

# NI 51-101 Oil and Gas Review Information Session



February 4, 2016

1. Introduction
2. Oil and Gas Regulatory Framework
3. Disclosure Commentary
4. Topics of Interest
5. Questions and Comments
6. Contact Information

- The Alberta Securities Commission (ASC)
  - Responsible for administering Alberta's securities laws
  - Entrusted to foster a fair and efficient capital market and to protect investors
  - Encourages effective and compliant disclosure, based upon the provision of balanced, authentic, relevant and reliable information
- Member of the Canadian Securities Administrators (CSA)
  - Works to improve, coordinate and harmonize regulation of Canada's capital markets

- Within Corporate Finance Division
- Priorities
  - Review disclosure for compliance with securities legislation
  - Develop and maintain legislation and technical guidance
  - Be helpful and responsive
- Staff
  - **Craig Burns**, P.Geo., Manager, Petroleum
  - **Tim Kravinchuk**, P.Eng., Senior Petroleum Evaluation Engineer
  - **Floyd Williams**, P.Eng., Senior Petroleum Evaluation Engineer
  - **Richard Bush**, C.E.T., Petroleum Analyst

- Recent activities
  - Amendments to National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (NI 51-101), related forms and the Companion Policy 51-101CP *Standards of Disclosure for Oil and Gas Activities* (51-101CP) (Amendments)
    - Published December 2014, effective July 1, 2015
  - CSA Staff Notice 51-345 *Disclosure of Abandonment and Reclamation Costs in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities and Related Forms*
    - Published November 2015
  - 2015 Oil and Gas Review Report
    - Published December 2015
    - [www.asc.ca/Publications/2015\\_Oil%20and%20Gas%20Review.pdf](http://www.asc.ca/Publications/2015_Oil%20and%20Gas%20Review.pdf)

1. Introduction
2. **Oil and Gas Regulatory Framework**
  - a) Legislation
  - b) Guidance
3. Disclosure Commentary
4. Topics of Interest
5. Questions and Comments
6. Contact Information

- *Securities Act* (Alberta)
- NI 51-101
  - General disclosure standards and specific annual disclosure requirements for reporting issuers (RIs) engaged in oil and gas activities
  - Enacted September 2003
  - Amendments effective July 1, 2015
  - Five related forms for filing on SEDAR

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# Oil and Gas Regulatory Framework Legislation

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- 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information*<sup>1</sup> (Form 51-101F1) **New content with Amendments**
- 51-101F2 *Report on [Reserves Data][,] [Contingent Resources Data] [and] [Prospective Resources Data] by Independent Qualified Reserves Evaluator or Auditor*<sup>1</sup> (Form 51-101F2) **New content and title**
- 51-101F3 *Report of Management and Directors on Oil and Gas Disclosure*<sup>1</sup> (Form 51-101F3) **New content**
- 51-101F4 *Notice of Filing of 51-101F1 Information*<sup>2</sup> **Unchanged**
- 51-101F5 *Notice of Ceasing to Engage in Oil and Gas Activities*<sup>3</sup> (Form 51-101F5) **New form**

<sup>1</sup>See section 2.1 of NI 51-101; to be filed with securities regulatory authority for the most recent financial year

<sup>2</sup>For RIs that file the reports required under section 2.1 of NI 51-101 in their annual information form

<sup>3</sup>See section 6.2 of NI 51-101



- 51-101CP
  - CSA's views on interpretation and application of NI 51-101 and forms
- Staff notices including
  - CSA
    - 51-324 **Revised** *Glossary to NI 51-101* (CSA Staff Notice 51-324)
    - 51-327 **Revised** *Guidance on Oil and Gas Disclosure* (CSA Staff Notice 51-327)
    - 51-345 *Disclosure of Abandonment and Reclamation Costs in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities and Related Forms* (CSA Staff Notice 51-345) (**New**)
  - ASC
    - 51-702 *Establishing Reserves Estimates in Oil and Gas Accumulations*

