

**CSA Notice of Amendments to
National Instrument 51-101 *Standards of Disclosure for
Oil and Gas Activities*
-and-
Companion Policy 51-101 *Standards of Disclosure for
Oil and Gas Activities***

December 4, 2014

Introduction

The Canadian Securities Administrators (the CSA or we), are making amendments to National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (Rule) and Companion Policy 51-101 *Standards of Disclosure for Oil and Gas Activities* (Companion Policy) (the Amendments). The Amendments are being made in response to our observation of reporting issuer disclosure and to industry feedback. Subject to ministerial approval requirements, the Amendments will come into force on July 1, 2015. CSA Staff Notice 51-324 *Revised Glossary to NI 51-101 Standards of Disclosure for Oil and Gas Activities* and CSA Staff Notice 51-327 *Revised Guidance on Oil and Gas Disclosure* are also being amended in connection with the Amendments and will be published concurrently with the Amendments.

The CSA published proposed amendments to the Rule and the Companion Policy on October 17, 2013 for a 90 day comment period. Written comments received during and following this period, in conjunction with those obtained through oral communication with reporting issuers, independent qualified reserves evaluators and auditors and others were taken into consideration by the CSA in preparation of the Amendments.

You can find the text of the Amendments in the annexes to this Notice and on the websites of the CSA jurisdictions. We expect the Amendments to be adopted in each jurisdiction of Canada, following the satisfaction of applicable ministerial approval requirements.

Substance and Purpose of the Amendments

The Rule sets out both the general disclosure standards and specific annual disclosure requirements applicable to reporting issuers with oil and gas activities while the Companion Policy sets out the views of the CSA respecting the interpretation and application of the Rule. Under the Rule, the disclosure of resources other than reserves is voluntary. In recent years, the number of reporting issuers disclosing contingent and prospective resources has increased significantly. We have observed certain early stage issuers disclose resources other than reserves to convey the potential of their assets. To date, this disclosure has occurred both within and outside of the annual disclosure requirements with varying degrees of consistency and completeness.

The CSA acknowledges the importance of disclosure of resources other than reserves and expects that the Amendments will help further clarify the disclosure obligations of reporting issuers and provide guidance on their presentation.

The Amendments promote improved disclosure of resources other than reserves and associated metrics while simultaneously providing increased flexibility for oil and gas issuers that operate and report in different jurisdictions and recover product types not previously recognized by the Rule, and align the Rule with the amended Canadian Oil and Gas Evaluation Handbook (COGE Handbook). This includes the guidelines for estimation and classification of resources other than reserves (ROTR Guidelines), which became effective July 17, 2014; and the detailed guidelines for estimation and classification of bitumen resources (Bitumen Guidelines) published on April 1, 2014. While the effective date of the Amendments is July 1, 2015, reporting issuers are required to immediately follow the latest requirements of the COGE Handbook including ROTR Guidelines and Bitumen Guidelines as currently required pursuant to the Rule.

Background

Under the Rule, reporting issuers engaged in oil and gas activities are required to provide annual disclosure, appoint an independent qualified reserves evaluator or auditor, facilitate communication between the board of directors and the independent qualified reserves evaluator or auditor and prepare, evaluate or audit all public disclosure of reserves and resources other than reserves in accordance with the requirements of Part 5 of the Rule. Part 5 of the Rule mandates that reserves and resources other than reserves be prepared in accordance with the COGE Handbook and be evaluated or audited by a qualified reserves evaluator or auditor. The Rule was implemented in 2003 and amended in 2007 and 2010.

On October 17, 2013, the following amendments were proposed by the CSA:

- in certain circumstances and subject to disclosure requirements, permitting disclosure prepared under an alternative resources evaluation standard;
- inclusion and refinement of product type definitions in the Rule;
- additional requirements regarding the disclosure of contingent and prospective resources;
- introduction of a principle-based approach to the disclosure of oil and gas metrics;
- clarification of the point at which sales of product types and associated by-products should be disclosed;
- definition of and requirements related to the disclosure of abandonment and reclamation costs;
- removal of the requirement to match the presentation of reserves not directly held by the reporting issuer in the statement prepared in accordance with Form 51-101F1 to the presentation of the assets in the financial statements;

- removal of the requirement to obtain independent qualified reserves evaluator consent before disclosing results from the annual evaluation outside of the required annual filings;
- revision of the date at which the independent qualified reserves evaluator takes responsibility for information related to the reserves evaluation;
- clarification of required disclosure when an issuer has no reserves.

Summary of the Comments Received by the CSA

Thirteen letters were submitted during and shortly after the comment period. Letters were received from six large reporting issuers, three independent qualified reserves evaluators and auditors, one senior oil sands issuer, one law firm, one individual and one professional organization. Additional comments were received via oral communications with reporting issuers, independent qualified reserves evaluators and auditors and others.

The comments received were generally supportive of the proposed amendments while the proposed amendments respecting the requirements for additional disclosure of contingent and prospective resources received the most feedback. The comments were considered in detail by the CSA prior to preparation of the Amendments. Annex A of this Notice identifies the commenters and Annex B summarizes the associated comments and our responses. The comment letters are posted on the ASC's website at www.albertasecurities.com. We extend our thanks to all the commenters.

