# Oil and Gas Review 2010 Report

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# 1. Introduction

The Alberta Securities Commission's (ASC) 2010 Oil and Gas Review Report (2010 Report) contains our observations on the public disclosure of oil and gas activities by Alberta reporting issuers (RIs).

This 2010 Report is the seventh annual publication of the ASC's review of the disclosure required by National Instrument 51-101 *Standards of Disclosure For Oil and Gas Activities* (NI 51-101) and Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information* (51-101F1), Form 51-101F2 *Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor* (51-101F2) and Form 51-101F3 *Report of Management and Directors on Oil and Gas* Disclosure (51-101F3). The 2010 Report is intended to provide assistance to RIs regarding areas where the ASC notes recurring deficiencies with the goal of improving disclosure of oil and gas activities. Clear, reliable and timely disclosure is essential for a fair and efficient capital market in Alberta. Annual Oil and Gas Reports for previous years can be found on the ASC website at www.albertasecurities.com.

There are approximately 547 companies with oil and gas activities reporting under NI 51-101, 393 of which are listed on the Toronto Stock Exchange (TSX) or the TSX Venture Exchange (TSX-V). Alberta is the prime regulator for 249 of these listed companies and they represent 94 per cent of the market capitalization of oil and gas companies listed on TSX and TSX-V and represent 42 per cent of all Alberta's companies listed on these two exchanges.

Given the prominence of the oil and gas industry, the ASC is focused on providing support and guidance to this unique group of market participants. Widely recognized as a leader in the regulation of oil and gas disclosure, the ASC maintains a specialized team of oil and gas experts. Each year, the ASC oil and gas team reviews the disclosure of various oil and gas companies participating in Alberta's capital market and prepares this report summarizing its observations and findings. Our reviews include annual NI 51-101 disclosures, reserves reports and relevant news releases.

We are generally satisfied with the results of our disclosure reviews. Given the changes in technology and the increase in unconventional resource activity, we continue a focus on the disclosure of resources other than reserves. Canadian Securities Administrators (CSA) Staff Notice 51-327 *Oil and Gas Disclosure: Resources other than Reserves Data* (Notice 51-327), was issued on February 27, 2009 to address some of these issues. Amended versions of NI 51-101, Notice 51-327 and also of CSA Staff Notice 51-324 *Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities* were published on December 30, 2010.

In light of the continued importance of oil and gas disclosure to investors, the review of RI oil and gas disclosure will remain as one of the ASC's key priorities.

In addition to this report, we hold annual information sessions and webinars related to NI 51-101 and continue to look for effective ways to communicate with RIs. As such, we welcome feedback on the 2010 Report.

# 2. Deficiencies in Reporting and General Observations

## 2.1 Disclosure of Resources other than Reserves Data

NI 51-101 requires RIs to carry out evaluations according to the standards and practices of the Canadian Oil and Gas Evaluation Handbook (COGEH). However, there is currently limited guidance on the evaluation of resources other than reserves. The authors of COGEH are in the process of developing more comprehensive guidance on the estimation and classification of resources other than reserves. Until this guidance is available, RIs should be aware of and refer to the guidance in Notice 51-327. RIs should also be aware that the *Securities Act* (Alberta), in particular section 92(4.1), contains overriding general provisions against making misleading disclosure which includes omitting information that is necessary for disclosure not to be misleading.

It is particularly important that, when reporting contingent resources, RIs disclose the contingencies that are specific to their activities. The description of these contingencies was generally poor and often only of a general nature. Although drilling and testing are prerequisites to classification as a contingent resource, these activities were sometimes incorrectly cited as contingencies.

Our reviews of disclosure and evaluation of resources other than reserves suggested that variance in practice arose primarily from the following:

- Discovery Criterion. The criterion for classification as Discovered Petroleum Initially-in-Place established in COGEH is that a well must have been drilled and flow tested but that, in the absence of a flow test, "…log and/or core data and … a good analogy … may suffice". Notice 51-327 addresses this issue to some extent. It should be noted that even if classification as Discovered Petroleum Initially-In-Place is appropriate, substantial additional supporting information is required in order to classify any portion of this as contingent resources or as reserves.

