

Disclosure of Abandonment and Reclamation Costs in NI 51-101 and Other Topics of Current Interest



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1. Introduction
2. Oil and Gas Regulatory Framework
3. Topics of Current Interest
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- 1. Introduction**
 - a. Alberta Securities Commission**
 - b. Petroleum**
2. Oil and Gas Regulatory Framework
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- Alberta Securities Commission (**ASC**)
 - Responsible for administering Alberta's securities laws
 - Entrusted to foster a fair and efficient capital market and 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**)
 - Securities regulators from all provinces and territories
 - Improve, coordinate and harmonize regulation

- Corporate Finance Division
- Priorities
 - Continue proactivity 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
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- Recent activities
 - Published
 - 2016 Oil and Gas Review Report
 - Hosted
 - NI 51-101 Oil and Gas Review Information Session
 - Completed
 - Internal review regarding July 1, 2015 implementation of
 - 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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 - b. Legislation
 - c. Guidance
 - d. Other
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- RIs are responsible for their disclosure; professional service providers play an integral role
- Be mindful of
 - Securities legislation
 - Designed for the provision of information that's
 - Timely
 - Useful
 - Reliable
 - Various requirements, restrictions and standards

- General securities legislation, including *Securities Act* (Alberta)
- NI 51-101
 - General disclosure standards and specific annual disclosure requirements for RIs engaged in O&G activities (**O&GA**)
 - Most recent amendments implemented July 1, 2015

- 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)

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

- 51-101F3 *Report of Management and Directors on Oil and Gas Disclosure² (Form 51-101F3)*
 - 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]*
 - 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 form
- *51-101F5 Notice of Ceasing to Engage in Oil and Gas Activities*
 - File within 10 days per section 6.2 of NI 51-101

- 51-101CP
 - CSA interpretation and application of NI 51-101 and related forms
- Staff notices including
 - CSA Staff Notice 51-324 *Revised Glossary to NI 51-101 (CSA SN 51-324)*
 - CSA Staff Notice 51-327 *Revised Guidance On Oil And Gas Disclosure*
 - 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*

- COGE Handbook
 - Technical standard for NI 51-101
 - Maintained by the Society of Petroleum Evaluation Engineers (**SPEE**) (Calgary Chapter)
 - Amended from time to time, per section 1.1 Definitions of NI 51-101
 - Effective on publishing
 - Update underway
 - New structure and revised content
 - Fall 2017 publication goal

- ASC Office of the Chief Accountant financial reporting bulletins
 - Abandonment and Reclamation Costs
 - Published April 2016
 - Disclosure of Key Performance Indicators in the Oil and Gas Industry
 - Published December 2016

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- 3. Topics of Current Interest**
 - a. Abandonment and Reclamation Costs
 - b. Undeveloped Reserves
 - c. Reserves Reconciliations
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Topics of Current Interest

Abandonment and Reclamation Costs

- Recent events
 - Implementation of amendments to NI 51-101 and related forms; changes to 51-101CP; and revisions to staff notices
 - Publication of 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*
 - Publication of Office of the Chief Accountant Financial Reporting Bulletin Abandonment and Reclamation Costs
 - Publication of 2016 Oil and Gas Review Report
 - Section 3.2.1 The Term “Property” discusses its relationship with abandonment and reclamation costs (**ARC**)

Topics of Current Interest

Abandonment and Reclamation Costs

- Disclosure requirements are discussed in
 - NI 51-101
 - Form 51-101F1
- Understanding these necessitates a broad information review
 - NI 51-101
 - Section 1.1 Definitions
 - ARC
 - Future net revenue (**FNR**)
 - O&GA
 - Reserves data
 - Contingent resources data
 - Prospective resources data

Topics of Current Interest

Abandonment and Reclamation Costs

- Section 5.2 Disclosure of *Reserves* and Other Information
- Section 1.3 Applies to *Reporting Issuers* Only
- Form 51-101F1
 - *Item 2.1 – Reserves Data (Forecast Prices and Costs)*
 - *Item 5.2 – Significant Factors or Uncertainties Affecting Reserves Data*
 - *Item 6.2.1 – Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves*
 - Part 7 – Optional Disclosure of Contingent Resources Data and Prospective Resources Data
- Form 51-101F2
 - Disclosure of FNR

Topics of Current Interest

Abandonment and Reclamation Costs

- 51-101CP
 - Section 2.7(7) Disclosure in Form 51-101F1
 - Section 5.7(3)(c) Disclosure of Resources Other than Reserves
 - Section 5.8 Analogous Information for definition of field
- CSA SN 51-324
 - Definition of property
 - Definition of lease

Topics of Current Interest

Abandonment and Reclamation Costs

- Definition of ARC per section 1.1 of NI 51-101

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.

- All costs includes ARC
- ARC is associated with a RI's property
- ARC is attributed to O&GA

Topics of Current Interest

Abandonment and Reclamation Costs

- Per section 1.3 of NI 51-101, NI 51-101 applies to RIs engaged directly or indirectly in O&GA
- O&GA is defined in CSA SN 51-324

Includes the following:

- (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*;

Topics of Current Interest

Abandonment and Reclamation Costs

but does not include any of the following:

- (a) any activity that occurs after the *first point of sale*;
- (b) any activity relating to the extraction of a substance other than a *product type* and their *by-products*;
- (c) extracting *hydrocarbons* as a consequence of the extraction of geothermal steam;

- O&GA occur before the first point of sale
- O&GA mainly associated with the natural location of a product type
- Refers to property
- Refers to field

Topics of Current Interest

Abandonment and Reclamation Costs

- Definition of property per CSA SN 51-324

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;
- (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* (in contrast to being an *independent purchaser, broker, dealer or importer*)...

