Corporate Finance Disclosure Report

Alberta Securities Commission

DECEMBER 2016

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

"AIF" means annual information form, specifically, a completed Form 51-102F2 *Annual Information Form*;

"CD" means continuous disclosure;

"CGU" means cash-generating unit or groups of CGUs as that term is defined in IAS 36;

"CSA" means the Canadian Securities Administrators;

"CTO" means cease trade order;

"Financial Outlook" means forward-looking information about prospective financial performance, financial position or cash flows that is based on assumptions about future economic conditions and courses of action, and that is not presented in the format of a historical statement of financial position, statement of comprehensive income or statement of cash flows;

"FOFI" means forward-looking information about prospective financial performance, financial position or cash flows, based on assumptions about future economic conditions and courses of action, and presented in the format of a historical statement of financial position, statement of comprehensive income or statement of cash flows;

"FVLCD" means fair value less costs of disposal as that term is defined in IAS 36;

"GAAP" means generally accepted accounting principles;

"IAS 1" means international accounting standard (**IAS**) 1 *Presentation of Financial Statements*;

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

"IFRS 6" means IFRS 6 *Exploration for and Evaluation of Mineral Resources*;

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

"NI 51-102" means National Instrument 51-102 *Continuous Disclosure Obligations*;

"Report" means the Alberta Securities Commission's annual Corporate Finance Disclosure Report;

"RI" means reporting issuer; and

"VIU" means value in use as that term is defined in IAS 36.

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 23 per cent of active Canadian RIs.[2] The Alberta Securities Commission (**ASC**) regulates 619 Alberta-based RIs representing a diverse range of industries. Oil and gas, oil and gas services, pipelines and utilities comprise the majority of RIs with 78 per cent of the total Alberta market capitalization.

Market Capitalization

ACTIVE CANADIAN RIs

23%	**Alberta** (A)
8%	**British Columbia** (B)
49%	**Ontario** (C)
15%	**Québec** (D)
5%	**Other Provinces** (E)

ALBERTA-BASED RIs BY INDUSTRY

56%	**Oil & Gas** (A)
16%	**Pipelines** (B)
5%	**Transportation & Environmental Services** (C)
3%	**Industrial** (D)
3%	**Oil & Gas Services** (E)
3%	**Utilities** (F)
1%	**Mining** (G)
13%	**Other** (H)

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, September 30, 2016.

2. Review Process & Outcomes

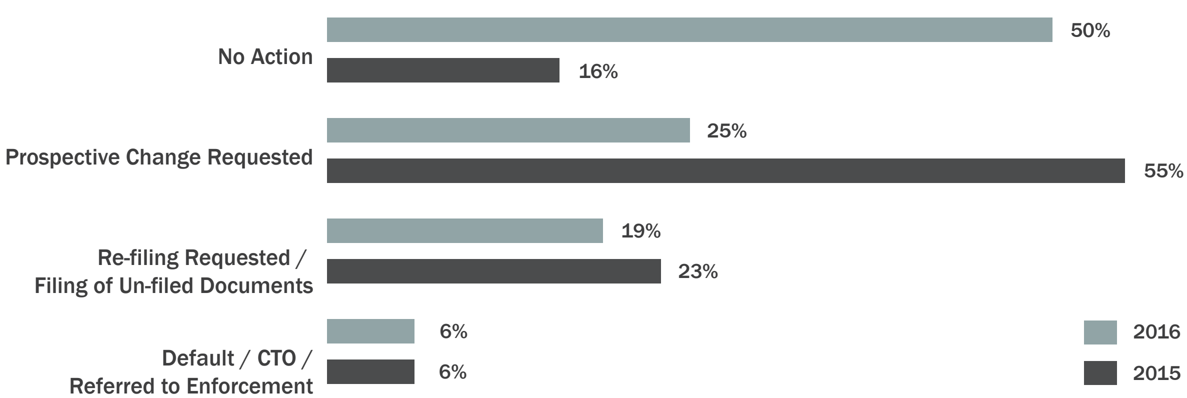
CD Reviews

The ASC CD review program is a key priority of the Corporate Finance division. We conduct CD reviews to ensure that RIs are in compliance with regulatory requirements and 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 financial reporting and other required disclosures for its most recently completed annual and interim periods, including: financial statements, MD&As, business acquisition reports, information circulars, news releases, material change reports, AIFs (if applicable), and other relevant disclosures. Additionally, we may also review and assess other disclosures such as websites, webcasts and investor materials.

