

Request for Comment

Proposed Amendments to National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*, Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information*, Form 51-101F2 *Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor*, Form 51-101F3 *Report of Management and Directors on Oil and Gas Disclosure* and Companion Policy 51-101CP *Standards of Disclosure for Oil and Gas Activities*

Background

We, the Canadian Securities Administrators (CSA), are publishing for comment proposed amendments to National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (NI 51-101), its related forms (the Forms) and companion policy (51-101CP) (collectively, the Instrument).¹

NI 51-101 sets out the annual filing requirements for reporting issuers who are involved in oil and gas activities to report their estimates of reserves and resources. In addition, NI 51-101 sets out the general disclosure standards for reporting issuers who are reporting on their oil and gas activities. The disclosure standards apply to any disclosure made by a reporting issuer throughout the year.

Since the CSA implemented the Instrument in September 2003, we have monitored how it is working. We conducted a public consultation with representatives from various organizations representing petroleum producers, reserves evaluators and financial analysts. As a result of the consultation and CSA staff experience, we identified several areas in the Instrument which need to be amended.

We are publishing the proposed amendments to the Instrument with this Notice. You can find them on websites of CSA members, including the following:

- www.bsc.bc.ca
- www.albertasecurities.com
- www.ssc.gov.sk.ca
- www.msc.gov.mb.ca
- www.osc.gov.on.ca
- www.lautorite.qc.ca

We are publishing

- amending instruments for
 - NI 51-101
 - the Forms
- new version of 51-101CP

¹ In Ontario, paragraphs 143(1) 22, 24 and 39 of the Securities Act provide the Ontario Securities Commission with authority to make the proposed amendments to NI 51-101.

We are also publishing a black-lined version of NI 51-101 and the Forms that integrates the proposed changes from the amending instrument.

Substance and purpose of the amendments

The proposed amendments to the Instrument fall into the following four broad categories:

1. Amendments to clarify some provisions of the Instrument.
2. Amendments to remove or amend certain requirements for the annual filing requirements where such requirements were determined to be burdensome for reporting issuers and of limited utility for investors and security holders.
3. Amendments to certain provisions to provide new guidelines for disclosure of resources that cannot currently be classified as reserves.
4. Amendments to streamline requirements in the Instrument.

Summary of proposed amendments

We have summarized the significant proposed amendments in the Appendix. This is not a complete list of all the amendments.

We have added certain requirements for a reporting issuer which reports its resources which cannot currently be classified as reserves. These additional requirements are intended to improve disclosure of resources and to provide additional guidance to reporting issuers wishing to make meaningful and understandable disclosure of their oil and gas resources.

We have removed the requirement to report reserves and the related future net revenue using constant prices and cost. We have also removed the requirement to do a reconciliation of future net revenue. Finally, we have changed the requirement to do a reserves reconciliation using net reserves to doing the reserves reconciliation using gross reserves.

Alternatives considered

As discussed above, many of the amendments are intended to clarify the Instrument or to streamline requirements. One alternative to amending the Instrument was to issue a CSA Staff Notice to provide additional guidance on reserve and resource disclosure. However, to provide the appropriate degree of certainty, clarity and consistency among affected reporting issuers, we considered it preferable to amend, replace and add provisions to the Instrument itself. The CSA has issued CSA Staff Notice 51-321 to provide guidance to reporting issuers wishing to disclose their resources prior to these amendments coming into force.

Anticipated costs and benefits

We believe that the proposed amendments to the Instrument will reduce issuers' costs, as the amendments will address problems industry has had applying the Instrument. In addition, the amendments do not impose any additional mandatory requirements but only add requirements if a reporting issuer chooses to disclose certain items. We also believe that the amendments will make reporting issuers' disclosure about oil and gas reserves and resources more meaningful and understandable to investors and security holders.

Related amendments

We propose to repeal National Policy 22 *Use of Information and Opinion Re Mining and Oil Properties by Registrants and Others* as it is outdated and been largely replaced by guidance on use of information in Part 5 of Companion Policy 43-101 *Standards of Disclosure for Mineral Projects* and Companion Policy 51-101CP *Standards of Disclosure for Oil and Gas Activities*. (**Note:** National Policy 22 has already been repealed in the Province of Quebec)

Unpublished materials

In proposing amendments to the Instrument, we have not relied on any significant unpublished study, report, or other written materials, except the results of the public consultation we referred to above.

Request for comments

We welcome your comments on the proposed amendments to the Instrument. In addition to any general comments you may have, we also invite comments on the following specific topic:

Section 3.2 of NI 51-101 requires that a reporting issuer appoint an independent qualified reserves evaluator or auditor and section 3.4 of NI 51-101 expressly requires that the board of directors (directly or through a reserves committee) review that appointment. The responsibility for making the appointment is not specified in the rule. Would there be a material enhancement to investor protection if the rule required the board to appoint the independent reserves evaluator or auditor in addition to the existing appointment review requirement?

Please submit your comments on the proposed amendments to the Instrument in writing on or before **April 19, 2007**. If you are not sending your comments by email, you should also forward a diskette containing the submissions (in Windows format, Word).

Address your submission to all of the CSA member commissions, as follows:

British Columbia Securities Commission
Alberta Securities Commission
Saskatchewan Financial Services Commission – Securities Division
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
New Brunswick Securities Commission
Registrar of Securities, Prince Edward Island
Nova Scotia Securities Commission
Newfoundland and Labrador Securities Commission
Registrar of Securities, Northwest Territories
Registrar of Securities, Yukon Territory
Registrar of Securities, Nunavut

Deliver your comments **only** to the addresses that follow. Your comments will be forwarded to the other CSA member jurisdictions.

