

Oil and Gas Session

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ALBERTA SECURITIES COMMISSION



Agenda

- 1. Introduction**
- 2. Oil and gas regulatory framework**
- 3. Oil and gas reviews**
- 4. Disclosure overview**
- 5. Pricing assumptions**
- 6. Q&A**

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**)
 - Improves, coordinates and harmonizes regulation
- CSA's lead oil and gas (**O&G**) regulator



Introduction: Energy

- The ASC supports the O&G industry and energy diversification.
- Energy is our new name
- “All things energy” is our mandate
 - Energy-related technical matter oversight in Alberta’s capital market
- We remain firmly engaged on O&G matters

Introduction: Energy

- In pursuit of effective and compliant O&G disclosure, we:
 - Conduct O&G reviews
 - incorporate disclosure and evaluations
 - assess compliance with securities legislation
 - prioritize ASC principally-regulated reporting issuers (**RI**s)
 - Develop and maintain
 - securities legislation
 - technical guidance
 - Communicate with capital market participants



Introduction: Energy

Craig Burns, P.Geo., Manager

Staci Rollefstad, P.Eng., Senior Evaluation Engineer

Michelle Turner, P.Eng., Evaluation Engineer

Ramsey Yuen, P.Eng., Evaluation Engineer

Richard Bush, C.E.T., Analyst

Oil and gas regulatory framework

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Oil and gas regulatory framework: Legislation

- National Instrument 51-101 *Standards of Disclosure For Oil and Gas Activities* (**NI 51-101**)
 - Applies to RIs engaged in O&G activities (**O&GA**)
 - Addresses:
 - general disclosure standards
 - specific annual disclosure requirements
 - Technical standard: Canadian Oil and Gas Evaluation Handbook (**COGE Handbook**)

Oil and gas regulatory framework: Legislation

- Related forms for filing on SEDAR¹ include:
 - 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**)
 - Affirms COGE Handbook compliance

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

²Per 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.

Oil and gas regulatory framework: Legislation

- *51-101F3 Report of Management and Directors on Oil and Gas Disclosure² (Form 51-101F3)*
 - Affirms:
 - content and filing of Form 51-101F1
 - filing of Form 51-101F2
 - content and filing of Form 51-101F3

Oil and gas regulatory framework: Guidance

- Companion Policy 51-101CP *Standards of Disclosure For Oil and Gas Activities* (**51-101CP**)
- CSA staff notices (**SN**), including:
 - SN 51-324 *Revised Glossary to NI 51-101* (**SN 51-324**)
 - SN 51-327 *Revised Guidance on Oil and Gas Disclosure*
- COGE Handbook
 - Society of Petroleum Evaluation Engineers (Calgary Chapter)

Oil and gas regulatory framework: Other

- Corporate Finance publications³
 - Oil and Gas Review Report
 - 2020 edition published in November
 - Corporate Finance Disclosure Report
 - 2020 edition published in November
- Financial reporting bulletins³
 - Published by Office of the Chief Accountant

³Available at albertasecurities.com

Oil and gas reviews

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Oil and gas reviews: Process

- Incorporate disclosure from RIs actively engaged in O&GA
 - Prioritize ASC principally-regulated RIs
- Assess compliance with securities legislation
 - *Securities Act* (Alberta)
 - NI 51-101 and related forms
 - COGE Handbook

Oil and gas reviews: Types

- Include:
 - Screening
 - incorporate Form 51-101F1, Form 51-101F2 and Form 51-101F3
 - 2020⁴: 129 ASC, 40 other jurisdictions
 - Annual filing
 - elevated screening reviews
 - Continuous disclosure
 - incorporate all O&G disclosure

⁴As of end of September

Oil and gas reviews: Types

- News release
 - Incorporate other disclosure as needed
 - 2020⁴: 21 ASC, 2 other jurisdictions
- Technical
 - Incorporate evaluations and related disclosure
- Prospectus (short, long and shelf)
 - Incorporate disclosure as needed; incorporate evaluations for long forms
 - 2020⁴: 2 shelf and 1 long form

Oil and gas reviews: Outcomes



- No action
- Advisory comment(s)
- Identification of deficiencies
 - Requirement to correct
 - RI placed in default
 - Management cease trade order
 - Cease trade order
 - Referral to ASC Enforcement division

Disclosure overview

- a. Introduction**
- b. Abandonment and reclamation costs**
- c. Production**
- d. Reserves reconciliations**





