

# Regulatory Update



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Ryder Scott Canada Reserves Conference  
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# Agenda

1. Introduction
2. Oil and Gas Regulatory Framework
3. Discussion
4. Questions and Comments
5. Contact Information

- 1. Introduction**
  - a. Alberta Securities Commission**
  - b. Petroleum**
  - c. Recent Activities**
  - d. Current Activities**
2. Oil and Gas Regulatory Framework
3. Discussion
4. Questions and Comments
5. Contact Information

- 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)
  - Improve, coordinate and harmonize regulation

- Corporate Finance Division
- Priorities
  - Review disclosure for compliance with securities legislation
  - Develop and maintain securities legislation and technical guidance
  - Communicate in a responsive manner with capital market participants

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# Introduction

## Staffing

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Staff in our modern office.

- Published
  - 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* (CSA Staff Notice 51-345)
    - November 2015
  - 2015 Oil and Gas Review Report
    - December 2015
- Hosted
  - NI 51-101 Oil and Gas Review Information Session; seminar and webinar
    - February 2016

- Preparing
  - Internal assessments
    - 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 (CP) (Amendments)
    - Canadian Oil and Gas Evaluation Handbook (COGE Handbook) update
- Participating
  - SPE/IAEE Hydrocarbon Economics and Evaluation Symposium
    - May 18, 2016
  - SPEE Annual Meeting
    - June 6, 2016



1. Introduction
2. **Oil and Gas Regulatory Framework**
  - a. Introduction
  - b. Legislation
  - c. Guidance
3. Discussion
4. Questions and Comments
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# Oil and Gas Regulatory Framework

## Introduction

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- Reporting issuers (RIs) and their professional service providers responsible for disclosure
- Should be mindful of
  - Securities legislation; designed for 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
    - Specifically prohibits misleading by omission
- NI 51-101
  - Enacted September 2003
  - Recent amendments effective July 1, 2015
  - General disclosure standards and specific annual disclosure requirements for RIs engaged in **oil and gas activities**
    - **New** definition in section 1.1 of NI 51-101; broad



- Five related forms for filing on SEDAR
  - 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information*<sup>1</sup> (F1)
    - **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> (F2)
    - **New content and title**
    - Signing represents that in all material respects, data determined and in accordance with the COGE Handbook

<sup>1</sup>See section 2.1 of NI 51-101; file with 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<sup>1</sup>* (F3)
  - **New content**
  - 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 F1, F2 and F3

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

- CP
  - CSA's views on interpretation and application of NI 51-101 and forms
- Staff notices including
  - CSA Staff Notice 51-324 **Revised** *Glossary to NI 51-101* (CSA Staff Notice 51-324)
  - CSA Staff Notice 51-327 **Revised** *Guidance on Oil and Gas Disclosure* (CSA Staff Notice 51-327)
  - CSA Staff Notice 51-345 **(New)**

- COGE Handbook
  - NI 51-101 technical standard
    - Referenced as such
      - Sections 5.3, 5.9(2)(b) and 5.10(1)(c) of NI 51-101
      - F2
  - Maintained by SPEE (Calgary Chapter)
  - Initially published 2002
  - Amended from time to time, per section 1.1 of NI 51-101
    - **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
- Current amendments
  - Subcommittees struck

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  - a. **Amendments to NI 51-101 – Implementation Review**
  - b. CSA Staff Notice 51-345
  - c. Disclosure Commentary
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- Amendments effective July 1, 2015
- Compliance
  - Generally adequate; a few trouble spots
- Notable observations
  - Abandonment and reclamation costs (ARC)
  - Resources other than reserves (ROTR)
  - Product types

- Changes include
  - ARC definition **added** to section 1.1 of NI 51-101
    - **New** defined term

*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.

- **New** future net revenue (FNR) definition added to section 1.1 of NI 51-101
  - Previously defined in CSA Staff Notice 51-324

### *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.*

- Items 5.2 and 6.2.1 of the F1
  - Identify and discuss significant economic factors or uncertainties affecting components of reserves data and properties with no attributed reserves, respectively
    - Includes ARC per **new** Instruction (1)
    - Consider wells, leases, facilities, pipelines, etc.
- **New** Part 7 of the F1
  - Disclose FNR for subclass development pending contingent resources

- **Unchanged** ARC and FNR disclosure requirements
  - Item 2.1(2) of the F1
    - Disclose FNR (by definition, net of ARC) by country, in aggregate and by product type, per reserves 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)

- Item 2.1(3)(b) of the F1
  - Disclose ARC by country and in aggregate for **reserves** categories in Item 2.1(3)(a)
    - Probable reserves (in total)
    - Proved plus probable reserves (in total)
    - If possible reserves disclosed
      - Proved plus probable plus possible reserves (in total)



- In summary
  - Disclosed FNR must be net of abandonment **and** reclamation costs
    - **All** categories of reserves and ROTR
  - Disclosed ARC must account for abandonment **and** reclamation costs

- Observations
  - FNR accounts for ARC per **unchanged** Item 2.1(2) of the F1, including reclamation costs
  - ARC disclosure per **unchanged** Item 2.1(3)(b) of the F1 accounts for reclamation costs
  - FNR appears to account for ARC per **new** Part 7 of the F1, including reclamation costs; still assessing

- Historically
  - ARC ignored for some reserves categories (developed/undeveloped)
  - ARC generally ignored for ROTR
  - Reclamation component frequently ignored

- Observation
  - Disclosure per items 2.1(2) and 2.1(3)(b) of the F1 account for ARC attributed to entities both with **and** without recoverable volumes
- Item 2.1 targets **reserves** categories
  - However, entities directly associated with reserves should be considered
    - Defined term property (CSA Staff Notice 51-345) used in ARC definition

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## Discussion

### Amendments – Implementation Review – ARC

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- Definition of property per CSA Staff Notice 51-345
  - Inclusive due to broad usage

#### *Property*

Includes:

(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...

