

COMPANION POLICY 51-101CP
STANDARDS OF DISCLOSURE
FOR OIL AND GAS ACTIVITIES

TABLE OF CONTENTS

PART 1.	APPLICATION AND TERMINOLOGY
1.1	Supplements other Requirements
1.2	Materiality Standard
1.3	When Does <i>NI 51-101</i> First Apply to a <i>Reporting Issuer</i> ?
1.4	<i>SPEE Standards</i>
1.5	<i>FASB Standard</i> and Other <i>FASB</i> Statements
1.6	<i>Qualified Evaluator</i> Professional Membership
1.7	Use of Information by Others
PART 2.	MEASUREMENT
2.1	<i>Proved Reserves</i> and <i>Proved Oil and Gas Reserve Quantities</i>
2.2	<i>Forecast Prices and Costs</i>
2.3	<i>Constant Prices and Costs</i>
2.4	Probability of Recovery
2.5	Consistency of Timing
2.6	<i>Future Income Tax Expenses</i>
PART 3.	RESPONSIBILITIES OF <i>REPORTING ISSUERS</i> AND DIRECTORS
3.1	Reserves Committee
3.2	Responsibility for Disclosure
PART 4.	REQUIREMENTS APPLICABLE TO ALL DISCLOSURE
4.1	Scope of Part 4 of <i>NI 51-101</i>
4.2	Estimates of Fair Value
4.3	Negative Assurance
4.4	<i>Supporting Filings</i>
PART 5.	ANNUAL FILING REQUIREMENTS
5.1	Annual Filings on SEDAR
5.2	Inapplicable or Immaterial Information
5.3	Use of Forms
5.4	<i>Annual Information Form</i>
5.5	Reservations in <i>Independent Qualified Evaluators'</i> Reports
5.6	Negative Assurance by <i>Qualified Evaluator</i>
PART 6.	MATERIAL CHANGE DISCLOSURE
6.1	Changes from Filed Information

PART 7. INDEPENDENCE OF PROFESSIONALS

7.1 *Independence of Qualified Evaluator*

7.2 Unacceptable *Qualified Evaluators* or Valuers

PART 8. EXEMPTIONS

8.1 Scope of Possible Exemptions

8.2 Exemption from Requirement for *Independent Qualified Evaluator*

8.3 Exemption from Requirement for Certain *Reserves Data*

8.4 Stacking of Exemptions

APPENDIX - TERMINOLOGY AND STANDARDS

Part 1. Definitions

Part 2. *Reserves* Terminology and Classifications

2.1 Meaning of *Reserves*

2.2 Primary Classifications of *Reserves*

2.3 Development and Production Status

2.4 Levels of Certainty

Schedule 1 - *FASB Standard*

Schedule 2 - Tar Sands Mining Disclosure

COMPANION POLICY 51-101CP
STANDARDS OF DISCLOSURE
FOR OIL AND GAS ACTIVITIES

This Companion Policy sets out views of the Canadian Securities Administrators (the "CSA") as to the manner in which National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") should be interpreted and how the *securities regulatory authorities* or *regulators* may exercise their discretion in respect of certain applications for exemptions from provisions of NI 51-101¹.

PART 1. APPLICATION AND TERMINOLOGY

1.1 Supplements other Requirements - NI 51-101 supplements other continuous disclosure requirements that apply to *reporting issuers* in all business sectors.

1.2 Materiality Standard - Section 1.2 of NI 51-101 states that NI 51-101 applies only in respect of information that is *material*.

NI 51-101 does not require any disclosure or filing of information that is not *material*. If information is not required to be disclosed because it is not *material*, it is unnecessary to disclose that fact.

Materiality for the purposes of NI 51-101 is a matter of judgement to be made in light of the circumstances, taking into account both qualitative and quantitative factors, and assessed in respect of the *reporting issuer* as a whole.

The reference in subsection 1.2(2) of NI 51-101 to a "reasonable investor" denotes an objective test: would a notional investor, broadly representative of investors generally and guided by reason, be likely to be influenced, in making an investment decision to buy, sell or hold a security of a *reporting issuer*, by an item of information or an aggregate of items of information. If so, then that item or aggregate of items of information is "*material*" in respect of that *reporting issuer*.

¹

For the convenience of readers, the Appendix to Companion Policy 51-101CP sets out the meanings of terms that are printed in italics in this Companion Policy (except words in italicized titles of documents, or in the forms of report set out in Part 9 which are printed entirely in italics) or in NI 51-101, Form 51-101F1, 51-101F2 or Form 51-101F3.

This concept of materiality is consistent with the concept of materiality applied in connection with financial reporting pursuant to the Handbook of the *CICA*.

- 1.3 When Does *NI 51-101* First Apply to a *Reporting Issuer*?** - Part 9 of *NI 51-101* specifies both the date on which *NI 51-101* comes into force (section 9.1) and the timing of its first application to a *reporting issuer* (section 9.2). The two dates differ. *NI 51-101* comes into force on [January 1, 2003]. That does not, however, itself trigger any immediate filing or other requirements for *reporting issuers*.

Section 9.2 of *NI 51-101* in effect establishes a transition period, after the CSA announce their adoption of *NI 51-101* and for a period after *NI 51-101* itself comes into force, during which *reporting issuers* are expected to prepare for compliance with *NI 51-101*. The date on which they first become subject to the requirements of *NI 51-101* will vary depending on their financial year-ends and, in some cases, on whether or not they choose to enter the *NI 51-101* disclosure system earlier than required.

The first annual filings under Part 5 of *NI 51-101* will be due at the same time as a *reporting issuer* is required to file its audited annual financial statements for its financial year that includes, or ends on, December 31, 2002. Those first annual *oil* and *gas* filings will include *reserves data* and other information that must be prepared as at the last day of that financial year and for that financial year. Some of this information will date back to the beginning of that financial year.