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. Generally, an IOR is conducted on a large sample of RIs; however, the ASC may also conduct an IOR on an RI when we want to narrow the scope of our review. This year, we conducted two IORs with other CSA jurisdictions: cybersecurity and social media. A third IOR was an ASC initiative related to the filing of material contracts. The remainder of the IORs were comprised of individual RI's specific disclosure in news releases, investor presentations, information circulars, MD&As, and financial statements. We discuss some of our observations from our review of cybersecurity and material contracts in this Report.

Outcomes



As illustrated above, 50 per cent of our CD reviews in 2016 resulted in an action outcome. The "no action" and "prospective change" categories had the most significant changes from 2015. This was primarily due to the number of IORs we carried out in 2016. The most significant IOR carried out was the review of all Alberta-based S&P/TSX Composite Index RIs' cybersecurity disclosure. Since this review was carried out to obtain an initial understanding of RIs' disclosures, we did not issue comment letters; as a result, these outcomes are categorized as "no action."

Nineteen per cent of the actions taken in 2016 were to request that RIs re-file or file un-filed documents, representing a small decrease from 2015. Un-filed documents represented 57 per cent of this category, with the most significant portion being un-filed material contracts, technical reports and other corporate governance disclosures. A significant portion of requests to re-file documents was related to MD&As.

3. Impact of Commodity Prices and our Disclosure Focus

Overview

Many RIs in Alberta have been significantly impacted by a sustained period of low commodity prices caused by an excess global supply of oil and gas. RIs in the energy sector have been most directly and materially impacted, however many Alberta RIs in other sectors have also been affected. From early 2015, RIs responded to the changing market conditions early and decisively, as demonstrated by announcements of decreased capital expenditure programs, reduced dividends, the implementation of cost efficiencies and increased focus on specific asset portfolios.

Today, RIs continue to deal with the burden of debt, tightening of capital, restricted credit, decreased cash flows, increased liquidity risk, capital risk and impairment of assets.

We have observed that many RIs have improved their disclosures and provided timely updates to the market when appropriate. However, there continue to be areas that need improvement. The topics addressed in this Report have been discussed in previous years' Reports. We have intentionally narrowed the topics discussed in this Report to those that we believe are, and will continue to be, the most critical to Alberta RIs. The topics discussed will also include many of the disclosure areas where RIs have asked for further guidance.

A. Liquidity and Capital Resources – MD&A

In this uncertain economic environment, managing liquidity and capital resources continues to be a critical focus for many Alberta RIs. Accordingly, MD&A disclosure that we consider most relevant to many Alberta RIs will likely focus on the prolonged low commodity prices and corresponding impact on the ability to generate sufficient cash and access capital to meet obligations and maintain capacity. In a quickly evolving market, we observed that one of the challenges RIs faced this year was balancing the management of liquidity and capital resource risks while ensuring investors received timely and relevant information. The main focus areas in our reviews included:

- trends and risks that have affected, or are reasonably likely to affect, financial condition and liquidity;
- liquidity and liquidity risks associated with financial instruments;
- capital expenditures required to maintain properties or agreements in good standing and the capital resources available for those expenditures; and
- analysis of the effect on continuing operations of dispositions, impairments, abandonment or similar transactions.

