

Proposed Amendments National Instrument (NI) 51-101 2014

2nd Annual Ryder Scott Canada
Reserves Conference



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I'M ONLY
RESPONSIBLE
FOR WHAT
I SAY
NOT FOR
WHAT YOU
UNDERSTAND.

TMX Oil and Gas Equity Raised in 2013 - \$

OIL & GAS

Access to Capital

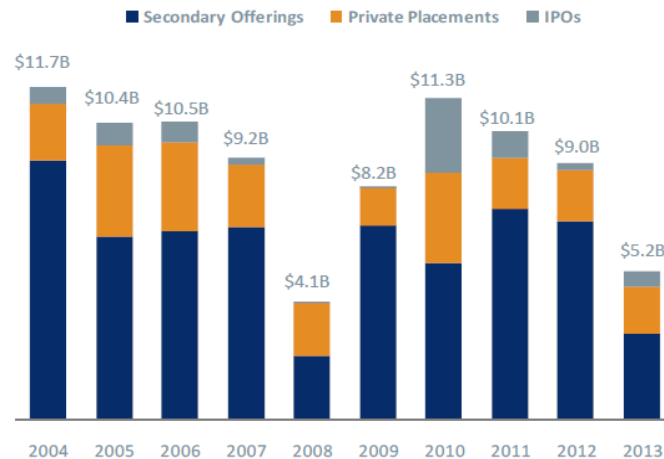
\$5.2B

Raised by oil and gas companies in 2013

246

Financings in 2013

Oil & Gas Equity Capital Raised on Toronto Stock Exchange and TSX Venture Exchange (C\$ Billions)

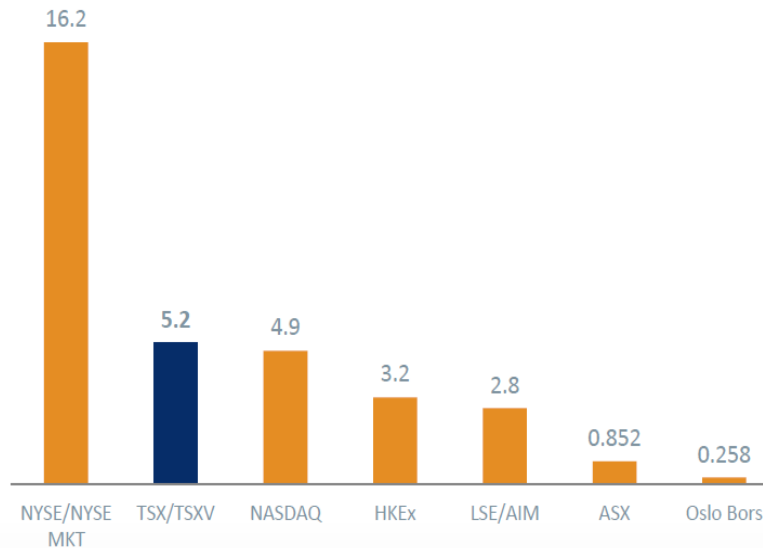


TMX Oil and Gas Equity Raised in 2013 - Ranking

OIL & GAS

Access to Capital: 2nd in the World

2013 Oil & Gas Equity Capital Raised by Exchange (C\$B)



Source of Information for Applicable Oil & Gas Legislation

- Provincial Securities Acts
 - NI 51-102 Continuous Disclosure Obligations
 - Oil and Gas Disclosure
 - NI 51-101 Standards of Disclosure for Oil and Gas Activities
 - Forms NI 51-101 F1; F2 and F3 and their Instructions
 - Companion Policy – guidance on use of NI 51-101
 - CSA Staff Notice 51-324 – Glossary to NI 51-101
 - Revised CSA Staff Notice 51-327 Guidance on Oil and Gas Disclosure
 - COGEH(Canadian oil and Gas Evaluation Handbook)
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NI 51-101 Standards is Accompanied by:



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1. Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information*
 2. Form 51-101F2 *Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor*
 3. Form 51-101F3 *Report of Management and Directors on Oil and Gas Disclosure*
 4. Form 51-101F4 - *Notice of Filing 51-101F1 Information in AIF*
 5. *Form 51-101F5 – Notice of ceasing oil and gas activities (Proposed)*
 6. Companion Policy 51-101CP *Standards of Disclosure for Oil and Gas Activities*
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NI 51-101 *Standards of Disclosure for Oil and Gas Activities*

