CORPORATE FINANCE DISCLOSURE REPORT

DECEMBER 2014

Introduction

The Alberta Securities Commission (ASC) is pleased to publish its 24th annual Corporate Finance Disclosure Report (Report). The ASC continues to view this Report as an annual opportunity to communicate the importance of high-quality disclosure by reporting issuers (RI) in Alberta, highlight our observations of the past year, and emphasize certain priorities for the coming year.

Overall, 2014 was a mixed year for RIs in Alberta. A significant portion of RIs in Alberta are oil and gas companies or related businesses, and generally benefit from strong prices. In the first half of the year, oil prices hovered around US$95 (US)/(bbl). After surpassing US$100/bbl in June, we saw prices tumble nearly 40 per cent to their lowest level in a number of years.

During the year, capital raising windows came and went with some very large financings completed, including initial public offerings. That said, we also saw financings adjusted downward and some that were abandoned.

The slide in oil prices has also resulted in broader effects on the Canadian economy, with the dollar starting off the year around US$0.94 and sitting at US$0.88 at the time of this report.

If there is a protracted downturn in oil prices, companies operating in the energy and related industries will be clearly impacted the most. RIs in other industries may experience different catalysts, such as technology or market trends that may change, affecting their operations and prospects.

Whether in good times or in bad, continuous disclosure (CD) is an essential component of being a responsible and compliant RI. CD is the foundation by which RIs communicate to their investors the results of operations, financial position and how internal and external events have affected them, so informed investment decisions can be made. The importance of accurate CD disclosure cannot be understated. It makes accessing capital on a timely and efficient basis possible and is why disclosure review is one of the most significant priorities we have as an organization.

We appreciate the vigour and responsibility that the majority of RIs and their advisors apply to the disclosure process, and we commend the commitment of the individuals involved who do the right thing when faced with difficult circumstances and choices. However, reliable and accurate reporting is constantly evolving and there is always room for improvement. We encourage all RIs to continue to improve their disclosure by revisiting carried forward information, avoiding the use of boilerplate disclosure and constantly assessing whether a clear, complete and authentic picture is portrayed of the RI's business, operations, risks and prospects. In situations where choices lead to disclosure that may be misleading, our goal is to determine the impact on the business and market, and conduct any necessary corrective action in a timely manner.

Given the market conditions referred to above, the ASC will be paying particular attention during reviews of the upcoming reporting periods to the potential implications of recent market events and the impact they may have on, most notably, considerations around asset impairment as well as the impact on liquidity.

As always, we welcome your input, as we strive to improve this Report for our readers every year. This feedback can include observations on the Report itself or areas of disclosure that are of concern to market participants. We are receptive to your feedback and take your comments into consideration when preparing the next Report.

Glossary of Terms

In this Report, the following terms have the meanings set forth below unless otherwise indicated. Words importing the singular number only include the plural, and vice versa.

"**AIF**" means Annual Information Form, specifically, a completed Form 51-102F2 *Annual Information Form* (**Form 51-102F2**);

"**CD**" means Continuous Disclosure;

"**CSA**" means the Canadian Securities Administrators;

"**CPC**" means Capital Pool Company;

"**CTO**" means Cease Trade Order;

"**FLI**" means Forward-looking Information, specifically, disclosure regarding possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action and includes future-oriented financial information with respect to prospective financial performance, financial position or cash flows that is presented either as a forecast or a projection (as defined in National Instrument 51-102 C*ontinuous Disclosure Obligations* (**NI 51-102**));

"**IAS 1**" means International Accounting Standard (**IAS**) 1 *Presentation of Financial Statements*;

"**IAS 8**" means IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;

"**IAS 33**" means IAS 33 *Earnings Per Share*;

"**IAS 36**" means IAS 36 *Impairment of Assets*;

"**IFRS**" means International Financial Reporting Standards, specifically, the standards and interpretations adopted by the International Accounting Standards Board, as amended from time to time;

"**IFRS 3**" means IFRS 3 *Business Combinations*;

"**IFRS 7**" means IFRS 7 *Financial Instruments: Disclosures*;

"**IFRS 8**" means IFRS 8 *Operating Segments*;

"**IFRS 10**" means IFRS 10 *Consolidated Financial Statements*;

"**IFRS 11**" means IFRS 11 *Joint Arrangements*;

"**IFRS 12**" means IFRS 12 *Disclosure of Interests in Other Entities*;

"**IFRS 13**" means IFRS 13 *Fair Value Measurement*;

"**MCR**" means Material Change Report, specifically, a completed Form 51-102F3 *Material Change Report*;

"**MD&A**" means Management's Discussion and Analysis, specifically, a completed Form 51-102F1 *Management's Discussion & Analysis* (**Form 51-102F1**); and

"**NI 52-109**" means National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*.

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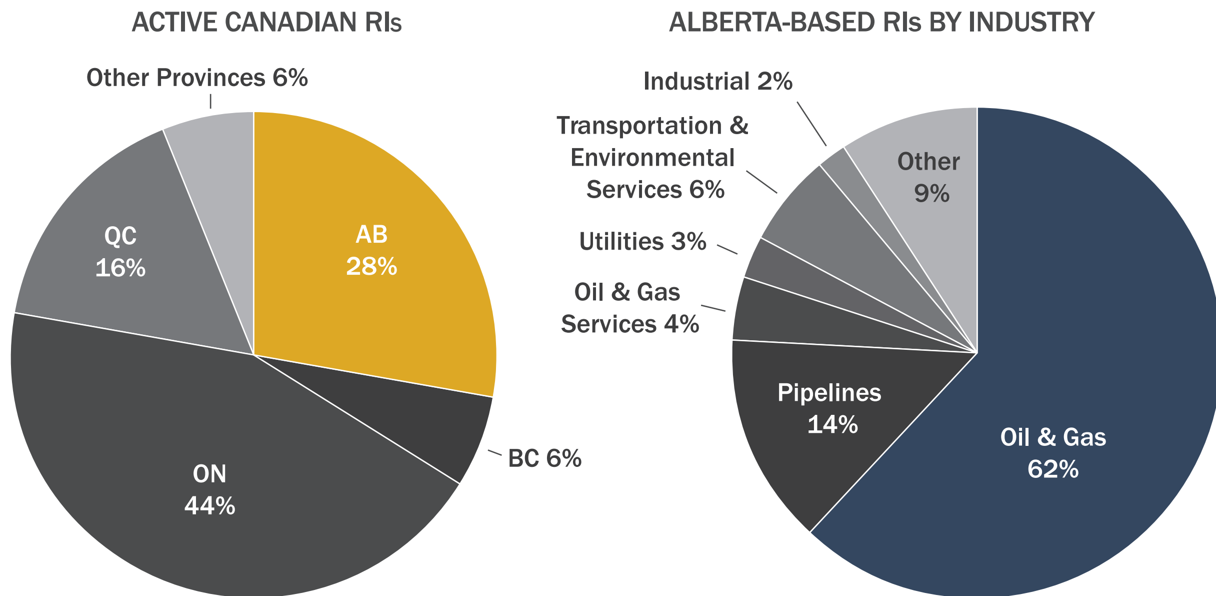
1. The Alberta Capital Market

Market Capitalization and Industry Type

Alberta has the second largest capital market in Canada. The market capitalization of Alberta-based[1] RIs constitutes approximately 28 per cent of active Canadian RIs[2]. The ASC regulates 722 Alberta-based RIs representing a diverse range of industries. The oil and gas industry comprises the majority of RIs with 62 per cent of the total Alberta market capitalization.

