

NI 51-101 Oil and Gas Review Information Session



January 25, 2017

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**)
 - Is responsible for administering Alberta's securities laws
 - Is 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**)
 - Improve, coordinate and harmonize regulation

- Corporate Finance Division
- Priorities
 - Continue to be proactive as the CSA's lead oil and gas (**O&G**) regulator
 - Review O&G disclosure from reporting issuers (**RIs**) principally regulated by the ASC for compliance with securities legislation
 - Develop and maintain securities legislation and technical guidance
 - Communicate in a responsive manner with capital market participants

- Staff
 - **Craig Burns**, P.Geo., Manager, Petroleum
 - **Floyd Williams**, P.Eng., Senior Petroleum Evaluation Engineer
 - **Lynddy Garrido**, P.Eng., Petroleum Evaluation Engineer
 - **Ramsey Yuen**, P.Eng. Petroleum Evaluation Engineer
 - **Richard Bush**, C.E.T., Petroleum Analyst

- Recent activities
 - 2016 Oil and Gas Review Report
 - Published in December
 - Preparation for presentations and panels
 - Implementation review conducted by staff of the July 1, 2015
 - Amendments to National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (**NI 51-101**) and related forms
 - Changes to Companion Policy 51-101CP *Standards of Disclosure for Oil and Gas Activities* (**51-101CP**)
 - Revisions to staff notices

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Oil and Gas Regulatory Framework

Introduction

- RIs are responsible for their disclosure
 - Professional service providers play an integral role
- Be mindful of
 - Securities legislation - designed for the provision of timely, useful, and reliable information
 - Requirements, restrictions and standards

- General securities legislation, including *Securities Act* (Alberta)
 - Section 92(4.1) prohibits misleading statements
- NI 51-101
 - Recent amendments effective July 1, 2015
 - General disclosure standards and specific annual disclosure requirements for RIs engaged in oil and gas activities (**O&GA**) (see new definition in section 1.1 Definitions of NI 51-101)

- Five related forms for filing on SEDAR¹
 - 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information*² (**Form 51-101F1**)
 - 51-101F2 *Report on [Reserves Data][,] [Contingent Resources Data] [and] [Prospective Resources Data] by Independent Qualified Reserves Evaluator or Auditor*² (**Form 51-101F2**)
 - Signing represents that data have, in all material respects, been determined and are in accordance with the Canadian Oil and Gas Evaluation Handbook (**COGE Handbook**)

¹System for Electronic Document Analysis and Retrieval (SEDAR.com)

²See section 2.1 of NI 51-101; to be filed with the securities regulatory authority not later than the date required by securities legislation to file audited financial statements for the most recent financial year then ended

- 51-101F3 *Report of Management and Directors on Oil and Gas Disclosure*² (**Form 51-101F3**)
 - Two alternatives
 - A. Reserves Data to Report or Contingent Resources Data or Prospective Resources Data to Report
 - B. No Reserves to Report and No Resources Other than Reserves to Report
 - Signing represents approval of
 - Content and filing of Form 51-101F1
 - Filing of Form 51-101F2
 - Content and filing of Form 51-101F3

- 51-101F4 *Notice of Filing of 51-101F1 Information*
 - For RIs that file the reports required under section 2.1 of NI 51-101 in their annual information (**AIF**) form
- 51-101F5 *Notice of Ceasing to Engage in Oil and Gas Activities*
 - File within 10 days per **new** section 6.2 of NI 51-101

- 51-101CP
 - CSA's views on interpretation and application of NI 51-101 and related 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*
 - *51-345 Disclosure of Abandonment and Reclamation Costs in National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities and Related Forms*
- Office of the Chief Accountant financial reporting bulletins

- COGE Handbook
 - Technical standard for NI 51-101; referenced as such in
 - Sections 5.3, 5.9(2)(b) and 5.10(1)(c) of NI 51-101
 - Form 51-101F2
 - Maintained by the Society of Petroleum Evaluation Engineers (**SPEE**) (Calgary Chapter)
 - Amended from time to time, per section 1.1 of NI 51-101
 - Effective on publishing
 - Update underway
 - New structure and revised content
 - Fall 2017 publication goal