- Implemented – 2003

 - Amendments introduced 2007
 - Disclosure of non-conventional products
 - Disclosure of resources other than reserves(ROTR)

 - Amendments introduced 2010
 - Adding across resource categories
 - Range of estimates
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Proposed Amendments 2014

- On October 17, 2013, the Canadian Securities Administrators (CSA) announced proposed amendments to NI 51-101 and published them for public comment
 - Public Comments were -
 - reviewed by March 2014
 - published on ASC Web site
 - Staff are currently amending the instrument in response to public comments
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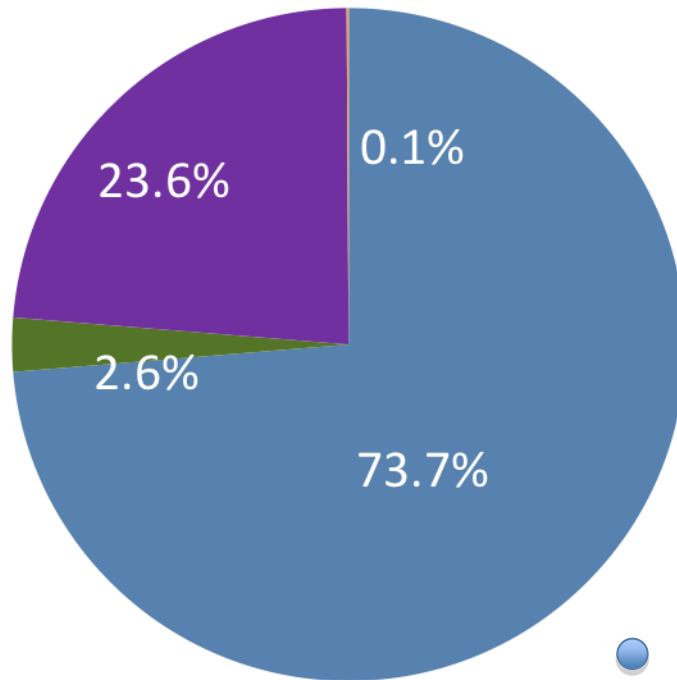
Proposed Amendments 2014

- Approved solely for the purpose of public comment
 - Do not have the force of law
 - Reflects the changes intended to be made by securities regulators
 - Target to publish final form of the Amendments in late 2014
 - Currently target effective date of July 1, 2015
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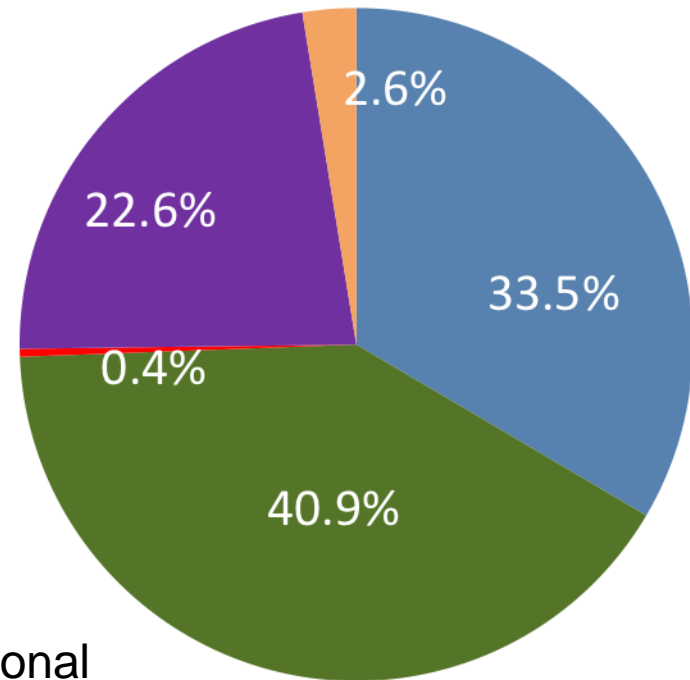
- Addressing concerns with respect to the increased disclosure of contingent resources and prospective resources – “resources other than reserves”(ROTR) by reporting issuers (RI’s)
 - Provide a framework to promote better disclosure of ROTR and associated metrics.
 - Align NI 51-101 with the amended COGE Handbook, including:
 - Bitumen Guidelines (April 1, 2014)
 - ROTR Guidelines (July 17, 2014)
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Circumstances Have Changed