MARKET CAPITALIZATION



Corporate Finance

The ASC is entrusted with protecting investors and with fostering a fair and efficient capital market. The mandate of the Corporate Finance division is to establish and sustain confidence in the Alberta capital market by ensuring that investors have access to timely, reliable and relevant information to make informed investment decisions. Our efforts towards this goal include: compliance work; policy research and rule development; and outreach to issuers, investors and professional advisors to promote a high level of compliance as well as to obtain their feedback.

To meet the ever-changing complexities of our RIs, the Corporate Finance division is comprised of a diverse group of professionals with a broad range of expertise. While applying our expertise to all industries represented in the Alberta capital market, our core focus is to sustain our regulatory leadership in the oil and gas industry.

1 Represents RIs whose principal regulator is Alberta

2 Represents RIs based in Canada that are listed on the TSX or TSXV. Source: TMX Group, October 31, 2014

This Report presents our observations from reviews of CD and offering documents completed during the year, and identifies key areas where issuers can improve disclosure. In order to establish our expectations and provide practical guidance to issuers, where possible we provide examples and reminders.

2. Review Process & Outcomes

CD Reviews

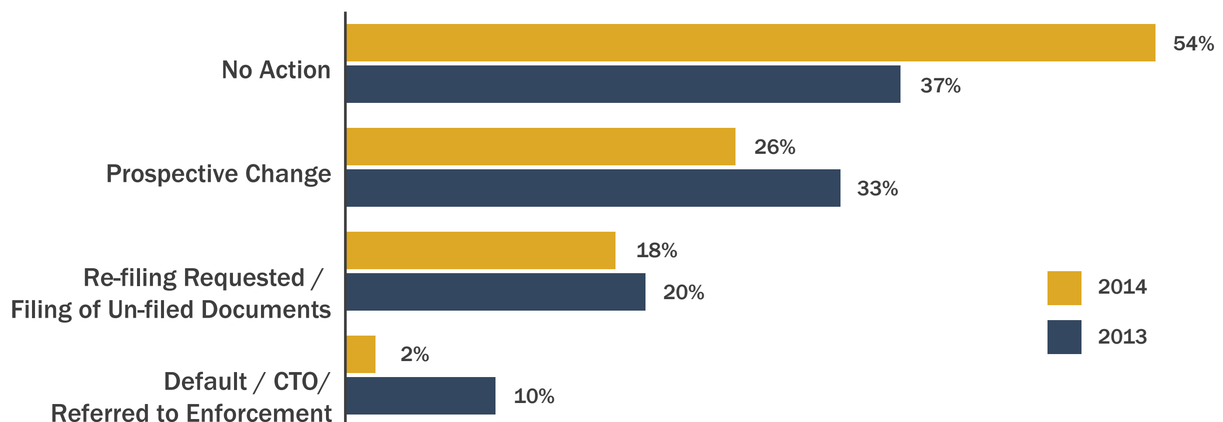
The ASC CD review program continues to be a key priority of the Corporate Finance division. We conduct our CD reviews to ensure that RIs are in compliance with regulatory requirements and also to provide direct feedback to RIs on how to improve their disclosure. Our program involves two types of CD reviews: full CD reviews and issue-oriented reviews (**IORs**).

The scope of our full CD reviews is broad and will usually include an assessment of an RI's CD disclosure for its most recently completed annual and interim periods, including: financial statements, MD&A, business acquisition reports, information circulars, news releases, MCRs, websites, AIFs (if applicable), and other relevant disclosures.

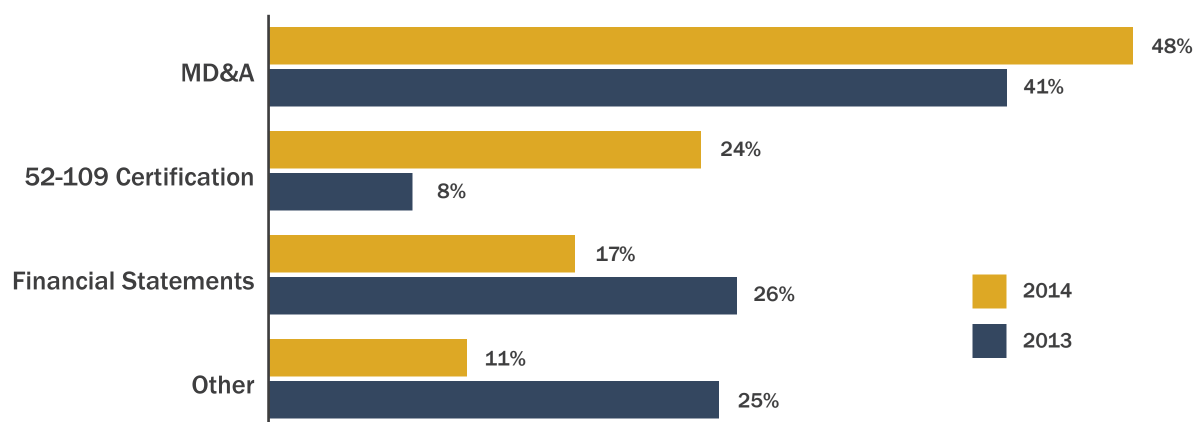
IORs focus the scope of our review on particular disclosures, issues or requirements. We conduct some IORs jointly with other members of the CSA, while other IORs are ASC-specific.

This year's IORs included specific disclosure issues in news releases, AIFs, MD&As, and financial statements. One IOR we conducted this year included the review of RIs' disclosure relating to IFRS 12 and IFRS 13. We discuss some of our observations from this review in the Financial Statements and Disclosures section of this Report. Another IOR that we did this year assessed compliance with NI 52-109. The results of this review are discussed in the Other Notable Areas section of this Report.

CD REVIEW OUTCOMES



NATURE OF RE-FILINGS



As illustrated in the CD Review Outcomes chart, the "no action" category had the largest percentage increase from 2013. This increase resulted primarily from our IOR of all (214) Alberta-based non-venture RIs' NI 52-109 disclosures, where 87 per cent of RIs reviewed resulted in a no action outcome. While the percentage decreased for the other three categories, it is noteworthy for "Re-filing/Filing of Un-filed Documents" and "Prospective Change," the actual total number in these categories increased.

"Re-filing/Filing of Un-filed Documents" represented 18 per cent of outcomes for 2014. Un-filed documents comprise 50 percent of this category, with a significant portion being un-filed material contracts. As demonstrated in the Nature of Re-filings chart, the largest increase in re-filings was related to the required annual and interim certificate filings under NI 52-109 and MD&As. Similar to last year, the MD&A deficiencies resulted from: disclosure deficiencies relating to NI 52-109; restatements of financial statements; and insufficient disclosures on discussions of operations, liquidity and capital resources. This report highlights some of the key deficiencies and observations from our reviews.

Offering Document Reviews

During the 12 months ended November 30, 2014, there was a total of 128 offering documents filed by RIs and issuers where Alberta is the principle regulator, a nine per cent decrease from the prior year. A large part of the overall decline reflects the continued uncertainty in the capital markets.

Type of Filing	12 months ended November 30, 2014	12 months ended November 30, 2013	% Change
Initial Public Offering (IPO) Prospectus	14	15	(7%)
Long Form Prospectus	2	6	(66%)
Short Form Prospectus	104	113	(8%)
Rights Offering Circular	6	3	100%
CPC Prospectus	2	4	(50%)
Total	**128**	**141**	**(9%)**

3. Notable Review Observations

3.1 Financial Statements and Related Disclosures

A. IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Errors

In the past year, we have seen several RIs who re-filed and/or re-stated financial information; however, many of these RIs did not appropriately present or disclose these restatements in accordance with securities regulations. IAS 8 provides the financial statement disclosure requirements for the correction of material prior period errors.

