ESG risk mitigation in Canada’s Oil Sands

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Our recent work on Oil Sands

- Report on carbon risk: “Head in the Oil Sands”
- Worked with banks on climate-related credit risk
- Alberta oil sands consultations position: no new approvals without strategic land use planning
- Ongoing ESG evaluation of oil sands companies
- Ongoing shareholder action with oil sands companies
Why more focus on Oil Sands?

- Increasing exposure (more companies involved)
- “Head in the Oil Sands” highlighted gaps in companies’ carbon risk mitigation
- Variety of oil sands company-specific ESG risks
- Potential solutions for some risks
- Pace of development ahead of mitigation capacity
- New report scheduled for publication in October
Why more focus on Oil Sands?

Source: S&P/TSX Composite Fact Sheet
Information date: December 31, 2007
Oil Sands background

- Why the rush into oil sands?
  - Shrinking conventional oil reserves in unstable regions
  - Recognition of extent of oil sands reserves
  - Economics of oil sands improved
  - Provincial and federal governments supportive
  - US is major customer, Asian companies entering

- “When you’re in, you’re in”
  - Long-term commitment: high investment requirement compared to conventional oil
  - Most projects not yet at construction stage
## Oil Sands Companies - selected

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<th>Company</th>
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Aspects of Oil Sands ESG risk

- Litigious risk
- Asset retirement obligations
- Regulatory risk
- Social license risk
- Strategy and cumulative impacts
Litigious risk

- First Nations litigation
- US/International O&G companies (and investors) may be unfamiliar with risk potential
Asset retirement obligations

- Are we getting a true picture of liabilities?
  - OSC staff notice highlights inadequate disclosure
  - Adequacy of posted oil sands reclamation bonds?
  - Is reclamation possible?

- Standard corporate response
Regulatory risk

- (Weak) carbon regulations coming in
  - Federal GHG regulations
  - Alberta GHG regulations

- Regime only likely to get tougher over time
  - Carbon tax in BC
  - Opposition parties call for tougher policies

- Putting faith in CCS over best practices?
Social license

- Attitudes of Albertans and Canadians
  - Environment
  - O&G companies
  - Oil sands development

- US regulatory demand risk
  - Low Carbon Fuel Standards

- Reputational risk – negative media
Strategy and cumulative impacts

- Oil Sands development must be better managed
- Strategic land use planning with stakeholders, cap on cumulative impact
- No more project approvals before strategic plan
Discussion

- Do these oil sands risks resonate for investors?
- What other oil sands issues/risks resonate for investors?