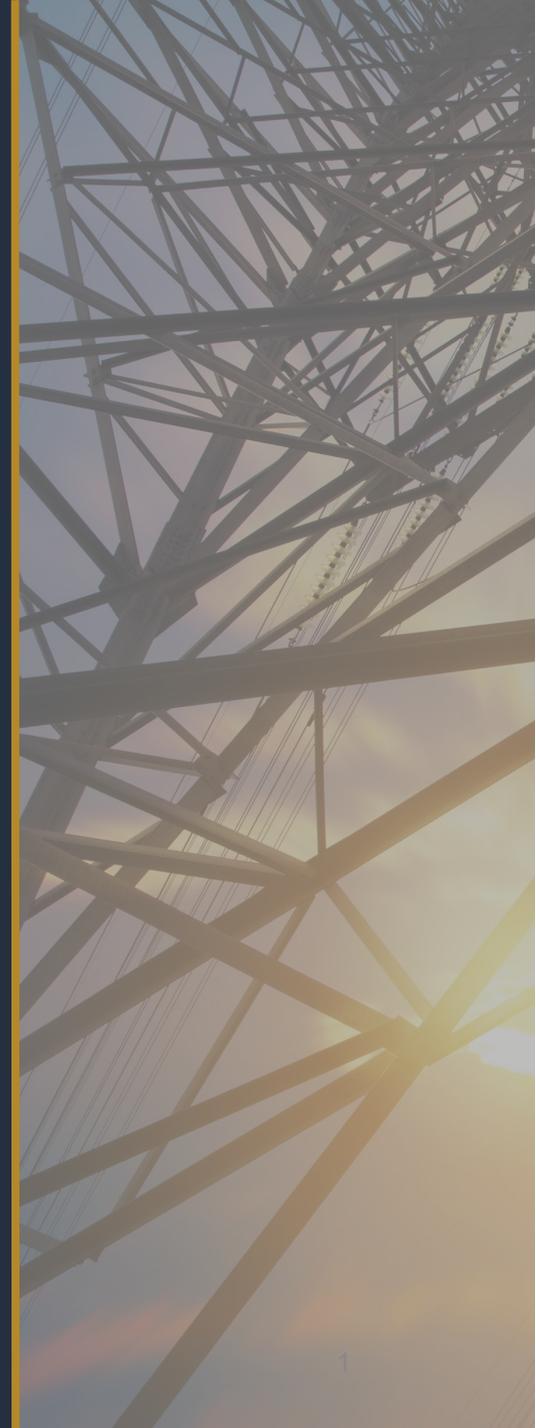


Beginner's Guide to
National Instrument 51-101
*Standards of Disclosure For Oil
and Gas Activities*

Alberta Securities Commission

June 22, 2022



Agenda

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Purpose

To introduce the fundamentals of National Instrument 51-101 *Standards of Disclosure For Oil and Gas Activities* to those with little to no familiarity.

Target audience

- Engineers, geoscientists and other technical professionals involved in oil and gas evaluations and disclosure
- Accountants and others involved with preparation of financial statements and financial disclosure
- Legal professionals

Introduction

- The Alberta Securities Commission:
 - Administers Alberta's securities laws
 - Entrusted to:
 - foster a fair and efficient capital market
 - protect investors
 - Is a member of the Canadian Securities Administrators (CSA)
 - Improves, coordinates and harmonizes regulation
 - Is the CSA's lead oil and gas (O&G) regulator

Introduction

- The Energy Group:
 - Conducts reviews to ensure compliance with securities legislation
 - assesses reporting issuer (RI) disclosure and support materials
 - Develops and maintains:
 - securities legislation
 - related guidance
 - Communicates with Alberta capital market participants

Introduction

- Focus includes:
 - O&G
 - exploration and production
 - midstream (includes pipelines)
 - services
 - helium
 - lithium from oilfield brines
 - carbon capture, utilization and storage
 - hydrogen
 - greenhouse gas emissions
 - renewable energy
 - green hydrocarbons
 - electrical generation, transmission and storage
 - environmental liabilities

Introduction

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Introduction

- National Instrument 51-101 *Standards of Disclosure For Oil and Gas Activities* (NI 51-101)
 - The securities regulatory standard for Canadian oil and gas disclosure.
 - Addresses:
 - general disclosure standards (applies to all disclosure)
 - specific annual disclosure requirements
 - Supplements requirements that apply to all RIs.