REMINDER

When an RI corrects a material prior period error retrospectively by restating the comparative amounts for the prior period(s) and/or opening balances, paragraph 49 of IAS 8 requires disclosure of:

a. **the nature of the prior period error;**

b. **for each prior period presented, to the extent practicable, the amount of the correction:**

    i. **for each financial statement line item affected; and**

    ii. **if IAS 33 applies to the entity, for basic and diluted earnings per share;**

c. **the amount of the correction at the beginning of the earliest prior period presented; and**

d. **if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**

In addition to IAS 8, subsections 4.1(1)(b) and (c) of NI 51-102 require a statement of financial position as at the beginning of the most recently completed financial year when an RI makes a retrospective restatement in its annual financial statements. The presentation of the statement of financial position in these circumstances should be with equal prominence in a complete set of financial statements as set out in paragraph 11 of IAS 1. We noted a few RIs had a retrospective restatement but did not include the additional statement of financial position. We also observed instances where the RI provided the disclosure separately in the notes to the financial statements or simply indicated that there had been a restatement.

Subsection 4.1(2) of NI 51-102 also requires that annual financial statements filed under subsection 4.1(1)(b) and (c) of NI 51-102 be audited. In a few instances where the statement of financial position as at the beginning of the most recently completed financial year was included, the auditor's report did not reference that period[3]. In these circumstances we will generally require a re-filing of the annual financial statements to include the required auditor's report.

3 Section 3.3 of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (NI 52-107)

Changes in estimates and accounting policies

During the year we also focused on disclosure of material changes in estimates and voluntary changes in accounting policies.

Estimates

An estimate may need revision if there is a change in the circumstances on which the estimate was based or as a result of new information or more experience. IAS 8 requires that RIs disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in a future period. If it is impracticable to estimate the effect in future periods, the RI is still required to disclose the nature of the change, and the fact that the amount of the effect in future periods has not been disclosed because estimating it is impracticable.

Unlike the correction of a material error, the effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of change and, if applicable, future periods. If a change in accounting estimate results in changes in assets, liabilities or equity, the carrying amount of the related item is adjusted in the period of change[4].

In addition, section 1.12 – *Critical Accounting Estimates* of Form 51-102F1 requires non-venture issuers to provide additional disclosure of critical accounting estimates, including changes made to critical accounting estimates in the past two financial years and the reasons for the change.

We observed that many RIs disclosed the quantitative effect of a change in estimate in the notes to the financial statements; however, the nature of the change and the reasons for the change were not disclosed. In some circumstances we requested further information as to the basis for the estimates and changes in estimates to establish that it was a valid change and not an accounting error.

Accounting Policies

Unless required by an IFRS, an RI can only change its accounting policies if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the RI's financial position, financial performance or cash flows[5]. When an RI voluntarily changes an accounting policy the change is applied retrospectively.

Paragraph 29 of IAS 8 outlines the disclosures required when a voluntary change in accounting policy has an effect on the current or prior period. A common deficiency relating to this disclosure requirement is omitting the reasons why the new accounting policy provides reliable and more relevant information. This is important information as it is inappropriate to change accounting policies for the purpose of presenting more favourable results in a particular period.

4 Paragraphs 36 – 40 of IAS 8

5 Paragraph 14 of IAS 8

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

During the year ended December 31, 2013, the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised share options and warrants are transferred to deficit. Previously, the Company's policy was to leave such amounts in contributed surplus. This policy has been applied retrospectively. The impact of the change was a decrease to deficit and a decrease to contributed surplus of $5.1 million at December 31, 2012 and $5.3 million at December 31, 2011.

The RI did not disclose why the new accounting policy provided more relevant information, as required by paragraph 29(b) of IAS 8.

EXAMPLE THAT MET OUR EXPECTATIONS

Under the Company's previous accounting policy for decommissioning provisions, the estimate of the expenditure required to settle the present obligation at the balance sheet date was recorded on a discounted basis using the pre-tax risk-free interest rate and the future cash flow estimates were adjusted to reflect the risks specific to the liability. At January 1, 2014, the Company voluntarily changed its accounting policy to use a credit-adjusted risk-free discount rate and future cash flow estimates will not be adjusted to reflect the risks specific to the liability.

The Company believes the change in discount rate provides reliable and relevant information to the users of the financial statements as the discount rate is consistent with the Company's cost of capital. The change in policy must be applied retrospectively and resulted in property and equipment at December 31, 2013 decreasing by $1.42 million with a corresponding decrease to decommissioning provisions of $1.42 million. Deferred tax, depletion and accretion amounts related to prior periods were not adjusted as any changes were immaterial.

In addition to the financial statement requirements in IAS 8, section 1.13 – *Changes in Accounting Policies including Initial Adoption* of Form 51-102F1 has additional disclosure requirements for voluntary changes in accounting policy. Rather than simply repeating the disclosure already presented in the financial statements, the MD&A provides an opportunity to discuss the choices among acceptable alternatives, and the potential effect of the change on aspects of the business beyond just the financial statement line items, such as the potential impact on debt covenants and business practices.

B. IFRS 12 and IFRS 13

Last year we conducted an IOR on the adoption of IFRS 10, 11 and 12. Our observations indicated an increased risk of IFRS 12 disclosure deficiencies in RIs' annual financial statements. Given these concerns, we carried out an IOR of the 2013 calendar year-end RIs to reassess IFRS 12 disclosures. We also reviewed disclosures relating to the adoption of IFRS 13 that came into effect on January 1, 2013. We reviewed the 2013 annual financial statements, MD&A and AIF, for 30 non-venture RIs and 20 venture RIs. Of the 50 reviews, we requested that 56 per cent of RIs make prospective changes to their disclosures.

IFRS 12

Overall, we observed the IFRS 12 disclosure was unclear or inconsistent resulting in our need to issue comment letters to clarify the nature of and risks associated with the RIs' interests in other entities.

Common disclosure deficiencies included:

- inconsistent use of terminology (e.g., the term "joint venture" was used throughout the financial statements and the RI's other CD documents. Through our review it was clarified that the term "joint venture" was used in the context of the generally recognized term used more broadly in the oil and gas industry, not as that term is defined by IFRS 11);
- material joint operations with no disclosure provided in the 2013 annual financial statements as required by IFRS 12.21(a);
- no disclosure on how joint control was determined when an entity has significant varying working interests as required by IFRS 12.7(b);
- disclosure of a joint arrangement accounting policy note and use of the terms joint arrangement, joint operation, and/or joint venture throughout the CD documents despite the RI having no joint arrangements; and
- missing judgement disclosure on how an issuer determined control with less than 50 per cent ownership interest as required by IFRS 12.9(b).

REMINDER

IFRS 12.7 requires disclosure of the specific significant judgements and estimates the RI has made in determining it has control or significant influence of another entity. A boilerplate statement that "ParentCo has the power to govern the financial and operating policies of SubCo" where ParentCo holds less than 50 per cent of the voting rights of SubCo, is insufficient in addressing this disclosure requirement. See paragraph 9 of IFRS 12 for further examples.

IFRS 13

The majority of RIs reviewed indicated that the adoption of IFRS 13 had no impact; the remaining RIs disclosed that the adoption of IFRS 13 resulted in increased disclosure, but no material impact on their financial results.

The most common disclosure deficiencies we noted relating to IFRS 13 were incomplete, boilerplate or missing disclosure of:

- the valuation technique and inputs for Level 2 fair value measurements as required by IFRS 13.93(d);
- the unobservable inputs for Level 3 fair value measurements as required by IFRS 13.93(d); and
- the disclosures on whether the recoverable amount was determined using fair value less costs to dispose or value in use as required by IAS 36 paragraphs130(e).