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- O&G disclosure from RIs actively engaged in O&GA is reviewed
- Disclosure reviewed and issues raised can vary by review type
 - Purpose is to assess compliance with securities legislation
 - *Securities Act* (Alberta); section 92(4.1) prohibits misleading statements
 - NI 51-101 and related forms; requirement to follow the COGE Handbook

- Review focus
 - Primary - RIs principally regulated by the ASC
 - Secondary - RIs principally regulated by other Canadian jurisdictions
- RIs principally regulated by jurisdiction

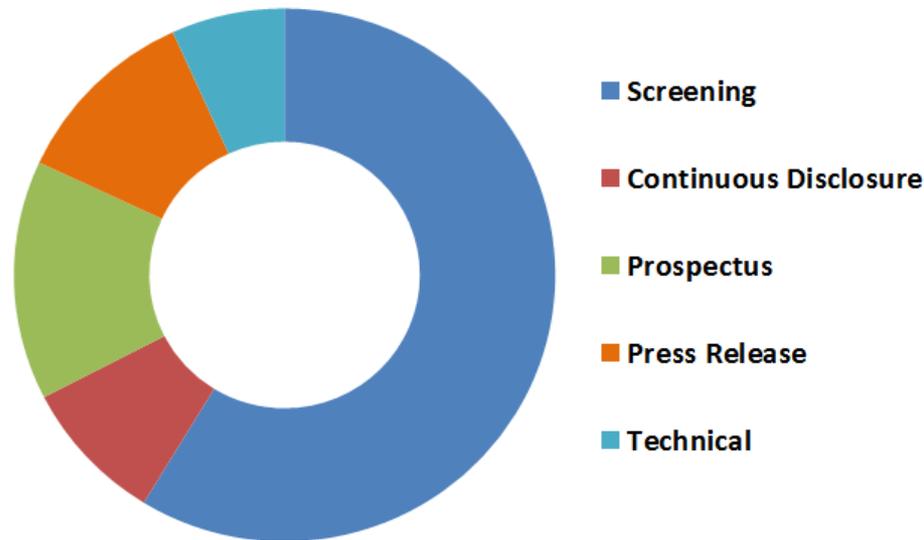
	Start of 2016	Start of 2017
ASC	222	183
Other Canadian Jurisdictions	102	93
	324	276

- Changes 2015 to 2016
 - RIs principally regulated by the ASC
 - Net change (39)
 - (14) CCAA/receivership/bankruptcy
 - (10) change in industry/acquired by a company in another industry
 - (10) privatized/acquired by company not principally regulated by ASC
 - (9) acquired by a RI principally regulated by the ASC
 - 4 new RIs
 - RIs principally regulated by other Canadian jurisdictions
 - Net change of (9)

- Petroleum review types
 - Screening
 - Review annual filings
 - Statement of information specified in Form 51-101F1, and reports in accordance with forms 51-101F2 and 51-101F3
 - Continuous Disclosure (**CD**)
 - Petroleum participates if the RI is engaged in O&GA
 - Review all O&G disclosure: annual filings, AIF, management's discussion and analysis, press releases, website, etc.

- Prospectus
 - Short Form
 - Review other disclosure as needed
 - Long Form (initial public offering)
 - Review evaluations of reserves and resources other than reserves (**ROTR**) and other disclosure as needed
- Press Release
 - Review other disclosure as needed
 - A technical review may be recommended
 - A CD review may be recommended
- Technical
 - Review evaluations and other disclosure as needed

- 2016 reviews



- Prospectus Reviews

- 2016 – 45; all short form
- 2015 – 38; 37 short form and 1 long form

- Review outcomes
 - No action taken
 - Advisory comment(s) - **Most common**
 - Amend and restate request
 - Issuer placed in default
 - Management cease trade order
 - Cease trade order
 - Referral to ASC Enforcement Division

- Common deficiencies observed involve
 - Contingent Resources and Prospective Resources
 - Significant Factors or Uncertainties
 - Drilling Locations and Associated Information

³Italicized terms are defined in section 1.1 of NI 51-101 and CSA Staff Notice 51-324

Disclosure Commentary

Contingent Resources and Prospective Resources

- Chance of commerciality (**CoC**) distinguishes reserves and ROTR
 - CoC = chance of discovery x chance of development
 - Reserves
 - CoC = 1 x 1; effectively 100%
 - Commercial; there is no risk
 - ROTR
 - $\text{CoC}_{\text{contingent resources}} = 1 \times <1; <100\%$
 - $\text{CoC}_{\text{prospective resources}} = <1 \times <1; <100\%$
 - Non-commercial; there is risk, which must be disclosed