- Use of Analogs. It appears that RIs are often interpreting the "good analogy" criterion more liberally for resources other than reserves, especially for unconventional accumulations. RIs should note that the requirement is not just for an analogy, but for a good analogy, and that the standards by which this is measured should be no different than for an evaluation of reserves data. For unconventional resources, an analogy should consider not only the reservoir properties (reservoir analog), but the validity of the proposed recovery process (process analog).

- Extrapolation from Existing Data. We have seen a tendency in the evaluation of unconventional resources, for RIs to consider the reservoir as homogenous over large distances, resulting in extreme extrapolations. RIs should consider that there is overwhelming evidence that geological units are almost invariably heterogeneous and that extrapolation of productive capability beyond the immediate vicinity of a control point requires substantial supporting technical evidence.

We have noticed increasing disclosure on resources, frequently classified as contingent resources, in bituminous carbonates. RIs should consider that there is no commercially viable production from bituminous carbonate

reservoirs and there have been only one or two significant pilot tests. The properties of carbonate rocks, especially the pore structure, are highly varied and the use of these tests as analogs in other reservoirs requires substantial supporting analysis and meaningful discussion in order to avoid misleading disclosure.

## 2.2 Costs Incurred

Section 6.6 of 51-101F1 requires RIs to disclose acquisition, exploration, and development costs. We have again noted significant differences between the costs disclosed under this section and the costs reported in the financial statements in a sample of RI's disclosure. There was no obvious explanation for approximately 25 percent of the identified differences requiring further follow up by ASC staff. RIs should consider the following when preparing this disclosure:

- Amounts shown in 51-101F1 should be based on actual amounts in the audited financial statements.
- "Costs incurred":
  - means costs on an accrual basis, not on a cash basis; and
  - includes costs paid with other than cash, i.e., share consideration.
- All amounts allocated to oil and gas properties in corporate acquisitions, whether paid in cash, shares, or as a combination of cash and shares, should be included on 51-101F1 as property acquisition costs.

## 2.3 Use of the 51-101F1, F2 and F3

51-101F1, F2 and F3 are intended to be used for annual disclosure. RIs should always file F1 and F3. The F2 is required only when reporting reserves data (i.e., proved and probable reserves). An RI who is not reporting reserves data is not required to file an F2 but an F1 is still required. The F1 should indicate that there are no reserves, and provide the other information required by the form, in particular in Part 6 of 51-101F1.

We have noted that RIs are also using these forms as templates for optional interim disclosure. We have no objection to this approach, but RIs should modify the titles of these documents to clearly distinguish between the RI's required annual disclosure and any optional interim disclosure that the RI chooses to make.

## 2.4 Disclaimers

RIs are required to provide cautionary statements proximate to the disclosure when making certain types of disclosure, so that an investor can appreciate the significance of the information. We have noticed that these statements may be missing or, when provided, not proximate to the disclosure. RIs should reference the relevant section of NI 51-101 for the wording of the appropriate statement for the following types of disclosure:

| | |
|---|---|
| Possible Reserves | s. 5.2(a)(v) |
| Disclosure of Less than All Reserves | s. 5.8(a) |
| Disclosure of Resources | s. 5.9(2)(c)(v) |
| Analogous Information | s. 5.10(1)(c) |
| BOEs and McfGEs | s. 5.14(d) |

Failure to provide a cautionary statement may trigger the ASC to request the RI to issue further explanatory disclosure that contains the required statement.

## 2.5 Inadequate Information in Required Disclosure

We have noted inadequacies in the information that is required for some of the disclosure items, in particular:

- Oil and Gas Properties and Wells (51-101F1, section 6.1.1). Frequently RIs do not provide a description of their important properties, plants, facilities and installations. The level of detail is a function of the RI's operations but should be sufficient to provide meaningful information to an investor.

- Significant Factors or Uncertainties (51-101F1, sections 5.2 and 6.2.1). Section 5.2 requires RIs to "… identify and discuss important economic factors or significant uncertainties that affect particular components of the reserves data". A recent amendment to NI 51-101, section 6.2.1 has extended this requirement to properties with no attributed reserves. An RI is required to "Identify and discuss significant economic factors or significant uncertainties that affect the anticipated development or production activities on properties with no attributed reserves".

This type of information can be very material, but the disclosure is often "boilerplate", not specific to the RI's activities and not very informative. Although they may be true, statements such as the RI is "subject to the inherent issues associated with an oil and gas company", or that "development depends on successful piloting", are not specific to the RI's activities and are not adequate.