The other provisions of *NI 51-101*, including requirements relating to public disclosure generally and to material change² disclosure in particular, will apply to a *reporting issuer* only after it has filed its first annual oil and gas disclosure under Part 5, or the deadline for that filing, whichever is earlier.

The following examples, summarized in the table below, illustrate the effect of Part 9:

- A *reporting issuer* with a financial year that coincides with the calendar year will be required to make its first annual *oil* and *gas* disclosure filing under Part 5 in the first 140 days of 2003, by May 20, 2003. The *reserves data* and other information included in that filing must be prepared as at December 31, 2002 and for the year ended on that date.

The other provisions of *NI 51-101* will begin to apply to the *reporting issuer* as soon as it makes its first filing under Part 5, or on May 20, 2003, whichever occurs first.

2

"Material change" has the meaning ascribed to the term under current *securities legislation* in the *jurisdiction*.

A *reporting issuer* with a financial year that ends on June 30 will be required to make its first annual oil and gas disclosure filing under Part 5 within 140 days after June 30, 2003, by November 17, 2003. The *reserves data* and other information included in that filing must be prepared as at June 30, 2003 and for the financial year ended on that date.

The other provisions of *NI 51-101* will begin to apply to the *reporting issuer* as soon as it makes its first filing under Part 5, or on November 17, 2003, whichever occurs first.

<u>Financial Year-End</u>	<u>First Annual Filing Deadline</u>
December 31	May 20, 2003 (data for the year ended
June 30	November 17, 2003 (data for the year ended <u>June 30, 2003</u>)

Because the first annual filing must include information from the beginning of the financial year that includes or ends on December 31, 2002, *reporting issuers* should familiarize themselves with *NI 51-101* and begin gathering information well before *NI 51-101* applies to them.

1.4 *SPEE Standards*

- (1) Paragraph 2.2(1)(a) of *NI 51-101* mandates adherence to *SPEE standards* in estimating *reserves data* and related information. Section 4.2 of *NI 51-101* requires that public oil and gas disclosure be consistent with *SPEE standards*.
- (2) Important terminology developed by the Canadian Institute of Mining, Metallurgy & Petroleum (CIM), including *reserves* categories and related definitions, is incorporated in the *SPEE Handbook* which, pursuant to subsection 1.3(2) of *NI 51-101*, applies for purposes of *NI 51-101*. The Appendix to this Companion Policy sets out certain of these and other terms used in *NI 51-101*.
- (3) With a view to maintaining consistency between the relevant standards of *NI 51-101* and the *SPEE Handbook*, the CSA will monitor any proposal by the *SPEE* to amend the *SPEE Handbook*. The CSA will consider whether such an amendment should also apply for purposes of *NI 51-101*, which would likely be the case unless the CSA consider a proposed change to be inappropriate.

Unless and until the CSA implement a change made by the *SPEE* to the *SPEE Handbook*, such a change will not apply for purposes of *NI 51-101*.

1.5 *FASB Standard and Other FASB Statements* - *NI 51-101* and the related forms refer to standards established by the *FASB*, notably *FAS 19*, *FAS 69* and the *FASB Standard*. In accordance with the definitions of *FAS 19* and *FAS 69* in the Appendix to *NI 51-101*, references in *NI 51-101* to any of these standards include changes from time to time made to such standards by the *FASB*. Users of those standards should consult *FASB* publications.

In accordance with the definition of *FASB Standard* in the Appendix to *NI 51-101*, references in *NI 51-101* to the *FASB Standard* also include changes from time to time made by the *FASB*. The text of the *FASB Standard* as at [October 15, 2001] is reproduced in Schedule 1 to the Appendix to this Companion Policy. CSA staff will from time to time publish notice of changes made by the *FASB* to the *FASB Standard*.

1.6 *Qualified Evaluator Professional Membership* - One of the elements of eligibility to act as a *qualified evaluator* for purposes of *NI 51-101* is membership in a self-regulatory organization of engineers, geologists, other geoscientists or other professionals (clause (ii) of the definition of *qualified evaluator* in the Appendix to *NI 51-101*, or clause (b) of the definition as it appears in the Appendix to this Companion Policy). Upon the coming into force of *NI 51-101*, each of the following organizations in Canada is an acceptable self-regulatory organization for this purpose:

- Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA)
- Association of Professional Engineers and Geoscientists of the Province of British Columbia (APEGBC)
- Association of Professional Engineers and Geoscientists of Saskatchewan (APEGS)
- Association of Professional Engineers and Geoscientists of Manitoba (APEGM)
- Professional Engineers of Ontario (PEO)
- Ordre des ingénieurs du Québec (OIQ)
- Ordre des Géologues du Québec (OGQ)
- Association of Professional Engineers of Prince Edward Island (APEPEI)
- Association of Professional Engineers and Geoscientists of New Brunswick (APEGNB)
- Association of Professional Engineers of Nova Scotia (APENS)
- Association of Professional Engineers and Geoscientists of Newfoundland (APEGN)
- Association of Professional Engineers of Yukon (APEY)
- Association of Professional Engineers, Geologists & Geophysicists of the Northwest Territories (NAPEGG) (representing the Northwest Territories and Nunavut Territory)

Membership in such a body is a precondition to being a *qualified evaluator* but is not alone sufficient for that purpose. *Reporting issuers* should ensure that any person they appoint under section 3.2 of *NI 51-101* as an *independent qualified evaluator* has, in addition to the requisite professional standing and independence, training and experience that are consistent with the *SPEE standards* and relevant to the particular *reserves data* to be reported upon.

Membership in a professional organization outside Canada does not currently satisfy the requirements of *NI 51-101*. A *reporting issuer* can apply under Part 8 of *NI 51-101* for an exemption that would enable the *reporting issuer* to treat an individual who is a member of a foreign professional organization, and who has other satisfactory qualifications and experience, as a *qualified evaluator*. The CSA are also willing to consider whether particular foreign professional organizations should be accepted for purposes of *NI 51-101* generally. In considering any such application or acceptance, the *securities regulatory authorities* or *regulators* are likely to take into account the degree to which a foreign professional organization's authority or recognition, admission criteria, standards, and disciplinary powers and practices are similar to, or differ from, those of organizations listed above.

