

# ASC 2015 Oil and Gas Review report suggests best disclosure practices

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The Alberta Securities Commission (the ASC) has published its 2015 Oil and Gas Review Report (the Report). The Report consists of the ASC's observations and analysis of oil and gas disclosure by reporting issuers, with a focus on common deficiencies in annual information forms, investor presentations, news releases, prospectuses and in Form 51-101F1 – *Statements of Reserves Data and Other Oil and Gas Information* (Form 51-101F1). The general standards and specific annual requirements for disclosure by reporting issuers engaged in oil and gas activities are set out in *National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities* (NI 51-101). The Report is primarily based on disclosure made in 2014, and also discusses other oil and gas securities regulatory topics of interest. The ASC also hosted an information session (the Information Session) in respect of the Report on Feb. 4, 2016, which BLG was pleased to attend electronically.

Significant amendments to NI 51-101 came into force on July 1, 2015 (the Amendments). The Report is, therefore, of particular significance, as the ASC discusses some of the new disclosure requirements for the first time in the context of a disclosure review and shares suggested best practices for compliance. As the Report only speaks to 2014 disclosure made by reporting issuers, analysis of actual disclosure in connection with the Amendments will not be made by the ASC until its next Oil and Gas Review Report.

## Summary of the Report

Set forth below is a summary of the key observations and analysis made in the Report and at the Information Session in respect of common disclosure deficiencies, as well as certain topics of interest identified by the ASC.

### Abandonment and reclamation costs

- With reference to CSA Staff Notice 51-345 — *Disclosure of Abandonment and Reclamation Costs in National Instrument 51-101 and Related Forms* (CSA 51-345), the Report notes consistent deficiencies in the disclosure of abandonment and reclamation costs. The Report noted the various instances where such disclosure is required, including its deduction from reporting issuers' future net

revenue. The Report also notes that reclamation costs have often been excluded completely by some reporting issuers. Given the release of CSA 51-345, and the seriousness of this type of disclosure deficiency inferred thereby, we expect the ASC to be particularly attuned to this issue in future disclosure cycle reviews.

### Contingent resources and prospective resources

- With respect to the use of boilerplate disclaimers related to disclosure of resources other than reserves (ROTR), the Report suggests each reporting issuer should tailor the required disclosure of the risks and level of uncertainty associated with recovery of ROTR to ensure compliance with the *Securities Act* (Alberta). Reporting issuers are reminded that not all readers of disclosure by reporting issuers are familiar with oil and gas industry conditions in Canada, and that such disclosure should be accordingly fulsome and explanatory.
- The disclosure of estimates of quantities and values of ROTR was also reviewed. The Report clarifies that the requirement for disclosure of significant positive and negative factors associated with such estimates is not satisfied by listing only those factors that are applicable to all companies engaged in oil and gas activities. Reporting issuers are reminded that this disclosure should be tailored to the issuer.
- While disclosure of ROTR is optional in most circumstances, the Report reminds readers that disclosure is required when ROTR is material to the reporting issuer or in respect of properties with no attributed reserves. In these instances (in addition to instances of optional disclosure), reporting issuers should comply with Part 7 of Form 51-101F1, which was added by the Amendments, as applicable.

### Type wells (type curves), drilling locations and associated information

- The Report reminds readers that type well disclosure must state the source of the disclosure (whether or not it was prepared in-house) and whether or not the disclosure was prepared by a qualified reserves evaluator in accordance with the Canadian Oil and Gas Evaluation (COGE) Handbook.
- With reference to the Companion Policy to NI 51-101 (the Companion Policy), the Report notes the importance of presenting a factual and balanced view of disclosed information and the inherent need for reporting issuers to use justifiable methodology in the disclosure of type well information. The Report provides the following examples of poor methodology: (i) including only the best wells; (ii) excluding dry holes; (iii) excluding poor performing wells; (iv) aggregating results from dissimilar reservoirs; and (v) aggregating results from wells with different completion procedures.
- The Information Session provided an example of drilling location disclosure that lacked sufficient context — "*current drilling inventory consists of approximately 4,000 low-risk locations*". Fulsome context would have included: (i) whether or not a specific category of reserves or ROTR had been assigned to those locations; (ii) the risks associated with those locations; (iii) a break-down of whether these locations are infill, step-out or new play locations; (iv) the methodology for the figure — for example, whether it is merely based on maximum well spacing or if there was a more substantive technical analysis completed; and (v) which locations have associated drilling commitments.

### Well tests

- With reference to Section 3(a) of CSA Staff Notice 51-327 – *Revised Guidance on Oil and Gas Disclosure* (CSA 51-327), the Report reminds readers of the importance of, and means of making, fulsome disclosure of well test results.
- The Report notes the potential for misleading statements being made by reporting issuers in respect of well test results. It is important for disclosure to be factual and balanced. Section 3(a) of CSA 51-327 provides guidance for reporting issuers to address the need to balance timely disclosure of certain material well test results against the potential for misleading statements.

### **Reserves reconciliations**

- The Report notes the following frequent reserves reconciliation deficiencies: (i) incorrect dates (the correct date to reconcile changes in respect of acquired reserves is the effective date of the transaction, not the closing date, plus any production since the closing date, per Section 2.7(6)(c) of the Companion Policy); (ii) the absence of disclosure of the basis for reserves re-categorizations; and (iii) arithmetical errors.
- The Amendments included new product types, replacing the former distinction between conventional and non-conventional activities, among other things. The Report therefore clarifies that, given the different product types, reporting issuers could not properly reconcile estimates associated with new product types as there was no opening balance available for comparison.
- At the Information Session, the new product types “tight oil” and “shale gas” were noted as these were introduced and defined, respectively, by the Amendments. In both cases, these product types usually require the use of hydraulic fracturing to achieve economic production rates, per NI 51-101. Reporting issuers are reminded that their reserves may fall into these categories and therefore their reserves reconciliations and other disclosure should be adjusted accordingly pursuant to the Amendments.

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