

Request for Comment

**Draft Regulation to amend *Regulation 51-101 respecting 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
 Policy Statement to *Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities*****

Background

We, the Canadian Securities Administrators (CSA), are publishing for comment draft Regulation to amend *Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities* (Regulation 51-101), its related forms (the Forms) and Policy Statement to *Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities* (Policy Statement 51-101) (collectively, the Regulation).

Regulation 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, Regulation 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 Regulation in September 2003 and, in Québec, in August 2005, 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 Regulation which need to be amended.

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

- www.bcsc.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

- Regulation to amend *Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities*;
- new version of Policy Statement to *Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities*.

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

In Québec, the draft Regulation may not be made or submitted for approval before 90 days have elapsed since its publication. Comments regarding the above may be made within this period to the contact persons listed in this Notice.

Substance and purpose of the amendments

The draft amendments to the Regulation fall into the following four broad categories:

1. Amendments to clarify some provisions of the Regulation.
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 Regulation.

Summary of draft amendments

We have summarized the significant draft 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 Regulation or to streamline requirements. One alternative to amending the Regulation 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 Regulation 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 draft amendments to the Regulation will reduce issuers' costs, as the amendments will address problems industry has had applying the Regulation. 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 No. 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 Policy Statement to *Regulation 43-101 respecting Standards of Disclosure for Mineral Projects* and Policy Statement to *Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities*. (Note: National Policy No. 22 has already been repealed in the Province of Québec).

Unpublished materials

In proposing amendments to the Regulation, 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 draft amendments to the Regulation. In addition to any general comments you may have, we also invite comments on the following specific topic:

Section 3.2 of Regulation 51-101 requires that a reporting issuer appoint an independent qualified reserves evaluator or auditor and section 3.4 of Regulation 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 draft amendments to the Regulation 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.

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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:

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

January 19, 2007

Appendix

Summary of draft amendments

Regulation 51-101

We propose to amend Regulation 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 Regulation 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 Regulation 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 Regulation 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 Regulation 51-101 to exchangeable security issuers if they meet all of the requirements of a similar exemption in Regulation 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

Policy Statement 51-101

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