C. Judgement Disclosure

Disclosure related to significant judgements has been an area of focus for the ASC since the transition to IFRS, and as such we have discussed it in previous Reports; however, we continue to note that several RIs fail to include the required disclosure in certain key areas.

Control

In last year's Report, we discussed the results of our IFRS 10, 11 and 12 IOR. We noted that many RIs did not provide sufficient significant judgement disclosure to explain the basis for management's assessment of control, joint control and significant influence, as required by paragraph 7 of IFRS 12.

During the past year, this was the most common area of deficient judgement disclosure. In several cases we identified relationships between entities where the level of control or influence disclosed did not necessarily correspond with the percentage of ownership interest. As a result, it was apparent that significant additional judgements were made that factored into management's assessment; however, these judgements were not always disclosed.

EXAMPLE OF IMPROVED DISCLOSURE

As a result of comments we raised, the RI improved its disclosure of the judgements it made in assessing: whether it had significant influence over ABC, joint control over the RI's 75 per cent interest in DEF, joint control over GHI and the type of joint arrangement (i.e., joint operation), as the arrangement was structured through a separate vehicle (DEF and GHI).

The Company also exercises judgement in its accounting treatment for ABC and the determination of whether the Company has significant influence over ABC. Significant influence under IFRS represents the power to participate in the financial and operating policy of the investee but not control or joint control of those policies. Although the Company holds less than 20 per cent of the equity of ABC, the quantitative threshold utilized under IFRS to determine significant influence, two of the Company's officers are Board members of ABC, which is considered a potential indicator of significant influence. The Company's accounting determination considered factors including the non majority representation, as well as the ABC's Board's role in determining financial and operating policies. It was determined that the Company did not have significant influence and this investment has been accounted for as an available for sale financial instrument.

The Company and ABC maintain joint control over both DEF and GHI. In determining DEF and GHI are joint operations, management determined that as part of the agreements, all financing, capital and production decisions in DEF are required to be unanimous by the holders of the voting shares of the GHI. In addition, during the initial phase, DEF has not established producing operations, the Company and ABC maintain implicit rights to the assets and DEF currently relies solely on the partners for the settlement of its liabilities. As a result, the operations of DEF are classified as joint operations and its assets, liabilities, revenues and expenses are included in these financial statements proportionately to the Company's ownership interest. GHI exists to act as a General Partner of DEF and is also classified as Joint Operations. The facts and circumstances are reviewed at the end of each reporting period.

Acquisitions

In the context of acquisitions, we have noted that some RIs fail to include disclosures of the significant judgements made in two main areas: assessing whether the acquisition constitutes an asset acquisition or a business combination, and determining the accounting acquirer.

IFRS 3 *Business Combinations* provides guidance on identifying a business combination and the definition of a business. This determination is not always reflected in RIs' disclosure. We note that applying the definition of a business can require significant judgement, particularly in the oil and gas and real estate industries. Through correspondence with the RIs, we confirm that, in most cases, they have made the appropriate assessments, and have considered the factors in IFRS 3; however, their disclosure does not reflect this.

IFRS 3 also provides further guidance on identifying the accounting acquirer, if applying IFRS 10 to determine which entity obtains control of the acquiree does not clearly identify the acquirer. If an RI has to use the additional factors in paragraphs B14 through B18 of IFRS 3 to determine the acquirer, it is likely that significant judgements were made, and should be disclosed as such. IFRS 3 also discusses when a reverse acquisition occurs. Given the complexity of some of the acquisition transactions that RIs are entering into, we would expect expanded judgement disclosure in these areas.

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

The acquisition is considered a reverse takeover under securities regulations due to the vendors receiving units totalling more than 50 per cent of the outstanding units of the Company as consideration for the acquisition. For accounting purposes, the acquisition has been accounted for as an asset acquisition, and IFRS 2 has been applied in accounting for the units issued in connection with the acquisition.

In the context of a reverse takeover, the Company concluded that it is the accounting acquirer, as it is the entity whose former management dominates the combined entity. Furthermore, the composition of the Company's board, in conjunction with the Company's nominating agreement, allow the Company to nominate the majority of the members of the governing body of the combined entity, and the vendor is required to support the Company's nominees.

The RI has provided appropriate judgement disclosure relating to the determination of the acquirer and the fact that this was a reverse takeover for securities regulation purposes.

However, since this acquisition was material to the RI, this disclosure should be improved by providing disclosure as to the judgements made in the determination of the acquisition as an asset acquisition, rather than a business, given the nature of the business.

Credit risk

Another area of concern is with respect to judgements associated with an RI's credit risk. Many RIs present disclosure that is carried forward from period to period, simply updating the quantitative balances in their receivable accounts. However, we note that this is not necessarily appropriate when there are material changes in the nature of the items, the collection terms, or the counterparties.

In one example, the RI had a significant long-outstanding receivable but provided no updates to its credit

risk disclosure or discussion as to why the full amount was still considered recoverable. The RI agreed that there had been indicators of impairment, but maintained that a writedown was not necessary. The RI provided improved disclosure in its subsequent financial statement filings.

EXAMPLE OF IMPROVED DISCLOSURE

In this example, the RI had a significant increase in its accounts receivable balance that was outstanding over 90 days. The disclosure that the RI initially presented in its financial statements was insufficient for investors to assess the underlying change, the additional risk and the judgements made by the RI in assessing the recoverability of the balance. The RI updated its disclosure of the nature of the receivables and the new collection timelines, and improved its disclosure as follows:

During the year ended December 31, 2013, one of the Company's joint operating partners switched from a cash call basis to a joint interest billing basis. As a result, the Company no longer secures cash calls from either of its joint operating partners in the area. This has resulted in a significant increase in both accounts receivable and accounts payable and accrued liabilities on the statement of financial position. The Company is exposed to the risk that such partners may not reimburse the Company for their portion of the expenses, however this is mitigated by the fact that the Company has established an acceptable payment history with its partners.

Receivables from joint venture partners are typically collected within one to three months of the joint interest billing being issued. The company attempts to mitigate the risk from its joint operating receivables by obtaining partner pre-approval of significant capital expenditures prior to incurring such costs. However the receivables are from participants in the oil and gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risks of unsuccessful drilling. In addition, further risk exists with joint operators as disagreements occasionally arise that increase the potential for non-collection.

D. Acquisitions

IFRS 3 differentiates between the acquisition date, which is the date on which an entity obtains control of an acquiree, and the closing date, which is the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree[6]. There are circumstances in which these may not always be the same date. In our reviews of CD filings disclosing significant acquisitions, we note instances where RIs disclose an effective date for their acquisition transactions. It is not always clear, however, what the effective date signifies for the RI (i.e., whether it is the acquisition date, the closing date or another date relevant to the acquisition). Since the acquisition date drives the acquisition accounting, it is important that RIs critically consider all pertinent facts when determining this date.

In one example, the RI, who had completed numerous acquisitions in the past three years, had consolidated the results of its acquired businesses starting on the effective date of each respective acquisition. For most of its acquisitions, the effective date disclosed was not the same as the closing date. Upon inquiry, the RI confirmed that the acquisition date was the same as the closing date; however, the effective date was contractually based, and was generally the first day of the month of the acquisition. The RI further clarified

6 Paragraphs 8 and 9 of IFRS 3

that it commenced consolidating its acquisitions as of the effective date of each acquisition transaction in order to avoid having an additional mid-month accounting cut-off. The RI appropriately used the acquisition date when it valued the purchase consideration (in this case, shares).