- Gross 2P Reserves (BOE's at 6 Mcf:1 bbl)



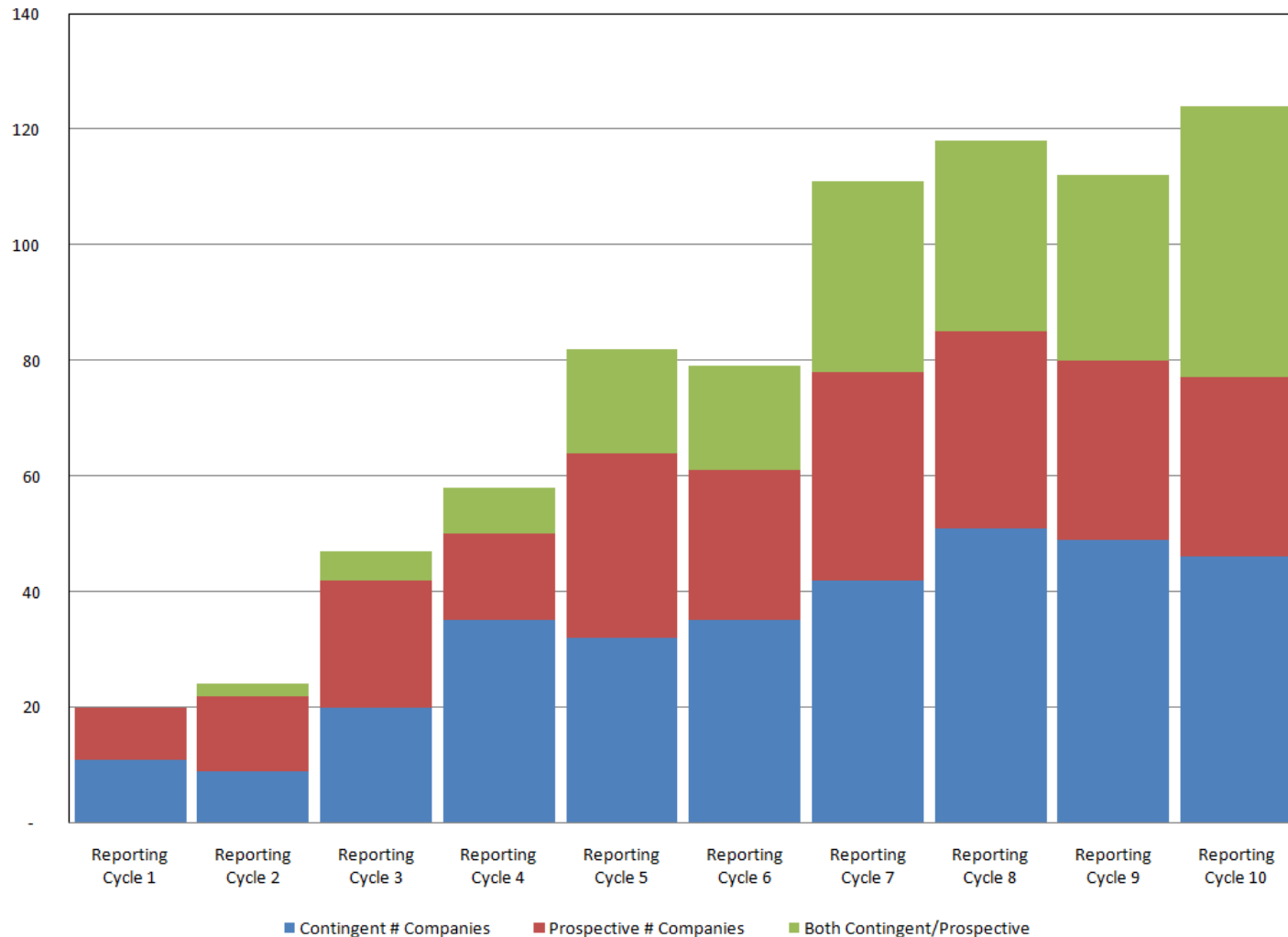
Reporting Cycle 1



Reporting Cycle 10

- Conventional
- CBM
- Bitumen
- SCO/Shale Oil*
- Shale Gas

Circumstances Have Changed - Resources Disclosure



Disclosure of ROTR Generally –

- The disclosure is **not mandatory**.
 - Annual disclosure concerning unproved properties and resource activities as described in Part 6 of Form 51-101F1.
 - Additional disclosure beyond this is voluntary and must comply with section 5.9 of NI 51-101 if anticipated results from ROTR are voluntarily disclosed.
 - For prospectuses, ROTR that are material to the issuer is required, even if the disclosure is not mandated by NI 51-101.
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Some Deficiencies in Current ROTR Disclosure

- Not clear whether lease gross, gross, company interest or net volumes are disclosed and whether they are risked
 - Discussion of significant positive and negative factors in estimating ROTR quantities is missing or insufficiently disclosed
 - Non-standard product types and metrics
 - Not always clear what project is being evaluated or how it is intended to progress
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Some Deficiencies in ROTR Disclosure

- Discussion of risks and uncertainties is missing or inadequate (boilerplate language).
 - Contingencies and the steps to remove them are often poorly described.
 - ROTR are disclosed one year but not the next, without explanation.
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- *“Estimates of contingent resources have not been adjusted for risk based on the chance of development.”*
 - Contingent Resources.....1,300 MMbbls
 - Resources PV-10%.....\$3,500 MM

 - *“UNRISKED PROSPECTIVE GAS RESOURCES”*

“Unrisked prospective resources are estimated ranges of recoverable gas volumes assuming a petroleum discovery is made.”
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- Supplementary disclosure of resources estimate under an alternative resources disclosure standard
 - Changes to product types and removal of production groups