## 2.6 General Guidance

As a result of our reviews and of the recent amendments to NI 51-101, we thought that it would be useful to provide some guidance and observations on a number of miscellaneous topics.

- Quality Control During the Preparation of Disclosure. Many of the deficiencies that we have noted can be attributed to inadequate quality control in the preparation of disclosure material, as these errors are seldom present in the reserves reports but appear to be introduced during the preparation of the 51-101F1. Better proofreading and checking, including the detection and correction of errors in the preparation of tables and arithmetic errors, and ensuring that there is no missing information would result in significantly improved disclosure.

- Misuse of Terminology. The terminology described in section 5.1.2, Volume 1, of COGEH must be used. Although there has been a decline in the inappropriate use of this terminology, misuse still occurs, particularly in news releases.

- Unit Abbreviations and Notations. Unit abbreviations and notations should conform to the prescribed usage, which is based on international standards (refer to COGEH Volume 1 Appendices B and C). Although less common than in previous years, we continue to see incorrect usage that may be misleading. For example, it is sometimes not clear whether a table is in thousands or millions of cubic feet of gas, because abbreviations in the table headings are repeated in the body of the table. Additionally we see out-of-date acronyms (e.g., ARTC (Alberta Royalty Tax Credit)) that no longer exist, or non-standard abbreviations for disclosure (e.g., OOIP (original oil in place)).

- Reserves Reconciliation Categories. Part 4 of 51-101F1 requires RIs to provide a reserves reconciliation table to be provided for gross Proved, Probable and Proved + Probable reserves, with seven reconciliation categories. We have noted the occasional use of new categories, such as "transfers", "others" and "working interest adjustment". Additional detail may be provided under the seven required headings if an RI wishes to do so, but new categories should not be introduced.

  RIs who wish to do so may provide a reconciliation of net reserves in addition to the reconciliation of gross reserves.

- Disclosure of Undeveloped Reserves. NI 51-101 requires RIs to disclose proved undeveloped reserves (PUDs) and probable undeveloped reserves (PBUDs) when they are initially attributed (i.e., when they are first booked), and that RIs provide a discussion of the current development plans. The objective of the disclosure is to ensure that investors receive meaningful information on an RI's activities regarding the development of PUDs and PBUDs, including the time they have remained undeveloped without development activity to put them on production.

  The concept of "first attributed" is the measurement and disclosure of previously unassigned volumes. A number of RIs have misinterpreted this concept to be a reconciliation that shows the movement of volumes into and from the undeveloped reserves category.

  The disclosure of development plans (required by sections 5.1(1)(b) and 5.1(2)(b) of 51-101F1) is often inadequate and "boilerplate". RIs are expected to provide meaningful, specific, information on their plans, especially when there is a significant proportion of undeveloped reserves in their disclosure.

- Combining Product Types. NI 51-101, Part 1.1(v) defines a number of product types that must be used for reporting. These product types should be reported separately and not combined (e.g., light & medium crude oil and natural gas liquids are separate product types, as are natural gas and coal bed methane, and should be reported separately). An RI that combines different product types may be required to issue corrective disclosure.

- Production Estimates. Frequent discrepancies occur in section 6.8 of 51-101F1. The requirement is to report the production volumes expected in the next year from the gross proved and the gross probable reserves disclosed as Reserves Data (section 2.1 in 51-101F1). These production volumes must be provided by country and if one field accounts for more than 20 per cent of the expected production, it must be identified and reported separately.

- Companies with Multiple Business Operations. For an RI with multiple business operations, material oil and gas activities must be reported under NI 51-101. Criteria that may be used to identify material oil and gas assets include consideration of the business activity that:
  - is identified first in the RI's disclosure;
  - dominates discussion in RI's news releases; and
  - generates a significant portion of the revenue.

# 3. Analysis of Technical Revisions of Reserves

## 3.1 Introduction

We collect and analyse a significant amount of data to review it for trends and to identify outliers and anomalies. The analysis of technical revisions over time is of particular interest as a measure of the quality of reserves evaluations.