- 1.7 Use of Information by Others** - *NI 51-101* requires that information relating to *oil and gas activities* and the extraction of hydrocarbons from shale, tar sands or coal be filed with *securities regulatory authorities* both as a source of information, and to support other disclosure concerning those activities, to assist the public and analysts in making investment decisions and recommendations.

The CSA encourage registrants³ and other persons and companies that wish to make use of information concerning these activities of a *reporting issuer*, including *reserves data*, to review the information filed on SEDAR under *NI 51-101* by the *reporting issuer* and, if they are summarizing or referring to this information, to use the applicable terminology prescribed under *NI 51-101*.

PART 2. MEASUREMENT

- 2.1 Proved Reserves and Proved Oil and Gas Reserve Quantities** - The CSA understand from the *SPEE* that an estimate of quantities of *proved reserves* prepared using *constant prices and costs* and applying *SPEE standards* would, in all material respects, satisfy the requirements of the *FASB Standard* for the estimation of *proved oil and gas reserve quantities*.

The CSA understand, however, that the reverse might not be true in all circumstances.

³

"Registrant" has the meaning ascribed to the term under current *securities legislation* in the *jurisdiction*.

2.2 Forecast Prices and Costs - *Forecast prices and costs* are defined in the *SPEE Handbook*. Except to the extent that the *reporting issuer* is legally bound by fixed or presently determinable future prices or costs, *forecast prices and costs* are future prices and costs "generally recognized as being reasonable".

The CSA do not consider that future prices or costs would satisfy this requirement if they fall outside the range of forecasts of comparable prices or costs used, as at the same date, for the same future period, by major *independent qualified evaluators*.

2.3 Constant Prices and Costs - *Constant prices and costs* are discussed in the *FASB Standard*. In general, they are prices and costs that are assumed not to change, but rather to remain constant, throughout the life of a *property*, except to the extent of any fixed or presently determinable future prices or costs to which the *reporting issuer* is legally bound by contract or otherwise, including those for an extension period of a contract that is likely to be extended.

2.4 Probability of Recovery - Paragraph 2.2(1)(g) of *NI 51-101* provides that estimates of *proved oil and gas reserve quantities* are to reflect a high degree of certainty of recovery by targeting a 90 percent probability that at least the estimated quantities will be recovered. Unless the estimation is made using the probabilistic method, this probability will be based on the *qualified evaluator's* professional judgement rather than being supported by a mathematical determination.

2.5 Consistency of Timing - Subsection 2.2(2) of *NI 51-101* requires consistency in the timing of recording the effects of events or transactions for purposes both of annual financial statements and annual *reserves data* disclosure.

The fact that the *effective date* of information (for example, "as at and for the financial year ended on December 31, 20XX") is the same for a *reporting issuer's* annual financial statements and the statement filed under item 1 of section 5.1 of *NI 51-101* does not by itself satisfy the requirement in subsection 2.2(2).

For example, an acquisition or sale of a *property* that is recorded in the *reporting issuer's* financial statements for the financial year ended on December 31, 20XX should also be given effect to in its *reserves* estimates prepared with the same *effective date*. For this purpose, something is "recorded" if it is reflected in the amounts set out in the body of the financial statements, rather than only being disclosed in a footnote to the financial statements.

However, an acquisition or sale not recorded in the financial statements for the financial year ended on December 31, 20XX, even if the acquisition or sale is disclosed in a footnote to the financial statements or has been publicly disclosed in some other fashion, should not be given effect to in the *reserves* estimates prepared as at that *effective date*.

To ensure that the effects of events or transactions are recorded, disclosed or otherwise reflected consistently (in respect of timing) in all such documents, a *reporting issuer* will wish to ensure that both its auditors and its *qualified evaluators*, as well as its directors, are kept apprised of relevant events and transactions.

2.6 *Future Income Tax Expenses* - In estimating *future net revenue* or the *standardized measure*, estimated *future income tax expenses* (computed in accordance with the *FASB Standard*) are deducted.

The CSA consider that, for this purpose, *future income tax expenses* should be estimated year-by-year:

- (a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes, among *oil and gas producing activities* or the extraction of hydrocarbons from shale, tar sands or coal, and other business activities;
- (b) without deducting estimated future costs (for example, Crown royalties) that are not deductible in computing taxable income; and
- (c) taking into account estimated tax credits and allowances (for example, royalty tax credits).

PART 3. RESPONSIBILITIES OF REPORTING ISSUERS AND DIRECTORS

3.1 Reserves Committee - Section 3.4 of *NI 51-101* enumerates certain responsibilities of the board of directors of a *reporting issuer* in connection with *oil* and *gas* disclosure.

The CSA believe that certain of these responsibilities can in many cases be better fulfilled by a smaller group of directors who bring particular experience or abilities to the task.

Section 3.5 of *NI 51-101* permits a board of directors to delegate these responsibilities (other than the responsibility to approve the content or filing of certain documents) to a committee of directors, a majority of whose members are independent of management. Although section 3.5 is not mandatory, the CSA encourage *reporting issuers* and their directors to adopt this approach.

3.2 Responsibility for Disclosure - *NI 51-101* requires the involvement of an *independent qualified evaluator* in preparing or reporting on certain *oil* and *gas* information disclosed by a *reporting issuer*, and in section 3.2 mandates the appointment of an *independent qualified evaluator* to report on *reserves data*.

The CSA do not intend, and do not believe, that either the requirements in *NI 51-101* for involvement of an independent qualified evaluator, or compliance with those requirements:

- (a) relieve the *reporting issuer* of responsibility for information disclosed by it, including information filed by it under Part 5 of *NI 51-101*; or
- (b) by themselves constitute or demonstrate reasonable investigation, on the part of the *reporting issuer* or its directors or officers, as to the accuracy and completeness of disclosure by the *reporting issuer*.