Summary of Changes

After considering the comments, we made amendments to the Rule including Form 51-101F1, Form 51-101F2, Form 51-101F3 and the Companion Policy, and added Form 51-101F5. As these changes were not material from the proposed amendments, the CSA did not republish the Amendments for an additional comment period. See Annex C for a summary of the changes made to the Amendments as originally published on October 17, 2013.

Contents of Annexes

Annex A – List of Written Commenters

Annex B – Summary of Comments and CSA Responses

Annex C – Summary of Changes from the Proposed Amendments Published for Comment on October 17, 2013

Annex D – Amending Instrument for the Rule

Annex E – Blackline of Companion Policy

Annex F – Local Matters

Local Matters

Annex F is being published in any local jurisdiction that is making related changes to local securities laws, including local notices or other policy instruments in that jurisdiction. It also includes any additional information that is relevant to that jurisdiction only.

Summary of the Amendments

1. Alternative Resources Evaluation Standard

Numerous issuers reporting in Canada also access the U.S. capital markets and are subject to the SEC's reserves disclosure regime. For example, SEC issuers who prepare financial statements in accordance with U.S. GAAP, as defined in National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*, have a requirement under Statement 19 of the Financial Standards Accounting Board to include reserves disclosure prepared in accordance with the U.S. regime within their financial statements. Certain issuers have sought and obtained a limited form of exemptive relief that allows them to disclose reserves prepared in accordance with U.S. requirements in addition to their reserves prepared under the Rule. The relief is required owing to an interpretation of sections 5.1, 5.2 and 5.3 of the Rule that does not allow for any public disclosure of reserves other than estimates prepared in accordance with the COGE Handbook.

Amended section 5.18 of the Rule allows for disclosure from alternative regimes. The disclosure under the alternative regime must be accompanied by the disclosure required by the Rule, be made in respect of a regime which is comparable to the COGE Handbook, have a scientific basis and be based on reasonable assumptions. Those estimates must be prepared or audited by a qualified reserves evaluator or auditor.

2. Product Type and Production Group

The amended Rule imports and refines the product type definitions from the COGE Handbook for securities disclosure purposes. The concept of production group is removed. The inclusion of the definitions and removal of the production group concept gives greater emphasis to both the oil and gas sources and recovery processes, and moves away from grouping resources into conventional and unconventional categories.

We do not anticipate any issues regarding reconciliations of product types under Part 4 of Form 51-101F1 as a result of this change. The opening balance for December 31, 2014 should be taken from the product types listed in the Statement of Reserves Data as per Item 2.1 of Form 51-101F1. A reporting issuer should choose the closest product type if the substance produced does not exactly match one of the product types or if it matches more than one of the product types listed in NI 51-101.

3. Contingent and Prospective Resources

The Amendments provide clearer guidance for the disclosure of contingent resources data and prospective resources data in the annual filings, including requiring the disclosure of risked net present value of future net revenue within an appendix to the statement. In addition, the

Amendments require those resources other than reserves estimates be prepared or audited by an independent qualified reserves evaluator or auditor.

4. Oil and Gas Metrics

The amended section 5.14 of the Rule lists principle-based requirements to describe the standard, methodology and meaning of a publicly disclosed oil and gas metric. If there is no standard, a reporting issuer must also describe the parameters used in calculating the oil and gas metric and provide a cautionary statement.

5. Marketability of Production and Reserves

Reporting issuers are obligated by the Rule to disclose production and resources based on the price that was or would be used at the point at which the product type is or could be sold. However, in certain scenarios it may not be appropriate, or even possible, to allocate a price at a point of sale. In respect of resources or sales of oil, gas or associated by-products, the volume may be measured at the point of sale to a third party (first point of sale), or of transfer to another division of the reporting issuer (alternate reference point) for treatment prior to sale to a third party. For gas, this may occur either before or after the removal of natural gas liquids. For bitumen or heavy oil, this is before the addition of diluent.

The amendments to the Rule clarify the concept of marketability in the reporting of oil and gas volumes. The amended sections 5.4 and 5.5 of the Rule requires a reporting issuer to report volumes and values at the first point of sale of the particular product type, unless that point is not relevant, in which case, the reporting issuer can select a point of measurement prior to the first point of sale.

6. Abandonment and Reclamation Costs

CSA staff have observed, and have received commentary from industry about, inconsistency in the determination of what constitutes abandonment and reclamation costs for the purpose of the annual oil and gas disclosure.

The Amendments clarify what constitutes abandonment and reclamation costs and require the disclosure of both abandonment costs and reclamation costs in the future net revenue disclosure and in the significant factors or uncertainties disclosure in the statement prepared in accordance with Form 51-101F1.

7. Reserves Presentation

The introduction of IFRS 11 highlighted the need for changes to the requirements in respect of the presentation of reserves data in the statement prepared in accordance with Form 51-101F1.

The Amendments point to the COGE Handbook for the purpose of determining ownership and allow for flexibility in the manner of presenting resources for which a reporting issuer does not have control.

8. *Other Amendments*

The amendments also clarify areas that have given rise to confusion, such as

- the requirement to obtain consent of the independent qualified reserves evaluator as it relates to the report prepared in accordance with Item 2 of section 2.1,
- the date on which the independent qualified reserves evaluator or auditor is responsible for changes in the reporting issuer's reserves data, and
- the disclosure required when a reporting issuer has no reserves.

Questions

Please refer questions to any of the following:

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