Disclosure Commentary

Contingent Resources and Prospective Resources

- Risked is defined in section 1.1 of NI 51-101 as

[A]djusted for the probability of loss or failure in accordance with the *COGE Handbook*

- Disclosure requirements for ROTR result from CoC being <100% and the resulting risk

Disclosure Commentary

Contingent Resources and Prospective Resources

- Disclosure must comply with
 - Part 7 Optional Disclosure of Contingent Resources Data and Prospective Resources Data of Form 51-101F1 if the disclosure occurs in the statement filed under section 2.1(1) Statement of Reserves Data and Other Information of NI 51-101 (Form 51-101F1)

Disclosure Commentary

Contingent Resources and Prospective Resources

- For contingent resources, disclose the numeric value of the chance of development risk and a description of the method of
 - Quantifying the chance of development risk
 - Estimating the contingent resources adjusted for chance of development risk and the associated risked net present value of future net revenue
 - See section 2.7(4.1) Estimates of Contingent Resources and Prospective Resources of 51-101CP

Disclosure Commentary

Contingent Resources and Prospective Resources

- For prospective resources, disclose the numeric value of the chance of discovery and chance of development, and a description of the method of
 - Quantifying the chance of discovery and chance of development
 - Estimating the prospective resources adjusted for chance of discovery and chance of development
 - See section 2.7(4.1) of 51-101CP

Disclosure Commentary

Contingent Resources and Prospective Resources

- Example 1

The chance of commerciality is the product of the chance of discovery and the chance of development. The chance of development is the probability that a resource will be commercially developed following its discovery.

For the ABC property, the contingent resources have a chance of development, and therefore a chance of commerciality, of 75%. The prospective resources for the property have a chance of discovery of 50% and chance of development of 60%, which equates to a chance of commerciality of 30%.

- This disclosure raises several concerns

Disclosure Commentary

Contingent Resources and Prospective Resources

- Section 5.9(1)(d) Disclosure of Resources Other than Reserves of NI 51-101 discusses disclosure of anticipated results from ROTR and requires
 - Disclosure of the risks and the level of uncertainty associated with recovery
- Section 5.7(2) Disclosure of Resources Other than Reserves of 51-101CP states regarding section 5.9(1)(d)

[A] *reporting issuer* should ensure that their disclosure includes the risks and uncertainties that are appropriate and meaningful for their activities. This may be expressed quantitatively as probabilities or qualitatively by appropriate description. If the *reporting issuer* chooses to express the risks and level of uncertainty qualitatively, **the disclosure must be meaningful and not in the nature of a general disclaimer.**

- Ensure that disclosure is as specific to the RI as possible

Disclosure Commentary

Contingent Resources and Prospective Resources

■ Example 2

Significant risks and uncertainties that have been identified by the company that may affect the recovery of its contingent resources include:

- Royalty and taxation changes;
- Commodity prices;
- Environmental laws and regulations
- Gaining regulatory approvals for its projects;
 - Project ABC approval is expected in early 2018; Project XYZ in late 2019
- Access to infrastructure, such as processing facilities, roads and pipelines
 - The company currently has access to Project ABC through a road use agreement with the community of ABC. Local residents have blocked this road several times in the past year due to noise complaints. If it continues, it may impact the company's development timing.

Disclosure Commentary

Contingent Resources and Prospective Resources

- Section 5.9(2)(d)(iii) of NI 51-101 discusses disclosure referred to in section 5.9(1) that includes an estimate of a quantity of ROTR in which the RI has or intends to acquire an interest, or an estimated value attributable to an estimated quantity and requires
 - Disclosure of the relevant significant positive and negative factors
- Section 5.7(3)(c) of 51-101CP states regarding section 5.9(2)(d)(iii)

[I]f there is no infrastructure in the region to transport the resources, this may constitute a significant negative factor relevant to the estimate. Other examples would include abandonment and reclamation costs, a significant lease expiry, theft and sabotage[...]or any legal, capital, political, technological, business or other factor that is highly relevant to the estimate. [...]

