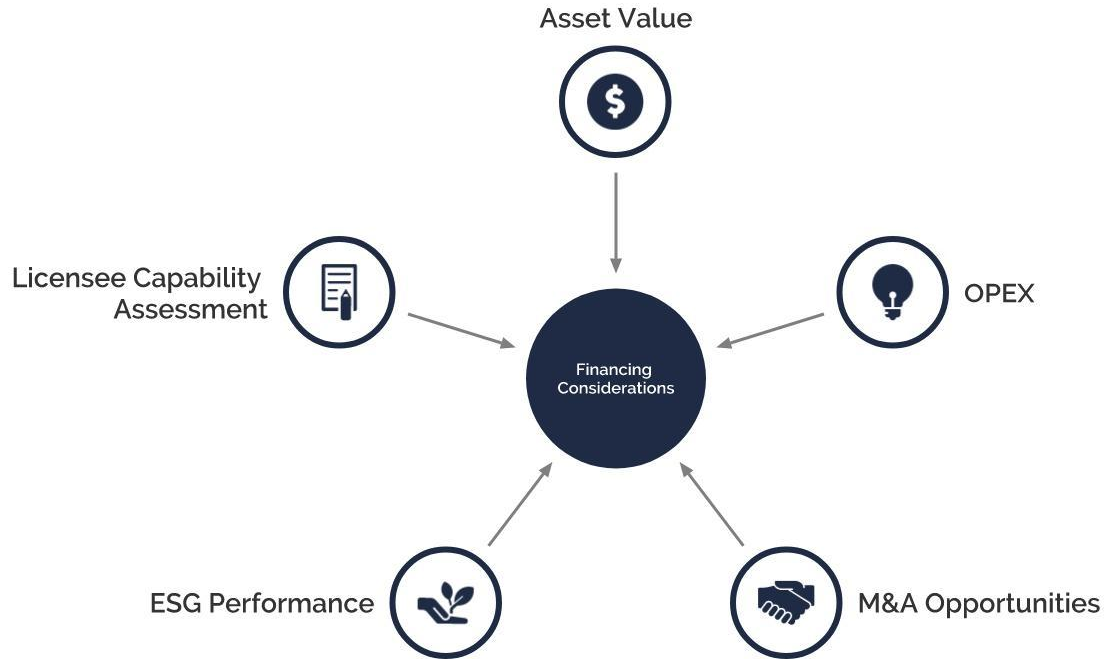
The Interplay Between Finance and the Environment

Emerging Opportunities for the Environmental Sector

Ryan Smith and Mike Newton

**How Do We Optimize
Spending \$1?**

Financing Considerations



Moments that Matter

Bulletins 2016-16 and 2016-21 (2016)

Temporarily froze new financing

PwC/Perpetual Litigation (2018)

Challenging transfer at undervalue

BC Dormant Site Program (2019)

Quotas and timelines for closure

Directive 088 (2021)

Quotas for closure

Directive 067 (2017)

Enhanced transparency of financials and corporate structures

Redwater Decision (2019)

Supreme Court prioritized environmental obligations over creditors

\$1.7B Federal Funding (2020)

