EXCERPTS OF RECENT MEDIA COVERAGE
NATURAL RESOURCES PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q2 2014

FIERCE ENERGY

OIL AND GAS FACING STATIC, SELECTIVE POOL OF PROSPECTS, LEADERSHIP, LABOR

By Barbara Lundin

The outlook for the U.S. oil and gas industry is positive in the midst of a steadily improving economy, stable prices and the ongoing profitability of shale formations across the country, according to ***BDO's Oil and Gas "RiskFactor" Report***...

The two leading risks over the past four years – regulatory changes and commodity price volatility – suggest that companies remain primarily concerned about interruptions to the industry's ongoing growth.

However, two risks are emerging as growing threats: demand for qualified leadership and the ability to recover undeveloped reserves...80 percent of companies cite the ability to attract and retain key personnel as a top risk – up nearly 10 percent from 2013...81 percent express increasing apprehension at the possibility of being unable to recover their undeveloped reserves economically or before their leases expire – up one-third from 2013.

"The non-conventional oil and gas industry is a highly competitive space, with new wells coming online and more companies

entering the game all the time," said **Charles Dewhurst, leader of BDO's Natural Resources practice**. "As the industry continues its upward trajectory, we may expect to see a growing number of companies vying for a relatively static and selective pool of prospects, leadership and labor."

A majority of responding companies (85 percent) cite risks associated with their use of hedging arrangements to offset commodity price fluctuations. While oil prices have seen relative stability in recent years, domestic natural gas prices remain persistently low, and any oil and gas companies entering into hedging agreements in the current pricing environment could lose out on potential profits should prices increase, according to BDO. Concern that counterparties to these derivatives transactions may default is of specific concern, as noted by 65 percent of companies.

...Of the companies that reference operational risks...nearly one in four specifically cites the use of fracking and horizontal drilling technology as a concern. Meanwhile, 85 percent say regulation associated with fracking is a risk this year – nearly double that of 2011.

Nevertheless, the lack of significant increase this year (the sentiment was consistent with 2013) suggests that companies are more

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BDO's Natural Resources industry practice provides assurance, tax and advisory services to emerging and established businesses in the United States and all over the world who are involved in both the traditional and alternative energy industries. BDO's extensive industry knowledge is supported by a global network of more than 1,264 offices in 144 countries.

prepared for regulation and are seeking to cooperate with both the government and public to manage fracking's potential impact on communities, the land and the environment.

ENERGY WIRE

OIL AND GAS: SIZE, COSTS OF GLOBAL PROJECTS BECOME BIG OIL'S MILLSTONE

By Nathanial Gronewold

Are the supermajors too big for their own good?...

"The sheer size of the supermajors is, in my mind, and I think many others, an impediment," said **Charles Dewhurst, a principal at the Houston office of global consulting firm BDO**. "We're going through so many transitions in the energy industry with things like shale development [and] needing to react to a higher focus on safety and spills..."

"If you look at the reserve replacement ratios for some of the supermajors, some of them are quite alarming," said BDO's Dewhurst.

Many of these ratios are under 100 percent. On an annual basis, that means these companies are slowly depleting their reserves. "They're not adding new reserves to make up the production that they benefit of the current year, so they're shrinking in size," he said...

Longtime horizons

...Exxon is building a giant complex on the north side of Houston that will allow the company to consolidate all of its scattered offices in the city under one roof...

"That suggests to me a very hands-on management style where they can be much more efficient at decisionmaking because all of the key players are going to be here in Houston to execute those decisions," Dewhurst said.

But for the supermajors as a whole, Dewhurst said he remains unconvinced that the future is bright...

Dewhurst predicts the supermajors will deal with reserves replacement issues through expensive mergers and acquisitions, purchasing companies already holding assets rather than finding new tracts of their own.

OIL AND GAS INVESTOR

RISK FACTORS IN AN INDUSTRY OF RISK-TAKERS

By Susan Klann

The booming U.S. oil and gas industry has prospered thanks to technology advances, stable commodity prices and the mighty shales. But there are always challenges.

BDO...recently surveyed risk factors cited in the most current 10-Ks of the 100 largest publicly traded exploration and production (E&P) companies in the U.S. While the usual risk suspects surfaced...Most significant were the attraction and retention of leadership talent and the challenge of economically recovering undeveloped reserves.