In the above example, the RI had quantified the effect of using a date other than the acquisition date to start consolidating its acquired businesses, and it was determined not to be material; however, we have noted some RIs where there are far more significant lags between the effective date of the acquisition and the closing date, where the difference can have a material effect on the financial statements. In one example, the RI had disclosed an effective date of January 1st for an acquisition that did not close until October 21st of that year, as a result, we questioned which date the RI had used for recognising and measuring the acquisition, and for consolidating the results of the acquired business.

REMINDER

Paragraph 20 of IFRS 10 states that consolidation of an investee shall begin from the date the investor obtains control of the investee. As a result, it is important to determine whether the acquirer actually obtained control of the acquiree at a date earlier or later than the closing date based on the terms of the acquisition agreement (e.g., power over the investee, rights or exposure to variable returns from the investee). RIs must carefully consider the guidance in IFRS 10 when assessing when control is gained.

E. Segment Reporting

One area of continued focus is the application of IFRS 8. Some of the main issues we have seen this year relate to how RIs determine their reportable segments, reconciliations and the disclosure of changes in segments.

Aggregation

For many of our RIs, each of their operating segments represent separate reportable segments and are presented as such. However, in some cases two or more operating segments are aggregated into one reporting segment. This can be appropriate if the aggregation criteria in paragraph 12 of IFRS 8 are met, mainly that the segments have similar economic characteristics and the segments are similar in other respects, such as the nature of the products or services, and their type of customer. We have noted that this is not always the case, and as such have questioned the basis on which operating segments appear to have been aggregated.

In one example, an RI discussed the existence of three operating segments; however, there was no segment reporting disclosure in its financial statements. Upon inquiry, the RI stated that of the three segments, A, B and C, segment A was the only material segment, with B and C each accounting for a small portion of the RI's business (based on the various quantitative thresholds outlined in paragraph 13 of IFRS 8). Based on that assessment, the RI presented the business as one reportable segment; this was not appropriate, as the three operating segments did not meet the aggregation criteria. Relative materiality is not a basis for aggregation.

We further clarified that paragraph 16 of IFRS 8 states that information about other business activities and operating segments that are not reportable shall be combined and disclosed in an "all other segments"

category separately from other reconciling items in the reconciliations required by paragraph 28 of IFRS 8. As a result, segments B and C should have been presented in that manner.

REMINDER

Paragraph 22 of IFRS 8 requires RIs to disclose general information about the factors used to identify their reportable segments; this includes disclosing whether operating segments have been aggregated.

Change in Segments

We also note RIs that did not appropriately disclose changes in their reportable segments, whether they were due to a change in the structure of their internal organisation or a change in the relative size of their operating segments (i.e., no longer meet the quantitative thresholds of a reportable segment).

Clear disclosure is not only necessary when the number of segments changes, but also when there are material changes to the composition of an RI's reportable segments. When this is the case, the segment information for prior periods presented should be restated unless the information is not available and the cost to develop it would be excessive. If the information has not been restated, an RI is required to state that the information has not been restated, and disclose segment information for the current period on both the old basis and the new basis of segmentation[7].

EXAMPLE THAT MET OUR EXPECTATIONS

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers, determined to be the Board of Directors and the senior executives, as these are the individuals that make strategic decisions and resource allocations.

Beginning in fiscal 2013, the Company changed to four reportable segments to reflect a new operating structure. The reportable segments correspond to internal business units as follows: AACC (combination of AAA and CCC Divisions), BBB, DDD, and International. Previously, the reportable segments were AAA, BBB, CCC, and DDD. The basis for the change is to better represent the unique skill sets and services of each business.

To enable readers to understand the changes and to assess trends, prior period segment information was restated to reflect the new business structure.

7 Paragraphs 29 and 30 of IFRS 8

Reconciliations

Since not every part of an RI is necessarily an operating segment, the sum of the reportable segments' financial measures may not equal that of the consolidated RI. As a result, paragraph 28 of IFRS 8 requires RIs to reconcile the revenues, profit or loss, assets, liabilities and other material items of the reportable segments to the RI as a whole. To satisfy this requirement, many RIs include an additional column in their segment disclosures required by paragraph 23 of IFRS 8; however, this disclosure is not always sufficiently clear. Specifically, we note examples where the requirement that each material reconciling item should be separately identified and described[8] is not met.

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

Selected financial information for continuing operations by operating segment and Corporate is as follows:

(000's)	Contract Drilling	Production Services	Corporate & Eliminations	Consolidated
Revenue	$153,675	$75,711	($723)	$228,663
Net income (loss) before income taxes	$15,708	$23,204	($16,358)	$22,554
Depreciation and amortization	$17,876	$2,134	$824	$20,834
Total assets	$255,149	$47,145	$2,959	$305,253
Total liabilities	$33,242	$19,391	$2,770	$55,403
Equipment expenditures	$29,706	$2,727	$1,145	$33,578

We noted that $16.4 million was allocated to the non-operating segment to reconcile net income before income taxes for the operating segments to the RI's consolidated total. It was unclear from the disclosure what this reconciling item pertained to (e.g., intersegment eliminations, items managed on a group basis that are not allocated to the operating segments such as finance costs, current and deferred income taxes, etc.). As a result, we inquired as to the nature of the reconciling item. Based on the RI's response, $14.1 million related to corporate office costs that are not allocated to the reportable segments. Given the material nature of this item, the RI was advised that we would expect it to separately identify and describe such items in its segmented information note in future filings.

3.2 MD&A Disclosure

A. Key Drivers and Key Performance Indicators (KPIs)

Most MD&A discussions that explain variances and trends in an RI's operations include a discussion of the RI's key drivers, even if they are not necessarily identified as such. By their nature, in the ordinary course of business, the key drivers will be the main factors that influence the results of operations.

8 Paragraph 28 of IFRS 8

Through our CD reviews, we sometimes note that the RI's disclosures provide investors with a general understanding of the business, but not necessarily the key drivers of the business' results of operations, such as the generation of revenues. This is important disclosure to help investors to understand the business in sufficient depth to be able to assess historical performance and better predict trends and future results.

In one example, an RI in the telecommunications industry reported that its revenues increased significantly during the year ended January 31, 2014, and during each of the interim periods within the year. In explaining these significant variations, the RI simply disclosed in its MD&A that this was due to "tremendous growth of the wholesale revenue in fiscal 2014." Even with a general understanding of the business gained from the RI's other CD filings, it was unclear what actually drove the revenue growth. Through our correspondence, the RI explained that its primary performance driver is "minutes generated"; however, this was never discussed in the RI's MD&A. The RI prospectively improved its MD&A disclosures to include a discussion of this key driver, and added discussion of minutes and average rates to its summary of quarterly results discussion. As a result, the improved disclosure provides significantly more meaningful analysis of changes in revenues.

Some MD&As also include disclosure about RIs' KPIs. This disclosure can be useful to identify an RI's priorities as the KPIs generally measure an RI's progress towards strategic, operational and financial goals. If an RI discloses its KPIs in its CD filings, we expect a discussion of the variances in those indicators. A discussion of the variance in, and progress towards, an RI's KPIs often ties together the analysis that the RI discloses in other sections of its MD&A (e.g., in the overall performance, selected annual information, and discussion of operations sections).

EXAMPLE OF IMPROVED DISCLOSURE

We have seen MD&A disclosure where the RI's KPIs are identified, but not discussed. In this example, the RI disclosed in its MD&A that utilization of its assets was one of its key performance indicators, but there was no actual discussion or analysis presented of any of the indicators that it listed. As a result, it was apparent that investors were missing information that management uses to assess metrics that it considers to be key. The RI prospectively improved its MD&A disclosure to include a discussion of the changes in its KPIs for each of its three reportable segments.