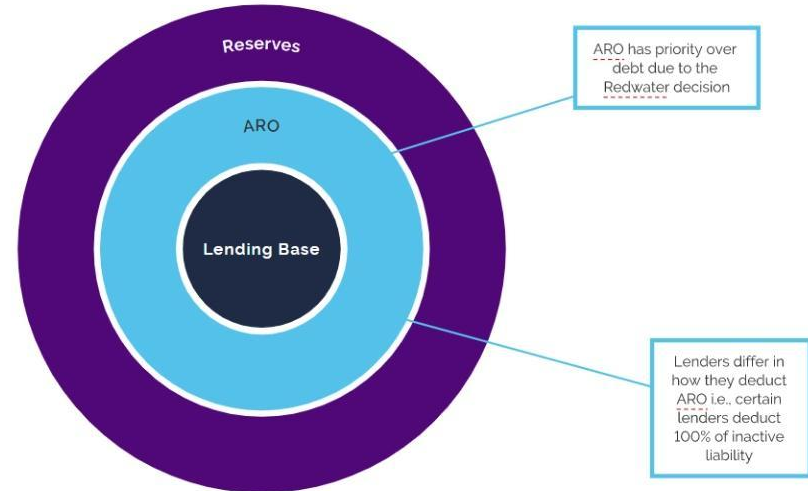
SRP, DSRP, ASCP

How ARO Affects Value

Asset Value

ARO reduces shareholder equity value and has priority over creditor debt

ASSETS	
Current assets	
Cash and cash equivalents	—
Inventory	22.3
Accounts receivable (Note 8)	672.0
Prepaid expense	35.6
Risk management contracts (Note 19)	0.1
	730.0
Long-term investment	
Exploration and evaluation assets (Note 9)	277.9
Property, plant and equipment (Notes 10 and 12)	9,265.6
Right-of-use assets (Note 11)	856.1
Goodwill (Note 12)	248.2
Total assets	11,380.3
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	761.5
Current portion of lease obligations (Note 14)	109.3
Current portion of long-term debt (Note 15)	—
Current portion of other deferred liabilities (Note 16)	90.5
Current portion of asset retirement obligation (Note 17)	15.0
Dividends payable (Note 21)	69.5
Risk management contracts (Note 19)	465.3
	1,511.1
Risk management contracts (Note 19)	
Long-term portion of lease obligations (Note 14)	171.9
Long-term debt (Note 15)	760.0
Long-term incentive compensation liability (Note 23)	1,705.3
Other deferred liabilities (Note 16)	40.8
Asset retirement obligation (Note 17)	154.2
Deferred taxes	535.3
	574.2
Total liabilities	5,452.8
SHAREHOLDERS' EQUITY	
Shareholders' capital (Note 21)	7,221.1
Contributed surplus	46.3
Deficit	(1,337.4)
Accumulated other comprehensive loss	(2.5)
Total shareholders' equity	5,927.5
Total liabilities and shareholders' equity	11,380.3



Operating Costs

A typical inactive site has \$3k - \$8k in annual costs



- **Annual OPEX Costs**

- Linear Development Taxes: \$500
- Utilities: \$250
- Inspections: \$500
- Surface Lease: \$3,000
- Vegetation Management: \$1,000

OPEX is often used to benchmark company performance

M&A Opportunities



Exit Timelines

- ARO has contributed to elongated exit timelines and an emphasis on profitability over production



Regulatory Certainty

- ARO is under increased scrutiny from Regulators and adds uncertainty for licence transfers



Competitive Buyer Pool

- Higher ARO reduces the number of companies that can bid on assets and deflates competitiveness

ESG Performance

ESG performance is key for social licence

Methane and CO2 Emissions

**Groundwater
Risks**

Public Safety

**Stakeholder
Relations**

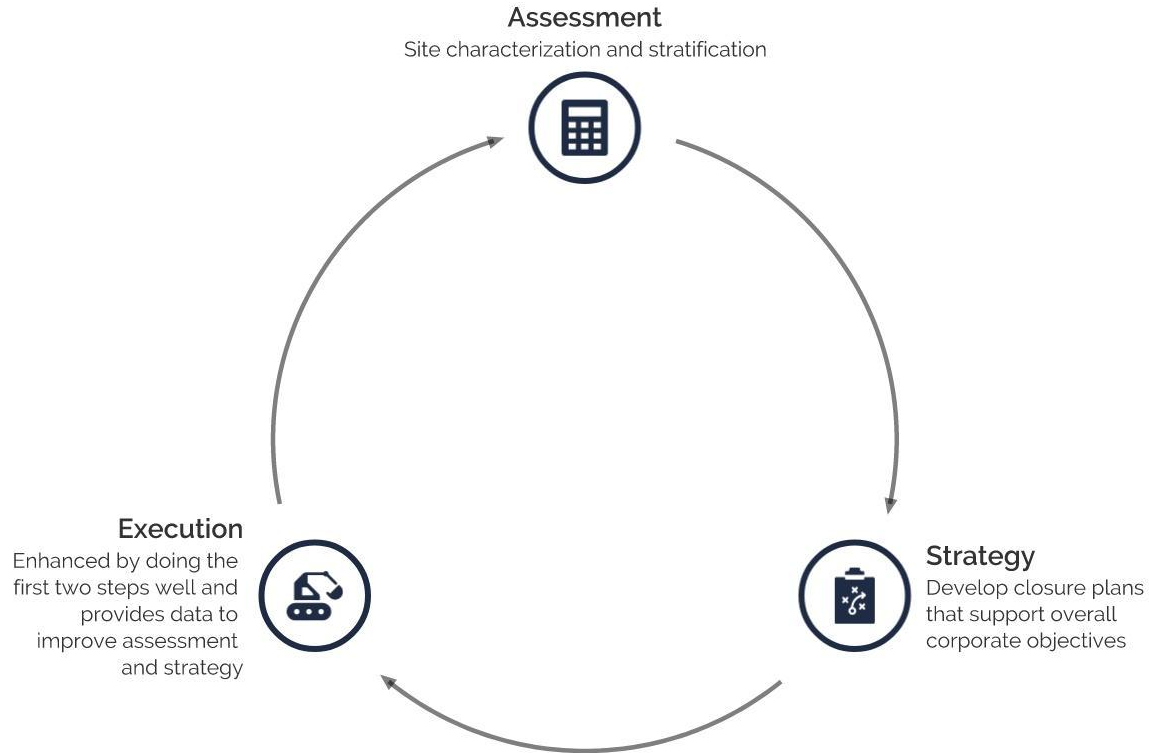
Land Disturbance

Licensee Capability Assessment

Licensee Assessment Profile					
Risk Group		Performance Group			
Level of Financial Distress	Magnitude of Liability	Remaining Lifespan of Resource	Operations	Closure	Administration
Low	Medium	Tier 2	Tier 2	Tier 3	Tier 1