Introduction

- Technical standard: Canadian Oil and Gas Evaluation Handbook (COGE Handbook)
 - Maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter)
 - To purchase: speecanada.org
- Addresses the filing of a related statement and forms with the securities regulatory authority (SRA) on SEDAR¹.

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

Introduction

- Related guidance includes:
 - Companion Policy 51-101CP *Standards of Disclosure For Oil and Gas Activities*
 - Represents the CSA's interpretation and application of NI 51-101 and its related statement and forms.
 - CSA Staff Notices, including:
 - 51-324 *Revised Glossary to NI 51-101* (SN 51-324)
 - Supplements section 1.1 of NI 51-101
 - 51-327 *Guidance on Oil and Gas Disclosure*

Applicability of NI 51-101

Applicability of NI 51-101

Introduction

- NI 51-101 applies to:
 - RIs engaged in O&G activities (O&GA)²
 - directly, or
 - indirectly
 - Information material to an RI³

²Per section 1.3 of NI 51-101.

³Per section 1.4 of NI 51-101.

Applicability of NI 51-101

Material

- Definition
 - For the purposes of *NI 51-101*, information is *material*, in respect of a *reporting issuer* if it would be likely to influence a decision by a reasonable investor to buy, hold or sell a security of the *reporting issuer*.
 - This meaning differs from the definitions of "material change" and "material fact" in *securities legislation*.⁴

⁴Per SN 51-324.

Applicability of NI 51-101

Oil and gas activities

- Definition

- [I]ncludes 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*;

Underlined terms are defined elsewhere in this presentation.

Applicability of NI 51-101

Oil and gas activities

- but does not include any of the following:
 - e) any activity that occurs after the first point of sale;
 - f) any activity relating to the extraction of a substance other than a product type and their by-products;
 - g) extracting *hydrocarbons* as a consequence of the extraction of geothermal steam;⁵

⁵Per section 1.1 of NI 51-101.

Applicability of NI 51-101

Product type

- Definition

- [M]eans any of the following:

- 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;⁶

⁶Per section 1.1 of NI 51-101.

Applicability of NI 51-101

By-product

- Definition
 - [M]eans a substance that is recovered as a consequence of producing a product type;⁷

⁷Per section 1.1 of NI 51-101.

Applicability of NI 51-101 Property

- Definition
 - 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).

Applicability of NI 51-101 Property

- A *property* does not include supply agreements, or contracts that represent a right to purchase, rather than extract, *oil* or *gas*.⁸

⁸Per SN 51-324.

Applicability of NI 51-101

First point of sale

- Definition
 - [M]eans the first point after initial *production* at which there is a transfer of ownership of a product type;⁹

⁹Per section 1.1 of NI 51-101.

Applicability of NI 51-101

Some considerations

- Per section 1.3 of 51-101CP:
 - The definition of O&GA is broad.
 - An RI may be engaged in O&GA if it only has:
 - resources other than reserves (ROTR), such as contingent resources or prospective resources, or
 - unproved properties
 - NI 51-101 applies to issuers that aren't yet RIs if a prospectus or other document incorporating prospectus requirements is filed with the SRA.

Applicability of NI 51-101

Securities regulatory authority

- Definition
 - The securities commission or comparable body specified, for each *jurisdiction*, in *NI 14-101*.
 - References in *NI 51-101* to the *securities regulatory authority* are to be read as references to the *securities regulatory authority* in the particular jurisdiction.¹⁰

¹⁰Per SN 51-324.

Select NI 51-101 requirements

Select NI 51-101 requirements

Introduction

- Again, NI 51-101 addresses:
 - general disclosure standards (applies to all disclosure)
 - specific annual disclosure requirements
- Both are addressed in this section.

Select NI 51-101 requirements

General standards

- Part 5 of NI 51-101 addresses requirements that apply to all disclosure made by or on behalf of an RI that occurs:
 - publicly
 - in any document filed with the SRA
 - in other circumstances in which the RI knows, or ought reasonably to know, that it is or will become publicly available¹¹

¹¹Per section 5.1 of NI 51-101.

