

RESOURCE EXPO 04



Aboriginal Energy Resource Development

New Directions in National Aboriginal Resource Development

Presentation by Roy Fox
President and C.E.O.
Indian Resource Council

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Outline of Presentation

- IRC – Who are we?
- Mainstream oil and gas sector
- First Nations interests
- Role of IOGC; First Nations oil and gas asset
- Barriers to First Nation participation
- Overcoming Barriers
- Risk capital Model
- IRC's experience – IRC Fund
- Conclusion – Future Directions



Introduction to the IRC

- A consortium of over 130 First Nations across Canada that have oil and gas rights and interests on their lands
- Mandate extends to both Reserve and Traditional lands
- Specific mandates include:
 - Promoting and supporting First Nations in the attainment of full management and control of their oil and gas resources
 - Supporting increased participation of First Nations in all aspects of the energy sector, i.e. Seeking value-added benefits
 - Promoting First Nations growth through direct equity and other investments



Introduction to the IRC

- Building partnerships with government and industry that are supportive of First Nations oil and gas development
- Increasing First Nations capacity through training and employment programs
- Serving an advocacy role to ensure fulfillment of Canada's fiduciary obligations in the management of First Nations lands and resources as established under Treaties



The Oil and Gas Sector

CAPP represents 140 member companies who explore and produce more than 97% of Canada's natural gas, crude oil and oil sands, most of which is found in Alberta

- This sector is the largest single private sector investor in Canada
- During 2003, this industry invested \$31B in Canada; and paid \$16B to Provincial and Federal governments by way of taxes, royalties and rentals
- The industry created over 500,000 jobs in 2003 including over 90,000 jobs in the upstream sector alone



The Oil and Gas Sector

- In 2003 Canada produced 2.7 million barrels of crude oil per day and 6.3 trillion cubic feet of natural gas per year
- Oil and gas production continues to grow with an increasing number of new wells being drilled – 19,600 new wells in 2003
- The oil sands continue firing on all cylinders
- Record high crude (over US\$50/barrell) and natural gas prices (over C\$13/mcf) has spurred an unprecedented activity level
- New developments such as the Alaska/MacKenzie proposed pipelines and new sources of natural gas; as well, Coal Bed Methane developments present exciting opportunities
- This is a growth industry that First Nations could ignore at their own peril!



First Nations/Aboriginal Interests

- First Nations recognize that their well being is dependent to a large extent on wealth generated from natural resources
- They want more than just royalties; i.e. a greater share of the resource wealth both on their lands and traditional lands; resource and revenue sharing, jobs, business and equity ownership
- Their strategic geographic location within major oil/gas producing areas and pipeline routes; hence intersection of First Nations and industry interests



First Nations/Aboriginal Interests

- Recognizes industry as an important willing partner and ally
- Growing number of Band Owned companies – at least 50 and growing – and other First Nations owned businesses
- Many examples on First Nations/Industry partnerships
 - Partnerships with Western Lakota Drilling involving several FNs in Alberta and B.C.
 - Industry spending about \$100m this year in support of FN businesses in booming NEBC
 - Aboriginal Pipeline Group 10% ownership in the proposed MacKenzie Pipeline
- Growing First Nations population presents a critical labor pool
- Increasing educational and skill training means available labor force



Indian Oil and Gas Canada (IOGC)

- Management of FNs oil and gas resources is through Indian Oil and Gas Canada (IOGC), a special operating agency of the Department of Indian Affairs
- Its regulator role determined by *Indian Oil and Gas Act* and *Regulations*
- Mandates apply only to Indian (Reserves) lands and only those designated for oil/gas development
- The stated mandate of IOGC is “to fulfill the Crown’s fiduciary and statutory obligations related to the management of oil and gas resources on First Nations lands and to further First Nations initiatives to manage and control their oil and gas resources”



IOGC and IRC

- IOGC's mandate is extremely limited (to reserve lands only)
- Its *Oil and Gas Act* and *Regulations* also restrict its mandate to E&P activities only thus limiting other value added activities
- IRC has entered into a co-management arrangement with IOGC to transform its role as a modern regulator and to expand its role as a fiduciary
- To this end a number of legislative amendments are in progress (IOGA/Regs; FNOGMMA, FNCIDA)



First Nations Oil and Gas Asset

- First Nations (on reserve) oil and gas asset is significant
- According to some conservative estimates, these assets combined would make First Nations the 10th largest oil/gas company in Canada!
- According to IOGC (2003 data):
 - IOGC administered 612,000 hectares of land under 671 mineral agreements. An estimated one million hectares of First Nations lands are available for exploration
 - There are 175 companies with interests on 75 reserve lands
 - 265 new wells were drilled in 2003 (a 34% increase from previous year) for a total of over 1,765 Indian interest wells



First Nations Oil and Gas Asset

- Oil production was 413.8 thousand cubic meters and gas production was 2,202 million cubic meters per year
- Total money collected by IOGC on behalf of First Nations increased to \$197.3 million during the reporting year
- According to IOGC, Indian lands still remain relatively unexplored, as compared to Crown lands
- Over 1.5 m hectares identified as a potential source of oil and gas – these are contiguous lands with common surface and sub-surface rights



First Nations Oil and Gas Asset

- The settlement of land claims particularly in Saskatchewan, Alberta and B.C. frees more lands for potential oil and gas exploration and development
- Nationally the Federal Gov't expects to spend over \$11.3B to settle claims in the future
- These settlements also provide an additional source of money for investments and energy related partnerships
- The growth of First Nations oil and gas asset reflects the national trend – it's a hot industry!



