

Beginner's Guide to National Instrument 51-101 *Standards of Disclosure For Oil and Gas Activities*

Alberta Securities Commission

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Agenda

1	Purpose
2	Introduction
3	Applicability
4	Select requirements
5	Q&A

Purpose

To introduce the fundamentals of National Instrument 51-101 *Standards of Disclosure For Oil and Gas Activities* to those with little or no familiarity.

Q: Who will benefit?

A: Technical, financial and legal professionals involved in the preparation or use of oil and gas evaluations or disclosure.

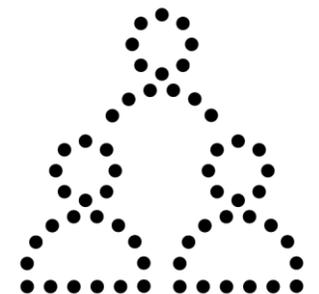
Introduction

Introduction: Alberta Securities Commission

- Administers Alberta’s securities laws
 - Entrusted to:
 - foster a fair and efficient capital market
 - protect investors
- Member of the Canadian Securities Administrators (**CSA**)
 - Improve, coordinate and harmonize regulation
- CSA’s lead oil and gas (**O&G**) regulator

Introduction: Energy Group

- We apply our expertise to energy-related matters
 - “All things energy” approach
 - Ongoing commitment to O&G



Introduction: Energy Group

- Focus includes:
 - O&G
 - exploration and production
 - midstream (including pipelines)
 - services
 - helium and hydrogen
 - lithium from oilfield brines
 - carbon capture, utilization and storage
 - environmental sustainability, including greenhouse gas emissions
 - renewable energy
 - renewable hydrocarbons
 - electrical generation, transmission and storage
 - related environmental liabilities

Introduction: Energy Group

- In pursuit of compliant disclosure, we:
 - Conduct reviews
 - incorporate disclosure and technical evaluations
 - assess compliance with securities legislation
 - Develop and maintain securities legislation and technical guidance
 - Communicate with Alberta capital market participants

Introduction: Regulatory framework

- National Instrument 51-101 *Standards of Disclosure For Oil and Gas Activities* (**NI 51-101**)
 - Canadian securities regulatory standard for O&G disclosure
 - applies to reporting issuers (**RIs**) engaged in O&G activities (**O&GA**)¹
 - Addresses:
 - general disclosure standards
 - specific annual disclosure requirements

¹Secs.1.1 and 1.3 of NI 51-101

Introduction: Regulatory framework

- Supplements requirements that apply to all RIs.
- Technical standard: Canadian Oil and Gas Evaluation Handbook (**COGE Handbook**)²
 - Oversight: Society of Petroleum Evaluation Engineers (Calgary Chapter)

²Available at www.speecanada.org

Introduction: Regulatory framework

- Addresses the filing of a related statement and forms³ with the securities regulatory authority⁴ (**SRA**) on SEDAR,⁵ including:
 - Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information*
 - Form 51-101F2 *Report on [Reserves Data][,] [Contingent Resources Data] [and] [Prospective Resources Data] by Independent Qualified Reserves Evaluator or Auditor*
 - Form 51-101F3 *Report of Management and Directors on Oil and Gas Disclosure*

³Per sec. 2.1 of NI 51-101, to be filed no later than the date required to file audited financial statements for the most recent financial year

⁴Sec. 1.1 of NI 51-101

⁵System for Electronic Analysis and Retrieval (www.SEDAR.com)

Introduction: Regulatory framework

- Companion Policy 51-101CP *Standards of Disclosure for Oil and Gas Activities* (**51-101CP**)
 - CSA's interpretation and application of NI 51-101
- CSA staff notices, including:
 - SN 51-324 *Revised Glossary to NI 51-101* (**SN 51-324**)
 - SN 51-327 *Revised Guidance on Oil and Gas Disclosure*

Introduction: Regulatory framework

- *Securities Act (Alberta)* (**Act**)
- Energy Matters Report⁶
- Corporate Finance Disclosure Report⁶
- Financial Reporting Bulletins⁷
 - ASC Office of the Chief Accountant

⁶2022 editions published in December, available at www.asc.ca

⁷Available at www.asc.ca

Applicability

Applicability

- NI 51-101 applies to:
 - RIs engaged in O&GA
 - directly, or
 - indirectly
 - Information material to an RI⁸
- We'll review terminology that's key to applicability.