"Technical revisions" is a category required to be reported under Part 4 of 51-101F1 as part of the reconciliation of previous and current financial year-end estimates. A technical revision is a change in reserves estimates in properties owned at the start and end of the reconciliation period as the result of new technical information (including the analysis of production data for the preceding year). It does not include factors that require capital expenditure, such as infill drilling, or the consequences of royalty or ownership changes, which fall into the reconciliation category of extensions and improved recovery, and economic revisions, respectively. RIs should prepare the reconciliation using the same product types, and the closing balances should agree, as should the volumes disclosed under section 2.1.1 of NI 51-101.

Provided that RIs have employed appropriate evaluation methodologies, the technical revisions generally expected on various reported reserves categories are as follows:

| Reserves Category | Expected Change in Technical Revisions |
|---|---|
| Proved | Positive |
| Proved + probable | Close to zero |
| Proved + probable + possible | Negative |

51-101F1 disclosure provides information on the first two of these reserves categories. Statistical theory indicates that, because they are aggregations of a number of individual property estimates, greater proportionate variance of technical revisions (i.e., technical revisions as a percentage of total reserves for a product type) may be expected for RIs with smaller volumes of reserves than for RIs with large reserves. This is supported by ASC staff's analysis.

We pay particular attention to this as a measure of the quality of evaluations. RIs whose technical revisions are outliers beyond the usual pattern may be asked for an explanation and are more likely to be selected for a review of their reserves information.

The results of the analysis of technical revisions for light & medium oil, heavy oil and natural gas have been reported in previous years, but caution is required in interpreting any trends on limited data. The technical revisions at the end of 2008 provide six years of data and we consider this sufficient to provide some degree of confidence in coming to general conclusions on the quality of reserves estimates.

We have also compiled data on other product types, such as bitumen, synthetic oil and coal bed methane but because of the limited number of data points, it is not possible to draw meaningful conclusions and the technical revisions for these product types have not been reported on at this time. The data for all product types will continue to be collected and analyzed.

## 3.2 Results of Analysis

The results of the analysis of proved and of proved + probable reserves for light & medium oil, heavy oil, and natural gas are given in Table 1 below and shown graphically in Figures 1a and b. This table and the figures show total technical revisions as a percentage of the total reserves for the RIs in the number of companies indicated.

| Dec. 2003 - Nov. 2010 | Period of Review | Light & Medium Oil | Heavy Oil | Natural Gas |
|---|---|---|---|---|
| No. of Companies | Dec 2003-Nov 2004 | 166 | 51 | 206 |
| | Dec 2004-Nov 2005 | 203 | 65 | 232 |
| | Dec 2005-Nov 2006 | 232 | 79 | 251 |
| | Dec 2006-Nov 2007 | 241 | 78 | 275 |
| | Dec 2007-Nov 2008 | 237 | 71 | 285 |
| | Dec 2008-Nov 2009 | 210 | 68 | 261 |
| | Dec 2009-Nov 2010 | 228 | 74 | 239 |
| Proved % Technical Revisions | Dec 2003-Nov 2004 | 1.3 | (19.8) | (3.6) |
| | Dec 2004-Nov 2005 | (3.2) | 4.8 | 5.4 |
| | Dec 2005-Nov 2006 | 1.5 | 1.0 | 2.1 |
| | Dec 2006-Nov 2007 | (3.2) | 7.0 | (2.7) |
| | Dec 2007-Nov 2008 | 9.0 | 5.7 | 2.9 |
| | Dec 2008-Nov 2009 | 1.1 | 13.0 | (0.4) |
| | Dec 2009-Nov 2010 | 4.3 | 6.7 | (0.9) |
| Proved + Probable % Technical Revisions | Dec 2003-Nov 2004 | 2.2 | (17.9) | (2.7) |
| | Dec 2004-Nov 2005 | (3.7) | (0.2) | 3.6 |
| | Dec 2005-Nov 2006 | 0.7 | (2.4) | 0.6 |
| | Dec 2006-Nov 2007 | (3.1) | 4.3 | (3.8) |
| | Dec 2007-Nov 2008 | (1.7) | 5.3 | (4.6) |
| | Dec 2008-Nov 2009 | (1.8) | (3.2) | (4.6) |
| | Dec 2009-Nov 2010 | 4.0 | (3.4) | (1.4) |

Table 1. Technical Revisions by Product Type, 2003 – 2010

Notes: This data does not include a small number of companies with limitations or deficiencies in their reported data, companies who reported negative technical revisions of more than 100 per cent or positive revisions of more than 500 per cent.