Disclosure overview: Introduction

- O&G disclosure remains pretty good
 - Few RIs have consistently problematic disclosure
 - Most issues are addressed via awareness
- Areas to improve include:
 - abandonment and reclamation costs
 - production
 - reserves reconciliations

Disclosure overview: Aban. and rec. costs – issues

- Abandonment and reclamation costs (**ARC**) and associated future net revenue (**FNR**) are prepared or disclosed incorrectly
- ARC and FNR disclosure exceeds requirements and is:
 - prepared or disclosed incorrectly, or
 - prepared or disclosed correctly, under mistaken assumption it's required

Disclosure overview: Aban. and rec. costs – background

- Section 1.1 of NI 51-101 defines FNR as:

[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*; [Emphasis added]

- Per SN 51-324, resources includes reserves, and resources other than reserves
- FNR is always net of ARC
- Correctly determined FNR depends on correctly determined ARC

Disclosure overview: Aban. and rec. costs – background

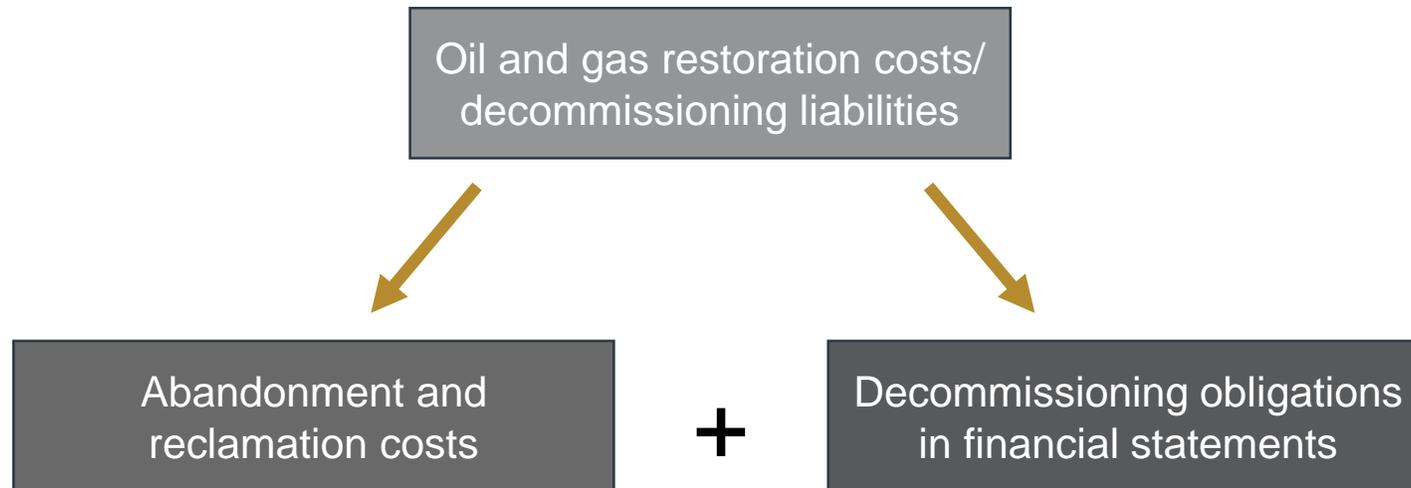
- Section 1.1 defines ARC as:

[A]ll 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;

- A subset of O&G restoration costs/decommissioning liabilities (**RC/DL**)
- RC/DL include:
 - ARC
 - decommissioning obligations in financial statements

Disclosure overview: Aban. and rec. costs – background

- Individual O&G RC/DL may be:
 - ARC
 - decommissioning obligations in financial statements
 - both