⁸Sec. 1.4(1) of NI-51-101

Applicability

- Material:
 - For the purposes of *NI 51-101*, information is *material*, in respect of a *reporting issuer*, if it would be likely to influence a decision by a reasonable investor to buy, hold or sell a security of the *reporting issuer*.
 - This meaning differs from the definitions of "material change" and "material fact" in *securities legislation*.⁹

Italicized terms are defined in NI 51-101 or SN 51-324

⁹SN 51-324

Applicability

- Oil and gas activities:
 - [I]ncludes the following:
 - a) searching for a product type in its natural location;
 - b) acquiring property rights or a property for the purpose of exploring for or removing product types from their natural locations;
 - c) any activity necessary to remove product types from their natural locations, including construction, drilling, mining and production, and the acquisition, construction, installation and maintenance of *field* gathering and storage systems including treating, *field* processing and *field* storage;
 - d) producing or manufacturing of *synthetic crude oil* or *synthetic gas*;

Applicability

- but does not include any of the following:
 - e) any activity that occurs after the first point of sale;
 - f) any activity relating to the extraction of a substance other than a product type and their by-products;
 - g) extracting *hydrocarbons* as a consequence of the extraction of geothermal steam;¹⁰

Underlining is for emphasis throughout presentation

¹⁰Sec.1.1 of NI 51-101

Applicability

- Product type:
 - [M]eans any of the following:
 - a) *bitumen*;
 - b) *coal bed methane*;
 - c) *conventional natural gas*;
 - d) *gas hydrates*;
 - e) *heavy crude oil*;
 - f) *light crude oil and medium crude oil combined*;
 - g) *natural gas liquids*;
 - h) *shale gas*;
 - i) *synthetic crude oil*;
 - j) *synthetic gas*;
 - k) *tight oil*;¹¹

¹¹Sec. 1.1 of NI 51-101

Applicability

- By-product:
 - [M]eans a substance that is recovered as a consequence of *producing* a product type;¹²

¹²Sec. 1.1 of NI 51-101

Applicability

- Property:
 - [I]ncludes:
 - a) fee ownership or a *lease*, concession, agreement, permit, licence or other interest representing the right to extract *oil* or *gas* subject to such terms as may be imposed by the conveyance of that interest;
 - b) royalty interests, *production* payments payable in *oil* or *gas*, and other non-operating interests in *properties* operated by others; and
 - c) an agreement with a foreign government or authority under which a *reporting issuer* participates in the operation of *properties* or otherwise serves as “*producer*” of the underlying *reserves* (in contrast to being an *independent* purchaser, broker, dealer or importer) [...] ¹³

¹³SN 51-324

Applicability

- First point of sale:
 - [M]eans the first point after initial *production* at which there is a transfer of ownership of a product type;¹⁴

¹⁴Sec. 1.1 of NI 51-101

Applicability

- Some considerations:
 - Per sec. 1.3 of 51-101CP:
 - O&GA is broadly defined.
 - An RI may be engaged in O&GA if it doesn't have reserves, but has:
 - contingent resources
 - prospective resources
 - otherwise unproved properties¹⁵
 - NI 51-101 applies to issuers that aren't yet RIs if a prospectus or other document incorporating prospectus requirements is filed with the SRA.

¹⁵SN 51-324

Select requirements

Select requirements

Introduction

- Again, NI 51-101 addresses:
 - general disclosure standards
 - applies to all NI 51-101 disclosure
 - specific annual disclosure requirements
- We'll discuss each in succession.

