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PERSPECTIVES ON DISCLOSURE POST 2018 COGE HANDBOOK UPDATES

2019 SPEE ANNUAL MEETING

AGENDA

1. INTRODUCTION
2. OIL AND GAS REGULATORY FRAMEWORK
3. RECENT COGE HANDBOOK CHANGES
4. DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES
 - a. INTRODUCTION
 - b. ABANDONMENT, DECOMMISSIONING AND RECLAMATION COSTS
 - c. DEVELOPMENT TIMING FOR RESERVES
 - d. RESERVES RECONCILIATIONS
5. Q&A

INTRODUCTION

- The Alberta Securities Commission (**ASC**) administers Alberta's securities laws
 - Entrusted to
 - Foster a fair and efficient capital market
 - Protect investors
- Member of the Canadian Securities Administrators (**CSA**)
 - Improves, coordinates and harmonizes regulation
- CSA's lead oil and gas (**O&G**) regulator

INTRODUCTION

- Petroleum's goal is effective and compliant O&G disclosure; we
 - Conduct reviews
 - Primarily reporting issuers (**RI**s) principally regulated by the ASC
 - Incorporate disclosure and evaluations
 - Assess compliance with securities requirements
 - Develop and maintain
 - Securities legislation
 - Technical guidance
 - Communicate effectively with our capital market

INTRODUCTION

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OIL AND GAS REGULATORY FRAMEWORK

- National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (**NI 51-101**)
 - Applies to RIs engaged in O&G activities (**O&GA**)
 - Technical standard is the Canadian Oil and Gas Evaluation Handbook (**COGE Handbook**)
 - Society of Petroleum Evaluation Engineers (Calgary Chapter)
 - Five related forms for filing on SEDAR^{1,2}, including 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information* (**Form 51-101F1**)

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

²See section 2.1 of NI 51-101

OIL AND GAS REGULATORY FRAMEWORK

- Other
 - Companion Policy 51-101CP *Standards of...* (**51-101CP**)
 - CSA's interpretation and application of NI 51-101 and related forms
 - Staff notices
 - Corporate Finance publications³
 - Oil and Gas Review Report
 - Corporate Finance Disclosure Report
 - Office of the Chief Accountant financial reporting bulletins³

³Available at www.albertasecurities.com

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RECENT COGE HANDBOOK CHANGES

- September 2018 – major
 - Abandonment, decommissioning and reclamation costs
 - Development timing for reserves
 - Reconciliations
 - Operating costs
 - Type wells

RECENT COGE HANDBOOK CHANGES

- October – minor
 - Abandonment, decommissioning and reclamation costs
 - Acquisitions in reconciliations
- December – minor
 - Acquisitions and dispositions in reconciliations
 - Re-categorization of reserves in reconciliations

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DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES INTRODUCTION

- Per NI 51-101, COGE Handbook changes are effective on publication; compliance assessed through reviews, including
 - Screening
 - Annual filings
 - Annual Filing
 - Elevated screening reviews
 - Continuous Disclosure
 - News Release
 - Technical

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES ABANDONMENT, DECOMMISSIONING AND RECL. COSTS

- Notable changes
 - Abandonment, decommissioning and reclamation costs (**ADRC**) added and defined
 - Abandonment and reclamation costs removed from usage
 - Inconsistent and confusing guidance consolidated and clarified

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES ABANDONMENT, DECOMMISSIONING AND RECL. COSTS

- Per section 3.6.4 of the COGE Handbook

ADR costs represent the end of life costs associated with restoring to a standard imposed by applicable government or regulatory authorities, an asset where petroleum exploration, development, production and processing operations have been conducted.[...]

Each report must clearly describe the ADR costs:

- included in the evaluation; and
- those excluded from the evaluation.[...]