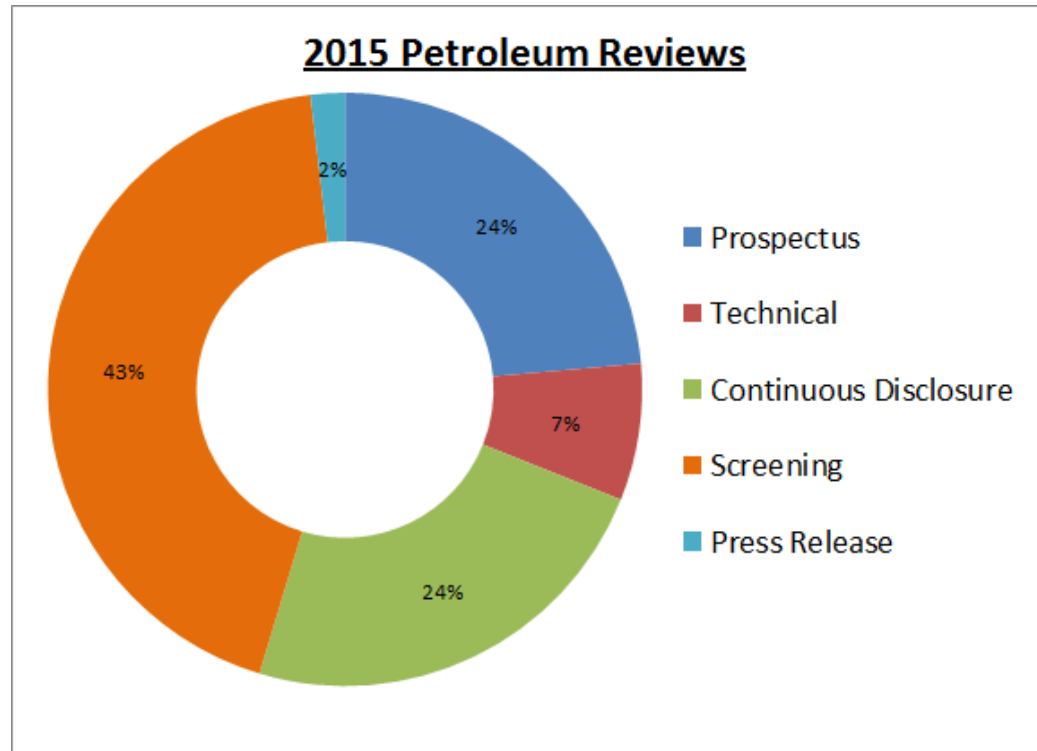
- Canadian Oil and Gas Evaluation Handbook (COGE Handbook)
  - Technical standard for NI 51-101, referenced in
    - Section 5.2(1)(a)(iii) - reserves
    - Section 5.3 - terminology
    - Section 5.9(2)(b) - resources other than reserves (ROTR)
    - Section 5.10(1)(c) - analogous information
    - Form 51-101F2
  - Per section 1.1 of NI 51-101
    - Amended from time to time (**effective on publishing**)

- Recent amendments
  - Detailed guidelines for estimation and classification of bitumen resources (Bitumen Guidelines), **published April 2014**
  - Guidelines for estimation and classification of resources other than reserves (ROTR Guidelines), **published July 2014**

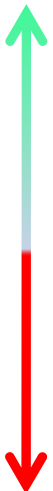
1. Introduction
2. Oil and Gas Regulatory Framework
- 3. Disclosure Commentary**
  - a) Overview
  - b) Resources Other Than Reserves
  - c) Type Wells (Type Curves), Drilling Locations and Associated Information
4. Topics of Interest
5. Questions and Comments
6. Contact Information

# Disclosure Commentary Overview

- We review disclosure
- Main review types
  - Screening
  - Continuous disclosure
  - Prospectus
    - Short form
    - Long form
  - Press release
  - Technical



- Purpose is to ascertain compliance with securities legislation
  - *Securities Act* (Alberta)
    - Section 92(4.1) prohibits misleading statements
  - NI 51-101
    - COGE Handbook

- Review outcomes
    - No action
    - Advisory comment(s) - **Most common**
    - Amend and restate request
    - Issuer placed in default
    - Management cease trade order
    - Cease trade order
    - Enforcement referral
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- Frequent deficiencies observed during recent reviews involve
  - Resources other than reserves
  - Type wells (type curves), drilling locations and associated information



- Mostly contingent resources and prospective resources
- Risk and uncertainty
  - Reserves have uncertainty only
  - ROTR have risk and uncertainty
- Per section 5.9(1)(d) of NI 51-101
  - Disclose risks and level of uncertainty for anticipated results in either
    - Same document
    - Supporting filing