Select requirements

a) General disclosure standards – Introduction

- Addressed in:
 - Part 1 Application and Terminology
 - Part 3 Responsibilities of Reporting Issuers and Directors
 - Part 4 Measurement
 - Part 5 Requirements Applicable to All Disclosure

Part 2 is discussed in b) Specific annual disclosure requirements

Select requirements

a) General disclosure standards – Introduction

- Part 6 Material Change Disclosure and Ceasing to Engage in Oil and Gas Activities
- Part 7 Other Information
- Part 8 Exemptions
- Part 9 Instrument in Force

Select requirements

a) General disclosure standards – Part 1

- Discusses NI 51-101 applicability and terminology.
 - Applicability was addressed previously.
 - Select terminology is discussed in sec. 1.1.
 - Additionally, see:
 - National Instrument 14-101 *Definitions* (**NI 14-101**)
 - the Act
 - the COGE Handbook
 - SN 51-324

Select requirements

a) General disclosure standards – Part 1

- Some key NI 51-101 terminology follows, but note:
 - For terms used in but not defined in NI 51-101, NI 14-101 or the Act, sec. 1.2 states:
 - Refer to definitions or interpretations in the COGE Handbook.
 - For conflicts or inconsistencies, defer to NI 51-101, NI 14-101 or the Act.

Select requirements

a) General disclosure standards – Part 1

- Qualified reserves evaluator (**QRE**):
 - [M]eans an individual who:
 - a) in respect of particular *reserves data, resources* or related information, possesses professional qualifications and experience appropriate for the estimation, *evaluation* and *review* of the *reserves data, resources* and related information; and
 - b) is a member in good standing of a *professional organization*;

Select requirements

a) General disclosure standards – Part 1

- Qualified reserves auditor (**QRA**):
 - [M]eans an individual who:
 - a) in respect of particular *reserves data, resources* or related information, possesses professional qualifications and experience appropriate for the estimation, *evaluation, review* and *audit* of the *reserves data, resources* and related information; and
 - b) is a member in good standing of a *professional organization*;

Select requirements

a) General disclosure standards – Part 1

- Professional organization:
 - [M]eans a self-regulatory organization of engineers, geologists, other geoscientists or other professionals whose professional practice includes *reserves evaluations* or *reserves audits*, that:
 - a) admits members primarily on the basis of their educational qualifications;
 - b) requires its members to comply with the professional standards of competence and ethics prescribed by the organization that are relevant to the estimation, *evaluation*, *review* or *audit* of *reserves data*;
 - c) has disciplinary powers, including the power to suspend or expel a member; [...]

Select requirements

a) General disclosure standards – Part 1

- Future net revenue (**FNR**):
 - [M]eans a forecast of revenue, estimated using *forecast prices and costs* or *constant prices and costs*, arising from the anticipated development and production of *resources*, net of the associated royalties, *operating costs*, *development costs*, and *abandonment and reclamation costs*;

Select requirements

a) General disclosure standards – Part 1

- Independent:
 - [I]n respect of the relationship between a *reporting issuer* and a person or company, means a relationship between the *reporting issuer* and that person or company in which there is no circumstance that could, in the opinion of a reasonable person aware of all relevant facts, interfere with that person’s or company’s exercise of judgement regarding the preparation of information which is used by the *reporting issuer*;

Select requirements

a) General disclosure standards – Part 1

- Reserves data:
 - [M]eans an estimate of proved reserves and probable reserves and related *future net revenue*, estimated using *forecast prices and costs*;

Select requirements

a) General disclosure standards – Part 1

- Contingent resources data:
 - [M]eans:
 - a) an estimate of the volume of contingent resources, and
 - b) the *risked* net present value of *future net revenue* of contingent resources;

Select requirements

a) General disclosure standards – Part 1

- Prospective resources data:
 - [M]eans:
 - a) an estimate of the volume of prospective resources, and
 - b) the *risked* net present value of *future net revenue* of prospective resources;

Select requirements

a) General disclosure standards – Part 3

- Discusses RI and director responsibilities.
 - Sec. 3.2 requires an RI to:
 - Appoint one or more independent QREs or QRAs; and
 - Direct each to report to the board of directors on the reserves data, contingent resources data or prospective resources data in the statement per sec. 2.1.
 - Sec. 3.3 requires an RI to provide information to these QREs or QRAs.

Select requirements

a) General disclosure standards – Part 3

- Sec. 3.4 requires, amongst other things, that the RI:
 - Review its procedures:
 - relating to disclosure of its O&GA, including NI 51-101 compliance
 - for providing information to its independent QREs or QRAs
 - Approve the content and filing of the statement and reports per sec. 2.1.