 - Mandating Net Present Value(NPV) disclosure if resources other than reserves are disclosed in the annual statement of reserves data
 - Requiring additional descriptive disclosure when oil and gas metrics are disclosed
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- Other amendments include
 - Disclosure of the resources at the first point of sale or at an alternate reference point
 - Revised disclosure requirements around abandonment and reclamation costs
 - Amended reserves presentation requirements
 - Removal of independent qualified reserves evaluator consent requirement on additional disclosure
 - Change in Form 51-101F2 from preparation date to effective date
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Main Proposed Amendments – Resources in Form 51-101F1 Statement

- If contingent or prospective resources are optionally disclosed in Form 51-101F1 or AIF:
 - Evaluated or audited by an independent reserves evaluator or auditor
 - Low, best and high estimates must be provided
 - Disclose Net Present Value (NPV) discounted at 0, 5, 10, 15 and 20%
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Public Comments on Proposed Amendments to NI 51-101

Comments on Proposed Amendments to NI 51-101

- 13 comment letters

Commenters include:

- 6 large reporting issuers
 - 3 independent qualified reserves evaluators
 - 1 law firm
 - 1 individual
 - 1 professional body
 - 1 oil sands issuer
 - No comments from small or medium reporting issuers
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Comments on Proposed Amendments to NI 51-101

- General agreement with disclosure under alternative resources disclosure system
 - General agreement with proposed amendments to product types / production groups (some issuers thought fewer product types would be preferable).
 - Most indicated concern on required disclosure of Net Present Values (NPV's) for resources as proposed in the amendments
 - General agreement with oil and gas metrics
 - Comments on refinements to definitions of abandonment and reclamation costs (issues with current practice)
 - Assorted comments about NI 51-101
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Comments on Requiring NPV's for Resources Disclosure