Liquidity – Section 1.6 of the MD&A

Many RIs that previously relied on their operating cash flows and credit facilities to fund operations and capital expenditures have experienced greatly reduced cash flows and restricted credit, resulting in difficulties meeting their commitments. During the year, we observed that creditors had accelerated the review of many RIs' borrowing bases, frequently resulting in a lowered borrowing amount. In some instances, we noted that a borrowing base redetermination resulted in a substantial reduction of the borrowing limit where the RI was already close to the previous maximum amount. Some RIs were able to address their shortfall through other financing arrangements or asset dispositions. In some cases, we noted that the MD&A provided insufficient disclosure of plans to remedy the shortfall. We are of the view that such disclosure should include a discussion of what sources of funds are available to pay down debt and what borrowing capacity, if any, remains to fund ongoing operating and capital commitments and expenditures.

Frequently, the borrowing base redeterminations resulted in additional restrictions and amended covenants. In instances where an RI's borrowing limit has restrictions that reduce the available credit, we would expect clear disclosure of the restrictions and the impact on available borrowing capacity, if triggered.

During the year, we noted trends and risks that had affected, or would be reasonably likely to affect, many RIs' financial condition and liquidity:

- **declining cash flows;**
- **accelerated borrowing base redeterminations;**
- **lowered borrowing bases; and**
- **amended credit agreements with new restrictive and financial covenants:**
    - **restrictions on asset sales and additional debt; and**
    - **reset financial covenants with more flexibility, such as equity cures or waivers for the first few quarters followed by increasing covenant ratios for subsequent periods.**

EXAMPLE THAT MET OUR EXPECTATIONS

An excerpt from an RI's 2015 annual financial statements:

Note X – Bank Loan

On November 10, 2014, the Company entered into a secured term facility with a major Canadian bank maturing on November 10, 2017. Total borrowings permitted under the facility cannot exceed the borrowing base, which was $15,000,000 at December 31, 2015 (2014 – $19,000,000). At December 31, 2015, $9,000,000 was drawn against the bank loan (2014 – $4,000,000). In December 2014, the Company issued a $6,000,000 letter of credit relating to work commitments on XYZ property which restricts the amount available on the credit facility. As at December 31, 2015, $nil was available to be drawn on the credit facility (2014 – $9,000,000).

In this example, the RI provided clear disclosure of the restrictions on its credit facility. As the RI disclosed the amount of the letter of credit that triggered the restriction, the actual available credit balance is clear.

Many RIs were at risk of breaching their financial covenants. While most RIs provided clear disclosure of the terms of their covenants and the risks of compliance, we noted some instances where the RI was at risk of a breach but failed to disclose the impact of a potential breach or its ability to remedy a breach.

EXAMPLE THAT MET OUR EXPECTATIONS

An excerpt from an RI's liquidity discussion in the MD&A:

The Company is required to comply with certain covenants under the terms of the Amended Credit Agreements. These covenants are applicable to the credit facility and to the senior notes:

For the quarter ended	Leverage ratio[1]	Interest coverage ratio[2]	Calculation basis
June 30-December 31, 2016	4.0x	1.8x	Not applicable
March 31, 2017	4.0x	1.8x	Q1 annualized
June 30, 2017	4.0x	1.8x	(Q1x3+Q2)
September 30, 2017	4.0x	1.8x	((Q1+Q3)x3/2)+Q2
December 31, 2017	3.0x	2.0x	Last twelve months
Thereafter	2.0x	2.5x	Last twelve months

[1]The leverage ratio is defined as long-term debt minus cash divided by EBITDA (defined as earnings before interest, tax, depreciation and amortization).

[2]The interest coverage ratio is defined as EBITDA divided by interest expense.

As noted above, no financial covenants are applicable to the Company for the remainder of 2016. However, for illustrative purposes, EBITDA for the second quarter of 2016 would have been a loss of $13.0 million. These amounts do not include the $20 million equity cure that may be applied to this calculation.

If the Company does not have sufficient resources to comply with the financial covenants, the credit facility and senior notes may become due on demand. If future profitability or available liquidity is not sufficient to meet the Company's operating and debt servicing obligations as they come due, management's plans include reducing expenditures and pursuing additional asset dispositions or alternative financing arrangements.