This year, 80% of companies said finding qualified personnel was a risk, up by 10% from 2013...

As for the resource-recovery side of the equation, 81% of the companies expressed "increasing apprehension that they may be unable to recover their undeveloped reserves economically or before their leases expire"—a one-third increase since 2013.

"As the industry continues its upward trajectory, we may expect to see a growing number of companies vying for a relatively static and selective pool of prospects, leadership and labor," said **Charles Dewhurst, leader of the natural resources practice at BDO**.

Federal, state and international regulations remain the most frequently cited risk... continuing a trend...Interestingly, fewer companies mentioned climate change and greenhouse gas regulations as risks, despite recent and widely disseminated reports on climate change and the potential for the Environmental Protection Agency to take stronger action on carbon emissions.

While many companies mentioned hydraulic fracturing use and regulation as threats, these concerns held steady with 2013 mentions. BDO said "the lack of significant increase this year suggests that companies are more prepared for regulation and are seeking to cooperate with both the government and public to manage fracking's potential impact on communities, the land and the environment."

ENERGY & MINING INTERNATIONAL

ENCOURAGING TRANSPARENCY

By **Bryndon Kydd**

In an effort to explore methods to encourage development and reduce poverty in resource-rich countries—particularly in developing nations—the Canadian federal government assembled the Resource Revenue Transparency Working Group (RRTWG) in September 2012...Ideally, this improved transparency of payments to governments will reduce bribery and mismanagement of funds while providing citizens and investors with better information upon which to advance their respective positions...

On March 27, Natural Resources Canada published a consultation paper based largely on the recommendations of the RRTWG...

For the 60 percent of mining companies globally that would be affected, complying with the recommendations will not come without significant effort and cost. The company's management team's first step should be to thoroughly familiarize itself with the recommendations, monitoring as they become requirements to ensure timely compliance. From here, management should assess its current processes and systems for adherence to the reporting requirements, modifying for any identified gaps to ensure that all required information is fully and accurately captured. Finally, management should implement an effective process incorporating appropriate internal

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controls to ensure accuracy and consistency of data production and reporting. This process should also include assembling a file to accommodate potential audits by regulators. Management must also be sure to include all subsidiaries, controlled (directly or indirectly) and jointly-controlled entities and entities subject to significant influence in its reporting process evaluation, as these types of companies are explicitly subject to the reporting framework.

NATURAL GAS INTELLIGENCE

U.S. E&PS AGAIN CITE REGULATORY OVERSIGHT, COMMODITY PRICES AS MAIN CONCERNS

By Carolyn Davis

Regulatory changes and commodity price volatility continue to be the major risks facing U.S. exploration and production (E&P) companies, based on recent U.S. Securities and Exchange Commission Form 10-K filings by the top 100 public companies.

The 20 leading industry risks..."continue to hold steady, with few new concerns bubbling up," according to the ***BDO Oil and Gas RiskFactor Report***...

"The nonconventional oil and gas industry is a highly competitive space, with new wells coming online and more companies entering the game all the time," said **Charles Dewhurst, who leads the natural resources practice for BDO USA LLP**. "As the industry continues its upward trajectory, we may expect to see a growing number of companies vying for a relatively static and selective pool of prospects, leadership and labor."

...80 companies cited the ability to attract and retain key personnel as a top risk, up by almost 10% from a year ago.

"... with the U.S. Bureau of Labor Statistics indicating that the number of active E&P companies increased by about 27% between 2003 and 2012...competition to attract a selective group of highly qualified executives has intensified."

About 81% expressed "increasing apprehension that they may be unable to recover their undeveloped reserves economically or before their leases expire. This marks a one-third increase since 2013..."

"Many oil and gas companies entering into hedging agreements in the current pricing environment could lose out on potential profits should prices increase...Many also express concern that counterparties to these derivatives transactions may default – a risk specifically noted by 65%."

Regarding fracking risks, the companies referenced operational risks...with about one in four specifically using the terms fracking and horizontal drilling technology as concerns. Last year's analysis was the first in which fracking was named as a top 20 risk.

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