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## Disclosure Commentary

### Resources Other Than Reserves

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- Per section 5.7(2) of 51-101CP
  - Disclosure under section 5.9(1)(d)
    - Reasonable
    - Meaningful
    - Appropriate to size
  - Expressed either
    - Quantitatively as probabilities
    - Qualitatively by description

- Per section 5.9(2)(d)(iii) of NI 51-101
  - Specific significant positive and negative factors required if disclosure under section 5.9(1)(d) includes either
    - ROTR estimate in which the RI has or intends to acquire an interest
    - Estimated value attributable to estimated quantity
  - Examples per section 5.7(3)(c) of 51-101CP
    - Lack of infrastructure
    - Abandonment and reclamation costs
    - Legal, capital, political, technological or business factors

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## Disclosure Commentary

### Resources Other Than Reserves

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- Per Item 6.2.1 of Form 51-101F1
  - Identify and discuss significant economic factors or uncertainties on properties with no reserves assigned

- Deficient disclosure example per section 5.9(1)(d) of NI 51-101

Significant risks and uncertainties that may affect the Company's contingent resources and associated future net revenue include:

- material changes to existing taxation or royalty rates;
- changes to environmental laws and regulations;
- fluctuations in product pricing;
- changes to capital expenditures and operating costs;
- surface access issues;
- receipt of regulatory approvals;
- availability of services and processing facilities; and
- unforeseen production performance issues.

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## Disclosure Commentary

### Type Wells, Drilling Locations and Assoc. Information

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- May be analogous information
  - Section 5.10 of NI 51-101
  - Section 5.8 of 51-101CP
  - Section 2(a) of CSA Staff Notice 51-327
- Recall section 92(4.1) of *Securities Act* (Alberta)
  - Prohibition on misleading statements
  - Misleading by omission specifically prohibited
- Ensure a factual and balanced approach

- Observations
  - Attribution
    - Disclosure must be prepared by a qualified reserves evaluator or auditor
      - Sections 5.2(1)(a)(ii), 5.9(2)(a) and 5.10(1)(c) of NI 51-101
    - Indicate source
  - COGE Handbook
    - Disclosure must be prepared in accordance with the COGE Handbook
      - Sections 5.2(1)(a)(iii), 5.9(2)(b) and 5.10(1)(c) of NI 51-101
    - Confirm compliance
    - Terminology and category per section 5.3 of NI 51-101
      - See section 5.7(3)(b) of 51-101CP

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# Disclosure Commentary

## Type Wells, Drilling Locations and Assoc. Information

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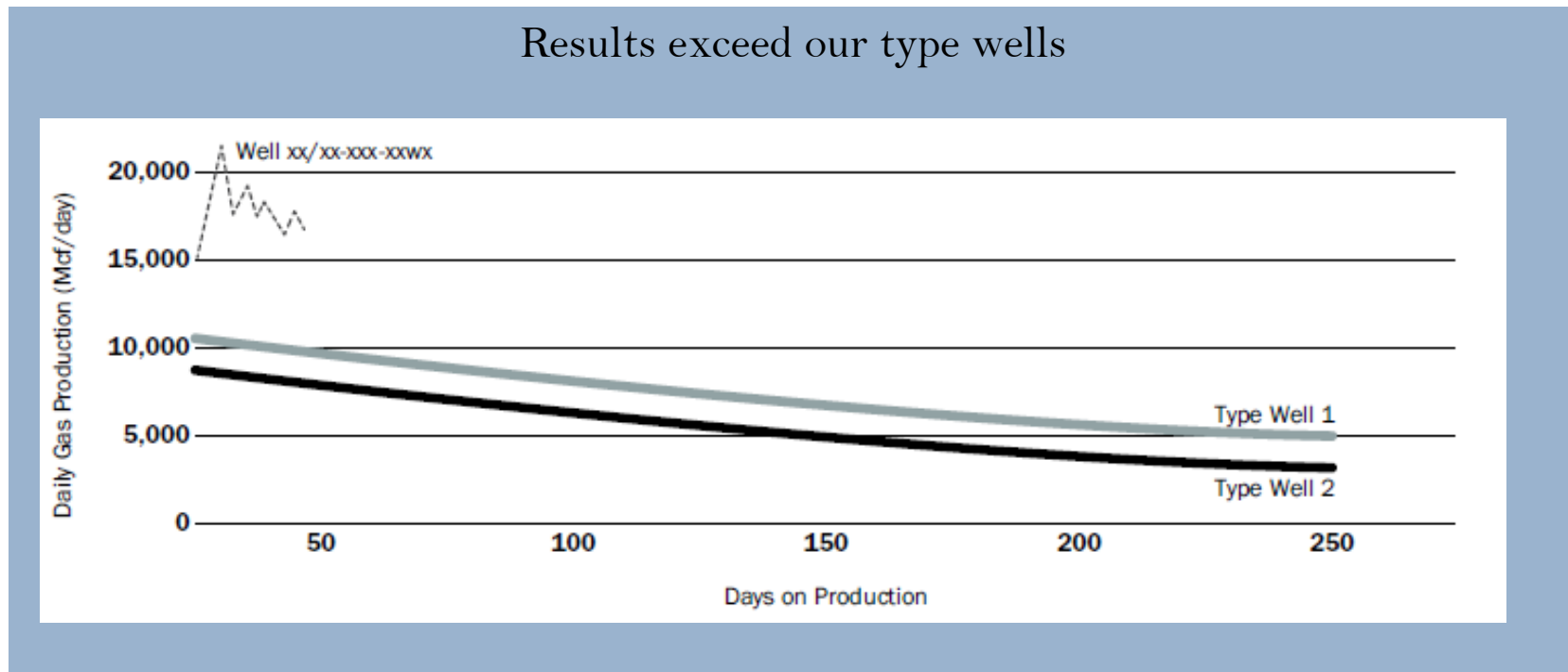
- Methodology
  - Recall analogous information requirements
  - Section 5.3.5 of volume 1 of the COGE Handbook discusses certainty levels
    - Long term results shouldn't vary from certainty levels
      - 1P, 2P, 3P
      - 1C, 2C, 3C