In this example, the RI provided clear liquidity risk disclosure relating to the covenants. They also included information of Q2 EBITDA, which shows that the RI would have breached both covenants in Q2, even with the equity cure, had the covenants not been amended. There is also discussion of the impact if the RI is unable to meet the covenants and their plans to remedy in that event.

Capital Resources – Section 1.7 of the MD&A

We continue to note insufficient disclosure of expenditures required to maintain the RI's capacity, and the expected sources of funds to meet those capital expenditures. In response to the current economic environment, many RIs reduced their capital expenditures and sold assets to address their liquidity risks and declining cash flows. While many RIs provided discussion of the areas in which they intend to make capital expenditures, frequently the disclosure did not include a discussion of what impact, if any, the reduction had on their ability to maintain capacity, or the related impact on their financial condition, performance and cash flows. We expect to see a similar discussion of the impact of a disposition of assets, if material.

RIs should also provide an analysis of the expected sources of funds to meet the expenditures required to maintain their capacity, planned growth or development activities. This includes sources that the RI would reasonably consider to be available. As such, we expect that the RI consider any restrictions to those sources, such as a material restriction on the disposition of assets, in its disclosure.

B. Non-GAAP Measures

Non-GAAP measures (**NGMs**) are frequently used by RIs to supplement and explain changes in financial performance, cash flows or financial condition. When used and disclosed appropriately, an NGM can provide investors with additional insight. Without clear disclosure accompanying the use of NGMs, or in placing undue focus on NGMs, there is the potential that investors may be confused or even misled. RIs should assess whether NGMs are necessary to provide an understanding of performance, financial condition or cash flows.

Last year's Report discussed our observations of increased prevalence of NGMs. This year we observed that this practice has continued. The most concerning deficiencies relate to: (i) the prominence of NGMs; (ii) the inappropriateness of certain items being excluded or included in deriving the measure; (iii) insufficient disclosure of the usefulness of the measure; and (iv) labelling.

We continue to see increased prevalence of NGMs where:

- **the prominence of the NGMs;**
- **inappropriate exclusions and inclusions of certain items; and**
- **boilerplate or inconsistent disclosure of their usefulness,**

call into question whether they are misleading.

While our reviews considered the application of CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures* (**SN 52-306**) for quality and completeness, our primary focus was to assess whether the RI's NGMs taken as a whole could cause the disclosure to be confusing, unbalanced or potentially misleading.

Prominence

SN 52-306 requires that an RI's NGMs not be presented with greater prominence than that of the RI's directly comparable GAAP measures. However, we observed several instances, particularly in the MD&As, where the RI's presentation of its GAAP measures and accompanying discussion and analysis lacked balance, and focused instead on NGMs. In some cases, the RI presented so many NGMs that it obscured the RI's most directly comparable GAAP measures, leading to questions of whether the disclosure was misleading.

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

An excerpt from an RI's MD&A:

Select annual financial information

($ millions)	2015	2014	2013
Revenue	587	500	399
Segment EBITDA[1]	95	200	151
Net (loss) earnings from Continuing Operations	(167)	(15)	25
Adjusted net (loss) earnings[1]	(7)	36	32
Adjusted EBITDA[1]	65	132	105
Cash from Continuing Operations	22	90	101
Funds from operations[1]	13	85	82
Maintenance capital expenditures[1]	9	25	23
Growth capital expenditures[1]	56	150	101

[1]These financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. Non-GAAP financial measures are identified and defined throughout the attached Management's Discussion and Analysis.

In the table above, there is a prevalent use of NGMs. Many of the NGMs were presented with more prominence than the RI's GAAP measures. In addition, we noted that the RI included a greater focus on the discussion and analysis of "adjusted EBITDA" within the explanation for changes in the RI's performance in the MD&A, instead of highlighting and discussing its GAAP measures such as net earnings (loss).

Given the concerns outlined above, we requested that the RI reassess its NGM disclosures to determine what information would be relevant and necessary to provide a clear picture to investors.

Upon reassessing its disclosure, the RI made changes to its MD&A to reflect both enhanced disclosure as well as greater prominence to GAAP measures, specifically, revenue and net earnings (loss).