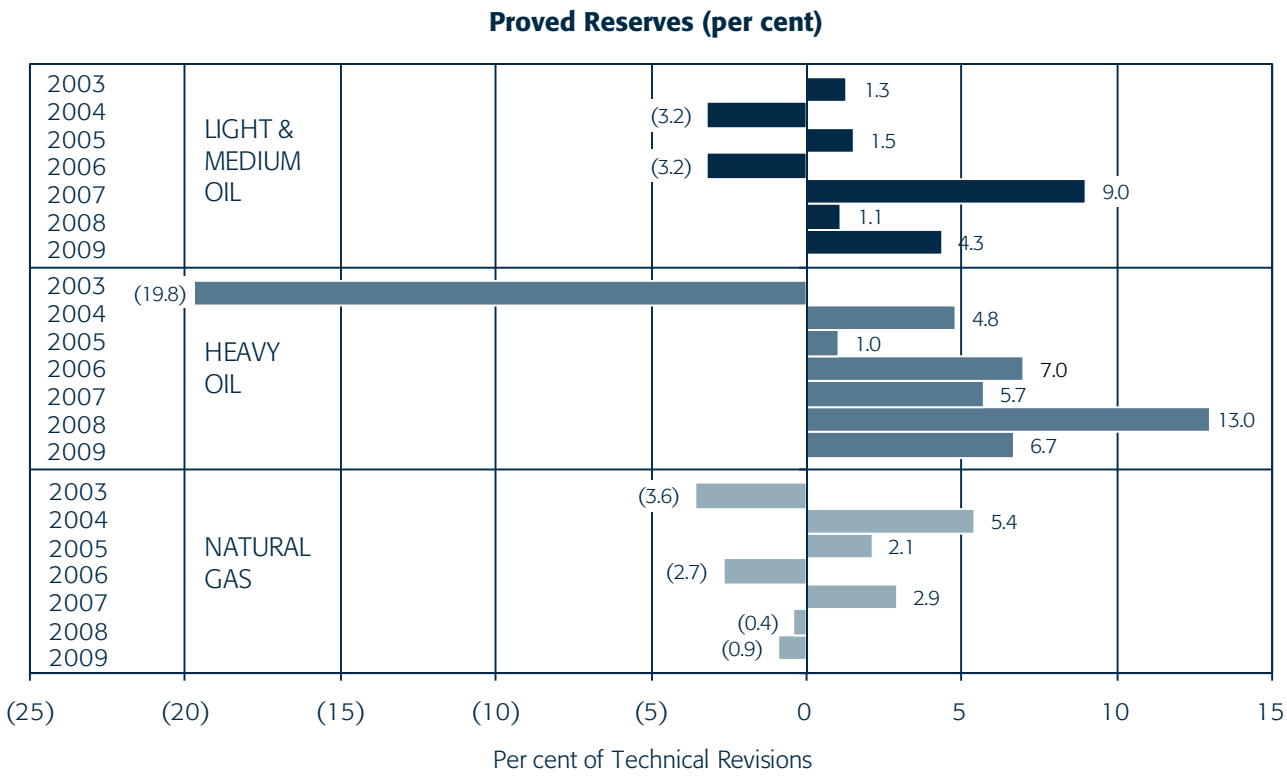


Figure 1. Proved Reserves Technical Revisions 2003 – 2009

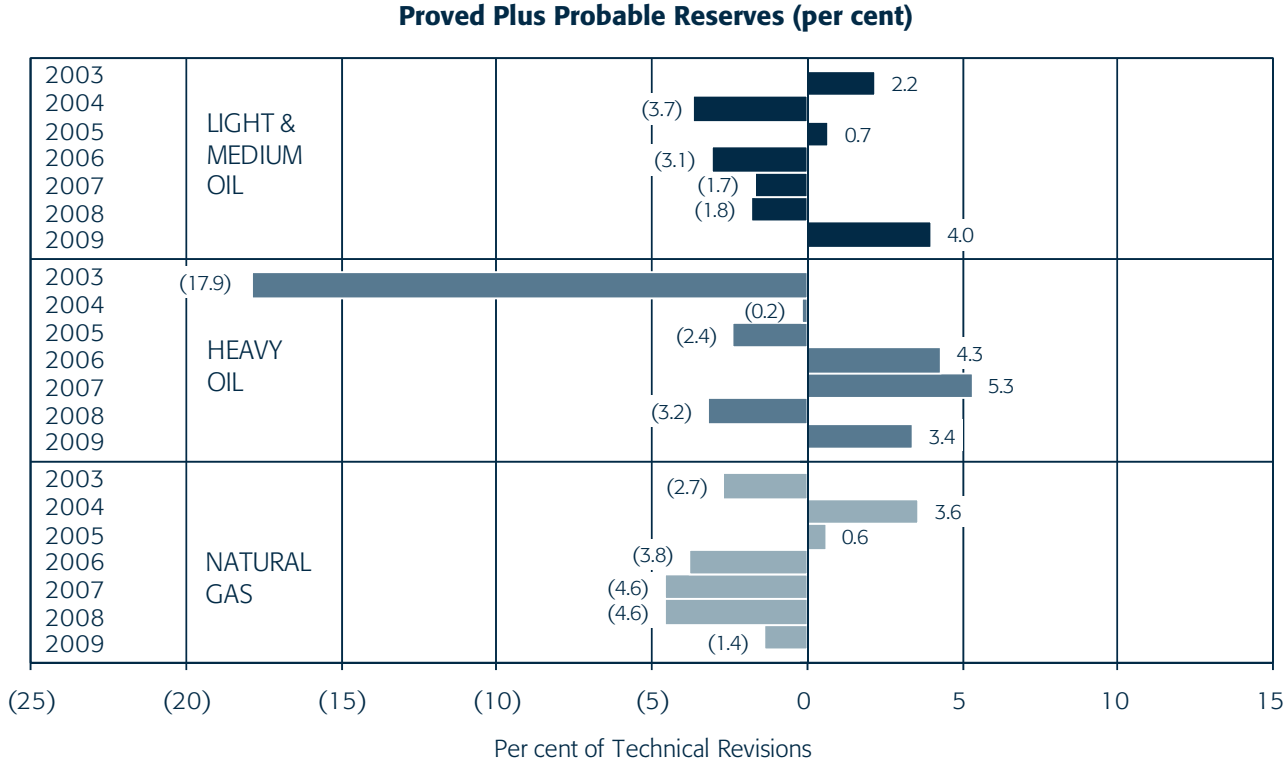


Figure 2. Proved + Probable Reserves Technical Revisions 2003 – 2010

The graphs in Figures 1 and 2 represent data for all of the RIs in the database. However, individual RI's estimates show greater variance. To examine this, plots of technical revisions as a percentage of reserves against reserves have been made in which each point is for an RI (because they are similar in nature to those shown in previous years, the latest plots are not included in this year's report). Plotting of these technical revisions show the general pattern that one would expect from this type of data, i.e., decreased variance as reserves increase (this assumes that the volume of reserves is a function of the number of properties in an RI's aggregate volume). Outliers from this general pattern are selected for further review of the reserves reports as part of our continuous disclosure review program. The first step in such a review is to understand the reason for an outlier, but if it can be attributed to a bias or error and depending on the degree of materiality, the RI may be required to correct the error or bias in the current filing, or to note it for correction in future filings.

### 3.3 Conclusions

The first year of NI 51-101 reporting was a year of adjustment and should be excluded from the conclusions that can be drawn from this data. The variance for light & medium oil and natural gas is in general agreement with the criteria described above. There may be a small positive bias for natural gas, but at less than 5 per cent, this is not significant and almost certainly within the limits of measurement error. This analysis indicates that conventional reserves estimates are generally of a high quality and provide an investor with a reasonable assessment of oil and gas assets for the industry. However, this conclusion does not necessarily apply to individual RIs with a variance greater than usual expectations.

At this time, we do not have enough data to carry out a similar analysis for other product types, in particular for unconventional resources.

### 3.4 Further Analysis

The establishment of a time series of technical revision data provides an ability to examine trends over this time. With six years of reasonable data, it will be possible to start to examine trends and variance in an individual evaluator's and individual RI's estimates for conventional proved and probable reserves. We will review data on unconventional resources and report on the results when there is sufficient data to make meaningful comment.