PART 4. REQUIREMENTS APPLICABLE TO ALL DISCLOSURE

4.1 Scope of Part 4 of *NI 51-101* - Part 4 of *NI 51-101* imposes requirements and restrictions that apply to all disclosure (or, in some cases, all written disclosure) described in section 4.1. Part 4 applies to disclosure that is either:

- filed by a *reporting issuer* with the *securities regulatory authority*; or
- if not filed, otherwise made to the public or made in circumstances in which, at the time of making the disclosure, the *reporting issuer* expects, or ought reasonably to expect, the disclosure to become available to the public.

As such, Part 4 applies to a broad range of disclosure including:

- the annual filings required under Part 5 of *NI 51-101*;
- other continuous disclosure filings, including material change reports (which themselves may also be subject to Part 6 of *NI 51-101*);
- public disclosure documents, whether or not filed, including news releases;
- public disclosure made in connection with a distribution of securities, including a prospectus; and
- except in respect of provisions of Part 4 that apply only to written disclosure, public speeches and presentations made by representatives of the *reporting issuer* on behalf of the *reporting issuer*.

For these purposes, the CSA consider written disclosure to include any writing, map or other printed representation whether produced, stored or disseminated on paper or electronically.

To ensure compliance with the requirements of Part 4, the CSA encourage *reporting issuers* to involve a *qualified evaluator*, or other professional who is familiar with *SPEE standards*, in the preparation, review or approval of all such *oil* and *gas* disclosure.

4.2 Estimates of Fair Value - Section 4.9 of *NI 51-101* sets out requirements applicable to disclosure of certain estimates of fair value -- for example, an estimate of fair value of an oil and gas prospect.

Such an estimate must, unless paragraph 4.9(2)(a) applies, satisfy the requirements of paragraph 4.9(2)(b), which among other things requires that the estimate have been prepared or agreed to by a professional valuator. The CSA do not consider that such an estimate would be an appropriate basis for disclosure if it is prepared or agreed to as at a date more than 6 months before the date of the disclosure.

The three-part range of values required under subparagraph 4.9(2)(b)(ii) should consist of a reasonable low value reflecting a pessimistic estimate, a reasonable middle value reflecting the most likely estimate, and a reasonable high value reflecting an optimistic estimate, with each such value being estimated by a professional valuator in accordance with applicable professional standards based on the course of action that the valuator reasonably expects the *reporting issuer* to follow.

In circumstances in which paragraph 4.9(2)(b) applies, in order to ensure that the *reporting issuer* is not making public disclosure of misleading information, the CSA expect the *reporting issuer* to provide all relevant information to the valuator to enable the valuator to prepare the estimate and provide the report referred to in that paragraph.

4.3 Negative Assurance - The CSA are of the view that a report of a *qualified evaluator* that is based on or conveys only negative assurance -- for example, a statement to the effect that "Nothing has come to my attention which would indicate the *reserves data* have not been prepared in accordance with principles and definitions established by the *SPEE*" -- can be misinterpreted as providing a higher degree of assurance than intended or warranted.

The CSA believe that *reporting issuers* should avoid making any public disclosure of, or based on, such a report. In the rare case, if any, in which there are compelling reasons for making such disclosure, the CSA believe that, to avoid providing information that could be misleading, the *reporting issuer* should include in such disclosure useful explanatory and cautionary statements. Such statements should explain the limited nature of the work undertaken by the *qualified evaluator* and the limited scope of the assurance expressed, noting that it does not amount to a positive opinion.

4.4 Supporting Filings - Part 4 of *NI 51-101* requires that certain information, if disclosed publicly, must be supported by consistent information in a *supporting filing*.

The definition of "*supporting filing*" in the Appendix to *NI 51-101* does not specify any particular type of document, nor a maximum age or an expiry date for any such document. If the information in a filed document has not been rendered inaccurate or misleading by events subsequent to its filing, the document can continue to serve as a *supporting filing*.

Part 6 of *NI 51-101* requires that reports of material changes include, in certain circumstances, information concerning the effect that the material change would, but for the timing of its occurrence, have had on information in an annual filing under Part 5.

The CSA do not consider that a document filed under Part 5 of *NI 51-101* would cease to qualify as a *supporting document* merely by reason of the occurrence of a material change referred to in Part 6 of *NI 51-101*, provided that the material change disclosure required by Part 6 is filed.

PART 5. ANNUAL FILING REQUIREMENTS

5.1 Annual Filings on SEDAR - The information required under section 5.1 of *NI 51-101* must be filed electronically on SEDAR. Consult National Instrument 13-101 *SEDAR* and the current CSA *SEDAR Filer Manual* for information about filing documents electronically.

5.2 Inapplicable or Immaterial Information - Section 5.1 of *NI 51-101* does not require the filing of any information, nor a reference to information or to a disclosure requirement, even if specified in *NI 51-101* or in a form referred to in *NI 51-101*, if that information is inapplicable or not *material* in respect of the *reporting issuer*. See section 1.2 of this Companion Policy for a discussion of materiality.

If an item of prescribed information is not disclosed because it is inapplicable or immaterial, it is also unnecessary to state that fact or to make reference to the disclosure requirement.

5.3 Use of Forms - Section 5.1 of *NI 51-101* requires the annual filing of information set out in *Form 51-101F1* and reports in accordance with *Form 51-101F2* and *Form 51-101F3*.

NI 51-101, and the instructions within each form, give the *reporting issuer* considerable flexibility in presenting this information for filing, provided that all required information is filed. It is not necessary to identify any of the information by form name or number or title, to include the headings or numbering, or to follow the ordering of items, in the forms.

Information presented once in documents filed under Part 5 need not be repeated in other documents filed under Part 5 at the same time, with one exception: *reserves data* are to be disclosed together (Item 2.1 of *Form 51-101F1*) in a complete, concise presentation, even if parts of that information are also presented elsewhere.

