

1.1.2 CSA Staff Notice 51-321 - Questions and Answers Concerning Resources and Possible Reserves - NI 51-101 Standards of Disclosure for Oil and Gas Activities

CANADIAN SECURITIES ADMINISTRATORS' STAFF NOTICE 51-321

QUESTIONS AND ANSWERS CONCERNING RESOURCES AND POSSIBLE RESERVES

NATIONAL INSTRUMENT 51-101 STANDARDS OF DISCLOSURE FOR OIL AND GAS ACTIVITIES

Background

National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (NI 51-101 or the Rule) requires reporting issuers with material oil and gas activities to disclose certain information specified in the Rule and the related Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information* (Form 51-101F1 or the Annual Filing).

These requirements generally set out minimum disclosure requirements. Additional disclosure (whether contained in the Annual Filing or disclosed by other means) is often helpful, and may be necessary to give investors a reasonable understanding of the issuer's oil and gas activities. In all cases, such disclosure must be consistent with the principles and any applicable specific requirements or restrictions under NI 51-101. Disclosure must never mislead.

The Questions and Answers (Q&As) below provide guidance to issuers that are subject to NI 51-101 on recurring issues that can arise in connection with such additional "voluntary" disclosure.

- Q1. What methods can be used to make public disclosure of estimates of possible reserves and what methods can be used to make public disclosure of estimates of resources that are not currently classified as reserves?
- Q2. Can possible reserves be disclosed?
- Q3. Is any disclosure of resources required other than of proved and probable reserves?
- Q4. What disclosure obligations does a reporting issuer have under NI 51-101 when making disclosure of resources beyond the requirements of Part 6 of Form 51-101F1?
- Q5. Can an estimate of undiscovered resources be disclosed?
- Q6. Can an estimate of discovered resources be disclosed?
- Q7. Can an estimate of prospective resources be disclosed?
- Q8. Can an estimate of contingent resources be disclosed?
- Q9. When can a reporting issuer report reserves or resources of oil or gas as in-place volumes?
- Q10. Can a reporting issuer provide information about an area outside the area in which the reporting issuer holds oil and gas rights?
- Q1. What methods can be used to make public disclosure of estimates of possible reserves and what methods can be used to make public disclosure of estimates of resources that are not currently classified as reserves?
- A. Regarding possible reserves, NI 51-101 does not prescribe any particular methods of estimation but it does require that any publicly disclosed reserve estimate be prepared in accordance with the Canadian Oil and Gas Evaluation Handbook (COGE Handbook). Guidance on making possible reserves estimates is given in the COGE Handbook.

Regarding resources that are not currently classified as reserves, the COGE Handbook recommends the use of probabilistic evaluation for making resource estimates and although it does not provide detailed guidance there is a considerable amount of technical literature on the subject. Disclosing the result of a probabilistic estimate may be in the form of a statistical measure that may be difficult to understand or misleading, unless accompanied by additional explanation.

- Q2. Can possible reserves be disclosed?
- A. Possible reserves may be disclosed but the estimate must comply with the requirements of NI 51-101. For example, the estimate must be prepared or audited by a qualified reserves evaluator or auditor and in accordance with the

COGE Handbook, as set out in section 4.2 of NI 51-101, and must otherwise comply with the general disclosure requirements of Part 5, and the annual disclosure requirements of Form 51-101F1 as applicable.

Either alone or as part of the sum, a possible reserves estimate is often a relatively large number that, by definition, has a low probability of actually being produced and unless accompanied by additional explanatory disclosure, may be misleading. An example of the type of explanatory disclosure that may be provided is as follows:

“Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is only a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.”

Paragraph 2.2(1)(g) of Form 51-101F1 requires that if the reporting issuer discloses possible reserves, the possible reserves must be disclosed as a stand-alone number and also as part of the sum of proved plus probable plus possible reserves.

Q3. Is any disclosure of resources required other than of proved and probable reserves?

A. Under NI 51-101, a reporting issuer must make disclosure concerning its unproved properties and resource activities in Annual Filings as described in Part 6 of Form 51-101F1. Additional disclosure beyond this is voluntary but must comply with section 5.9 and 5.10 of NI 51-101 as applicable.

For prospectuses, the general securities disclosure obligation of “full, true and plain” disclosure of all material facts would require the disclosure of reserves or resources that are material to the issuer, even if the disclosure is not mandated by NI 51-101.

Q4. What disclosure obligations does a reporting issuer have under NI 51-101 when making disclosure of resources beyond the requirements of Part 6 of Form 51-101F1?

A. The disclosure of possible reserves is discussed in Q&A 1 and 2. If the issuer chooses to make additional disclosure on resources as volumes or values, it must be done in accordance with the requirements of NI 51-101, as described in sections 5.9 and 5.10 of NI 51-101.

Section 5.9 sets out the requirements for the disclosure of “anticipated results” from a prospect. Staff considers that this includes, but is not limited to reserves or resources volume or value estimates, anticipated pay thickness, flow rates, areal extent, etc. It should be noted that subsection 5.9(n) requires the explicit disclosure of risks and the probability of success. Disclosure of risks and probabilities should be made at a level appropriate to the program that is planned to access a resource. This may include, but is not limited to land acquisition, seismic survey, a single well, several wells, or a comprehensive program that may include all of these.