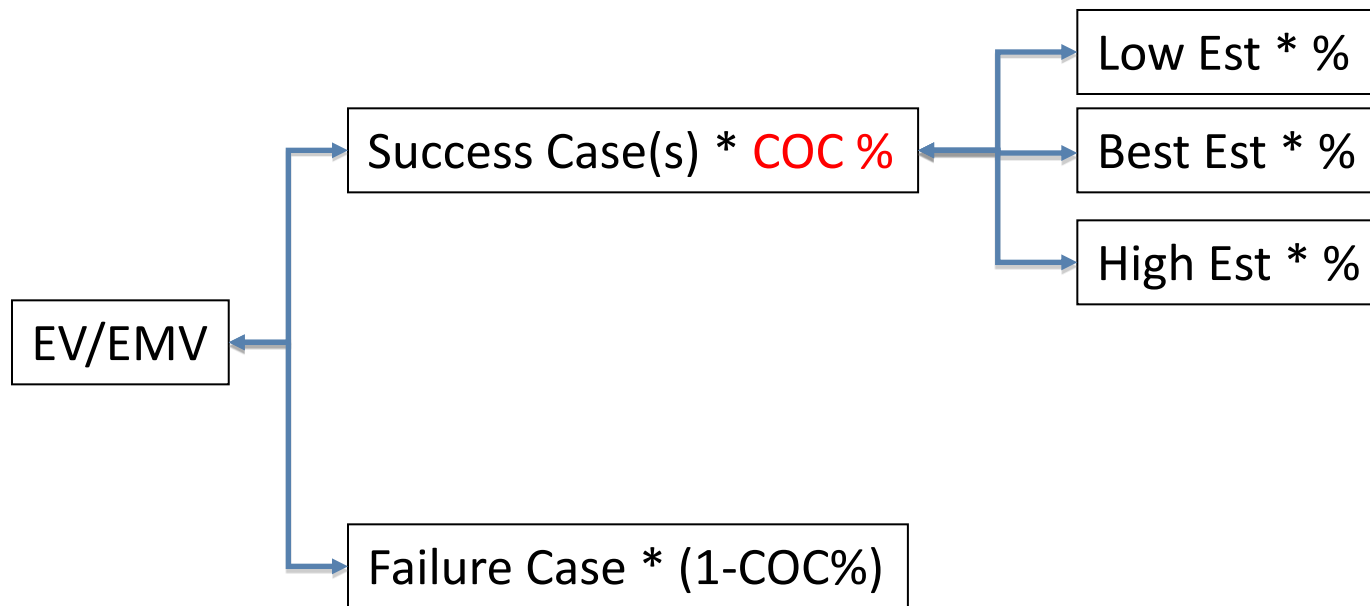
- Concerns expressed
 - Too much uncertainty in the possible outcome
 - Not enough guidance in ROTR Guidelines to overcome uncertainty
 - Potentially misleading to disclose a value for something so uncertain
 - Proposed refined approach from the commenters:
 - Highlight requirements from ROTR (most specific sub-class)
 - Require disclosure of quantified risk and discussion of methods
 - Expected Monetary Value (EMV) in place of NPV
 - Appendix to Form 51-101F1
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Reasons for Requiring NPV's for Resources Disclosure

- Disclosure of a volume without some expression of the economic viability of recovering those values can be misleading
 - The disclosure of contingent resources and prospective resources is optional, information which may be misleading because of their uncertain nature should not be reported
 - Smaller issuers may not have reserves in unconventional plays yet but need a way to convey potential to investors
 - The additional disclosure should clarify that:
 - The volumes represented are not reserves
 - The monetary value is not a projection of revenue but is a tool for an investor to determine if it makes sense to proceed on a particular disclosed volume of oil or gas
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Risking Volume (EV) and Value (EMV)

Chance of Commerciality = Chance of Discovery * Chance of Development
(COC)