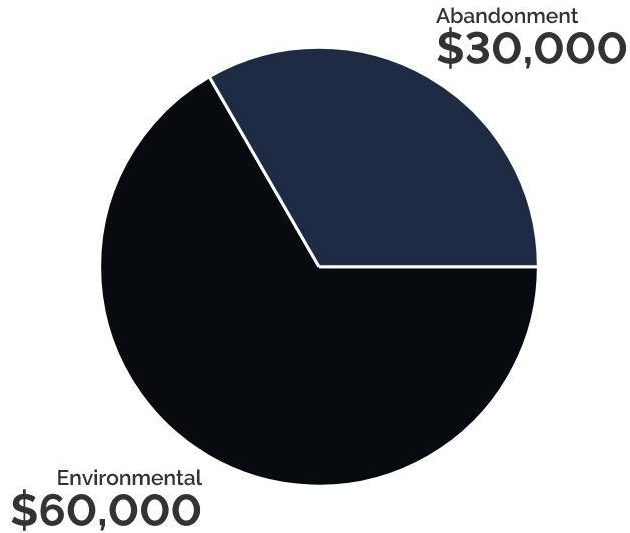
Opportunities for the Environmental Sector

Holistic Closure Planning and Execution

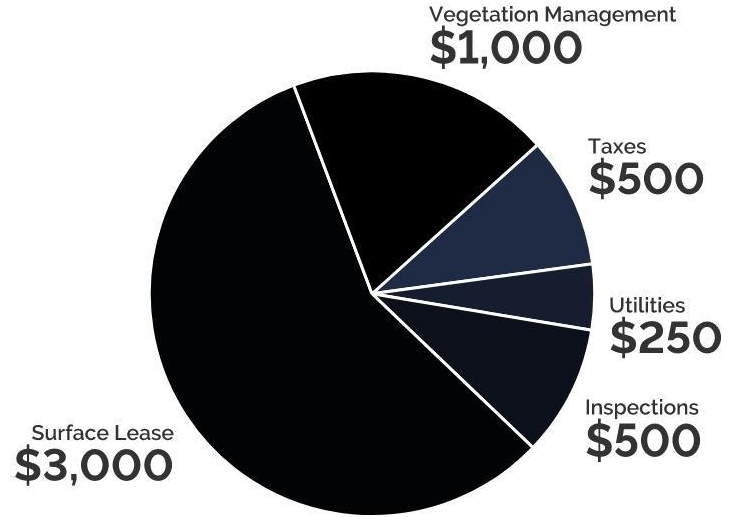


Well Closure and OPEX Metrics

Closure Costs



Annual OPEX



Long Term Value

	CAPEX	Annual OPEX Reduction	Payback Period	25 Year ROI
Abandonment	\$30,000	\$1,250	24 Years	-\$8,696
Environmental	\$60,000	\$4,000	15 Years	\$15,641

M&A Evaluations




ESG Metrics



EMISSIONS SEQUESTRATION



DISTURBANCE AREA RECLAIMED



GROUNDWATER PROTECTION



PUBLIC HAZARDS



STAKEHOLDER ENGAGEMENT

Licensee Capability Assessment

Table 3. Remaining lifespan of resources: parameters and associated weightings

		<u>Weights</u>
<u>Parameters</u>	<u>Description</u>	<u>Producers</u>
Production decline rate	Average rate of change of production over the previous three years	25%
Inactive well ratio	Ratio of inactive wells to wells that have not been abandoned (both active and inactive)	25%
Marginal well ratio	Ratio of wells producing 1.59 cubic metres of oil equivalent per day (10 barrels of oil equivalent per day) or less to active wells	25%
Inactive facility ratio	Ratio of inactive facilities to facilities that have not been abandoned (both active and inactive)	15%
Crossover timeline*	Estimate of the timeframe when magnitude of liability will exceed future income potential from remaining production Tier 1 = far Tier 2 = medium Tier 3 = near	10%

Table 5. Closure: parameters and associated weightings

		<u>Weights</u>
<u>Parameters</u>	<u>Description</u>	<u>Producers</u>
Closure spend rate	Ratio of <i>Directive 011</i> closure spend estimate to inactive <i>Directive 011</i> deemed liability, for previous year	20%
Inactive liability trend	Average rate of change of inactive liability over the previous three years	20%
Abandonment rate, produced well	Average ratio of abandoned wells to inactive wells, for the previous three years (wells that produced)	10%
Abandonment rate, non-produced well	Average ratio of abandoned wells to inactive wells, for the previous three years (wells that never produced)	5%
Reclamation rate, produced well	Average ratio of reclaimed wells to abandoned wells, for the previous three years (wells that produced)	10%
Reclamation rate, non-produced well	Average ratio of reclaimed wells to abandoned wells, for the previous three years (wells that never produced)	5%
Facility abandonment rate	Average ratio of abandoned facilities to inactive facilities, for previous three years	10%
Facility reclamation rate	Average ratio of reclaimed facilities to abandoned facilities, for the previous three years	10%
Pipeline abandonment rate	Average ratio of pipeline segment abandonments to total pipelines, for the previous three years	10%

**How Do We Optimize
Spending \$1?**