Blaine Young, Associate Director
Alberta Securities Commission
4th Floor, 300-5th Avenue SW
Calgary, Alberta
T2P 3C4
Fax: (403) 297-4220
e-mail : blaine.young@seccom.ab.ca

Anne-Marie Beaudoin
Directrice du secrétariat de l'Autorité
Autorité des marchés financiers
800, square Victoria, 22 e étage
C.P. 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
Fax: (514) 864-6381
E-mail: consultation-en-cours@lautorite.qc.ca

We cannot keep submissions confidential because securities legislation in certain provinces requires publication of a summary of the written comments received during the comment period.

Questions

Please refer your questions to any of:

Blaine Young
Associate Director, Corporate Finance
Alberta Securities Commission
(403) 297-4220
blaine.young@seccom.ab.ca

Alex Poole
Legal Counsel, Corporate Finance
Alberta Securities Commission
(403) 297-4482
alex.poole@seccom.ab.ca

Dr. David Elliott
Chief Petroleum Advisor
Alberta Securities Commission
(403) 297-4008
david.elliott@seccom.ab.ca

Denise Duifhuis
Senior Legal Counsel, Corporate Finance
British Columbia Securities Commission
(604) 899-6792 or (800) 373-6393 (if calling from B.C. or Alberta)
dduifhuis@bcsc.bc.ca

Gordon Smith
Senior Legal Counsel, Corporate Finance
British Columbia Securities Commission
(604) 899-6656 or (800) 373-6393 (if calling from B.C. or Alberta)
gsmith@bcsc.bc.ca

Deborah McCombe
Chief Mining Consultant
Ontario Securities Commission
(416) 593-8151
dmccombe@osc.gov.on.ca

Pierre Martin
Senior Legal Counsel
Autorité des marchés financiers
(514) 395-0558 (4375)
pierre.martin@lautorite.qc.ca

Eric Boutin
Analyste en valeurs mobilières
Autorité des marchés financiers
(514) 395-0558 (4447)
eric.boutin@lautorite.qc.ca

The text of the proposed amendments follows or can be found elsewhere on a CSA member website.

January 19, 2007

Appendix

Summary of proposed amendments

NI 51-101

We propose to amend NI 51-101 as follows:

Part 1 Definitions

- by adding a definition of *analogous information* as the term is used in the to be amended section 5.10 of *NI 51-101*
- by adding a definition of *anticipated results* that includes any information indicating the potential value or quantities of *resources* to ensure that when such information is disclosed it is disclosed in accordance with section 5.9
- by deleting the definition of *constant prices and costs* as it will no longer be used in *NI 51-101*
- by changing the definition of *independent* to make it more consistent with other *securities legislation*
- by changing the definition of *reserves data* to only include estimates of *reserves* and *future net revenue* using *forecast prices and costs* and not constant prices and costs

Part 2 Annual Filing Requirements

- in section 2.2 by clarifying that the notice to announce filing must be filed with the *securities regulatory authority* as well as disseminated

Part 4 Measurement

- in section 4.2 by deleting certain requirements that did not specifically relate to measurement

Part 5 Requirements Applicable to all Disclosure

- in section 5.2 by including all items deleted from section 4.2 in section 5.2; in addition, by adding a requirement to provide cautionary language when making disclosure of *possible reserves*
- in section 5.3 by adding the requirement that *reserves* and *resources* must be classified in the most specific category or *reserves* or *resources* that is applicable
- in section 5.9 by changing and clarifying the requirements for *reporting issuers* who choose to make disclosure of *resources* that cannot be currently classified as *reserves*
- by deleting the old section 5.10 and by adding a new section 5.10 that allows *reporting issuers* to disclose comparative *analogous information* for an area outside of the area in which the *reporting issuer* has an interest or intends to acquire an interest even if the information does not meet all of the other requirements of *NI 51-101*

Part 6 Material Change Disclosure

- in section 6.2 by clarifying the requirements when making disclosure of material changes with respect to *reserves data* or other information specified in *Form 51-101F1*

Part 8 Exemption

- by adding section 8.2 to provide an automatic exemption from the requirements of *NI 51-101* to exchangeable security issuers if they meet all of the requirements of a similar exemption in *NI 51-102*

Form 51-101F1 Statement of Reserves Data and Other Oil and Gas Information

We propose to amend the *Form 51-101F1* as follows:

- by eliminating the requirement of providing *reserves data* estimated using *constant prices and costs*
- by adding a requirement in the calculation of *future net revenue* to provide the information on a unit value basis
- by changing the requirement of providing a *reserves* reconciliation using *net reserves* to a reconciliation using *gross reserves*
- by eliminating the requirement to provide a *future net revenue* reconciliation

Form 51-101F2 Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor

We propose to amend *Form 51-101F2* as follows:

- by changing the statement to reflect the fact that *reporting issuers* are no longer required to report their *reserves data* estimating using *constant prices and costs*
- by adding required language stating that variations between the estimates of *reserves data* and the actual results should be consistent with the fact that *reserves* are categorized according to the probability of their recovery

Form 51-101F3 Report of Management and Directors on Oil and Gas Disclosure

We propose to amend *Form 51-101F3* as follows:

- by changing the statement to reflect the fact that *reporting issuers* are no longer required to report their *reserves data* estimated using *constant prices and costs*
- by adding required language stating that variations between the estimates of *reserves data* and the actual results should be consistent with the fact that *reserves* are categorized according to the probability of their recovery

51-101CP

The proposed amendments to 51-101CP reflect the changes to *NI 51-101* described above and provide further guidance on how to interpret and apply *NI 51-101*. In addition, 51-101CP was reorganized. Finally, we have removed the guidance on potential exemptions from the requirements of *NI 51-101* as we believe these exemptions are not appropriate for many *reporting issuers*.