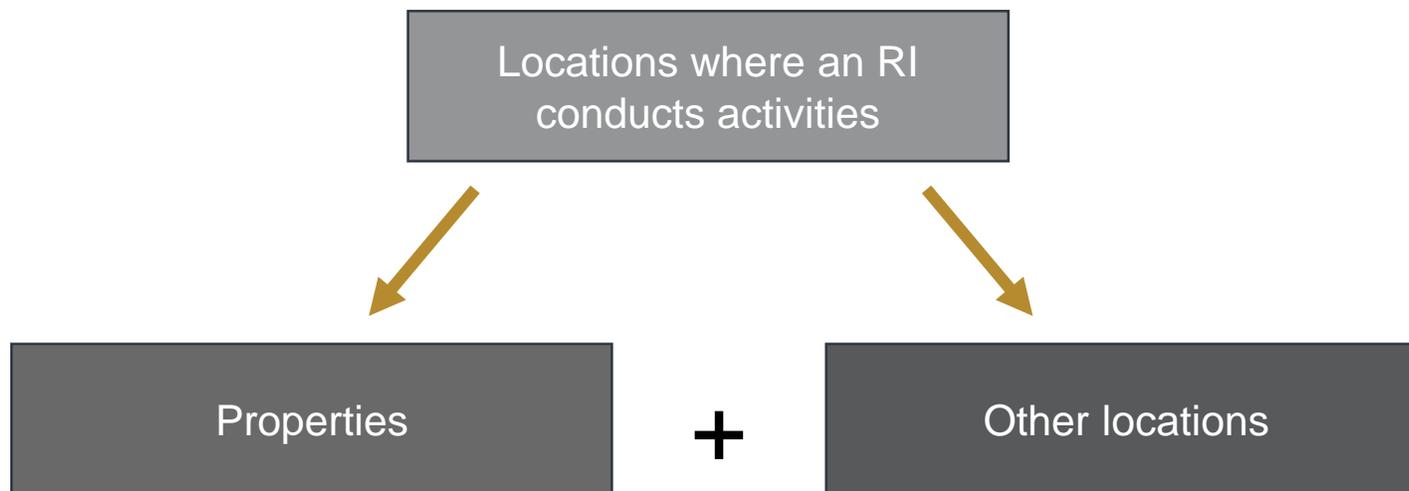
Disclosure overview: Aban. and rec. costs – background

- Per SN 51-324, property is:

- (a) fee ownership or a lease, concession, agreement, permit, license 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 [...]

Disclosure overview: Aban. and rec. costs – background

- Properties are a subset of the locations where an RI conducts activities.
 - Not all the locations where an RI conducts activities are properties.



Disclosure overview: Aban. and rec. costs – background

- Section 1.1 defines oil and gas activities (**O&GA**) as:

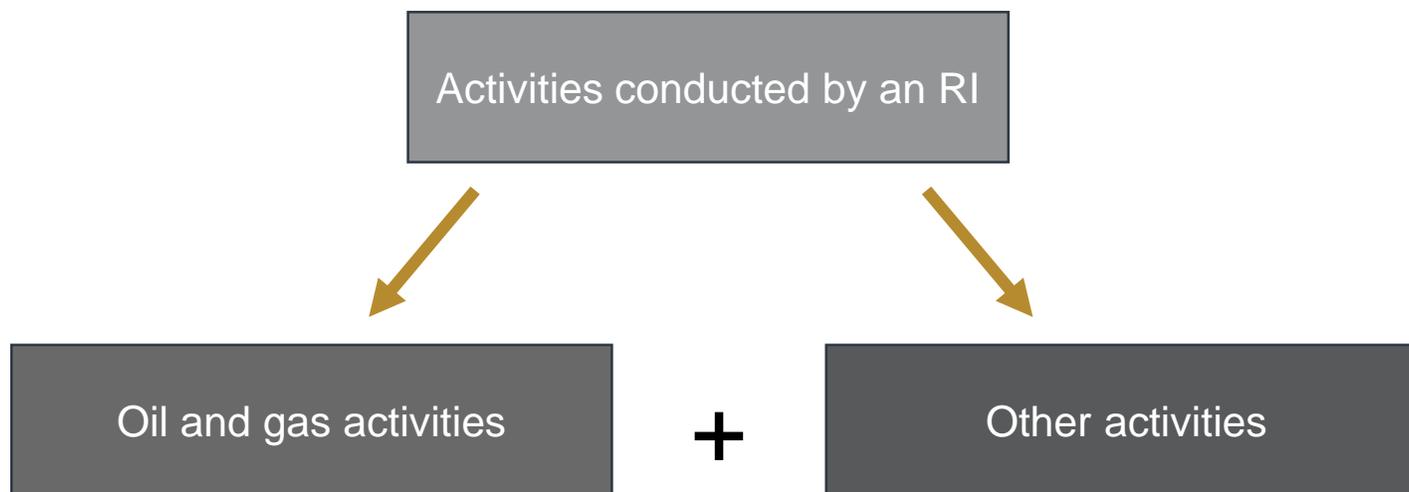
- (a) searching for a *product type* in its natural location;
- (b) acquiring *property* rights or a *property* for the purpose of exploring for or removing *product types* from their natural locations;
- (c) any activity necessary to remove *product types* from their natural locations, including construction, 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*;

but does not include any of the following:

- (e) any activity that occurs after the first point of sale; [...]

