CSA/ACVM

Canadian Securities Administrators

Autorités canadiennes en valeurs mobilières

CANADIAN SECURITIES ADMINISTRATORS STAFF NOTICE 51-315

Guidance Regarding the Determination of Constant Prices for Bitumen Reserves under National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*

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Background and Purpose

National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (NI 51-101) sets out requirements and standards for disclosure by reporting issuers engaged in oil and gas activities, which include the production of bitumen. Companion Policy 51-101CP (the Companion Policy) sets out the views of the Canadian Securities Administrators (CSA) as to the interpretation and application of NI 51-101 and its related forms.

The purpose of this CSA Staff Notice is to provide additional guidance as to how, under NI 51-101, the constant price used in estimating bitumen reserves and related future net revenue should be determined in the absence of a published market for bitumen. The use, by reporting issuers and reserves evaluators, of the approach set out in this notice should enhance the comparability of reporting issuers' disclosure concerning bitumen reserves.

Constant Prices under NI 51-101

NI 51-101 requires oil and gas reporting issuers to disclose, annually,

- proved reserves estimated using constant prices and costs and
- proved, as well as proved plus probable, reserves estimated using forecast prices and costs.

"Constant prices and costs" is defined in the glossary of the Companion Policy as follows (with emphasis added):

> "Prices and costs used in an estimate that are:
>
> (a) the <u>reporting issuer's prices</u> and costs <u>as at the effective date of the estimation</u>, held constant throughout the estimated lives of the properties to which the estimate applies;
>
> (b) if, and only to the extent that, there are fixed or presently determinable future prices or costs to which the reporting issuer is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).
>
> For the purpose of paragraph (a), the reporting issuer's prices will be the <u>posted price of oil</u> and the spot price for gas, <u>after historical adjustments for transportation, gravity and other factors</u>."

For the purpose of the annual filing required by NI 51-101, the "effective date" is the last day of the issuer's financial year, which is December 31 for most oil and gas issuers. While NI 51-101 does not specify what "historical adjustments" mean, we believe it is appropriate to apply the average of the adjustments for the 12 months prior to the effective date of the estimation.

NI 51-101 requires issuers to disclose the benchmark reference price for each product type that is reflected in the issuer's reserves information (see item 3.1 Constant Prices Used in Estimates of Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information*).

Difficulties in Determining Constant Prices for Bitumen

We understand that there is no generally recognized approach to determine the constant price for bitumen because the bitumen market is not yet mature and there are no published reference prices for bitumen. We have been advised that, to price bitumen, marketers apply formulas that take as a reference point the prices published for crude oil of particular qualities such as "Edmonton light", "Lloydminster blend", or the more internationally known "West Texas Intermediate" (WTI). We also understand that the price of bitumen fluctuates widely during the course of a year, with the lowest prices typically occurring at the end of the calendar year because of decreased seasonal demand for asphalt and other bitumen-derived products coupled with higher prices for diluents added to facilitate pipeline transportation of bitumen.

An Acceptable Approach

Some issuers propose to determine the constant price for bitumen by using, for the benchmark reference price, the published price for WTI after applying historical adjustments (meaning the average of the adjustments for the 12 months preceding the date of the estimate) for transportation and for quality, which create the price differential between WTI and bitumen.

To apply this approach, an issuer with a financial year ended December 31 would determine the constant price for bitumen for its annual filing under NI 51-101 by using the year-end WTI price after applying historical adjustments for that year for transportation, gravity and other factors that create the difference in price between WTI and bitumen. However, in accordance with paragraph (b) of the definition of "constant prices and costs", if the reporting issuer is legally bound to supply bitumen at a determinable price then the constant price would be that determinable price rather than the historically adjusted WTI-derived price (see also instruction (2) in Part 3 of Form 51-101F1).

We believe that the method described above for determining the constant price for bitumen satisfies the definition of "constant prices and costs" in NI 51-101. We also understand that this method is generally consistent with how constant prices are determined for other product types (as defined in NI 51-101) for which there is no published market or benchmark reference price.

An issuer that follows this approach should provide an explanation with its disclosure of pricing assumptions in response to Item 3.1 of Form 51-101F1.

We expect an issuer that follows this approach to do so consistently for all of its disclosure of bitumen reserves and related future net revenue.

CSA staff will reconsider this matter when the market for bitumen is sufficiently mature to permit a more direct method of establishing the constant price for bitumen.

Questions
If you have any questions regarding this matter contact:

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