Select NI 51-101 requirements

General standards

- Applies to:
 - the annual filings per Part 2 of NI 51-101
 - other continuous disclosure filed with the SRA
 - disclosure documents, whether or not filed with the SRA
 - disclosure made in connection with a securities distribution
 - public speeches and presentations, except in respect of provisions of Part 5 that apply only to written disclosure
 - includes any writing, map, plot or other printed representation produced, stored or disseminated on paper or electronically

Select NI 51-101 requirements

General standards: Qualified reserves evaluators and auditors

- Oversight is fundamental to NI 51-101 disclosure.
- Disclosed estimates of reserves, ROTR, future net revenue (FNR) and other estimated values attributed to estimated quantities, must be prepared or audited by a qualified reserves evaluator (QRE) or qualified reserves auditor (QRA).¹²
 - QRAs audit the work of QREs.
 - All QRAs are also QREs.
 - Some QREs are also QRAs.

¹²Per section 1.1 of NI 51-101.

Select NI 51-101 requirements

General standards: Qualified reserves evaluator

- Definition
 - [M]eans an individual who:
 - a) in respect of particular reserves data, resources or related information, possesses professional qualifications and experience appropriate for the estimation, evaluation and *review* of the reserves data, resources and related information; and
 - b) is a member in good standing of a professional organization;¹³

¹³Per section 1.1 of NI 51-101.

Select NI 51-101 requirements

General standards: Qualified reserves auditor

- Definition
 - [M]eans an individual who:
 - a) in respect of particular reserves data, resources or related information, possesses professional qualifications and experience appropriate for the estimation, evaluation, review and audit of the reserves data, resources and related information; and
 - b) is a member in good standing of a professional organization;¹⁴

¹⁴Per section 1.1 of NI 51-101.

Select NI 51-101 requirements

General standards: Professional organization

- Definition

- [M]eans a self-regulatory organization of engineers, geologists, other geoscientists or other professionals whose professional practice includes *reserves evaluations or reserves audits*, that:
 - a) admits members primarily on the basis of their educational qualifications;
 - b) requires its members to comply with the professional standards of competence and ethics prescribed by the organization that are relevant to the estimation, evaluation, review or audit of reserves data;

Select NI 51-101 requirements

General standards: Professional organization

- c) has disciplinary powers, including the power to suspend or expel a member; and
- d) is either:
 - i. given authority or recognition by statute in a *jurisdiction of Canada*; or
 - ii. accepted for this purpose by the *securities regulatory authority* or the *regulator*;¹⁵

¹⁵Per section 1.1 of NI 51-101.

Select NI 51-101 requirements

General standards: Reserves data

- Definition
 - [M]eans an estimate of *proved reserves* and *probable reserves* and related *future net revenue*, estimated using *forecast prices and costs*;¹⁶

¹⁶Per section 1.1 of NI 51-101.

Select NI 51-101 requirements

General standards: Reserves data

- Categories per NI 51-101 are:
 - proved developed producing reserves;
 - proved developed non-producing reserves;
 - proved undeveloped reserves;
 - proved reserves (in total) (1P);
 - probable reserves (in total);
 - proved plus probable reserves (in total) (2P);
 - possible reserves (in total); and
 - proved plus probable plus possible reserves (in total) (3P).

Select NI 51-101 requirements

General standards: Resources

- Definition
 - *Petroleum* quantities that originally existed on or within the earth's crust in naturally occurring *accumulations*, including discovered and undiscovered (recoverable and *unrecoverable*) plus quantities already produced.¹⁷

¹⁷Per SN 51-324.

Select NI 51-101 requirements

General standards: Resources

- Categories relevant to NI 51-101 include:
 - all reserves categories
 - contingent resources
 - low estimate (1C)
 - best estimate (2C)
 - high estimate (3C)
 - prospective resources
 - low estimate (1U)
 - best estimate (2U)
 - high estimate (3U)
 - discovered petroleum initially-in-place
 - undiscovered petroleum initially-in-place
 - total petroleum initially-in-place

Select NI 51-101 requirements

General standards: Future net revenue

- Definition

- [M]eans 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*;¹⁸

¹⁸Per section 1.1 of NI 51-101.