Disclosure overview: Aban. and rec. costs – background

- O&GA is a subset of all the activities an RI conducts.
 - Not all the activities conducted by an RI are O&GA.



Disclosure overview: Aban. and rec. costs – background

- So, in simple terms, what's a property?
 - It's where an RI conducts or intends to conduct O&GA involving the search for, acquisition, or removal of product types and their by-products from their natural locations before the first point of sale, where they have the right to do so.

Disclosure overview: Aban. and rec. costs – background

- Remember items 5.2 and 6.2.1 of Form 51-101F1.
 - Per item 5.2, identify and discuss significant ARC that affect particular components of reserves data, unless they're in the financial statements.
 - May be attributed to wells, facilities, etc. that may or may not be on an RI's properties.
 - Generally captured under item 2.1, if related to reserves data.

Disclosure overview: Aban. and rec. costs – background

- Per item 6.2.1, identify and discuss significant ARC that have affected or are expected to affect development or production on properties with no reserves, unless they're in the financial statements.
 - May be attributed to wells, facilities, etc.
 - An RI may have previously attributed reserves to the property.
 - Likely uncaptured under item 2.1 or in an associated evaluation.
 - Staff unlikely to object to disclosure of other O&G RC/DL here, such as costs not considered ARC, but in an RI's financial statements.

Disclosure overview: Aban. and rec. costs – background

- Can exceed minimum disclosure requirements.
 - General instruction (5) of Form 51-101F1 discusses for annual filings
 - Mustn't be misleading or inconsistent with NI 51-101
- Additional disclosure, wherever it occurs, can't replace, confuse, obscure or diminish required disclosure; to be safe:
 - keep separate from required disclosure
 - justify inclusion with an explanation

Disclosure overview: Aban. and rec. costs – conclusions

- ARC is limited to costs associated with restoring an RI's property caused or expected to be caused by their O&GA.
- Non-O&GA may occur on an RI's property.
 - Related O&G RC/DL costs aren't ARC.

Disclosure overview: Aban. and rec. costs – conclusions

- Ensure that significant ARC that:
 - May affect particular components of reserves data, are identified and discussed under item 5.2.
 - Have or are expected to affect development or production on properties with no reserves, are identified and discussed under item 6.2.1.
- If non-required O&G RC/DL information is disclosed:
 - keep separate from required disclosure
 - include a supportive explanation

Disclosure overview: Aban. and rec. costs – conclusions

- There's no short-cuts.
 - Understanding an RI's O&G RC/DL requires review of their:
 - NI 51-101 disclosure, and
 - financial statements
- Compliant disclosure takes RIs and their professional service providers communicating and fulfilling their responsibilities.

Disclosure overview: Production – issues

- Product types are:
 - not used
 - selectively excluded
 - replaced by BOEs or ratios
- Quantities aren't measured at:
 - first point of sale (**FPS**), or
 - alternate reference point (**ARP**)

Disclosure overview: Production – background

- Sec. 1.1 defines product type as:

- (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*;

Disclosure overview: Production – background

- Sec. 5.4 of NI 51-101 states:

1. Disclosure of resources or of sales of product types or associated by-products must be made with respect to the first point of sale.
2. Despite subsection (1), a *reporting issuer* may disclose *resources* or sales of *product types* or associated *by-products* with respect to an *alternate reference point* if, to a reasonable person, the *resources*, *product types* or associated *by-products* would be marketable at the *alternate reference point*. [...]

- Sec. 5.5 states:

Disclosure of product types or by-products, including *natural gas liquids* and sulphur must be made in respect only of volumes that have been or are to be recovered prior to the first point of sale, or an *alternate reference point*, as applicable.