Usefulness

In order not to be misleading, there needs to be disclosure of why the NGM provides useful information to investors. When multiple NGMs are disclosed for the same or similar purpose, RIs should carefully consider whether all the NGMs are useful.

In one example, we noted that an RI presented three alternative earnings NGMs in its MD&A: "EBITDA," "adjusted EBITDA," and "adjusted net earnings (loss)." In explaining the usefulness, the RI merely itemized the components of these measures rather than clearly disclosing why each NGM provided useful information to investors. The presentation of three alternative earnings NGMs raised the concern that this would distract from the RI's net earnings (loss) GAAP measure. Furthermore, we noted that the presentation and discussion of two of the alternative earnings NGMs ("adjusted net earnings (loss)" and "EBITDA") was limited to the summary financial information highlight tables with little or no supporting management commentary. Upon inquiry into the usefulness of each of the RI's alternative earnings NGMs, the RI confirmed that it had reassessed its MD&A disclosures and intended to eliminate certain NGMs and would add disclosure explaining why any remaining NGM(s) are relevant and useful to investors and management.

Quantitative Reconciliation

As discussed in last year's Report, if an NGM is characterized and used as a cash flow measure, we expect this NGM to be reconciled to the statement of cash flows rather than the statement of operations. RIs should be mindful that the stated usefulness be consistent with the NGM's quantitative reconciliation.

RIs should also ensure that the stated usefulness of the NGM corresponds with the nature and type of adjustments included or excluded in the calculation of the NGM. In one example, an RI stated that the usefulness of its "adjusted EBITDA" NGM was to illustrate comparable operating results over time. The RI identified restructuring costs and stock-based compensation charges as non-recurring in nature and excluded these charges from the calculation of "adjusted EBITDA." However, as both of these charges had been incurred during the RI's prior two fiscal years, we did not consider the costs to be non-recurring. Further, the exclusion of stock-based compensation charges was inconsistent with the RI's stated usefulness. Similarly, in other instances where it is clear that an RI's strategy and history is to make relatively frequent acquisitions, we have questioned the removal of transaction costs when presenting a performance NGM.

Another area where we note room for improvement is the starting point of NGM quantitative reconciliations. SN 52-306 states that an RI should provide a clear quantitative reconciliation from the NGM to the most directly comparable measure specified, defined or determined under the RI's GAAP and presented in the RI's financial statements. We noted many instances where multiple NGMs were presented and reconciled to other NGMs instead of to each NGM's most directly comparable GAAP measure.

Other Areas

NGMs are not to be confused with other metrics that may be used by RIs to assess performance. An example of this might include key performance indicators (**KPIs**), such as sales by region, sales per volumes sold/produced, and utilization rates. These metrics are not affected by SN 52-306, and in order not to confuse investors, RIs should not disclose them as NGMs. However, RIs may consider applying some of the underlying principles of SN 52-306 when presenting them. For example, in the NGM section of the MD&A, an RI listed various metrics such as "drilling days," "utilization rate" and "dayrate." While the definitions provided for each metric were useful in understanding how the KPI was derived, the disclosure could have been improved by describing the purpose of the KPIs and how those KPIs compared to the objectives.

Another area of deficiency is labelling, such as the use of same or similar terminology for NGMs or other metrics as items presented in the financial statements. In one example, an RI disclosed a "fixed charge coverage ratio" in its capital management note; in the MD&A it referred to a measurement with the same name that was actually related to a financial covenant that had a different calculation and use. The RI acknowledged that the use of the same labelling was confusing and agreed to label the measures more distinctly and clarify the specific purpose of each measure.

PRACTICE TIP

We recommend RIs review their NGMs and other performance measurements annually to assess their continued effectiveness and usefulness. If the composition of an NGM changes, RIs must disclose the reason for the change and restate any comparative period presented.