The information specified in all three forms, or any two of the forms, can be combined in a single document. A *reporting issuer* may wish to include statements indicating the relationship between documents or parts of one document. For example, the *reporting issuer* may wish to accompany the report of the *independent qualified evaluator* (Form 51-101F2) with a reference to the *reporting issuer's* disclosure of *reserves data* (Item 2.1 of Form 51-101F1), and vice versa.

The report of management in Form 51-101F3 may be combined with management's report on financial statements, if any, in respect of the same financial year.

5.4 Annual Information Form - Section 5.3 of NI 51-101 permits *reporting issuers* to satisfy the requirements of section 5.1 of NI 51-101 by presenting the information required under section 5.1 in an *annual information form*.

The *annual information form* can be in Form 44-101F1 AIF if it is a "current AIF" under National Instrument 44-101 *Short Form Prospectus Distributions*, or if it is filed for other purposes such as Ontario Securities Commission Rule 51-501 AIF and MD&A, section 159 of the Regulation under the Securities Act (Québec) or Multilateral Instrument 45-102 *Resale of Securities*.

The *annual information form* can also be a current annual report on Form 10-K or Form 20-F under the United States Securities and Exchange Act of 1934, if the *reporting issuer* is eligible to file such a report.

An *annual information form* containing the information required under section 5.1 need not be filed twice (that is, once as an AIF and again under section 5.1). However, as a convenience to the public, the CSA urge *reporting issuers* who rely on section 5.3 to file on SEDAR, under the category for the section 5.1 filings, a statement directing readers to the *annual information form*. This statement could be a copy of the news release mandated by section 5.2 of NI 51-101.

5.5 Reservations in Independent Qualified Evaluators' Reports - A report of an *independent qualified evaluator* on *reserves data* will not satisfy the requirements of item 2 of section 5.1 of NI 51-101 if the report contains a *reservation*, the cause of which can be removed by the *reporting issuer* (subsection 5.4(2)).

The CSA do not generally consider time and cost considerations to be causes of a *reservation* that cannot be removed by the *reporting issuer*.

A report containing a *reservation* may, however, be acceptable if the *reservation* is caused by a limitation in the scope of the *evaluator's evaluation* or *audit* resulting from an event that clearly limits the availability of necessary records and which is beyond the control of the *reporting issuer*. This could be the case if, for example, necessary records have been

inadvertently destroyed and cannot be recreated or if necessary records are in a country at war and access is not practicable.

- 5.6 Negative Assurance by *Qualified Evaluator*** - A *qualified evaluator* conducting a *review* may wish to express only negative assurance -- for example, in a statement such as “Nothing has come to my attention which would indicate that the *reserves data* have not been prepared in accordance with principles and definitions established by the *SPEE*”.

As discussed above in section 4.3 of this Companion Policy, in respect of public disclosure generally, the CSA are of the view that such statements can be misinterpreted as providing a higher degree of assurance than intended or warranted.

The CSA believe that a statement of negative assurance would constitute so material a departure from the report prescribed in *Form 51-101F2* as to fail to satisfy the requirements of item 2 of section 5.1 of *NI 51-101*.

PART 6. MATERIAL CHANGE DISCLOSURE

- 6.1 Changes from Filed Information** - Part 6 of *NI 51-101* requires the inclusion of specified information in disclosure of certain material changes.

The information to be filed each year under Part 5 of *NI 51-101* is prepared as at, or for a period ended on, the *reporting issuer's* most recent financial year-end. That date is the *effective date* referred to in subsection 6.1(1) of *NI 51-101*. When a material change occurs after that date, the filed information may no longer, as a result of the material change, convey meaningful information, or the original information may have become misleading in the absence of updated information.

Part 6 of *NI 51-101* requires that the disclosure of the material change include a discussion of the *reporting issuer's* reasonable expectation of how information that had been filed under Part 5 would differ, had the material change occurred before rather than after that original information was prepared.

This material change disclosure can reduce the likelihood of investors being misled, and maintain the usefulness of the original filed *oil* and *gas* information when the two are read together.

PART 7. INDEPENDENCE OF PROFESSIONALS

- 7.1 Independence of *Qualified Evaluator*** - "*Independence*", in respect of the relationship between a *reporting issuer* and a *qualified evaluator* engaged to *evaluate, review* or *audit*

reserves data or other *reserves* information, is defined in the Appendix to *NI 51-101* as having the meaning ascribed to the term in the *SPEE standards*.

Under the *SPEE standards*, a *qualified evaluator* would generally be considered to be *independent* of a client *reporting issuer* when the *qualified evaluator* neither has, nor expects to receive, a direct or indirect interest in either a *property* to be *evaluated* or reported on, or in securities of the client or of an affiliate of the client.

A *qualified evaluator* would not normally be considered to be *independent* of a client *reporting issuer* if, during the term of his or her engagement, the *qualified evaluator* among other things:

- owned or acquired a material financial interest in (i) the client or an affiliate of the client, or (ii) a *property* to be *evaluated* or reported on;
- other than in respect of advance or retainer payments or work-in-process in respect of the engagement, or trade receivables arising in the ordinary course of business, was indebted to, or had advanced credit to, the client or to an officer, director or significant shareholder of the client;
- had a financial interest in a business (other than the engagement to evaluate or report on reserves) in which the client also had a financial interest, or was party to an agreement with the client for the purchase or sale of a material asset;
- was engaged on terms such that his or her remuneration was contingent on, or would vary with, the conclusions of the *evaluation* or report; or
- would derive from the engagement an amount exceeding 50 percent of his or her total revenue in the preceding 12 months.

Independence would not ordinarily be considered to be lost only by reason of the fact that the *qualified evaluator*, or a petroleum engineering firm of which he or she is a partner, shareholder or employee, also provides to the client *reporting issuer*, or provides to another client in respect of a *property* to be *evaluated* or reported on, other services (including *evaluations*, *reviews* or *audits*) of a type normally rendered by the petroleum engineering profession.