Disclosure overview: Production – background

- Sec. 1.1 defines FPS as:

[T]he first point after initial *production* at which there is a transfer of ownership of a *product type*;

- Sec. 1.1 defines ARP as:

[A] location at which quantities and values of a *product type* are measured before the *first point of sale*;

Disclosure overview: Production – conclusions

- Provide volumes and values by constituent product types
 - determine and measure these at FPS or ARP
 - “gas,” “oil,” “liquids,” etc. aren’t product types
 - BOEs and ratios aren’t product type substitutes
- Don’t exclude unfavourable product types

Disclosure overview: Reserves reconcil. – issues

- Changes are incorrectly categorized as technical revisions
- Explanations for disclosure in reserve change categories are:
 - absent, or
 - low quality

Disclosure overview: Reserves reconcil. – background

- Item 4.1 of Form 51-101F1 requires reserves data reconciliation at the effective date for the most recent financial year with that at the last day of the preceding financial year
 - Required for:
 - gross proved reserves (in total)
 - gross probable reserves (in total)
 - gross proved plus probable reserves (in total)

Disclosure overview: Reserves reconcil. – background

- Required by:
 - country
 - product type per item 4.1(2)(b)
 - reserve change category per item 4.1(2)(c), with explanation:
 - (i) extensions and improved recovery
 - (ii) technical revisions
 - (iii) discoveries
 - (iv) acquisitions
 - (v) dispositions
 - (vi) economic factors
 - (vii) production

Disclosure overview: Reserves reconcil. – background

- Per sec. 4.6.2.2 of the COGE Handbook:

Technical Revisions: Positive or negative Reserves revisions to an estimate resulting from new technical data or revised interpretations on previously assigned Reserves. Positive technical revisions are usually associated with better reservoir performance and operating costs and negative revisions with poorer reservoir performance and operating costs. Technical revisions are generally independent of reserves changes associated with capital expenditures.

- Per sec. 2.7(6)(c) of 51-101CP:

Technical revisions show changes in existing reserves estimates, in respect of carried-forward *properties*, over the period of the reconciliation [...] and are the result of new technical information, not the result of capital expenditure.

Disclosure overview: Reserves reconcil. – assessment

- Both limit technical revisions to changes:
 - to existing reserves
 - that result from new technical data or revised interpretations
- The COGE Handbook appears to suggest that some changes resulting from capital expenditures can be technical revisions
- 51-101CP rejects classifying changes due to capital expenditures as technical revisions

Disclosure overview: Reserves reconcil. – conclusions

- Technical revisions must:
 - be attributed to changes to existing reserves, and
 - result from new technical data, unrelated to capital expenditures
- Disclosure in each reserve change category must be explained; meaningful and RI-specific
 - Helps understanding of reserves changes and compliance

Pricing assumptions

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Pricing assumptions

- NI 51-101 is unaffected by October COGE Handbook changes
- Let's review pricing in NI 51-101
 - Section 1.1 defines FNR as:

[A] forecast of revenue, estimated using *forecast prices and costs* or *constant prices and costs*
[...]

- Disclosed FNR must be estimated using:
 - forecast prices and costs, or
 - constant prices and costs

Pricing assumptions

- Section 1.1 defines forecast prices and costs as:

[F]uture prices and costs that are:

- (a) generally accepted as being a reasonable outlook of the future;
- (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the *reporting issuer* is legally bound by a contractual or other obligation to supply a physical product [...]

- “Reasonable outlook” is discussed in section 1.1(2) of 51-101CP:

The CSA do not consider that future prices or costs would satisfy this requirement if they fall outside the range of forecasts of comparable prices or costs used, as at the same date, for the same future period, by major *independent qualified reserves evaluators or auditors* or by other reputable sources appropriate to the evaluation.

Pricing assumptions

- Per Form 51-101F1:
 - Items 2.1(1) and 2.1(2) require reserves data attributed to specified categories of reserves to be prepared using forecast prices and costs
 - Section 1.1 of NI 51-101 defines reserves data as:

[A]n estimate of *proved reserves* and *probable reserves* and related *future net revenue*, estimated using *forecast prices and costs*;

Pricing assumptions

- Item 3.2 states:

1. For each *product type*, disclose:
 - (a) the pricing assumptions used in estimating *reserves data* disclosed in response to Item 2.1:
 - (i) for each of at least the following five financial years; and
 - (ii) generally for subsequent periods; and
 - (b) the *reporting issuer's* weighted average historical prices for the most recent financial year.
2. The disclosure in response to section 1 must include the benchmark reference pricing schedules for the countries or regions in which the *reporting issuer* operates, and inflation and other forecast factors used. [...]

Pricing assumptions

- Per Part 7, if an RI discloses contingent resources data or prospective resources data as an appendix to Form 51-101F1, it must be prepared using forecast prices and costs.
 - Item 7.3(1) requires pricing assumptions for each product type for each of the five years following the most recent financial year.
 - Item 7.4 permits supplemental disclosure of contingent resources data determined using constant prices and costs.

Thank You



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