C. Forward-Looking Information

RIs disclose forward-looking information (**FLI**) to provide insight to investors about possible events, courses of action, prospective performance, financial position and cash flows. FLI disclosure is presented in various documents, including: financial reporting disclosures, news releases, websites, marketing materials, and prospectuses. It can be presented in the form of a Financial Outlook or FOFI. Examples of a Financial Outlook include expected capital expenditures, revenue and debt. FLI can also include information that is not a Financial Outlook or FOFI, such as expected average production target (oil & gas), vacancy rates (real estate), and anticipated storage capacity (energy services).

Parts 4A and 4B of NI 51-102 set out the requirements that are triggered when FLI is disclosed. RIs must ensure that there is a reasonable basis for the FLI and that any material FLI:

- is readily identifiable as FLI – paragraph 4A.3(a);
- provides cautionary language that actual results may vary from the FLI and identifies material risk factors that could cause actual results to differ materially from the FLI – paragraph 4A.3(b); and
- clearly discloses material factors or assumptions used in developing the FLI – paragraph 4A.3(c).

The most frequent FLI disclosure deficiencies we observe are insufficient identification of FLI, lack of meaningful disclosure of material assumptions and risk factors, and either untimely updates or unexplained withdrawals of previously disclosed FLI.

REMINDER

NGMs presented as FLI must comply with the requirements set out in parts 4A and 4B and section 5.8 of NI 51-102.

In order for FLI to be effective and useful to investors, it must be presented in a balanced manner with sufficient detail of the underlying assumptions and risks.

We are encouraged that most RIs are providing FLI, which can be useful information for investors. For many however, some of these disclosures are not providing meaningful insight. We have observed that the most common deficiencies include: (i) insufficient identification of FLI; (ii) lack of meaningful disclosure of material assumptions and risk factors; (iii) untimely updating; and (iv) insufficient disclosure of withdrawn FLI.

Readily Identifiable FLI

Most RIs provide an FLI disclosure section in their documents. We observe that RIs tend to provide more specific, identifiable FLI in shorter documents such as news releases, material change reports and prospectuses. However, in lengthier documents such as the MD&A, the disclosure is frequently boilerplate. This boilerplate disclosure is often presented in a paragraph citing that the disclosure document may contain FLI and advises investors that FLI is identifiable through the use of certain words, such as “expect,” “anticipate,” “continue” and “estimate.” The purpose for ensuring FLI is readily identifiable is so that investors can identify FLI and become informed as to the specific underlying risks and assumptions. When FLI identification is presented in boilerplate fashion, there can be the unintended outcome that the investor will not read the FLI disclosure section. This could result in investors failing to appreciate the risks and assumptions that underlie the FLI, or alternatively confusing material FLI as historical fact. We have also observed a few instances where an RI’s document provided a boilerplate FLI disclosure paragraph, but the document itself had no evidence of FLI.

EXAMPLE THAT MET OUR EXPECTATIONS

An excerpt from an RI’s FLI section in the MD&A:

In particular and without limitation, this MD&A contains forward-looking statements pertaining to the following:

- production volumes for the remainder of 2016 meeting forecasted levels;
- the Company receiving a natural gas price that varies in concert with Station 2 pricing;
- the Company’s plans with respect to its drilling program;
- the expectation that overall royalties for 2016 will be approximately 3 per cent of total revenues;
- the expectation that average per unit operating expenses for the remainder of 2016 will be approximately $0.75 per Mcfe assuming normal seasonal weather conditions;
- the expectation that average per unit transportation costs for the remainder of 2016 will be approximately $0.40 per Mcfe; and
- the expectation that average per unit G&A expenses for the remainder of 2016 will be approximately $0.25 per Mcfe.

In this example, the RI’s FLI disclosure informs investors that FLI may be identified by certain words such as “anticipate,” “will” and “intend,” and further highlights material FLI through specific disclosure.

Material Assumptions and Risk Factors

A critical component of FLI is the disclosure of the material factors or assumptions used to develop FLI and risk factors that could cause the results to differ materially. Assumptions used in determining a Financial Outlook or FOFI must be reasonable and limited to a period for which it is reasonable to make the assumption (section 4B.2). Given the current economic market, many RIs should pay particular attention to changes in material assumptions. For example, liquidity risk may cause an RI’s cash flow assumptions to materially change, potentially impacting its capital expenditures and/or production FLI.