- Ensure that disclosure is as specific to the RI as possible

Disclosure Commentary

Contingent Resources and Prospective Resources

■ Example 3

Significant positive factors relevant to the estimates of contingent resources include:

- A large number of offsetting wells with substantial production history from the same zone;
- The application of the same drilling and completion techniques in these offsetting wells that the company intends to use; and
- The company's history of developing similar properties on time and budget.

Significant negative factors relevant to the estimates of contingent resources include:

- Currently limited access to third-party natural gas processing facilities.

- Item 5.2 Significant Factors or Uncertainties Affecting Reserves Data of Form 51-101F1

Identify and discuss significant economic factors or significant uncertainties that affect particular components of the *reserves data*.

INSTRUCTIONS

(1) A reporting issuer must, under this Item, include a discussion of any significant abandonment and reclamation costs, unusually high expected development costs or operating costs, or contractual obligations to produce and sell a significant portion of production at prices substantially below those which could be realized but for those contractual obligations. [...]

- Item 6.2.1 Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves of Form 51-101F1

Identify and discuss significant economic factors or significant uncertainties that have affected or are reasonably expected to affect the anticipated development or production activities on *properties* with no attributed *reserves*.

INSTRUCTIONS

(1) A reporting issuer must, under this Item, include a discussion of any significant abandonment and reclamation costs, unusually high expected development costs or operating costs, or contractual obligations to produce and sell a significant portion of production at prices substantially below those which could be realized but for those contractual obligations. [...]

Disclosure Commentary

Significant Factors or Uncertainties

- Examples aren't exhaustive
 - Ensure identification and discussion of all significant economic factors or uncertainties
- Relevance
 - Reserves and ROTR can be affected by significant economic factors or uncertainties; RIs are **required** to disclose these
 - Significant economic factors or uncertainties are not the same as risks
 - Reserves have no risks
 - ROTR have risks; disclose per section 5.9(1)(d) of NI 51-101

■ Example 4

Significant economic factors or uncertainties affecting reserves data or that have affected or are reasonably expected to affect the anticipated development or production activities on properties with no attributed reserves include:

- Government regulations
 - The ABC and XYZ properties may be negatively affected by royalty changes that are currently under consideration; the particular commodities and magnitude of any potential changes are currently unknown.
- Operations and transportation
 - The company currently has adequate pipeline access for its oil sands properties, but anticipates access may be reduced for the ABC property if several projects are commissioned in the next five years as currently planned. If this occurs, the company anticipates utilizing rail for a portion of its production, resulting in higher costs and potentially reductions to reserves volumes and their associated values.

Disclosure Commentary

Drilling Locations and Associated Information

- Multiple contexts for “drilling location”, including
 - Play
 - Lead
 - Prospect
 - Spacing unit
 - Licenced location

Disclosure Commentary

Drilling Locations and Associated Information

- If disclosed
 - Must be prepared by a QREA (as all disclosure must)
 - Per section 5.2(1)(a)(ii) Disclosure of Reserves and Other Information of NI 51-101 for reserves and other information
 - Per section 5.9(2)(a) of NI 51-101 for ROTR
 - Section 5.10(1)(c) Analogous Information of NI 51-101 states that this doesn't apply to analogous information if it can't be confirmed
 - A cautionary statement to this effect is required

Disclosure Commentary

Drilling Locations and Associated Information

- Must be prepared in accordance with the COGE Handbook (as all disclosure must)
 - Per section 5.2(1)(a)(iii) of NI 51-101 for reserves and other information
 - Per section 5.9(2)(b) for ROTR
 - Per section 5.3(1) Classification of Reserves and of Resources Other than Reserves (referred to in section 5.9(2)(c)) for terminology, category and classification
 - Section 5.10(1)(c) of NI 51-101 states that this doesn't apply to analogous information if it can't be confirmed
 - A cautionary statement to this effect is required

Disclosure Commentary

Drilling Locations and Associated Information

- Must not be misleading
 - Per section 92(4.1) of the *Securities Act* (Alberta)
 - See section 5.9(1)(d) of NI 51-101 for required disclosure of the associated risks and level of uncertainty for ROTR
 - See section 5.9(2)(d)(iii) for required disclosure of the significant positive and negative factors relevant to ROTR estimates
 - See section 5.16 Restricted Disclosure: Summation of Resource Categories of NI 51-101 for requirements regarding summation of categories
 - Also see section 5.3(1) of NI 51-101