# 4. Amendments to Requirements

## 4.1 Amendments to NI 51-101

Amendments have been made to NI 51-101 and to the companion policy NI 51-101CP effective December 30, 2010. Details can be found on the ASC's website at www.albertasecurities.com. The most significant of these changes are:

- A general prohibition against disclosing the sum of different resource classes (e.g., reserves + contingent resources + prospective resources). These resource classes have different risks associated with them and disclosure of their sum can be highly misleading. For instance the likelihood that actual production will equal or exceed the sum of an estimate of reserves, contingent resources and prospective resources is almost always extremely low. However, the disclosure of the sum is permitted if:
    - the components of the sum are also disclosed proximate to the sum; or
    - when the sum is the most specific category that can be assigned. It should be noted that this provision is not intended to allow RIs to avoid disclosure of subcategories if it is possible to make an estimate of them and an RI may be requested to explain why an estimate of a sub-category cannot be made.

  In all cases, RIs should accompany disclosure with the appropriate cautionary language prescribed in section 5.16 of NI 51-101.

- A prohibition against the disclosure of high case estimates (proved + probable + possible reserves, high case contingent or prospective resources) without also disclosing the associated best and low cases (proved + probable reserves, proved reserves; best and low case contingent or prospective resources). When the proved reserve or the low case contingent or prospective resource estimate is zero, we expect RIs to show this to be zero, not left blank.

- The general instructions to 51-101F1 have been amended to require a consistent use of units.
    - The currency of disclosure is assumed to be Canadian dollars. Other currencies may be used provided there is clear disclosure of that currency to an extent that will avoid misleading or confusing a reader. This would be of particular importance if a document includes disclosure in both Canadian and U.S. dollars.
    - Disclosure of units of measurement should be consistent (e.g., avoid the use of both bbls and cubic metres in the same document) and should be in accordance with recognised international standards as given in COGEH Volume 1 Appendices B and C.

- The manner of calculating a constant price has been changed. NI 51-101 requires disclosure to be prepared using a forecast of product prices, but allows disclosure of a constant price case. The manner in which this constant price must be calculated has been amended to be the unweighted average of the first-day-of-the-month price for that product for the preceding 12 months. NI 51-101 does not

preclude the disclosure of the results of an evaluation carried out using other price scenarios, but it must be clearly and prominently identified as such.

- The word "petroleum" in the COGEH classification terms that are required by NI 51-101 (COGEH Volume 1 Figure 5.1) may be replaced by the product type name. For instance, to allow the use of "Discovered Bitumen Initially-in-Place" or "Discovered Light and Medium Oil Initially-in-Place" instead of "Discovered Petroleum Initially-in-Place". Only the recognised product types, which can be found in NI 51-101 Part 1.1(v) Product Types, should be used.

- Replacement of the requirement to issue a news release, with 51-101F4, when NI 51-101 annual information is contained in an Annual Information Form (AIF) instead of being filed separately. RIs may file 51-101F1, F2, F3 as separate documents, but they may, instead, include the information required in these forms in their AIFs. It should be noted that if a deficiency is found in information in the AIF that requires refiling, the entire AIF must be refiled. This, in turn, triggers a refiling under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*.

### 4.2 Changes to SEDAR Document Types

The SEDAR categories for NI 51-101 filings have been amended to make it easier for users to find filings. The amended categories are:

#### NI 51-101 Forms for Annual Requirements

Only 51-101F1, F2 and F3, and where relevant, F4, should be filed here.

#### Interim Disclosure

This is intended for voluntary filings such as a mid-year mechanical update.

#### Refiling of Annual Disclosure

Any 51-101F1, F2, F3 or F4 that are refiled should be filed under this category.

#### Summary Report

RIs are allowed to file a Summary Reserves (or resources other than reserves) report under this heading, but they are not permitted to file a full oil and gas report on SEDAR. If an RI wishes to disclose details of an estimate of reserves or of resources other than reserves, it may do so elsewhere, such as on a corporate website, but it should note that it must conform to the requirements of NI 51-101.

# 5. International Policy Developments

## 5.1 U.S. Securities and Exchange Commission (SEC) Disclosure Rules

In 2009, the SEC announced new oil and gas disclosure rules that took effect for registration statements filed on or after January 1, 2010, and for annual reports on forms 10-K or 20-F for fiscal years ending on or after December 31, 2009. The new rules incorporate elements of NI 51-101. They mandate the disclosure of proved reserves, and allow the disclosure of probable and possible volumes, but not of resources other than reserves.