# Disclosure Commentary

## Type Wells, Drilling Locations and Assoc. Information

- Deficient disclosure examples
  - Type wells



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## Disclosure Commentary

### Type Wells, Drilling Locations and Assoc. Information

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- Drilling locations

Current drilling inventory consists of approximately 4,000 low-risk locations.

1. Introduction
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  - 4. Topics of Interest**
    - a) Overview
    - b) Abandonment and Reclamation Costs
    - c) Resources Other Than Reserves
    - d) Product types
    - e) Reclassification of Reserves
    - f) Reserves Reconciliation
    - g) Modifications to Forms 51-101F2 and 51-101F3
    - h) Ceasing to Engage in Oil and Gas Activities
  5. Questions and Comments
  6. Contact Information
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## Topics of Interest Overview

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- Topic rationale
  - Staff observations through disclosure reviews
  - Discussions with capital market participants
  - Information we think you should be aware of
  - Inquiries

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## Topics of Interest

### Abandonment and Reclamation Costs

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- **Changes** with Amendments include
  - Abandonment and reclamation costs (ARC)
    - **New** defined term
    - **Added** to section 1.1 of NI 51-101

*Abandonment and reclamation costs*

**All costs** associated with the process of restoring a *reporting issuer's property* that has been disturbed by *oil and gas activities* to a standard imposed by applicable government or regulatory authorities.

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## Topics of Interest

### Abandonment and Reclamation Costs

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- Future net revenue (FNR)
  - **New** definition (term previously in CSA Staff Notice 51-324)
  - **Added** to section 1.1 of NI 51-101

#### *Future net revenue*

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.*

- All disclosed FNR must be net of ARC for all categories of
  - Reserves
  - ROTR

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## Topics of Interest

### Abandonment and Reclamation Costs

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- Disclosure of future net revenue (FNR) mandated in
  - Form 51-101F1
    - **Unchanged** Item 2.1(2), disclosure of net present value (NPV) of FNR by country in aggregate for categories in Item 2.1(1)
      - Proved developed producing reserves
      - Proved developed non-producing reserves
      - Proved undeveloped reserves
      - Proved reserves (in total)
      - Probable reserves (in total)
      - Proved plus probable reserves (in total)
      - If possible reserves disclosed
        - Possible reserves (in total)
        - Proved plus probable plus possible reserves (in total)

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## Topics of Interest

### Abandonment and Reclamation Costs

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- **New** Part 7, if contingent resources in the development pending sub-class are disclosed
- Form 51-101F2
  - **Unchanged** for proved plus probable reserves
  - **New** for contingent resources in the development pending sub-class, if disclosed, per Amendments