The following is an excerpt from the improved disclosure:

The amount of days a truck is being utilized is used by management to measure the Company's ability to manage its assets. Utilization rate is the ratio of the number of days a truck is generating revenues divided by the number of days it was available to operate based on a twenty-one day month. Therefore, it is possible to have a utilization rate greater than 100 per cent.

Consolidated utilization rates for the six month period ended June 30, 2014 decreased 11% to 55% when compared to the comparable period. The decrease is attributable to the following:

- **Adverse weather conditions impacted 10% of operational days in 2014 compared to 2% in 2013.**
- **Assets in the fleet that were for sale impacted 3% of operational days compared to 1% in 2013.**
- **The remainder of the operational days were impacted due to repairs and maintenance being performed on trucks, the rapid growth of the fleet and the time to deploy the new trucks.**

B. Impact of Acquisitions and Divestitures

Another area where we note deficient disclosure is in the discussion of the impact of acquisitions and divestitures on an RI's business, including its results of operations, liquidity, and capital.

Sections 1.2 – *Overall Performance* and 1.3 – *Selected Annual Information* of Form 51-102F1 state that RIs should discuss the effect of acquisitions and dispositions in the analysis of the changes in the RI's financial condition and operations. We have noted that in addressing this requirement, some RIs simply present vague disclosure that the variances identified are mainly due to an acquisition; however, the depth of this explanation is insufficient.

In one example, not only was the RI's MD&A discussion of the effects of a significant acquisition on its results of operations lacking, but the RI had also omitted the required financial statement disclosure regarding the amounts of revenue and profit or loss of the acquiree since the acquisition date[9]. As a result, investors would have very little information about the impact of the acquisition in the period.

EXAMPLE OF IMPROVED DISCLOSURE

The RI's 2013 annual MD&A did not provide adequate discussion and insight of results of operations and only identified the factors that led to the changes noted. For instance, the RI disclosed:

Production in the three months and year ended December 31, 2013 increased compared to the three months and year ended December 31, 2012 (the "Corresponding Periods"). In addition to the Company's on-going drilling success, the increase includes production from the acquisition of NOP which closed on October 5, 2012 as well as production from the QRST acquisition which closed on August 25, 2013.

This level of explanation was consistently applied in the remainder of the MD&A disclosure. As there were two significant acquisitions in the period, we expect that the MD&A clearly explain in detail the factors that caused the variances and trends noted.

The RI improved its disclosure in its subsequent MD&A filings as follows:

Production in the three and six months ended June 30, 2014 increased 130 per cent and 125 per cent, respectively, compared to the three and six months ended June 30, 2013 (the "Corresponding Periods"). In addition to the Company's on-going drilling success, the increase includes production from the Q1 Asset Acquisitions (adding greater than 800 Boe per day, commencing on various transaction closing dates in February and March), as well as the acquisition of crude oil and natural gas assets located in Alberta which added approximately 5,700 Boe per day from the closing date on August 25, 2013 (the "QRST Acquisition").

We also expect an RI to discuss the effects of any significant acquisition or disposition on its liquidity and capital resources, as the sources and expected uses of its working capital, debt and equity could be impacted as a result of the transaction.

9 Paragraph B64(q) of IFRS 3

To the extent that there is a proposed acquisition or disposition, as described in section 1.11 – *Proposed Transactions* of Form 51-102F1, an RI should discuss the expected effect on its financial condition, financial performance and cash flows. In addition, both the liquidity and the capital resources sections of the MD&A[10] may require some forward-looking discussion (i.e., expected fluctuations in liquidity, and commitments and expected fluctuations in capital resources).

C. Updating Forward-looking Information

We continue to see deficiencies in the area of updating FLI disclosure. We note several RIs that present FLI in their MD&A, commonly in the outlook section, but fail to provide the required updated information when the actual results vary materially from what was disclosed[11]. This is particularly problematic when the actual results are less favourable than what had been expected, and investors are not provided a clear explanation of the reasons for the variance. RIs are reminded that they are required to present balanced disclosures by providing positive and negative updates, with the same prominence.

In some cases, we observe RIs that disclose FLI in their MD&A and then provide updated information in news releases or corporate presentations. These RIs must ensure that the disclosure in subsequent MD&As does not contradict the updated information, otherwise the disclosure has the potential to be misleading to investors.

3.3 Other Areas

A. Certification of Disclosure in Annual and Interim Filings

NI 52-109 sets out disclosure and filing requirements for RIs. The objective of these requirements is to improve the quality, reliability and transparency of CD filings.

In our 2012 Report we identified some common issues with NI 52-109 compliance. These compliance issues continue to occur. A frequent area of deficiency is related to non-venture RIs and disclosure of the certifying officers' conclusions about the effectiveness of disclosure controls and procedures **(DC&P)** and internal control over financial reporting **(ICFR)**.

Over the past year, we conducted a review of all (214) non-venture RIs and their certifying officers' conclusions about the effectiveness of DC&P and ICFR in the annual MD&A. There are two main categories of findings: material weaknesses and MD&A and certificate disclosures.

Material Weaknesses

Approximately 8 per cent of non-venture RIs concluded that their DC&P and ICFR were ineffective in fiscal 2013 and most of these RIs had ineffective DC&P and ICFR for more than three fiscal years.

The common reasons for having ineffective DC&P and ICFR were due to material weaknesses relating to:

- lack of segregation of duties;
- insufficient number of staff to deal with complex and non-routine financial and tax issues;

10 Sections 1.6 and 1.7, respectively, of Form 51-102F1

11 Section 5.8 of NI 51-102

- information technology (e.g., ineffective access control over spreadsheets, no in-house expert, ineffective controls on manual journal entries); and
- specific accounts and processes (e.g., estimating provisions for credit losses and accounts receivable, interpreting and monitoring legal and regulatory matters, asset retirement obligations, share-based compensation).

NI 52-109 does not require non-venture RIs to remediate the material weaknesses if they are unable, or choose not to[12]. However, RIs must disclose the following in their annual and interim MD&A:

- a description of the material weakness;
- the impact of the material weakness on the RI's financial reporting and its ICFR; and
- the RI's current plans, if any, or any actions already undertaken, for remediating the material weakness.

The disclosure regarding the identified material weakness should provide investors with an accurate and complete picture of the material weakness, including its effect on the RI's ICFR and DC&P. Some RIs did not provide a sufficient description of the material weakness and its impact; these RIs were required to make prospective changes in future MD&A filings. It is helpful to investors to understand the cause of the material weakness and have the ability to distinguish material weaknesses that have a pervasive impact on ICFR from those that do not. We also observe that RIs often use the same disclosure as in previous years without any updates, despite significant changes in their business.

In one example, the RI stated that its ICFR was ineffective due to an identified weakness. However, upon inquiry, we determined that the RI disclosed that it had a material weakness despite having compensating controls. It is critical for RIs to understand what constitutes a material weakness and whether there is a compensating control to address the financial reporting risk. We encourage RIs to review the Companion Policy to NI 52-109 and CSA Staff Notice 52-327 *Certification Compliance Update* for additional guidance.

MD&A and Certificate Disclosures

Approximately 13 per cent of non-venture RIs had significant deficiencies in their disclosures in the annual MD&A and certificates. These RIs were required to either re-file the annual MD&A and/or certificates or make prospective changes due to the following deficiencies:

- missing conclusions about the effectiveness of DC&P and/or ICFR;
- inconsistent conclusions about the effectiveness of ICFR between the annual certificates and MD&A;
- partial conclusions about the effectiveness of DC&P and/or ICFR (i.e., only provided conclusions on the design, instead of both design and operation of DC&P and/or ICFR); and
- incomplete disclosure of summary financial information when applying the scope limitation exemption.

