

## Notice and Request for Comment

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

### **Draft amendments to 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) and draft amendments to *Policy Statement to Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities* (Policy Statement 51-101) (collectively, the Regulation).<sup>1</sup>

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, we have monitored how it is working. As a result of CSA staff experience, we identified several areas in the Regulation which need to be amended.

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

- [www.bcsc.bc.ca](http://www.bcsc.bc.ca)
- [www.albertasecurities.com](http://www.albertasecurities.com)
- [www.sfsc.gov.sk.ca](http://www.sfsc.gov.sk.ca)
- [www.msc.gov.mb.ca](http://www.msc.gov.mb.ca)
- [www.osc.gov.on.ca](http://www.osc.gov.on.ca)
- [www.lautorite.qc.ca](http://www.lautorite.qc.ca)

We are publishing

- *Regulation to amend Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities*
- *Amendments to Policy Statement to Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities*
- *Regulation to amend Regulation 41-101 respecting General Prospectus Requirements*

<sup>1</sup> In those jurisdictions in which the proposed amendments are to be adopted as rules or regulations, the securities legislation in each of those jurisdictions provides the securities regulatory authority with rule-making or regulation-making authority in respect of the subject matter of the proposed amendments.

### **Substance and purpose of the amendments**

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

1. Amendments to clarify some provisions of the Regulation.
2. Amendments to amend and add certain requirements to the annual filing requirements to provide for more comprehensive disclosure.
3. Amendments to certain provisions to provide new guidelines for disclosure of reserves and resources other than reserves.
4. Amendments to streamline requirements in the Regulation.

### **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 clarified the signing requirements of Form 51-101F3. We have added a prohibition against adding across resource categories. This prohibition is intended to prevent misleading disclosure and to provide additional guidance to reporting issuers wishing to make meaningful and understandable disclosure of their oil and gas resources. We have added a requirement that the low estimate of reserves, contingent resources and prospective resources be included in the disclosure when the high estimate is disclosed.

We have amended the optional supplemental disclosure of reserves data in annual disclosure to allow for disclosure which is comparable to US disclosure. We have added a requirement in the annual disclosure to discuss the significant factors and uncertainties associated with properties for which no reserves have been developed.

We have removed the requirement to announce the annual filings with a press release and replaced it with the requirement to file a Form 51-101F4 notice on SEDAR.

We have removed definitions, requirements and guidance related to financial reporting to limit the scope of Regulation 51-101 to evaluation and disclosure practices related to reserves and resources other than reserves.

### **Alternatives considered**

As discussed above, many of the amendments are intended to clarify the Regulation or to streamline requirements; however certain requirements are being introduced to assist reporting issuers in providing understandable oil and gas disclosure. One alternative to amending the Regulation was to issue a CSA Staff Notice to provide additional guidance on reserve and resource disclosure. However, CSA Staff Notice 51-327 already addresses several of the amendments noted above and CSA Staff continues to see misleading disclosure.

### **Anticipated costs and benefits**

We believe that the proposed amendments to the Regulation will reduce issuers' costs, as the amendments will remove the requirement to disseminate a press release when filing annual disclosure. This requirement is replaced with a filing requirement on SEDAR, which would not have the dissemination costs associated with a press release. In addition, while the amendments do impose an additional mandatory requirement to discuss annually the significant uncertainties related to the reporting issuer's properties that have not been assigned reserves, we believe that given the growing importance of resources other than reserves to an oil and gas issuer's value, the value of this information to the public outweighs the costs of preparation. We also believe that the amendments will make

reporting issuers' disclosure about oil and gas reserves and resources more meaningful and understandable to the public.

#### **Consequential amendments**

We propose to amend Item 5.5 of Form 41-101F1 *Information Required in a Prospectus* to remove the obligation to provide annual reports as at the year-end when an issuer is not engaged in oil and gas activities at its year-end. However, that issuer is required to provide an oil and gas report in accordance with the Form 51-101F1, Form 51-101F2 and Form 51-101F3 which is effective subsequent to the date on which the issuer engaged in oil and gas activities.

#### **Related amendments**

CSA Staff Notice 51-324 and CSA Staff Notice 51-327 will be amended to reflect changes to the Regulation.

#### **Impact on investors**

The proposed amendments will benefit investors in several important respects:

- By prohibiting the addition across resource categories, investors should receive more consistent, meaningful and understandable disclosure of oil and gas resources.
- By imposing a mandatory requirement to discuss annually the significant uncertainties related to the reporting issuer's properties that have not been assigned reserves, investors will receive additional disclosure about assets which have a growing importance to an oil and gas issuer's value.

#### **Unpublished materials**

In proposing amendments to the Regulation, we have not relied on any significant unpublished study, report, or other written materials.

#### **Request for comments**

We welcome your comments on the proposed amendments to the Regulation.