7.2 Unacceptable *Qualified Evaluators* or *Valuators* - Sections 3.2 and 5.1 of *NI 51-101* require the involvement, in connection with annual *reserves data* disclosure, of a *qualified evaluator* who is *independent* (in accordance with *SPEE standards*) of the *reporting issuer*. Similarly, section 4.9 requires the involvement, in connection with certain disclosure of estimates of fair value, of a professional valuator who is not a "related party" (within the meaning of the term in the Handbook of the *CICA*) of the *reporting issuer*.

Notwithstanding that a *qualified evaluator* or a valuator may technically satisfy these requirements concerning his or her relationship with the *reporting issuer*, circumstances may, or may reasonably be seen to, deprive that individual of the freedom to exercise independent judgement that the CSA consider essential to the purposes of *NI 51-101*. In such circumstances, the *regulator* may request the *reporting issuer* to engage another *qualified evaluator* or another valuator. If a prospectus filing is involved, the *regulator* may consider that a failure to comply with such a request *materially* impairs the quality of disclosure to the extent that would lead to a refusal to issue a prospectus receipt.

PART 8. EXEMPTIONS

8.1 Scope of Possible Exemptions - This Part discusses certain exemptive relief that the *securities regulatory authority* or the *regulator* may be willing to grant in appropriate circumstances, on application by a *reporting issuer* under Part 8 of *NI 51-101*. The relief discussed in this Part is limited to relief from the requirements of *NI 51-101*, and would not affect other requirements of *securities legislation*.

8.2 Exemption from Requirement for *Independent Qualified Evaluator*

The CSA consider that the involvement of a *qualified evaluator* who is *independent* of a *reporting issuer* will in most cases serve as an important measure of quality control for *reserves data* disclosure, which should in turn help foster and maintain confidence in *oil* and *gas* disclosure, to the benefit of all participants in Canadian capital markets.

However, the CSA recognize that there may be limited circumstances in which the quality and reliability of *reserves data* disclosure desired by the CSA may be achieved even without independent professional involvement.

Securities regulatory authorities or *regulators* would, in certain circumstances, likely be prepared, on application by a senior producing issuer, to grant an exemption from the requirements of *NI 51-101* for involvement of a *qualified evaluator* who is *independent* of the *reporting issuer*. Such an exemption might be without time limit but would likely be subject to conditions.

For these purposes, "senior producing issuer" means a *reporting issuer* that:

- (a) demonstrates capability to estimate its *reserves* and *future net revenue* in accordance with *SPEE standards* (other than with respect to *independence*); and
- (b) produced an average of more than 100,000 *BOEs* of *oil* and *gas* (converted in the ratio 6 *mcf*:1 *bbl*) per day throughout its most recent financial year.

Such an exemption from the requirement for *independence* of a *qualified evaluator* would likely extend to apply both in respect of requirements arising directly under *NI 51-101* (notably section 3.2 and paragraph (c) of item 2 of section 5.1) or indirectly under other

securities legislation (such as prospectus disclosure requirements) that applies requirements of *NI 51-101*.

Such an exemption would be unlikely to vary the requirements of *NI 51-101* in respect of the involvement of a *qualified evaluator*, only his or her *independence*. Relief would likely cease to be available to a *reporting issuer* if it ceased to be a senior producing issuer or in the event of a failure to adhere to any undertaking provided as a condition of the exemption.

No such exemption would likely be provided in connection with an initial public offering of securities or a reverse take-over or similar transaction.

An application for such an exemption should demonstrate that the applicant is a senior producing issuer. In considering that aspect of an application, factors taken into account by *securities regulatory authorities* or *regulators* would likely include the background and experience of the *reporting issuer's* non-independent *qualified evaluators*, the quality of its past *oil* and *gas* disclosure, and its internal disclosure, compliance, quality control and approval procedures. Adherence to "best practice" standards developed by the *SPEE* or relevant professional organizations would be expected. An independent *review* of internally-generated *reserves data*, with satisfactory results, could be required before an exemption is granted.

Any such exemption would likely be conditional on the *reporting issuer* undertaking:

- (a) to disclose, at least annually, its reasons for considering the reliability of internally-generated *reserves data* to be not materially less than would be afforded by strict adherence to the requirements of *NI 51-101*, including a discussion of:
 - (i) factors supporting the involvement of independent *qualified evaluators* and why such factors are not considered compelling in the case of that *reporting issuer*; and
 - (ii) the manner in which the *reporting issuer's* internally-generated *reserves data* are determined, reviewed and approved, including control procedures and the related role, responsibilities and composition of responsible management, the board of directors and (if applicable) the *reserves* committee of the board of directors;
- (b) to disclose, in each document that discloses any information derived from internally-generated *reserves data* and proximate to that disclosure, the fact that no *independent qualified evaluator* was involved in the preparation of the *reserves data*;

- (c) if, notwithstanding the exemption, the *reporting issuer* obtains a report on *reserves data* from an *independent qualified evaluator*, to disclose (at least by way of a narrative summary) the existence of that report, the identity of the *independent qualified evaluator* (after obtaining his or her consent), the scope and conclusions of that report, and a discussion of the extent to which such conclusions accord with (or differ from) corresponding internally-generated *reserves data* that the *reporting issuer* chooses to disclose in reliance on the exemption;
- (d) to file with the *regulator*, within 140 days after the end of each financial year after the date of the exemption, a certificate of a senior officer of the *reporting issuer* confirming the *reporting issuer's* compliance with the conditions of the exemption throughout that financial year; and
- (e) in respect of Part 5 of *NI 51-101*, to comply with section 5.1 except as varied by:
 - (i) deleting the words "each of whom is independent of the *reporting issuer*" from paragraph (c) of item 2 of section 5.1;
 - (ii) substituting, for the report in the form of *Form 51-101F2* referred to in item 2 of section 5.1, a report that, but for changes necessary to reflect the particular terms of an exemption on which the *reporting issuer* relies, and the deletion of inapplicable items, is in all *material* respects consistent with the following:

" ***Report on Reserves Data***

To the Board of Directors of [Issuer] (the "Company")

1. *Our staff and I evaluated the Company's Reserves Data as at [last day of the issuer's most recently completed financial year]. The Reserves Data are:*

- (a) (i) *proved and probable oil and gas reserves estimated as at [last day of the issuer's most recently completed financial year] using forecast prices and costs; and*
- (ii) *the related estimated future net revenue; and*
- (b) (i) *proved oil and gas reserve quantities, estimated as at [last day of the issuer's most recently completed*

*financial year] using constant prices and costs;
and*

(ii) the related standardized measure of discounted future net cash flows from oil and gas reserve quantities.

- 2. The Reserves Data are the responsibility of the Company's management. Our responsibility is to express an opinion on the Reserves Data based on our evaluation.*
- 3. We carried out our evaluation in accordance with standards established by the Canadian committee of The Society of Petroleum Evaluation Engineers except that as staff [and as shareholders, optionholders or members of the Company's reserves incentive program,] we are not independent.*
- 4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the Reserves Data are free of material misstatement. An evaluation also includes assessing whether these Reserves Data are in accordance with principles and definitions established by the Canadian committee of The Society of Petroleum Evaluation Engineers.*
- 5. The following sets forth the estimated proved plus probable future net revenue, estimated using forecast prices and costs, discounted at 10%, included in the Reserves Data evaluated for the year ended xxx xx, 20xx:*

<i><u>Country where Reserves located</u></i>	<i><u>Evaluated</u></i>
<i>xxx</i>	<i>\$ xxx</i>
<i>xxx</i>	<i>xxx</i>
<i>xxx</i>	<i><u>xxx</u></i>
	<i>\$ <u>xxx</u></i>

- 6. In our opinion, the Reserves Data evaluated have, in all material respects, been determined and are presented in accordance with the standards established by the Canadian committee of The Society of Petroleum Evaluation Engineers.*

7. *We have no present responsibility to update this report for events and circumstances occurring after the date of this report.*
8. *Because these Reserves Data are based on judgements regarding future events, actual results will vary and the variations may be material.*

[Internal Evaluator Name, Position, Province, Date]

_____ *[signed]* "

- (iii) substituting, for the report in the form of *Form 51-101F3* referred to in item 3 of section 5.1, a report that, but for changes necessary to reflect the particular terms of an exemption on which the *reporting issuer* relies, and the deletion of inapplicable items, is in all *material* respects consistent with the following:

" *Report on Reserves Data and Other Oil and Gas Information*

Management and staff are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. Such information includes Reserves Data, which are:

- (a) (i) *proved and probable oil and gas reserves estimated as at [last day of the issuer's most recently completed financial year] using forecast prices and costs; and*
 - (ii) *the related estimated future net revenue; and*
- (b) (i) *proved oil and gas reserve quantities, estimated as at [last day of the issuer's most recently completed financial year] using constant prices and costs; and*
 - (ii) *the related standardized measure of discounted future net cash flows from oil and gas reserve quantities.*

Our Internal Evaluator and staff who are employees of the Company have evaluated the Company's Reserves Data. The [Reserves Committee of the] Board of Directors has (a) reviewed the Company's procedures for providing information to the

Internal Evaluator (b) met with the Internal Evaluator to determine whether any restrictions placed by management affect the ability of the Internal Evaluator to report without reservation and (c) reviewed the Reserves Data with management and the Internal Evaluator.

The [Reserves Committee of the] Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has [, on the recommendation of the Reserves Committee,] approved the content and filing of the Reserves Data and other oil and gas information, the filing of the report of the Internal Evaluator on the Reserves Data and the content and filing of this report.

In our view, the reliability of these internally generated estimates of Reserves Data is not materially less than would be afforded by our involving independent evaluators to evaluate and review or audit and review these Reserves Data and we have therefore applied for and obtained an exemption from the requirement under securities legislation to involve independent evaluators.

The primary factors supporting the involvement of independent evaluators apply when (i) an independent evaluator's knowledge of, and experience with, an issuer's Reserves Data is superior to that of the internal evaluators and (ii) when the independent evaluators are less likely to be adversely influenced by self interest or management of the issuer. In our view, neither of these factors applies in our circumstances.

Our view is based in large part on the following. Our estimates of Reserves Data were developed in accordance with standards established by the Canadian committee of The Society of Petroleum Evaluation Engineers and (a) our internal evaluation staff (number of persons) have an average of X years of experience in evaluating reserves, (b) our internal evaluation management staff (number of persons) have an average of Y years of experience in evaluating and managing the evaluation of reserves, (c) all our evaluation staff are independent (other than their being employees, having Company shares and options and being members of the Company's reserves incentive program), and (d) our procedures and records and controls have been established, refined, documented and internally audited for Z years with such internal

auditors reporting directly to the [Reserves Committee of the] Board of Directors.

Because these Reserves Data are based on judgements regarding future events, actual results will vary and the variations may be material.

[signature, name and titles of chief executive officer]

[signature, name and titles of officer responsible for reserves disclosure]

[signature, name and titles of Internal Evaluator]

[signature, name and titles of director/member of the reserves committee]

[signature, name and titles of director/member of the reserves committee]

[Date] "

8.3 Exemption from Requirement for Certain Reserves Data

The *reserves data* to be prepared and reported on each year under Part 5 of *NI 51-101* has four principal components (see the definition in the Appendix to *NI 51-101*). Two of those components, *proved oil and gas reserve quantities* and the related *standardized measure*, are derived from United States requirements.