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## Topics of Interest

### Abandonment and Reclamation Costs

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- Disclosure of ARC mandated in
  - Form 51-101F1
    - **Unchanged** Item 2.1(3)(b)(v), disclosure by country in aggregate for categories in 2.1(3)(a)
    - **New** Instruction (1) of Item 5.2 Significant Factors or Uncertainties Affecting Reserves Data, discussion of significant ARC (wells, facilities, pipelines etc.)
    - **New** Instruction (1) of Item 6.2.1 Significant Factors or Uncertainties Relevant to Properties With No Attributed Reserves, discussion of ARC (wells, facilities, pipelines etc.)
- ARC requirements summarized in **new** CSA Staff Notice 51-345

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## Topics of Interest

### Resources Other Than Reserves

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- Disclosure is **generally** optional
  - Exceptions include
    1. If material per section 1.4 Materiality Standard of NI 51-101
    2. Information required concerning properties with no reserves per Part 6 Other Oil and Gas Information of Form 51-101F1
    3. Prospectus disclosure if material under NI 51-101

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## Topics of Interest

### Resources Other Than Reserves

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#### 1. Section 1.4(2) 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 a *reporting issuer*.

#### 2. Part 6 of Form 51-101F1

- Item 6.2 – Properties With No Attributed Reserves
- Item 6.2.1 – Significant Factors or Uncertainties Relevant to Properties With No Attributed Reserves

### 3. Prospectus disclosure

- Item 5.5 – Issuers with oil and gas operations of Form 41-101F1
- Section 5.10 Prospectus Disclosure of 51-101CP

(2) Disclosure of *Resources* – [...]the general securities disclosure obligation of “full, true and plain” disclosure of all *material* facts in a prospectus would require the disclosure of *resources* that are *material* to the *reporting issuer*, even if the disclosure is not mandated by *NI 51-101*.

- Also see section 5.7(1) Disclosure of Resources Generally of 51-101CP

- **New** Part 7 – Optional Disclosure of Contingent Resources Data and Prospective Resources Data of Form 51-101F1
  - Requirements include
    - Estimates disclosed as an appendix to Form 51-101F1
    - Estimates risked for chance of commerciality
    - Best estimates

# Topics of Interest

## Resources Other Than Reserves

- Contingent resource estimates in applicable project maturity sub-class

TOTAL PETROLEUM INITIALLY-IN-PLACE (PIIP)	DISCOVERED PIIP	COMMERCIAL	PRODUCTION	PROJECT MATURITY Sub-Classes
			RESERVES	On Production
		SUB-COMMERCIAL	CONTINGENT RESOURCES	Approved for Development
				Justified for Development
	Development Pending			
	Development on Hold			
	UNDISCOVERED PIIP	UNRECOVERABLE	Development Unclarified	
			Development not Viable	
		PROSPECTIVE RESOURCES	UNRECOVERABLE	
			UNRECOVERABLE	
UNRECOVERABLE				
UNRECOVERABLE				

↑ Increasing chance of commerciality

Modified from the ROTR Guidelines

- NPV of FNR for development pending sub-class of contingent resources
- Cautionary statement that clarifies the uncertainty

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## Topics of Interest

### Resources Other Than Reserves

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- Some considerations
  - Section 2.1(2)(b)(ii) of NI 51-101 **replaced**
    - Estimates disclosed as an appendix to Form 51-101F1 evaluated or audited by independent qualified reserves evaluator or auditor
      - Per **unchanged** section 5.9(2), independence not required for disclosure outside Form 51-101F1
  - Guidance (4) of **new** Part 7
    - Disclosure beyond development pending sub-class might be misleading where significant uncertainty and risk exists

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## Topics of Interest

### Resources Other Than Reserves

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- Per **unchanged** section 5.9(1) Disclosure of Resources Other than Reserves
  - 5.9(1)(d) requires risks and level of uncertainty for all disclosure
    - See section 5.7(2) of 51-101CP
- Per **new** section 5.9(2)(d)(iii.1) of NI 51-101
  - Accompany disclosure with
    - Estimated cost to achieve commercial production
    - Project timeline
    - Recovery technology
    - If based on conceptual or pre-development study



