



## Technical Session Agenda 2016 SPEE Annual Meeting

**Monday, June 6, 2016**      **2016 SPEE Technical Session I**      **Salon I/II**

9:30 AM      **Regulatory Update**      Craig Burns

This presentation will provide an update regarding disclosure standards and specific annual disclosure requirements for issuers that report under National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities (NI 51-101). Particular attention will be paid to recent amendments to NI 51-101, its related forms and the Companion Policy 51-101CP. In addition, the recently 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 will be discussed, along with commerciality as it pertains to estimation and classification of reserves.

### **BIOGRAPHY**

#### **Craig Burns – Manager, Petroleum Alberta Securities Commission**

Craig Burns, P.Geol. is Manager, Petroleum, at the Alberta Securities Commission (ASC), which is responsible for administering the province's securities laws and fostering a fair and efficient capital market. Craig leads a group of oil and gas professionals that assess continuous disclosure from reporting issuers engaged in oil and gas activities for compliance with securities legislation, develop and maintain securities legislation and technical guidance and communicate with capital market participants. A graduate of Dalhousie University with a B.Sc. (Hon.) degree in Earth Sciences, Craig has in excess of 19 years of oil and gas-related experience.



Prior to joining the ASC in 2013, Craig worked in the acquisition and divestiture group at a Calgary-based energy investment bank, in energy equity research at a major Canadian bank and at a Calgary-based engineering firm, where he conducted domestic and international evaluations and audits of oil and gas reserves and resources other than reserves.

Craig was a member of the Canadian Securities Administrator's committee responsible for the 2014 amendments to the regulatory standard National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities.

# Regulatory Update



Craig Burns, P.Ge.  
Manager, Petroleum  
SPEE Annual Meeting  
June 6, 2016

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

# Introduction

## Staffing

Craig Burns, P.Geo.  
Manager, Petroleum

Floyd Williams, P.Eng.  
Senior Petroleum Evaluation Engineer

Timothy Kravinchuk, P.Eng.  
Senior Petroleum Evaluation Engineer

Lynddy Garrido, P.Eng.  
Petroleum Evaluation Engineer

Richard Bush, C.E.T.  
Petroleum Analyst



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
- Participated
  - Ryder Scott Canada Reserves Conference
    - May 2016
  - SPE/IAEE Hydrocarbon Economics and Evaluation Symposium
    - May 2016

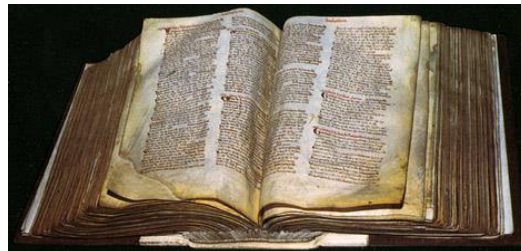


- Preparing
  - Internal assessments
    - Amendments to National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (NI 51-101), related forms and the Companion Policy 51-101CP (CP) (Amendments)
    - Canadian Oil and Gas Evaluation Handbook (COGE Handbook) update

1. Introduction
- 2. Oil and Gas Regulatory Framework**
  - a. Introduction
  - b. Legislation
  - c. Guidance
3. Discussion
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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<sup>1</sup>
  - 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information*<sup>2</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>2</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>System for Electronic Document Analysis and Retrieval (SEDAR.com)

<sup>2</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>2</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 51-327 **Revised** *Guidance on Oil and Gas Disclosure*
  - 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
  - ASC letter delivered to SPEE (Calgary Chapter) September 30, 2015
    - Encouraged them to update to ensure continued viability
    - Offered ASC support
    - **Must occur expeditiously or alternatives may be considered**

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2. Oil and Gas Regulatory Framework
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  - a. Amendments to NI 51-101 – Implementation Review**
  - b. CSA Staff Notice 51-345
  - c. Commerciality (What Keeps Me Up at Night)
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- Amendments effective July 1, 2015
- Compliance
  - Generally adequate; a few trouble spots
- Notable observations concerning
  - Resources other than reserves (ROTR)
  - Product types

- Changes include
  - **New** Part 7 of the F1
    - Requirements include
      - Estimates disclosed as an appendix to F1
      - Estimates risked for chance of commerciality
      - Best estimates
      - Contingent resource estimates in applicable project maturity sub-class

# Discussion

## Amendments – Implementation Review – ROTR

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

↑ Increasing chance of commerciality

Modified from the ROTR Guidelines

- Future net revenue for development pending sub-class contingent resources
- Cautionary statement clarifying the uncertainty

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



- Observations
  - Disclosure per **new** Part 7 generally compliant
  - Reduced F1 disclosure frequency

- 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's 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**

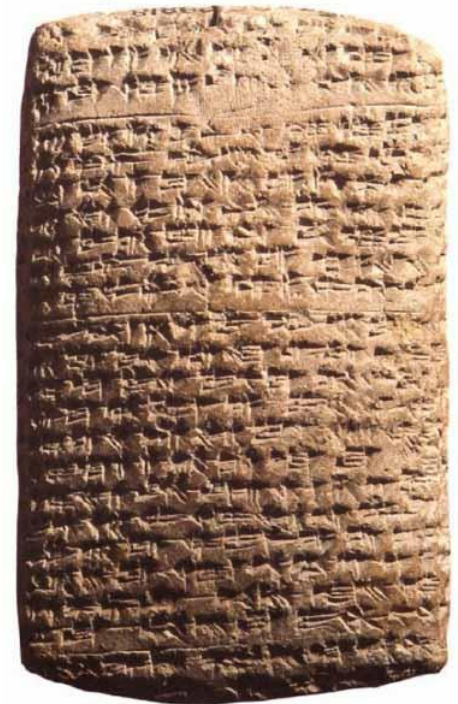
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# Discussion

## CSA Staff Notice 51-345

- Published November 5, 2015
- Response to
  - Large volume of inquiries and comments
  - Internal discussions
- Summarizes some **existing** information concerning abandonment and reclamation costs and future net revenue
  - 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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- Reserves are **commercially** recoverable
- Per section 5.3.3 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%.

- Criteria per section 5.3.2 of volume 1 of the COGE Handbook
  - Economic viability
  - Reasonable expectation of market access
  - Availability of production and transportation facilities
  - Evidence that legal, contractual, environmental, governmental and other social and economic concerns will allow for development
  - Reasonable expectation of internal and external approvals
  - Evidence to support a reasonable development timetable



**“Please God, give us another boom, we promise not to xxxx it away this time”**

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