Best practice would include all costs required to restore existing development from the well's bottom hole to custody transfer point, to a standard imposed by applicable government or regulatory authorities and include the ADR costs for both active and inactive development [...] [Emphasis added]

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES ABANDONMENT, DECOMMISSIONING AND RECL. COSTS

- Considerations
 - ADRC
 - All costs to restore to a standard imposed by applicable government or regulatory authorities
 - Incurred where exploration, development, production and processing conducted; from a well's bottom hole to custody transfer point
 - Presumably consider wells, land, pipelines, facilities, etc.
 - Cost treatment must be specified in an evaluation

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES ABANDONMENT, DECOMMISSIONING AND RECL. COSTS

- ADRC similar to NI 51-101's abandonment and reclamation costs (**ARC**)
 - ARC
 - All costs to restore a property to a standard imposed by applicable government or regulatory authorities
 - Attributed to properties disturbed by O&GA to first point of sale
 - Consider wells, land, pipelines, facilities, etc.
- Per section 1.1 of NI 51-101, future net revenue (**FNR**) is net of ARC

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES ABANDONMENT, DECOMMISSIONING AND RECL. COSTS

- Per Form 51-101F1
 - Item 2.1 mandates ARC and FNR disclosure
 - For developed and undeveloped reserves
 - By country and in aggregate
 - Item 5.2 requires disclosure of significant factors or uncertainties that affect particular components of reserves data; includes ARC
 - Item 6.2.1 requires disclosure of significant factors or uncertainties relevant to properties with no attributed reserves; includes ARC

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES ABANDONMENT, DECOMMISSIONING AND RECL. COSTS

- Observations

- In the statement per Form 51-101F1, many RIs comment that
 - All costs from wells, pipelines and facilities associated with all reserves are accounted for in disclosed ARC and FNR
 - Costs associated with wells, pipelines and facilities not associated with reserves aren't accounted for
- Many RIs optionally disclose additional liabilities in the statement
- Disclosure per items 5.2 and 6.2.1 is typically absent or boilerplate

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES DEVELOPMENT TIMING FOR RESERVES

- Notable changes
 - Undeveloped reserves development should start within 5 years; formerly
 - 3 years for proved
 - 5 years for probable
 - No changes for large, capital-intensive projects with undeveloped reserves; significant expenditures should start within
 - 3 years for proved
 - 5 years for probable
 - Can exceed timing with appropriate justification and explanation

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES DEVELOPMENT TIMING FOR RESERVES

- Per section 1.4.7.2.1.8 of the COGE Handbook

For Undeveloped Reserves, development should normally proceed within five years unless there is appropriate justification with adequate explanation. The evaluator should review Undeveloped Reserves estimates if development has not proceeded as the operator had previously planned.[...]

For large projects, where significant capital is required for field development or infrastructure construction, significant capital expenditures should commence within three years for assignment of Proved Undeveloped Reserves. For the assignment of Probable Undeveloped Reserves, significant capital spending should commence within five years.[...] [Emphasis added]

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES DEVELOPMENT TIMING FOR RESERVES

- Situations that may justify longer timing include
 - Ongoing resource play development
 - Gas processing facilities
 - In situ projects
 - Bitumen mining projects
 - Offshore projects

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES DEVELOPMENT TIMING FOR RESERVES

- Considerations
 - Absent compelling rationale, align timing with the COGE Handbook
 - If relied on, justify and explain in the evaluation
 - Per items 5.1(1)(b) and 5.1(2)(b) of Form 51-101F1

[D]iscuss generally the basis on which the *reporting issuer* attributes *proved undeveloped reserves* (and *probable undeveloped reserves*), its plans (including timing) for developing the *proved undeveloped reserves* (and *probable undeveloped reserves*) and, if applicable, its reasons for deferring the development of particular *proved undeveloped reserves* (and *probable undeveloped reserves*) beyond two years. [Emphasis added]

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES DEVELOPMENT TIMING FOR RESERVES

- Per instruction (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. [Emphasis added]*

- Ensure the discussion is
 - Meaningful
 - RI-specific
- Consider disclosing justification and explanation under item 5.1

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES DEVELOPMENT TIMING FOR RESERVES