- **Changes with Amendments include**
  - All product types now defined in section 1.1 of NI 51-101
    - Most sourced from the COGE Handbook and modified
    - Hydrocarbon sources and recovery processes now emphasized

Old	New
<p style="text-align: center;"><u>conventional activities</u></p> <p style="text-align: center;">light &amp; medium crude oil (combined) heavy oil natural gas excluding natural gas liquids natural gas liquids</p> <p style="text-align: center;"><u>non-conventional activities</u></p> <p style="text-align: center;">synthetic oil bitumen coal bed methane hydrates shale oil shale gas</p>	<p style="text-align: center;">bitumen coal bed methane conventional natural gas gas hydrates heavy crude oil light crude oil &amp; medium crude oil combined natural gas liquids shale gas synthetic crude oil synthetic gas tight oil</p>

- **New** product type tight oil

*Tight oil*

*Crude oil:*

- (a) contained in dense **organic-rich** rocks, including low-permeability shales, siltstones and carbonates, in which the *crude oil* is primarily contained in microscopic pore spaces that are poorly connected to one another, **and**
- (b) that typically requires the use of hydraulic fracturing to achieve economic *production* rates.

- Definition **added** for product type shale gas

*Shale gas*

*Natural gas:*

- (a) contained in dense **organic-rich** rocks, including low-permeability shales, siltstones and carbonates, in which the *natural gas* is primarily adsorbed on the kerogen or clay minerals, **and**
- (b) that usually requires the use of hydraulic fracturing to achieve economic *production* rates.

- **New** section 1.1(4) Additional Disclosure of 51-101CP
  - Supplement disclosure with specific information
  - Choose closest product type
  - Mustn't be misleading
- Some considerations
  - Disclose
    - Crude oil typically requiring hydraulic fracturing to be economic as **product type tight oil**
    - Natural gas usually requiring hydraulic fracturing to be economic as **product type shale gas**

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## Topics of Interest

### Reclassification of Reserves

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- Section 5.3.3 Commercial Risk of volume 1 of the COGE Handbook

... ]estimated recoverable quantities must be associated with a project(s) that has demonstrated **commercial** viability[... ]the chance of **commerciality** is effectively 100%.

- See section 5.3.2 Commercial Status of volume 1 of the COGE Handbook for commerciality criteria
- Reclassification of reserves to contingent resources
  - See section 2.5.5 Project Maturity Sub-Classes for Contingent Resources of volume 2 of the COGE Handbook

- Item 4.1 of Form 51-101F1
  - Requires annual reconciliation of
    - Gross proved reserves (in total)
    - Gross probable reserves (in total)
    - Disclosure required by
      - Country
      - Product type per Item 4.1(2)(b)
      - Reserve change category per Item 4.1(2)(c)
  - Opening and closing balance is needed to reconcile product types, so **can't** reconcile those added or repealed with Amendments
  - Explanations for changes required per Item 4.1(2)(c); consider footnotes

- Per section 2.1(2) Report of Independent Qualified Reserves Evaluator or Auditor of NI 51-101
  - Annual filing of report in accordance with Form 51-101F2 required
    - Form 51-101F2 *Report on [Reserves Data][,] [Contingent Resources Data] [and] [Prospective Resources Data] by Independent Qualified Reserves Evaluator or Auditor*
    - Title and content **modified** with Amendments for contingent resources and prospective resources

- Per section 2.1(3) Report of Management and Directors of NI 51-101
  - Annual filing of report in accordance with Form 51-101F3 required
    - Form 51-101F3 *Report of Management and Directors on Oil and Gas Disclosure*
    - Content **modified** with Amendments; now includes two alternatives
      - [Alternative A: Reserves Data to Report or Contingent Resources Data or Prospective Resources Data to Report]
      - [Alternative B: No Reserves to Report and No Resources Other than Reserves to Report]



- **New** Form 51-101F5 with Amendments per **new** section 6.2 Ceasing to Engage in Oil and Gas Activities of NI 51-101
  - 51-101F5 *Notice of Ceasing to Engage in Oil and Gas Activities*

*A reporting issuer must file with the securities regulatory authority a notice prepared in accordance with Form 51-101F5 not later than 10 days after ceasing to be engaged, directly or indirectly, in oil and gas activities.*

- See section 1.1 of NI 51-101 for **new** definition of oil and gas activities

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## Contact Information



Please contact us regarding NI 51-101 matters.

### General

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