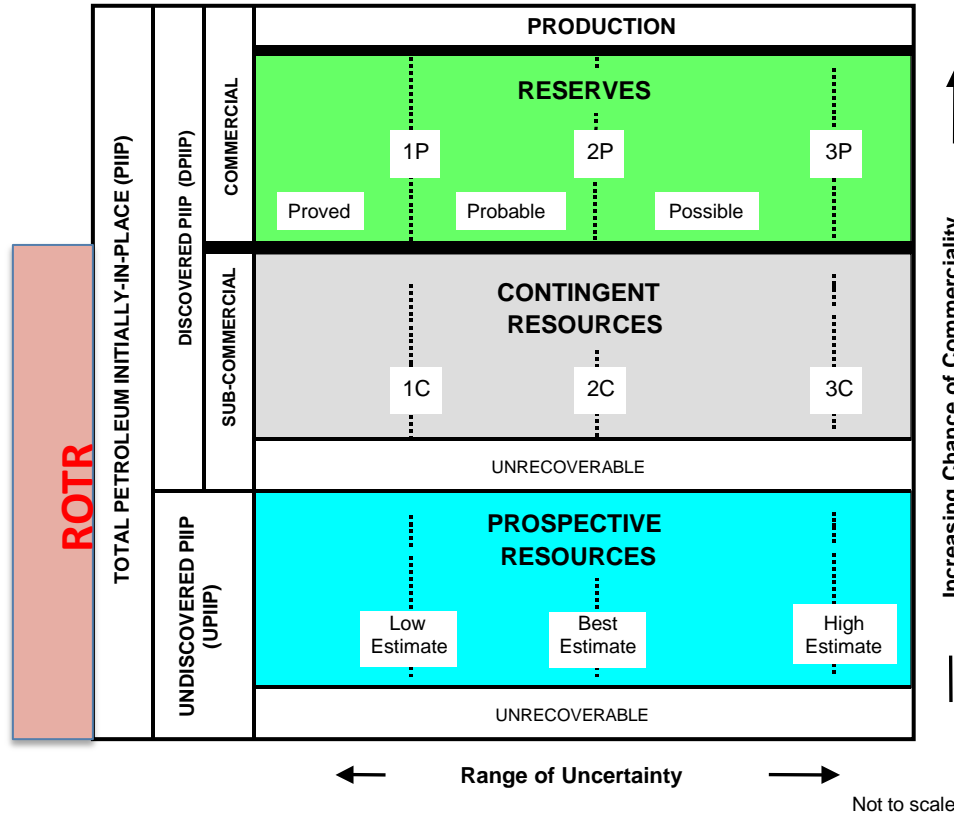
Use of Expected Monetary Value (EMV) in Annual Resources Disclosure

