



Guidance in Respect of Resources Disclosure Other than Reserves Data

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On February 27, 2009, the Canadian Securities Administrators (“**CSA**”) published Staff Notice 51-327 *Oil and Gas Disclosure: Resources Other Than Reserves Data* (the “**Staff Notice**”). The Staff Notice provides guidance in respect of resources disclosure other than reserves data. While disclosure of reserves data is mandatory pursuant to National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (“**NI 51-101**”), it is optional for resources which fall outside of the definition “reserves data”.

The Staff Notice was issued to provide reporting issuers with guidance on topics including stand-alone possible reserves, disclosure of high and low case category estimates, adding across resource classes, partially risked prospective resources, use of the term “best estimate”, technology under development for contingent resources, classification to the most specific class and category of resource and criteria for classification of unconventional hydrocarbons as discovered petroleum initially-in-place (“**PIIP**”).

Stand-alone Possible Reserves

The CSA warns that it is potentially misleading to disclose possible reserves on a stand-alone basis. A stand-alone possible reserve is a possible reserve which is assigned to a property that has no proven or probable reserves volumes assigned. The Staff Notice provides that reporting issuers which disclose stand-alone possible reserves should state that there are no proven or probable reserves and provide a clear explanation why the possible reserves are disclosed as stand-alone.

Disclosure of High and Low Case Category Estimates

The Staff Notice indicates that the inclusion of certain estimates by a reporting issuer can be misleading to readers. The disclosure of a high estimate, which is the proved + probable + possible reserves or a high estimate of other resources classes without the disclosure of a best or low estimate is discouraged. The Staff Notice indicates that the high estimate can be misleading as the investors are unable to appreciate that the estimate does not represent the

best estimate of the volume of resources that will actually be recovered by the reporting issuer.

The Staff Notice indicates that the disclosure of data provided outside of annual filings, including the filings required by NP 51-101, can be misleading as they do not include the disclosure of probable reserves, even when material.

To ensure that reporting issuers are not misleading the CSA recommends: (i) where high case estimates of other classes are disclosed, best and low cases should also be disclosed; and (ii) where a proved + probable + possible reserves estimate is disclosed, the proved and proved + probable estimate should be disclosed.

The CSA suggests that the reporting issuer should apply the guidance provided in the companion policy of NI 51-101 on probabilistic aggregation of reserves. Where there is an arithmetic aggregation of several proved + probable + possible reserves estimates or of several high estimates of other resources classes, the CSA indicates that a reporting issuer should provide a cautionary statement stating that the volume is a statistical principle which can be misleading as to volumes which are actually recovered.

Adding Across Resource Classes

While NI 51-101 does not address the disclosure of summations of different resource class estimations, the Canadian Oil and Gas Evaluation Handbook (the “**COGEH**”) states that where a reporting issuer discloses the chances of commerciality, the value should be further broken into chances of development and chances of discovery.

The CSA cautions that an unrisksed summation of proved + probable + possible reserves and high estimates of contingent and prospective resources lie beyond a reasonable range of expectation and the disclosure of that sum is misleading. Where the reporting issuer wishes to disclose a sum where the chance of discovery and chance of development approach 100%, the Staff Notice indicates it should be accompanied with a cautionary statement to address the classes included in the summation and be described as “remaining recoverable resources (unrisksed)”.

Where there is a risk of addition of resource classes, the Staff Notice indicates the disclosure should be accompanied with a proximate cautionary statement which states that the remaining recoverable resources (risked) were adjusted for risk using statistical probabilistic methods and state the specific form of disclosure. The Staff Notice cautions that the disclosure should always include the best estimate and if other estimates are disclosed, the corresponding higher and lower estimates.

Partially Risked Prospective Resources

The CSA notes that reporting issuers which disclose the results of prospective resources which are risked for the chance of discovery but not development should be accompanied with a proximate statement stating such.

Use of Term “Best Estimate”

The CSA warns that unless the resource estimate results of arithmetic or probabilistic aggregation are risked in a manner during the aggregation process where the value is strictly in accordance with the COGEH definition of “best estimate”, the term should not be used.

Technology Under Development for Contingent Resources

The Staff Notice indicates contingent resources may be assigned on the basis of “technology under development”, as defined in section 5.3.3 of the COGEH, if an evaluation cannot be carried out based on established technology. The reporting issuer cannot use the “technology under development” justification if it does not satisfy the requirements in the COGEH.

The Staff Notice cautions that reporting issuers should also satisfy the requirements of NI 51-101 with regards to disclosure of contingent reserves by classifying resources other than reserves into the most specified category of resources.

Classification to the Most Specific Class and Category of Resource

NI 51-101 requires resources to be classified to the most specific category. The inclusion of paragraph 5.9(2)(b) of NI 51-101 addresses concerns regarding the disclosure of undiscovered and discovered PIIP which do not have meaningful indication regarding attainable commerciality.

The Staff Notice indicates a reporting issuer should affix supplementary cautionary statements to the language required by NI 51-101 when disclosing

discovered PIIP without disclosure of reserves or contingent resources because the project for evaluation of recoverable volumes has not been defined, or when disclosing undiscovered PIIP without disclosure of prospective resources because the project for evaluation of recoverable volumes has not been defined.

Criteria for Classification of Unconventional Hydrocarbons as Discovered Petroleum Initially-in-Place

The CSA provides additional guidance for disclosure of unconventional hydrocarbons since they typically cannot be tested by primary flow and may require extensive pilot testing before flow is demonstrated.

The CSA suggests the 2006 article “The Selection, Application and Misapplication of Reservoir Analogs for the Estimation of Petroleum Reserves” by Hodgins and Harrell provides a valuable approach to the use of analogous information for assigning reserves. However, the CSA Notice cautions that reporting issuers may be asked to demonstrate that an analogy is good and relevant and geological comparable support the exception of flow.

This update is intended as a summary only and should not be regarded or relied upon as advice to any specific client or regarding any specific situation.

If you would like further information regarding the issues discussed in this update or if you wish to discuss any aspect of this commentary, please feel free to contact us.

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