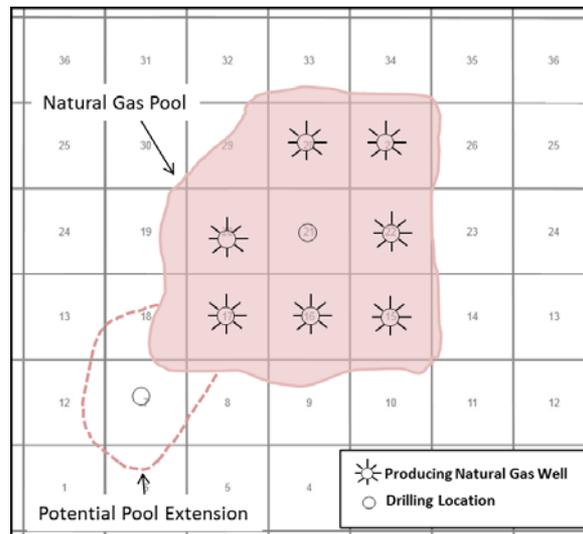
Disclosure Commentary

Drilling Locations and Associated Information

■ Example 5

The company has 1,000 low-risk drilling locations, representing 20 years of inventory at current activity levels. Production averaged 4,500 BOE/d in Q3 of 2016.

- This disclosure raises several concerns



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- Topics
 - Undeveloped Reserves
 - Resources Other than Reserves
 - Reserves Reconciliations

- Assignment
 - Section 5.5.4(f) of volume 1 of the COGE Handbook discusses production and development for non-producing reserves
 - Minor capital expenditures
 - Two years
 - Larger capital expenditures
 - Three years for proved reserves
 - Five years for probable reserves

- Disclosure
 - *Item 5.1 Undeveloped Reserves* of Form 51-101F1 requires discussion of
 - The basis for assignment of proved and probable undeveloped reserves
 - Development plans (including timing)
 - Reasons for deferring development beyond two years, if applicable
 - *Instruction (2)* of Item 5.1 of Form 51-101F1

The discussion of a reporting issuer's plans for developing undeveloped reserves, or the reporting issuer's reasons for deferring the development of undeveloped reserves, must enable a reasonable investor to assess the efforts made by the reporting issuer to convert undeveloped reserves to developed reserves.

Topics of Interest

Resources Other than Reserves

- Section 5.9(2)(d)(iii.1) of NI 51-101 requires

- [A] description of the applicable project or projects including the following:
- (A) the estimated total cost required to achieve *commercial* production;
 - (B) the general timeline of the project, including the estimated date of first *commercial production*;
 - (C) the recovery technology;
 - (D) whether the project is based on a *conceptual or pre-development study*

- CSA Staff Notice 51-324 defines commercial

When a *project* is commercial this implies that the essential social, environmental, and economic conditions are met, including political, legal, regulatory, and contractual conditions. [...]

- Total costs will be unique to each RI and project
- Development costs **may** be a good proxy

Topics of Interest

Resources Other than Reserves

- CSA Staff Notice 51-324 defines development costs

Costs incurred to obtain access to *reserves* and to provide facilities for extracting, treating, gathering and storing the *oil* and *gas* from the *reserves*.

More specifically, *development costs*, including applicable *operating costs* of *support equipment and facilities* and other costs of development activities, are costs incurred to:

Topics of Interest

Resources Other than Reserves

- (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, *gas* lines and power lines, to the extent necessary in developing the *reserves*;
- (b) drill and equip *development wells*, development type *stratigraphic test wells* and *service wells*, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and the wellhead assembly;
- (c) acquire, construct and install *production* facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and *production* storage tanks, *natural gas* cycling and processing plants, and central utility and waste disposal systems; and
- (d) provide improved recovery systems.

- *Item 4.1 Reserves Reconciliation* of Form 51-101F1 requires disclosure of an annual reconciliation of changes in reserves estimates in specified categories, by
 - Country
 - Product type specified in item 4.1(2)(b)
 - Reserve change category specified in item 4.1(2)(c)
 - Requires separate identification **and** explanation for each category

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Questions and Comments

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