- Expected Value can be used to quantify risked volume and value
 - EMV is only one form of Risked NPV
 - Section 5.8.1 of COGEH Vol. 2
 - An expected monetary value (EMV) methodology will assist the evaluator in reaching an opinion on the merit and likelihood of the company proceeding with the required investment.
 - *“EMV is not a projection of revenue but it is a tool for investors to determine if it makes sense to proceed with a project to develop the potential sales volumes.” (ROTR Guidelines)*
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- Align NI 51-101 with the amended Canadian Oil and Gas Evaluation(COGE) Handbook, including:
 - Bitumen Guidelines (April 1, 2014)
 - ROTR Guidelines (July 17, 2014)
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- Section 5.3 of NI 51-101 requires that
 - Any disclosure of reserves or of ROTR must apply the applicable categories and terminology set out in COGE Handbook.
 - Disclosure of reserves or ROTR must relate to the most specific category of reserves or ROTR.
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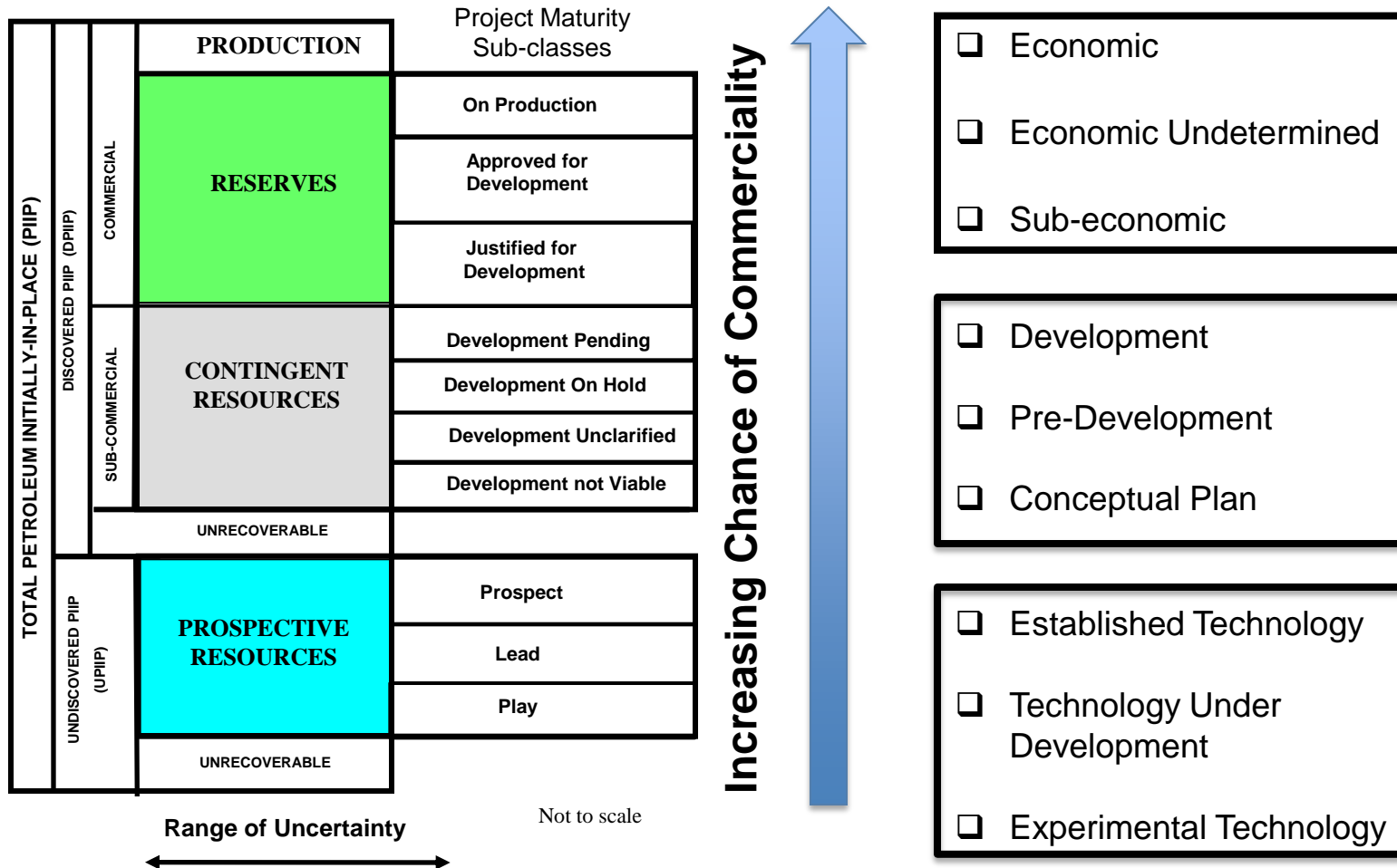
Classification and Categorization of Resources



classify by
Chance of Commerciality
(1- Risk)
of project applied

categorize estimates based on uncertainty
of sales quantities associated with a project

Sub-classify as Specific as Possible



Technology Status (ROTR Guidelines)

Increasing Chance of Commerciality

Established Technology: Methods that have been proven to be successful in commercial applications. There is little risk of failure; **this is a prerequisite for assigning Reserves.**

Technology Under Development: A recovery process or process improvement project that has been determined to be technically viable via field test and is being field tested further to determine its economic viability in the subject reservoir.

Experimental Technology: A technology that is being field tested to determine the technical viability of applying a recovery process or process improvement project to Unrecoverable Discovered Petroleum Initially in Place in a subject reservoir. It is a test of technical, not of commercial, viability.