Select NI 51-101 requirements

General standards: Evaluation

- Definition
 - [T]he process whereby an economic analysis is made of a property to arrive at an estimate of a range of net present values of the estimated future net revenue resulting from the production of the reserves or resources other than reserves associated with the property.¹⁹

¹⁹Per SN 51-324.

Select NI 51-101 requirements

General standards: Audit

- Definition

- [T]he process whereby an independent qualified reserves auditor carries out procedures designed to allow the independent qualified reserves auditor to provide reasonable assurance, in the form of an opinion that the reporting issuer's reserves data (or specific parts thereof) have, in all material respects, been determined and presented in accordance with the *COGE Handbook* and are, therefore, free of material misstatement.²⁰

²⁰Per SN 51-324.

Select NI 51-101 requirements

General standards: Independent

- Definition

- [I]n respect of the relationship between a *reporting issuer* and a person or company, means the relationship between the *reporting issuer* and that person or company in which there is no circumstance that could, in the opinion of a reasonable person aware of all relevant facts, interfere with that person's or company's exercise of judgement regarding the preparation of information which is used by the *reporting issuer*;²¹

²¹Per section 1.1 of NI 51-101.

Select NI 51-101 requirements

General standards: COGE Handbook

- All disclosure must be prepared or audited in its accordance.
 - Specific NI 51-101 references include:
 - Per section 5.2, estimates of reserves or FNR must be prepared or audited in accordance with the COGE Handbook.
 - Per section 5.3, reserves and ROTR must be disclosed using the applicable terminology and category and classified in the most specific category of reserves or ROTR per the COGE Handbook.

Select NI 51-101 requirements

General standards: COGE Handbook

- Per section 5.9(2), if an RI discloses anticipated results from ROTR that includes a quantity in which the RI has an interest or intends to acquire an interest, or an estimated value attributable to an estimated quantity, the estimate must be prepared or audited in accordance with the COGE Handbook.
- The statement and two of the forms per section 2.1 of NI 51-101 require compliance with the COGE Handbook.

Select NI 51-101 requirements

Annual filing requirements

- Discussed in section 2.1 of NI 51-101.
 - An RI must annually file a statement and related forms on SEDAR.²²
 - Specified information isn't required to be disclosed in the statement if inapplicable or not material; the statement and forms must still be filed.
 - Appendix 1 to 51-101CP provides disclosure presentation examples.

²²To be filed no later than the date it's to file audited financial statements for its most recent financial year.

Select NI 51-101 requirements

Annual filing requirements: Statement and forms

- Per section 2.1, an RI must file:
 - Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information (F1)*
 - Addresses such disclosure as:
 - reserves data
 - contingent resources data²³
 - prospective resources data²³
 - other specified information

²³Optional, per part 7 of the F1.

Select NI 51-101 requirements

Annual filing requirements: Statement and forms

- Form 51-101F2 *Report on [Reserves Data][,] [Contingent Resources Data] [and] [Prospective Resources Data] by Independent Qualified Reserves Evaluator or Auditor (F2)*
 - Executed by one or more independent QREs or QRAs
 - Section 3.2 of NI 51-101 requires an RI to:
 - Appoint one or more independent QREs or QRAs; and
 - Direct each to report to the board of directors on the reserves data disclosed in the F1
 - Execution affirms COGE Handbook compliance

Select NI 51-101 requirements

Annual filing requirements: Statement and forms

- Form 51-101F3 *Report of Management and Directors on Oil and Gas Disclosure (F3)*
 - Executed by:
 - Two officers, one of whom is the chief executive officer, and
 - On behalf of the board of directors, by any two other directors
 - Execution confirms approval of:
 - Content and filing of the F1
 - Filing of the F2
 - Content and filing of the F3

Select NI 51-101 requirements

Annual filing requirements: Statement and forms

- Form 51-101F4 *Notice of Filing of 51-101F1 Information* (F4)
 - If an RI satisfies section 2.1 by including the specified information in its annual information form, it must file a notice in accordance with the F4.

Questions?

Thank You