- Where an interest exists representing the right to conduct oil and gas operations, including extraction
- Refers to lease

Topics of Current Interest

Abandonment and Reclamation Costs

- Discussion of field per section 5.8 of 51-101CP

For the purposes of *NI 51-101*, CSA staff interpret field to be limited to a single pool or grouping of several pools within the geographic area or administrative unit from which *product types* can be reasonably recovered.

- Product types can be reasonably recovered from a field

- Definition of lease per CSA SN 51-324

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

- Lease is a type of property

Topics of Current Interest

Abandonment and Reclamation Costs

- ARC and FNR are closely associated
- Definition of FNR per section 1.1 of NI 51-101

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*.

- FNR is by definition net of ARC
- Disclosed FNR must be net of ARC, for all categories of reserves and resources other than reserves (**ROTR**)

Topics of Current Interest

Abandonment and Reclamation Costs

- Specific disclosure of FNR is discussed in Form 51-101F1 and Form 51-101F2 for reserves data and the optional disclosure of contingent resources data and prospective resources data

Topics of Current Interest

Abandonment and Reclamation Costs

- Item 2.1(1) of Form 51-101F1
 - Disclose reserves by country and in the aggregate, for each product type, for the following categories
 - 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 are disclosed
 - Possible reserves (in total)
 - Proved plus probable plus possible reserves (in total)

Topics of Current Interest

Abandonment and Reclamation Costs

- Item 2.1(2) of Form 51-101
 - Disclose net present value (**NPV**) of FNR by country and in the aggregate for the reserves categories specified in item 2.1(1)
- Item 2.1(3)(b) of Form 51-101
 - Disclose ARC by country and in the aggregate for
 - Probable reserves (in total)
 - Proved plus probable reserves (in total)
 - If possible reserves are disclosed
 - Proved plus probable plus possible reserves (in total)

Topics of Current Interest

Abandonment and Reclamation Costs

- Part 7.1(1)(b) of Form 51-101F1
 - Disclose the NPV of FNR if contingent resources in the development pending sub-class of contingent resources are disclosed
- Form 51-101F2
 - If reserves data or contingent resources data in the development pending sub-class of contingent resources are disclosed in the statement filed under item 2.1(1) of NI 51-101

Topics of Current Interest

Abandonment and Reclamation Costs

- Summary
 - ARC incorporates all costs associated with the process of restoring a RI's property disturbed by O&GA
 - All costs includes abandonment **and** reclamation costs attributed to
 - Any activities involved in the search for or removal of product types and their by-products from their natural locations on a RI's properties where it has an agreement to do so and prior to the first point of sale
 - The acquisition of property rights or a property for this purpose
 - A property is where a RI has an interest representing the right to conduct O&GA, including extraction
 - FNR is by definition net of ARC
 - Disclosed FNR must be net of ARC for all categories of reserves and ROTR, regardless of where the disclosure occurs

- Section 5.5.4(f) of volume 1 of the COGE Handbook discusses timing guidelines for development of non-producing reserves
 - Minor capital expenditures
 - 2 years
 - Larger capital expenditures
 - 3 years for proved reserves
 - 5 years for probable reserves
 - Exceptions should be clearly documented

- *Item 5.1(1)(b) and Item 5.1(2)(b) – Undeveloped Reserves of Form 51-101F1 requires discussion of*
 - Attribution basis for proved and probable undeveloped reserves
 - Development plans (including timing)
 - Reasons for deferring development beyond two years, if applicable
- ***INSTRUCTIONS (2)***

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.

- Staff concerns include
 - Deficient or absent discussion within evaluations when development timelines for non-producing reserves exceed the recommendations in section 5.5.4(f) of volume 1 of the COGE Handbook
 - Deficient disclosure regarding development plans (including timing) as required by items 5.1(1)(b) and 5.1(2)(b) of Form 51-101F1

- *Item 4.1 – Reserves Reconciliation* of Form 51-101F1 requires disclosure of an annual reconciliation of changes in estimates
 - Reconcile by
 - Reserves categories per item 4.1(1)
 - Gross proved reserves (in total)
 - Gross probable reserves (in total)
 - Gross proved plus probable reserves (in total)
 - Country
 - Product type specified in item 4.1(2)(b)

- Reserve change category per item 4.1(2)(c), separately identifying and explaining each
 - Extensions and improved recovery
 - Technical revisions
 - Discoveries
 - Acquisitions
 - Dispositions
 - Economic factors
 - Production

- Staff concerns include
 - Deficient or absent explanations for disclosure in each category
 - Technical revisions incorrectly categorized as extensions and improved recovery, infill drilling and discoveries
 - Changes after initial assignment should be recorded as technical revisions
 - Negative technical revisions for gross proved reserves (in total)

Topics of Current Interest

Reserves Reconciliations

- Per section 7.2 of volume 2 of the COGE Handbook
 - For entities of a similar size, positive revisions should occur in significantly more entities than negative revisions
 - For a large number of entities, aggregate revisions should be positive
 - Aggregate revisions should seldom be negative
 - A positive aggregate revision should follow a negative revision
- Additionally, consider the certainty of proved reserves

Questions and Comments

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