Section 5.10 applies if an issuer discloses a fair value of an unproved property, prospect, resource or any disclosure of a value of a resource that is made under NI 51-101.

Estimates of resources, other than reserves, do not need to be prepared by an independent evaluator or disclosed as part of the Annual Filing, but if they are disclosed, they must be prepared according to the classification standards of the COGE Handbook. Section 5.2.5 of volume 1 of the COGE Handbook entitled “Resource Categories” states that “Due to the high uncertainty in estimating resources, evaluations of these assets require some type of probabilistic method.” The issuer should also indicate the source and date of the evaluation in the disclosure.

Q5. Can an estimate of undiscovered resources be disclosed?

A. “Undiscovered resources” is a recognized category in the COGE Handbook and as such section 5.3 of NI 51-101 permits its disclosure. However, since the meaning of the term “undiscovered resources” may not be clear to an investor the issuer should provide the definition of “undiscovered resources” set out in the COGE Handbook:

“Undiscovered resources are those quantities of oil and gas estimated on a given date to be contained in accumulations yet to be discovered.”

In addition, the issuer should provide a statement to the effect that there is no certainty that any portion of the undiscovered resources will be discovered and that, if discovered, it may not be economically viable or technically feasible to produce.

Q6. Can an estimate of discovered resources be disclosed?

A. "Discovered resources" is a recognised category in the COGE Handbook and as such section 5.3 of NI 51-101 permits its disclosure. However, it should only be used if it is not possible to classify a volume into one of the four sub-categories of discovered resources, namely: cumulative production; reserves; contingent resources; or unrecoverable resources.

The meaning of the term "discovered resources" may not be clear to an investor. Accordingly, if the term is used the issuer should provide the definition of "discovered resources" set out in the COGE Handbook:

"Discovered resources are those quantities of oil and gas estimated on a given date to be remaining in, plus those quantities already produced from, known accumulations. Discovered resources are divided into economic and uneconomic categories, with the estimated future recoverable portion classified as reserves and contingent resources, respectively."

The issuer should also provide a clear explanation of why the reported discovered resources cannot be classified into one of the sub-categories of reserves, contingent resources, or unrecoverable resources at this time, and explain that there is no certainty that it will be economically viable or technically feasible to produce any portion of the reported discovered resources.

Q7. Can an estimate of prospective resources be disclosed?

A. "Prospective resources" is a recognised category in the COGE Handbook and as such section 5.3 of NI 51-101 permits its disclosure. Because the meaning of the term "prospective resources" may not be clear to an investor the issuer should provide the definition of "prospective resources" set out in the COGE Handbook:

"Prospective resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from undiscovered accumulations. If discovered, they would be technically and economically viable to recover."

In addition, the issuer should provide a statement to the effect that there is no certainty that the prospective resources will be discovered.

Q8. Can an estimate of contingent resources be disclosed?

A. "Contingent resources" is a recognised category in the COGE Handbook and as such section 5.3 of NI 51-101 permits its disclosure. The meaning of the term "contingent resources" may not be clear to an investor. Accordingly, if the term is used the issuer should provide the definition of "contingent resources" set out in the COGE Handbook:

"Contingent resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations but are not currently economic."

In addition, the issuer should describe the contingencies that prevent the classification of contingent resources as reserves, and explain what is required to remove these contingencies before the contingent resources can be classified as reserves.

Q9. When can a reporting issuer report reserves or resources of oil or gas as in-place volumes?

A. By definition, reserves of any type, contingent resources and prospective resources are estimates of volumes that are recoverable or potentially recoverable and, as such, cannot be described as being "in-place". Terms such as "potential reserves", "undiscovered reserves", "reserves in place", "in-place reserves" or similar terms must not be used because they are incorrect and misleading. The disclosure of reserves or resources must be consistent with the reserves and resources terminology and categories set out in the COGE Handbook, pursuant to section 5.3 of NI 51-101.

The issuer can report other categories, such as discovered and undiscovered resources as "in-place volumes", since they are in-place volumes.

Q10. Can a reporting issuer provide information about an area outside the area in which the reporting issuer holds oil and gas rights?

A. Issuers, especially in the early stages of operations in an area, may wish to include analogous information from another area to draw a comparison to their area of interest, such as reserves, resources and production from fields or wells in nearby, or geologically similar, areas. It is important that the information presented is factual and balanced. Particular

care must be taken in presenting this type of information; citing only the best wells or fields in an area, for instance, can be particularly misleading. Therefore, if the reporting issuer provides this type of information further explanation should be provided as follows:

1. indicate the source and date of the analogous information;
2. state whether the analogous information is the result of an independent estimate, or has been prepared by the issuer or a non-independent party;
3. describe clearly the quality of the analogous information and its relevance to the issuer's activities; and
4. if the reporting issuer is unable to confirm that the analogous information was prepared by a qualified reserves evaluator or auditor or in accordance with the COGE Handbook, provide cautionary language to that effect proximate to the disclosure of the analogous information.

If the issuer discloses an estimate of its own reserves or resources based on an extrapolation from the analogous information, or if the analogous information itself is an estimate of its own reserves or resources, the issuer must ensure the estimate complies with the requirements of Part 5 of NI 51-101. For example, in respect of a reserves estimate, the estimate must be classified and prepared in accordance with the COGE Handbook by a qualified reserves evaluator or auditor and must otherwise comply with the requirements of section 5.2 of NI 51-101.

Questions

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