Please submit your comments on the proposed amendments to the Regulation in writing on or before **March 19, 2010**. 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 any questions you may have regarding this notice to the following people:

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

**December 18, 2009**

## Appendix

### Summary of proposed amendments

#### A. IFRS CHANGES

##### Accounting Terms or Phrases

We replaced the following terms used in Regulation 51-101 with the IFRS terms.

Original Term or Phrase	IFRS Term or Phrase
minority interest	non-controlling interest

#### B. OIL AND GAS DISCLOSURE CHANGES

##### *Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities*

We propose to amend Regulation 51-101 as follows:

##### *Part 1 Application and Terminology*

- by adding a definition of executive officer, which parallels the definition in *Regulation 51-102 respecting Continuous Disclosure Obligations*, in order to clarify the signing requirements outlined in paragraph 2.1 (3)(e) of Regulation 51-101
- by adding a definition of Form 51-101F4 *Notice of Filing of 51-101F1 Information*
- by removing the word reservoirs from the definition of oil and gas activities and replacing it with the concept of subsurface, to allow for the broadest possible application
- by adding a definition of US oil and gas disclosure requirements that tracks changes to the US oil and gas securities regulatory regime to allow for supplemental reserves disclosure

##### *Part 2 Annual Filing Requirements*

- in paragraph 2.1(3)(e) by clarifying the Form 51-101F3 signing requirements
- in section 2.2 by removing the news release requirement and replacing it with a notice requirement
- in section 2.5 by providing additional Form 51-101F3 signing guidance, in particular for situations where the reporting issuer is not a corporation

##### *Part 4 Measurement*

- by deleting section 4.1

##### *Part 5 Requirements Applicable to all Disclosure*

- by clarifying that section 5.3 of Regulation 51-101 and the COGE Handbook apply to resources other than reserves
- by adding section 5.16 which prohibits addition across resources categories
- by adding section 5.17 which requires the disclosure of the low estimate when the high estimate is disclosed

*Part 8 Exemptions*

- by clarifying the application of section 8.2

*Part 9 Regulation in Force*

- by deleting section 9.2, as it is no longer relevant.

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

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

- by clarifying General Instruction (1)
- by including General Instruction (7) and (8) to assist reporting issuers in providing clear disclosure
- by modifying guidance related to the optional supplemental disclosure to allow for disclosure in accordance with US oil and gas disclosure requirements (in particular see Item 2.2 and Item 3.1)
- by clarifying that the information in Item 5.2 only applies to reserves data
- by providing guidance for calculating area where there are split-rights
- by adding a requirement to describe the significant factors and uncertainties related to the development of and production from properties without any reserves
- by requiring the disclosure of stratigraphic test wells
- by clarifying that Item 6.9 relates to gross daily production volumes

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

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

- by clarifying the requirement that the evaluation must be done in accordance with the COGE Handbook, consistently applied.

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

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

- by updating the form to mirror the changes to the signing requirements in Regulation 51-101 and the changes to the Form 51-101F2

***Policy Statement 51-101***

The proposed 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.

**C. GENERAL CHANGES*****Resources to Resources Other than Reserves***

“Resources” as defined in the COGE Handbook includes production and reserves. In order to clarify that certain guidance in Regulation 51-101 and Policy Statement 51-101 currently only relates to resources other than reserves, where applicable, Regulation 51-101 and

Policy Statement 51-101 have been amended to change the term “resources” to “resources other than reserves”.

#### ***Removal of Accounting References***

We have removed definitions, requirements and guidance solely related to financial reporting by oil and gas issuers from Regulation 51-101 and related documents with the intention of focusing the regulatory scope of Regulation 51-101 on the technical evaluation and disclosure of reserves and resources other than reserves.

<b>Term / Concept</b>	<b>Explanation of Change</b>
CICA	We removed the definition and references to CICA since the CICA is no longer relevant to Regulation 51-101.
CICA Accounting Guideline 16	We removed the definition and references to CICA Accounting Guideline 16 as it will no longer be relied on for the purposes of Regulation 51-101.
CICA Handbook	We removed the definition and references to CICA Handbook since it is no longer relevant to Regulation 51-101.
FAS 19	We removed the definition and references to FAS 19 since it is no longer relevant to the evaluation and disclosure prescribed by Regulation 51-101.
Full cost method of accounting (section 4.1 of Regulation 51-101)	We removed section 4.1 of Regulation 51-101 on the basis that requirements as to the preparation of financial statements are no longer within the scope of Regulation 51-101.
References to comparability of financial and reserves disclosure	We have removed these references to deemphasize the comparability of oil and gas accounting and oil and gas technical evaluation practice.
Section 3861 and Section 3280 of CICA Handbook	We have removed this specific guidance as it will no longer be relied on for the purpose of Regulation 51-101.