Select requirements

a) General disclosure standards – Part 5

- Addresses a variety of RI requirements.
 - Apply to all disclosure¹⁶ by or on behalf of an RI that occurs:
 - publicly;
 - in any document filed with the SRA; or
 - in other circumstances in which the RI knows, or ought reasonably to know, that it is or will become publicly available.¹⁷

¹⁶In some cases, apply only to written disclosure

¹⁷Sec. 5.1 of NI 51-101

Select requirements

a) General disclosure standards – Part 5

- So, part 5 applies to:
 - disclosure documents, whether or not filed with the SRA;
 - continuous disclosure filed with the SRA; includes filings per sec. 2.1
 - disclosure regarding securities distribution; and
 - public speeches and presentations; except concerning provisions that apply only to written disclosure.

Select requirements

a) General disclosure standards – Part 7

- Discusses information requests.
 - An RI must provide information requested by the SRA about the content of a document filed under NI 51-101.
 - Often involves evaluations and audits prepared by QREs and QRAs.

Select requirements

a) General disclosure standards – Others

- Estimates of the following must be prepared or audited by a QRE or QRA:¹⁸
 - Resources
 - Includes all categories of recoverable volumes, such as reserves/reserves data, contingent resources/contingent resources data, and prospective resources/prospective resources data.
 - FNR
 - Values attributed to estimated quantities

¹⁸Secs. 2.1, 5.2 and 5.9 of NI 51-101

Select requirements

a) General disclosure standards – Others

- Specified disclosure must be prepared, audited or otherwise done in accordance with the COGE Handbook:
 - Estimates of reserves or FNR¹⁹ must be prepared or audited in accordance with the COGE Handbook.
 - All categories of recoverable volumes must be disclosed using the applicable terminology and category and be classified in the most specific category per the COGE Handbook.²⁰

¹⁹Sec. 5.2 of NI 51-101

²⁰Sec. 5.3 of NI 51-101

Select requirements

a) General disclosure standards – Others

- If an RI discloses anticipated results from resources other than reserves that includes a quantity in which the RI has an interest or intends to acquire an interest, or an estimated value attributable to an estimated quantity, the estimate must be prepared or audited in accordance with the COGE Handbook.²¹
- The filings per sec. 2.1 require compliance with the COGE Handbook and acknowledgement of such.²²

²¹Sec. 5.9(2) of NI 51-101

²²Sec. 2.1 of NI 51-101

Select requirements

b) Specific annual disclosure requirements – Introduction

- Addressed in Part 2 Annual Filing Requirements.
 - An RI must annually file a statement and related forms on SEDAR.²³
 - Specified information isn't required in the statement if inapplicable or not material; the statement and forms themselves must still be filed.
 - Appendix 1 to 51-101CP provides disclosure presentation examples.

²³Per sec. 2.1 of NI 51-101, to be filed no later than the date required to file audited financial statements for the most recent financial year

Select requirements

b) Specific annual disclosure requirements – Part 2

- Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information (F1)*²⁴
 - Addresses such disclosure as:
 - reserves data
 - contingent resources data²⁵
 - prospective resources data²⁵
 - other specified information

²⁴Sec. 2.1.1 of NI 51-101

²⁵Optional per part 7 of the F1

Select requirements

b) Specific annual disclosure requirements – Part 2

- Form 51-101F2 *Report on [Reserves Data][,] [Contingent Resources Data] [and] [Prospective Resources Data] by Independent Qualified Reserves Evaluator or Auditor (F2)*²⁶
 - Executed by one or more independent QREs or QRAs.
 - Execution affirms COGE Handbook compliance.

²⁶Sec. 2.1.2 of NI 51-101

Select requirements

b) Specific annual disclosure requirements – Part 2

- Form 51-101F3 *Report of Management and Directors on Oil and Gas Disclosure (F3)*²⁷
 - Executed by:
 - two officers, one of whom is the chief executive officer; and
 - on behalf of the board of directors, by any two other directors
 - Execution confirms approval of:
 - content and filing of the F1 and F3; and
 - filing of the F2

²⁷Sec. 2.1.3 of NI 51-101

Select requirements

b) Specific annual disclosure requirements – Part 2

- Form 51-101F4 *Notice of Filing of 51-101F1 Information (F4)*²⁸
 - If sec. 2.1 is satisfied by including the specified information in an annual information form, the RI must file a notice in accordance with the F4.

²⁸Sec. 2.3 of NI 51-101

Q&A

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Thank you!