- Observations
 - Timing
 - Generally > 5 years
 - Typically > 3/5 years for large, capital-intensive projects
 - Usually justified and explained in evaluations
 - Presumed reliance on section 1.4.7.2.1.8
 - Disclosure per item 5.1 typically isn't meaningful nor RI-specific
 - Justification and explanation often absent

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES RESERVES RECONCILIATIONS

- Notable changes
 - Acquisitions change category (sections 4.6.2.2 and 4.6.2.2.1)
 - Clarified that ownership changes at acquisition closing date, when
 - PSA conditions met
 - Funds and interests transferred
 - Record acquired reserves at evaluation effective date
 - Formerly acquisition closing date; conflicted with 51-101CP

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES RESERVES RECONCILIATIONS

- Add production that occurred between
 - Acquisition closing date (purchase and sale agreement (**PSA**) closing date) and
 - Evaluation effective date
- Acquisitions shouldn't reflect
 - Technical revisions
 - Economic changes

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES RESERVES RECONCILIATIONS

- Record reserves from activity occurring after acquisition closing date and before evaluation effective date using change categories
 - Discovery
 - Extension
 - Infill
 - Improved recovery

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES RESERVES RECONCILIATIONS

- Dispositions change category (sections 4.6.2.2 and 4.6.2.2.1)
 - Clarified that ownership changes at disposition closing date, when
 - PSA conditions met
 - Funds and interests transferred
 - Unchanged
 - Record disposed reserves at disposition closing date
 - Subtract production between reporting period start and disposition closing date; enter in change category “production”

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES RESERVES RECONCILIATIONS

- Item 4.1 of Form 51-101F1 requires a comparison between reserves data at the effective date of the most recent financial year, with those at the last day of the preceding year
 - Disclose by
 - Category
 - Gross proved reserves (in total)
 - Gross probable reserves (in total)
 - Gross proved plus probable reserves (in total)

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES RESERVES RECONCILIATIONS

- Country
- Product type per item 4.1(2)(b)
- Reserve change category per item 4.1(2)(c)⁴, with explanation
 - (i) extensions and improved recovery
 - (ii) technical revisions
 - (iii) discoveries
 - (iv) acquisitions
 - (v) dispositions
 - (vi) economic factors
 - (vii) production

⁴Include reserves from infill drilling in extensions and improved recovery or additional category labelled “infill drilling”

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES RESERVES RECONCILIATIONS

- Preparation is mainly discussed in the COGE Handbook
 - Per section 2.7(6)(c) of 51-101CP, regarding acquisitions

[T]he *reserves* estimate to be used in the reconciliation is the estimate of *reserves* at the effective date, not at the acquisition date, plus any *production* since the acquisition date. This *production* must be included as *production* in the reconciliation. If there has been a change in the *reserves* estimate between the acquisition date and the *effective date* other than that due to *production*, the *reporting issuer* should explain this as part of the reconciliation in a footnote[...]. [Emphasis added]

- Effective date: last day of the RI's most recent financial year
- Acquisition date (closing date): when the RI attained a direct or indirect ownership, working or royalty interest in the reserves

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES RESERVES RECONCILIATIONS

- Considerations
 - Reserves aren't acquired or disposed until ownership changes
 - Reconciliations per Form 51-101F1 compare reserves data at the effective date of the most recent and preceding financial years
 - Regarding acquisitions, COGE Handbook is now aligned with 51-101CP
 - Record acquired reserves at evaluation effective date
 - Changes post acquisition effective date and before evaluation effective date shouldn't be recorded as technical revisions or economic factors

DISCLOSURE FOLLOWING COGE HANDBOOK CHANGES RESERVES RECONCILIATIONS

- Observations
 - Abated confusion concerning date for recording acquired reserves
 - Effective date of year end versus effective date of acquisition
 - Better understanding of reserves ownership and reconciliations
 - Poor or absent explanations for disclosure in reserve change categories

Q & A

- Please ask questions now
- You can also contact us at your convenience

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