Many of the RIs' responses indicated that these deficiencies were inadvertent or due to administrative oversight. The certification and related MD&A disclosures are critical information for investors, and the certificates are required to be personally certified by the chief executive officer (**CEO**) and chief financial

12 Section 9.7 of the Companion Policy to 52-109

officer (**CFO**), or the persons performing similar functions. Therefore we would expect RIs, specifically the CEO and CFO, to perform the appropriate review for accuracy and completeness before signing the certificates.

REMINDER

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its updated Internal Control – Integrated Framework (2013 Framework) effective as of December 15, 2014. Since a significant number of RIs use the COSO framework to design ICFR, these RIs should consider the impact of the 2013 framework compared to the 1992 framework.

B. News releases and MCRs

As discussed in a previous section, we have seen several re-statements and/or re-filings of financial information. In addition to the issues with disclosure and presentation already noted, we expect improvement in how RIs communicate the re-statements and re-filings. Section 11.5 of NI 51-102 requires that if an RI decides it will re-file a CD document or re-state financial information for comparative periods in financial statements (other than for the retrospective application of a change in accounting policy or new accounting standard), and the information re-filed or re-stated will differ materially from what was originally filed, the RI must immediately file a news release disclosing the nature and substance of the change or proposed change. RIs also need to determine if the re-statement or re-filing would constitute a material change, as that term is defined in NI 51-102. This requires filing of an MCR as soon as practicable (within 10 days of the date on which the change occurs).

RIs continue to fail to file news releases and MCRs related to re-stated or re-filed financial statements. When assessing whether the change is considered to be material, therefore requiring a news release and MCR, we note that some RIs look solely at the impact on the net profit or loss and argue that items that do not alter the bottom line, such as reclassifications, are not material. This is not consistent with the definition of a material change in NI 51-102. There are many other metrics for which a change could reasonably be expected to have a significant effect on the market price or value of the securities of the RI.

Further, as noted above, the trigger for filing the news release is the RI's decision to re-file or re-state financial information. We often see news releases that are filed at the same time as the re-filed financial information, rather than when the decision is first made. It is critical to file the news releases and MCRs on a timely basis. Although the full impact on the financial information may not yet be finalized, the fact that the RI plans to re-file or re-state, and the nature and substance of the change, is material information to investors.

In one example, the RI did not immediately issue and file a news release upon the discovery of an income tax restatement in its 2012 annual financial statements. It was only when the issuer announced its fourth quarter and year-end 2013 results in March of 2014 that the restatement in income taxes was first disclosed. While the RI did file a news release in conjunction with the filing of its annual financial statements that disclosed the restatement, we considered the restatement disclosures to be insufficiently prominent and timely to inform the investors about a material error.

In this case, a news release prominently disclosing the material restatement should have been issued at the time the material error was discovered. The required news release should have disclosed, among others things, the facts underlying the changes; the impact of the changes on the previously filed information; and the steps to be taken by management before the restated financial information is filed.

C. Disclosure for Operations in High Risk Countries

Oil and gas RIs face many operational, technical and financial risks. Those operating in high risk countries, however, face additional socio-political and safety risks. Many RIs have experienced the realization of these risks including civil unrest, nationalization, terrorism, illegal bunkering[13], pipeline disruptions, and an Ebola outbreak.

While most RIs generally provide comprehensive disclosure of their risk environment, many do not provide sufficient or timely disclosure when the risks materialize. The disclosure we expect includes how the risk has or is likely to impact the operations; the effect on financial position, performance, and cash flows (e.g., revenues, provisions, reserves and impairments); and what strategies the RI is planning or has implemented to manage the risk.

Many RIs experiencing illegal bunkering, pipeline disruptions or operating in regions with civil unrest or militant actions disclose taking safety measures or halting operations, however, most do not provide timely disclosure about the event or the impact the event has had, or will have, on the RI.

In one example, the RI issued a news release in January 2014 that civil unrest had affected shipments resulting in a shut down of production. The news release also indicated that the disruptions would not impact development plans for their core fields, expected to be completed by Q3 2014. In the RI's most recent interim MD&A filing (Q2 2014), however, there was incomplete discussion of the status of its development plans. It was only through inquiry that we were made aware that one key project would be delayed and that other drilling plans had changed. In this instance, we requested the RI provide more meaningful and timely disclosure so that investors could better understand and evaluate the RI's risks and how the RI is managing those risks.

D. Material Contracts

We have discussed the importance of filing material contracts in previous Reports; however, we still note deficiencies.

Amendments

The requirements in Part 12 of NI 51-102 to file material contracts apply to both the original agreement and any material amendments. We have recently noted a few RIs that determined that a contract they entered into was a material contract that required filing, but failed to file subsequent amendments.

In one example, the RI had determined that its credit facility agreement was a material contract. The agreement reflected a $500 million credit facility limit. In its most recently filed financial statements, the RI disclosed that the credit facility was in the amount of $700 million. We inquired about the discrepancy and the RI explained that there had been an amendment to increase the limit of the credit facility. As this was a material amendment to a material contract, we required the amendment to be filed.

13 The illicit removal of oil from a pipeline or other distribution system

Timing

If an RI determines that a contract is material and therefore must be filed, this should be done in a timely manner so that investors have all relevant and current information. As noted in our example above, when the most current agreements have not been filed, there may be discrepancies between RI filings (i.e., between the contracts and financial statement disclosures) that could be confusing to investors. We note that some RIs wait until they are planning to file a prospectus to file the material contracts that have been executed.

Section 12.3 of NI 51-102 outlines the filing timelines for material contracts. At a minimum, if a material contract is made or adopted before the date of an RI's AIF, the contract must be filed no later than the date the AIF is filed. If an RI is not required to file an AIF, then it is required to file any material contracts that are made or adopted prior to the end of its most recently completed financial year within 120 days after the end of that financial year. For example, if a venture RI (that is not required to file an AIF) with a December 31 year-end executes a material contract on November 15, 2014, it is required to file that material contract no later than April 30, 2015.

In addition, if a material contract constitutes a material change for an RI, the contract must be filed no later than the relevant material change report filed in accordance with Part 7 of NI 51-102.

Exceptions to the 'Ordinary Course of Business' Exemption

We continue to identify RIs that have failed to file a material contract because the RI inappropriately believes that it qualifies for one or more of the exceptions to the "ordinary course of business" exemption in paragraph 12.2 of NI 51-102.

The most common examples that we note are financing or credit agreements with terms that have a direct correlation with anticipated cash distributions and contracts on which the RI's business is substantially dependent. We remind RIs to familiarize themselves with the exceptions and review new agreements and amendments to determine whether they are required to be filed.

REMINDER

Paragraph 12.3(5) of the Companion Policy to NI 51-102 provides further guidance and examples of the type of contracts that may be sufficiently significant that an RI's business is substantially dependent on them.

E. Exemption Applications

In the past year we have noted a trend towards increased requests for expedited treatment and confidentiality for exemptive relief applications.

We remind issuers that these accommodations are not available in all circumstances, and to refer to the guidance in ASC Policy 12-601 *Applications to the ASC* and National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions* (the **Policies**).

Generally, expedited treatment is provided to address circumstances beyond the filer's control. For applications that are made in connection with transactions, we ask that filers include time for regulatory approvals in their planning.

With respect to confidentiality, filers should provide reasons to support their request. Filers must rebut the presumption that it is in the public interest for applications to be made public. Generally if confidentiality is granted, it is only granted during the review period. Substantive and compelling reasons will be required for us to extend confidentiality beyond such period. We note that a request for confidentiality is itself an application under the *Securities Act* (Alberta), and accordingly a fee is payable.