## 5.2 Petroleum Resource Management System (PRMS)

PRMS was issued in 2007 as an update of the long-established Society of Petroleum Engineers System. In the same year, COGEH which was originally issued in 2002 and is referred to as the evaluation standard in NI 51-101, was revised and PRMS and COGEH now use the same resource classification system. However, the guidelines in COGEH are significantly more extensive and it is better suited for financial reporting than PRMS. PRMS is not recognised either by the CSA or the SEC as suitable for financial reporting. ASC staff are involved in an initiative to consider the convergence of PRMS and COGEH to provide one standard, but this is at an early stage.

## 5.3 International Financial Reporting Standards (IFRS) for the Extractive Industries

In 2004, the International Accounting Standards Board (IASB) established a Research Project on Extractive Industries to develop IFRS that could potentially replace IFRS 6 Exploration for and Evaluation of Mineral Resources, which has a limited scope. The IASB issued a discussion paper in July 2010 that, amongst other things, recommended the use of PRMS as the standard for financial reporting on oil and gas resources. The CSA Chief Accountants Committee provided comments on this discussion paper that included reservations about the merits of using PRMS for this purpose. The IASB is expected to make a decision as to whether to add an extractive activities project to their agenda in 2011. NI 51-101 is not directly concerned with accounting issues, but there is some overlap, such as the use of consistent reserves definitions and guidelines, and the use of a different standard could have an impact on the quality of the reporting of oil and gas resources in Canada.

## 5.4 United Nations Framework Classification System for Fossil Energy and Mineral Resources (UNFC)

A function of the United Nations Economic Commission for Europe (UNECE), of which Canada is a member, is the establishment of standards. To develop standards for oil and gas and minerals classification, the UNECE established the Ad Hoc Group of Experts on the Harmonization of Fossil Energy and Mineral Resources Terminology, which has subsequently been renamed the Expert Group on Resource Classification (EGRC). The group, which meets annually, has published the UNFC. Dr. David Elliott of the ASC is a member of the EGRC that developed this system.

At the last meeting of the EGRC, agreement was reached on the following recommendations:

- issue of an updated and simplified version of the UNFC (UNFC-2009);
- the establishment of a Technical Advisory Committee to examine the need for, and if needed, the types of guidelines required; and
- the change from a two-year mandate to a five-year mandate.

The EGRC is an advisory body only, but the above recommendations were subsequently confirmed by the Committee on Sustainable Energy to which the EGRC reports, and also by its superior body, the Executive Committee of the UNECE.

The UNFC refers to PRMS, which is maintained by the Society of Petroleum Engineers for the classification on oil and gas resources. NI 51-101 refers to COGEH for classification and practice standards. Although the detailed practice guidelines for COGEH and PRMS are different, COGEH uses the same classification system as PRMS, so will be consistent with UNFC. The UNFC is a comprehensive high-level system that provides a valuable overview. However, it lacks any guidelines as to its use, although the need for such guidelines is currently under review. It is not expected to have an impact on resource reporting in Canada in the foreseeable future.

# 6. Petroleum Advisory Committee

One of the ways the ASC maintains contact and solicits feedback, is through the Petroleum Advisory Committee that was reconstituted in 2009, with representatives from the oil & gas industry with a mandate to:

- review and provide advice and opinions on issues, trends and current developments relating to oil and gas reserves and resource evaluations;
- provide comment on current and proposed Alberta securities laws and regulatory policies in this area; and
- provide advice to ASC staff on an informal basis.

Members serve a three-year term and the committee meets formally four times a year. Examples of issues that have been discussed in 2010 include:

- Discount rates for proved undeveloped reserves.
- Environmental disclosure by oil and gas companies.
- Extractive Industries IFRS Discussion paper.
- Abandonment and reclamation costs in evaluations.
- Product-type definitions and royalty classes.
- Evaluation and classification of unconventional hydrocarbons.

The Petroleum Advisory Committee has been a valuable source of advice on oil and gas issues and will continue to meet on a regular basis. We thank the members of our Petroleum Advisory Committee for their time and contribution.

# 7. Contact Information

Questions or comments on this report can be submitted to:

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