Barriers to First Nations Participation

- Historically, First Nations have been too dependent on royalties and little else; ironically creating more problems for recipients
- Industry lacks knowledge of First Nations oil and gas assets
- Too much dependence on Government (Indian Affairs and IOGC) agencies
- Crown's broken promises on Treaties – NRTA seen as an illegal piece of legislation
- Regulatory barriers (*Indian Act, Indian Oil and Gas Act and Regulations*)
- Lack of capacity/expertise



Barriers to First Nation Participation

- Lack of capital – inability of First Nations and their business entities to source traditional sources of debt capital
- Federal Laws especially the outdated *Indian Act* prevents First Nations from using their land assets as collateral
- The control and administration of Indian moneys by Canada has prevented First Nations from using their own moneys for investment and economic development projects!



Overcoming Barriers – Future developments

- There's growing awareness and understanding of First Nations resource development issues; IRC is championing this cause
- Increasing awareness and understanding of the oil and gas industry by First Nations; growing number of college and university and technical graduates through partnerships with training institutions such as NAIT and SAIT in Alberta, PITS and others
- Trend reflected in growing number of joint ventures and partnerships as well as small businesses in construction, trucking and hauling, catering and others services
- Employment still remains a major issue but there are several initiatives involving organizations such as the Human Resource Development Council, the Petroleum Resources Council of Canada and others that are addressing this issue



Overcoming Barriers

- Regulatory Changes
 - Proposed *First Nations Industrial and Commercial Development Act* – intended to provide a legal regime that will enable First Nations to establish commercial and industrial projects on their land – e.g. refineries, co-generation and others
 - Proposed *First Nations Oil and Gas Management and Moneys Act*. This optional legislation will enable First Nations to operate outside the IOGC and collect and administer their own moneys
 - Proposed changes to the *Indian Oil and Gas Act* and *Regulations* being led by the IRC; modernize the regulatory regime to enable First Nations to exploit all aspects of the energy sector



Overcoming Barriers – Risk Capital

First Nations understand the need to devise creative ways of attracting capital to their communities;

Historically, Governments have been the main supplier of this capital, made available through various mechanisms including contribution agreements;

Recognition that the existing system has not been effective; contributions come with stringent rules, are finite and rarely allow for capital re-generation and re-investment; i.e. they are dead end;

- A new trend for risk and venture capital promises to bring private sector capital to First Nations communities thus shortcutting the historical access to capital problem



The Risk Capital Model

- Canada (INAC) has recognized the need to attract private capital to First Nations businesses
- Three pilot projects have received Federal Government funding support to enter the venture capital market
- The Dana Naye Ventures project in Yukon was established to provide capital to small businesses in Yukon
- SOCCA (Quebec Native Venture Capital Partnership) is a regional project that is making capital investments in various Aboriginal businesses in Quebec
- The IRC Fund was established to provide risk capital for investment in energy projects that benefit First Nations/Aboriginal people



The Risk Capital Model

- Together, the three projects have established a national network (NARCA) to promote the risk/venture capital concept to Aboriginal and industry partners and to lobby for Federal authority in support of this model
- Proponents of the concept intend to lobby for the establishment of a national “risk” fund with contributions from Government, First Nations and private investors that could invest in national projects that might be outside the scope of regional funds; an example would be the proposed Northern pipelines



The Indian Resource Capital Fund (IRCF)

- Established with an initial \$2.0m funding support from INAC
- A First Nations partner has invested \$1.0m
- IRC has partnered with a private capital corporation to raise a minimum of \$7.0m for an initial capitalization of 10.0m
- I have invited our private sector partner to make a few comments about the Fund and their involvement
- The objective of the Fund is to generate good returns for investors by investing in energy businesses that benefit First Nations
- Benefits may include jobs, businesses, community infrastructure and a share of the profits



Conclusion: The Future

- Aboriginal people represent a major un-tapped and under-utilized human resource
- According to the Conference Board of Canada, Aboriginals represent the fastest growing population in Canada, a majority of which is under 25 years old
- This Board also determined that there are over 560,000 potential jobs available to bring Aboriginal employment to par with the Canadian average
- The growing oil and gas sector presents an opportunity for First Nations to partake in this major growth industry



Conclusion: The Future

- First Nations have rights to their lands and resources based on Treaties that cannot be “extinguished’ by pieces of federal legislation such as the NRTA
 - Benefits from resource development exist on and off (traditional) lands; revenue sharing means fair and equitable access to jobs, business opportunities and wealth
 - First Nations are slowly but surely overcoming the historical barriers that have deterred them from benefiting fully from the resource sector
 - There is a new era of partnership involving governments, industry and First Nations. This is a challenge and an opportunity.
 - The IRC will continue to provide leadership in these areas
- THANK YOU