A key objective of the CSA in developing *NI 51-101* was to enhance the comparability of *oil and gas* disclosure provided by *reporting issuers*. The CSA recognize that, in the case of some *reporting issuers* that are active in US capital markets, the most relevant comparisons may be to *oil and gas* disclosure provided by US issuers.

Accordingly, *securities regulatory authorities* or *regulators* would, in certain circumstances, likely be prepared, on application by a *reporting issuer* that has securities registered in the US under the 1934 Act, to grant a limited exemption from the requirements of Part 5 of *NI 51-101* and the forms referred to in that Part.

Such an exemption could, in effect, narrow the scope of the disclosure specified in *Form 51-101F1* and referred to in *Form 51-101F2* and *Form 51-101F3*, to exclude information neither mandated by the *SEC* nor prescribed by the *FASB*. For example, the *reserves data* to be disclosed and reported on could in effect be narrowed by excluding *reserves* and related *future net revenue* estimated using *forecast prices and costs*, retaining only *proved oil and gas reserve quantities* and the related *standardized measure* estimated using *constant prices and costs*.

No such exemption would likely be provided in connection with an initial public offering of securities or a reverse take-over or similar transaction.

Such an exemption might be without time limit but would likely be subject to conditions.

Any such exemption would likely be conditional on the *reporting issuer* undertaking:

- (a) to disclose in the information filed under Part 5 of *NI 51-101* the existence of the exemption and a description of the nature of the information omitted from the filed documents pursuant to the exemption;
- (b) to provide, for the purposes of item 1 of section 5.1 of *NI 51-101*:
 - (i) the disclosure required by the *FASB Standard*, *FAS 69* and *SEC Industry Guide 2 "Disclosure of Oil and Gas Operations"*;
 - (ii) other disclosure, concerning matters addressed in *Form 51-101F1*, required under *FASB* statements; and
 - (iii) if the *reporting issuer* is engaged in extracting, by mining, bitumen or *oil* from shale, tar sands or coal, to include the information specified in Schedule 2 to the Appendix to this Companion Policy, "Tar Sands Mining Disclosure";
- (c) to make no public disclosure of, or derived from, information excluded from the documents filed under Part 5 of *NI 51-101* in reliance on the exemption, however such information may be characterized or described by the *reporting issuer*;
- (d) to make no public disclosure of *probable* or *possible reserves*, or related *future net revenue*, estimated using *constant prices and costs*; and
- (e) to file with the *regulator*, within 140 days after the end of each financial year after the date of the exemption, a certificate of a senior officer of the *reporting issuer* confirming the *reporting issuer's* compliance with the conditions of the exemption throughout that financial year and to the date of the certificate.

Any such exemption would likely cease to apply, in whole or (in some cases) in part, in respect of information that, although not required to be included in information filed under Part 5 of *NI 51-101* by reason of the exemption, is nonetheless publicly disclosed:

- Voluntary Disclosure - If, despite such an exemption, the *reporting issuer* voluntarily discloses any information referred to in paragraph (c) above, then the exemption would cease to apply in respect of the matter voluntarily disclosed, and the *reporting issuer* would thereafter be required to comply fully with *NI 51-101* in respect of that matter (including the requirement to file, under Part 5, all information relating to that matter). If in these circumstances a *reporting issuer* ceases to be able to rely on such an exemption in any year, it would likely no longer be able to rely on the exemption subsequently.

For example, a *reporting issuer* might be exempted from the requirement to disclose estimates of *reserves* derived using *forecast prices and costs* and related *future net revenue*, in the information filed under Part 5. If the *reporting issuer* then wishes to issue a news release in which it voluntarily discloses to the public an estimate of *reserves* or *future net revenue* derived using *forecast prices and costs*, in respect of a particular project or *property*, the exemption would no longer be available to it in respect of *reserves* and *future net revenue* and related information.

In this case, section 4.7 of *NI 51-101* would require that such information be disclosed not only for that project or *property*, but also for the *reporting issuer* in total.

Section 4.2 of *NI 51-101* would also be relevant. That provision requires that all public disclosure be consistent with information filed under Part 5 or in a report of a material change. In this case, section 4.2 would require the *reporting issuer* to file the information contemplated in item 1 of section 5.1 together with the reports on that filing contemplated in items 2 and 3 of section 5.1, setting out or reporting on the relevant *reserves data* and related information relevant to, and consistent with, the voluntary disclosure. These filing requirements under section 5.1 would continue in subsequent years.

- Material Change Disclosure - Material change disclosure requirements under *securities legislation* could compel a *reporting issuer* to disclose information that it is otherwise neither required nor permitted to disclose under the terms of an exemption contemplated in this section 8.2. This could arise, for example, when, as a result of a discovery or development activity, the *reporting issuer's probable reserves* change *materially*.

If, to satisfy its material change disclosure obligations, a *reporting issuer* discloses estimates or other information that it had undertaken not to disclose as a condition of an exemption, the *reporting issuer* would likely be required to include, in the information it files under section 5.1 of *NI 51-101* for that financial year, all information and reports relating to such estimates or other information contemplated under Part 5 (but for the exemption), at least in respect of the particular project or *property* to which the material change disclosure relates. In this case, the application of sections 4.2 and 4.7 of *NI 51-101* would likely be varied so that the additional required disclosure could be limited to the particular project or *property* rather than for all projects and *properties* of the *reporting issuer*.

The additional information and reports would likely have to be filed not later than the next filing deadline under section 5.1 of *NI 51-101* (that is, the deadline for information prepared as at the last day of the financial year during which the material change disclosure is made), and could be included in the other documents filed under Part 5 at that time. Apart from these additional one-time filing requirements, the exemption would not otherwise be affected or invalidated.

- 8.4 Stacking of Exemptions** - *Securities regulatory authorities* or *regulators* would, in certain circumstances, likely be prepared to consider granting, on application by *reporting issuers* that fall within the classes contemplated in both sections 8.2 and 8.3, exemptions that combine the elements contemplated in those sections 8.2 and 8.3.
-