Please see the Policies for more information regarding requests for expedited review and confidentiality.

F. Offering Documents

Distribution Disclosures

Many RIs have a policy in place to make distributions, often in the form of dividends, to their shareholders. It is important that investors and prospective investors understand the RI's distribution policy, distributions that have been declared historically, and expected changes and restrictions to the payments. As a result, both the long form prospectus and the AIF (which would be incorporated by reference in a short form prospectus) require disclosure related to distributions[14].

While most RIs appropriately include these disclosures, a few RIs appear to miss some of the related disclosures that are required. For instance, RIs are required to describe any restrictions that could prevent the RI from paying dividends or distributions. Such restrictions likely also represent risk factors that may influence an investor's decision to purchase securities of the RI, and as such, should be discussed with the other risk factors in the prospectus. Since the risk factor disclosure should be presented in the order of seriousness, a new restriction may require increased prominence of the relevant risk factor.

RIs are also required to disclose any intended changes in the dividend or distribution policy. To the extent that the RI discloses forward-looking statements related to these anticipated changes, the relevant FLI disclosures are also required[15].

In one example, the RI disclosed in its preliminary short form prospectus that it intended to increase its monthly dividends by 15 per cent following closing of the offering. In addition, it had disclosed that there were some restrictions in place related to its credit facilities that could affect its ability to make its dividend payments. Based on our review of the prospectus disclosures, we made the following observations:

- the RI was missing disclosure of the material factors and assumptions used to develop the FLI regarding the anticipated changes to its dividend policy; and
- the RI had not identified any risk factors related to the potential restrictions on its dividend payments.

As a result of our comments, the RI's final short form prospectus included an additional paragraph in the FLI disclosure section identifying the forward-looking statements related to its dividends, and the material factors and assumptions used in developing those statements. The RI also added a section in the "Summary Description of the Business" section of the prospectus to prominently discuss the dividend policy and the various restrictions set out in their debt agreements that could prevent it from making its planned dividend payments. This was a relatively detailed discussion as the RI had several credit facilities and debt instruments with different restrictions on its ability to pay out dividends. Finally, the RI added a detailed discussion of

14 Item 7 of Form 41-101F1 *Information Required In a Prospectus* and Item 6 of Form 51-102F2

15 Part 4A – Forward-looking Information and Part 4B – FOFI and Financial Outlooks of NI 51-102

the risk factors related to its dividend policy. The RI determined that this was the second-most serious risk factor to present in its prospectus.

REMINDER

An RI must not disclose material FLI unless it has a reasonable basis for that information. As such, if an RI discloses that it anticipates certain distribution payments to be made in a future period (e.g., the following year) it should ensure that these payments are reasonable given the cash flows and other sources of funding for such distributions.

If the basis for such FLI is not evident from an RI's disclosure, we may raise comments during the review of the prospectus and request supporting cash flow information.

Impact of Acquisitions

When a prospectus includes disclosure regarding a recently completed or probable acquisition, many RIs discuss the anticipated benefits of the acquisition, and/or how the acquisition meets its business objectives. While this is often good disclosure, we note some examples where the RI has disclosed that an acquisition is accretive to one or more measures, without providing sufficient details and support for such statements.

In one example, the RI disclosed that an acquisition would be immediately accretive to its free cash flow and distributable cash flow per common share. As this was all of the RI's disclosure on this matter, we requested additional details of the impact and required the basis for this statement to be added to the prospectus disclosure. In addition, as this was FLI, the material factors and assumptions used to develop this statement are required to be disclosed. In this example, the RI had not further developed its analysis of the impact; rather, the basis for the statement was merely an assumption that the two metrics were anticipated to be higher after the acquisition than if it had never happened. This RI removed the statement from its prospectus.

EXAMPLE THAT MET OUR EXPECTATIONS

The RI's prospectus disclosure included the following disclosure. The FLI section identified these forward-looking statements and discussed the material factors and assumptions used to develop them.

The Acquisition of XYZ enhances our growth-and-income business model, delivers production and reserves per share growth and provides attractive capital efficiencies for future investment. The Acquisition is accretive to us on many metrics. The following are the key benefits of the Acquisition:

Accretive to Reserves and Production (1)(2):

- 35% accretive to proved reserves per share
- 28% accretive to proved plus probable reserves per share
- 17% accretive to production per share

- Increases Scale and Diversity of Production: Our total gross production upon closing of the Acquisition is forecasted to be approximately 75,000 Boe/d, with a production weighting of 55% heavy oil, 33% light oil and liquids and 12% natural gas (previously 70 % heavy oil, 20% light oil and liquids and 10% natural gas).
- Material Current Production with Long-Term Growth Potential: XYZ's fourth quarter 2013 gross production averaged 25,000 Boe/d (70% liquids) and it has estimated 2014 average gross production of 26,000 to 30,000 Boe/d which at the mid-point of the forecast equates to a 40% production increase over 2013. XYZ also has a substantial inventory of potential well locations to support future production growth.
- High Quality Reserve Base with Potential Upside: The Acquisition will add proved gross reserves of 95 MMboe and proved plus probable gross reserves of 150 MMboe (based on our internal estimate of XYZ's reserves as at December 31, 2013, and prepared by a non-independent qualified reserves evaluator in accordance with NI 51-101 and the COGE Handbook). We believe that attractive reserves upside is available by exploiting additional horizons, downspacing and through improving completion techniques.
- Attractive Individual Well Economics: XYZ's historical internal rates of return (before tax) per well in the TUV field are in excess of 100% with an undiscounted payout of 1 to 2 years and capital efficiencies (based on 30-day initial production rates) of under $10,000 per daily Boe (based on an oil price of U.S.$90/Bbl, a natural gas price of U.S.$4.00/Mcf and a natural gas liquids price of U.S.$30/Bbl).

Notes: (1) Reserves and reserve accretion based on our gross reserves as at December 31, 2012 prepared by QRE and our internal estimate of XYZ's gross reserves as at December 31, 2013, prepared by a non-independent qualified reserves evaluator in accordance with NI 51-101 and the COGE Handbook.

(2) Production per share accretion (Boe/d) is based on: (i) XYZ's 2014 estimated gross production of 28,000 Boe/d; (ii) our 2014 estimated gross production of 70,000 Boe/d; and (iii) our weighted average outstanding Common Shares for 2014 of approximately 100 million Common Shares (before giving effect to the Offering) and 120 million Common Shares outstanding after giving effect to the Offering (and prior to giving effect to the exercise of the Over-Allotment Option).

4. Contact Personnel and Other Information

Feedback on the Report and other Corporate Finance Matters

We welcome comments on this Report and other Corporate Finance matters. Comments may be directed to any of the individuals listed below:

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UPCOMING PRESENTATIONS

From time to time, the ASC hosts webinars and in-person seminars on various topics related to securities requirements including CD matters. Breakfast seminars related to this Report and other topics are scheduled for Edmonton on January 15, 2015 at the Sutton Place Hotel and for Calgary on January 13, 2015 at the Westin Calgary. A related webinar is scheduled for January 13, 2015. If anyone planning on attending one of the above seminars or webinars has a specific topic or question that they would like us to address at an upcoming session, we would be pleased to consider your request. Please submit your topic or question to cf-report@asc.ca by January 7, 2015. We will consider submissions after this date for potential future presentations. Information about future seminars and webinars can be found on the ASC website at www.albertasecurities.com. Archived presentation slides and related reference materials from past seminars are also available on the ASC website[17].

16 Effective after February 28, 2015

17 Available under "Events & Presentations" in "News & Publications"

SUITE 600, 250-5TH ST. SW, CALGARY, ALBERTA, T2P 0R4