Level of Project Scenarios

Increasing Chance of Commerciality



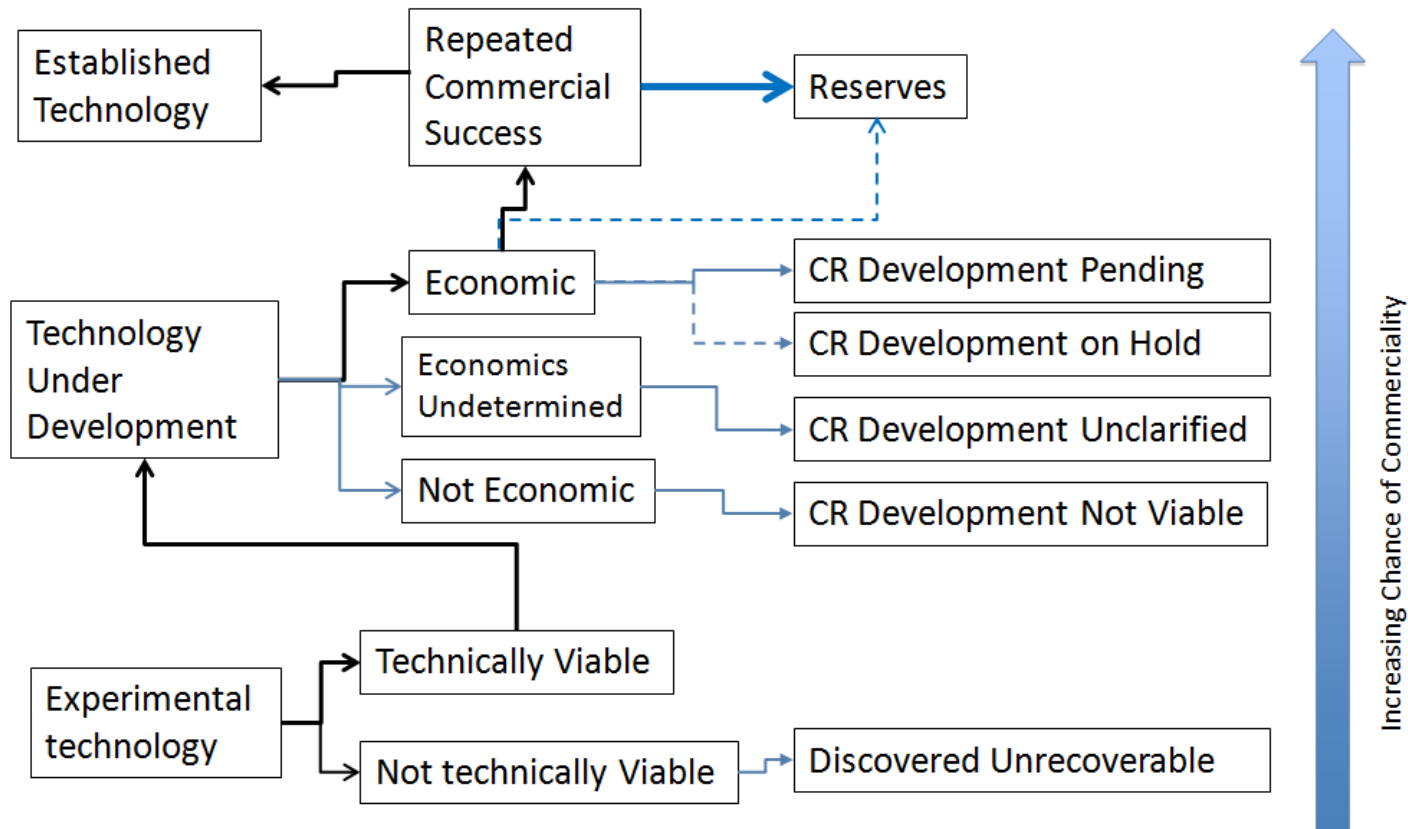
Development: when the project parameters are defined at the level of detail for decision on full scale development.

Pre-Development: when there is an increased amount of detail, often sufficient to make decisions on continued activity, but not on a final full scale development.

Conceptual: typically in the early stages of evaluation, when the project is defined only in outline, with limited development of evaluation parameters (specific well locations, costs, timing, etc.)

Where no development activity can be defined based on existing technology or technology currently under development, all quantities associated with that deposit (or part thereof) are classified as **Unrecoverable**.

Technology Status (ROTR Guidelines)



CR Contingent resources

Timeline for Proposed Amendments

- NI 51-101 requires reporting issuers to immediately follow the latest requirements of the COGE Handbook.
 - Notice to Final Amendments - target publication date late 2014
 - Subject to receipt of necessary approvals, we will not require compliance with the Final Amendments until July 1, 2015 (the Implementation Date).
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