- Definition of lease per CSA Staff Notice 51-345

#### *Lease*

An agreement granting to the lessee rights to explore, develop and exploit a *property*

- Observation
  - Disclosure of **significant** ARC required by Instruction (1) of items 5.2 and 6.2.1 of the F1 consistently absent
    - Reasons unclear
      - **Significant** not **material**
        - Disclosure of **material** information already required by NI 51-101

- Changes include
  - Most definitions sourced from the COGE Handbook and modified
  - All now defined in section 1.1 of NI 51-101
  - **New** section 1.1(4) of the CP discusses product type selection
    - Sets out CSA views
      - Supplement disclosure with specific information
      - Choose closest product type
      - Mustn't be misleading

- Observations
  - Concerns raised about product type definitions for
    - Tight oil
    - Shale gas
  - Product type selection confusion



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

*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 contained in microscopic pore spaces that are poorly connected to one another, **and**
- (b) that usually requires the use of hydraulic fracturing to achieve economic *production* rates.

- **New** section 1.1(4) of the CP

The *CSA* encourage *reporting issuers* engaged in *oil and gas activities* that may require additional explanation to **supplement the disclosure prescribed in NI 51-101 and Form 51-101F1 with information specific to those activities** that can assist investors and others in understanding the business and results of the *reporting issuer*.

A *reporting issuer* should **choose the closest *product type* if the substance produced does not exactly match one of the *product types* or if it matches more than one of the *product types* listed in NI 51-101...**

A *reporting issuer* **must ensure that its disclosure is not misleading** and will have to consider whether additional explanation is required to provide the necessary context.

- Staff suggestions per section 1.1(4)
  - Disclose crude oil typically requiring hydraulic fracturing to be economic as **product type tight oil**
  - Disclose natural gas usually requiring hydraulic fracturing to be economic as **product type shale gas**

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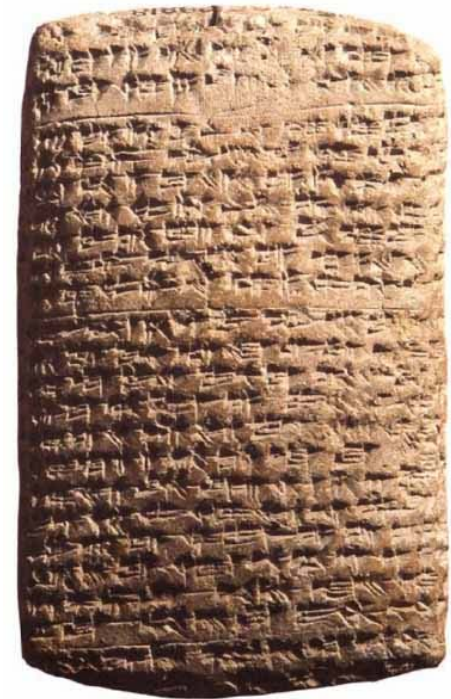
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## Discussion

### CSA Staff Notice 51-345

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- Published November 5, 2015
- Response to
  - Large volume of inquiries and comments
  - Internal discussions
- Summarizes some **existing** information concerning ARC and FNR
  - NI 51-101 and related forms
  - Amendments
- ASC.ca



- See also
  - Office of the Chief Accountant Financial Reporting Bulletin  
Abandonment and Reclamation Costs
    - Published April 2016
    - NI 51-101 requirements per ARC in impairment calculations under IAS 36  
Impairment of Assets
    - ASC.ca

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## Discussion

### Reviews – Background

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- Assess compliance with securities regulations
  - Ensure factual, balanced approach
    - Section 92(4.1) of *Securities Act* (Alberta)
- Review types include
  - Screening
  - Continuous disclosure
  - Prospectus
  - News release
  - Technical

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## Discussion

### Reviews – Disclosure Deficiencies

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- Frequent deficiencies observed regarding
  - **Unchanged** section 5.9(1)(d) of NI 51-101
  - Type wells (type curves) and drilling locations

- Section 5.9(1)(d) of NI 51-101 requires risks and level of uncertainty for ROTR estimates
  - No requirement to adjust for risk
  - Disclosure is typically boilerplate, unspecific
- Per section 5.7(2) of the CP

“...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.**”

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## Discussion

### Reviews – Disclosure Deficiencies – Type Wells and DL

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- Disclosure deficiencies typically concern
  - Analogous information
  - Provenance
  - COGE Handbook compliance
  - Methodology

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## Discussion

# Reviews – Disclosure Deficiencies – Type Wells and DL

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- Analogous information
  - Section 5.10 of NI 51-101
  - Section 5.8 of the CP
  - Section 2(a) of CSA Staff Notice 51-327
- Provenance
  - Must be prepared or audited by a qualified reserves evaluator or auditor
    - Management **or** independent qualified reserves evaluator or auditor
    - Sections 5.2(1)(a)(ii), 5.9(2)(a) and 5.10(1)(c) of NI 51-101

- COGE Handbook compliance
  - 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
    - Section 5.3 of NI 51-101 (section 5.7(3)(b) of the CP) for terminology and category
- Methodology
  - Analogous information requirements
  - Section 5.3.5 of volume 1 of the COGE Handbook for certainty levels
    - Long term results shouldn't vary from attributed certainty levels
      - 1P, 2P, 3P
      - 1C, 2C, 3C, etc.

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# Questions and Comments



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