The disclosure of material factors, assumptions and risk factors must be in sufficient detail for investors to assess the information. Simply providing a list of risks without specificity, or assumptions without quantitative information, will likely not provide value to investors evaluating the FLI.

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

An excerpt from an RI's FLI section in the MD&A:

The Company has made assumptions regarding, among other things: (i) future prices for crude oil and natural gas, and that the demand for such products will continue to increase globally, especially in emerging markets; (ii) future currency and interest rates; (iii) future economic conditions; and (iv) the Company's ability to generate sufficient cash flow from operations and access capital markets.

This is an example of boilerplate assumptions.

EXAMPLE THAT MET OUR EXPECTATIONS

An excerpt from an RI's FLI section in the MD&A:

With respect to statements that the Company expects that its net capital expenditure for 2016 (net of acquisitions and dispositions, but excluding the XYZ Acquisition) will approximate its funds flow during 2016, the key assumptions are that: the Revised 2016 Capital Program will be carried out as currently contemplated; and the Company realizes the annual average production target of 55,000 to 57,000 boe/d. In addition, the foregoing statements are based on the following commodity price and exchange rate assumptions during 2016: an annual average WTI price of approximately US$40.50 per barrel of oil; an AECO price of approximately CDN$2.00 per GJ of natural gas; and an exchange rate of CDN$/US$ of $1.33.

In this example, the RI provides clear qualitative and quantitative disclosure of material assumptions underlying the FLI relating to its capital expenditure program and how it expects to fund those expenditures.

Updating and Withdrawal

We have observed that some RIs are not updating previously disclosed FLI on a timely basis. As set out in subsection 5.8(2) of NI 51-102, if events or circumstances have occurred that would be reasonably likely to cause actual results of previously disclosed FLI to differ materially, that fact and the expected differences should be disclosed in the MD&A for the period in which the potential change occurred. RIs that provide an update in a news release must include a reference to the news release in the subsequent MD&A with clear disclosure of the date of the news release and availability on SEDAR.

EXAMPLE THAT MET OUR EXPECTATIONS

An excerpt from an RI's news release updating previously disclosed FLI:

For 2016, the Company is increasing its fourth quarter capital budget by $100 million, resulting in budgeted annual capital expenditures of $1 billion and upward revised annual average production guidance of 170,000 boe/d. This additional fourth quarter capital is expected to add incremental production volumes in early 2017 and further improve the Company's growth plans. This updated guidance compares to the Company's previously announced capital budget of $900 million and annual average production guidance of 168,000 boe/d.

We also continue to see instances where RIs withdraw previously disclosed FLI without explanation. In one example, an RI had previously provided FLI disclosure on "operating cash flows, operating netback, G&A and interest, and average production." The only update the RI provided subsequent to the previously disclosed FLI was on production. However, we noted significant differences in the actual results; the actual "operating netback" and "G&A and interest" were 30 per cent and 37 per cent lower, respectively. It is important that RIs alert investors when they withdraw previously disclosed FLI (subsection 5.8(5) of NI 51-102). The disclosure must include a discussion of the events or circumstances that led to the decision as well as the assumptions underlying the FLI that are no longer valid.

D. Impairment of Assets

We continue our focus on ensuring RIs' compliance with IAS 36. As most RIs recognized impairment losses in their 2015 annual financial statements and/or in subsequent interim reports, our reviews considered several aspects:

- timeliness of and appropriate consideration of impairment indicators;
- reasonable and supportable assumptions; and
- sufficiency of disclosures of impairment testing and impairment loss recognition.

IAS 36.12 and IFRS 6.20 require that RIs consider both external and internal information to determine if there are any indications of impairment. Many RIs recognized impairment losses on their goodwill, E&E[3] and/or PP&E[4] as a result of disclosed events such as the continued decline in oil and gas prices, uneconomic well performance, declining reserves and changes in operational plans. However, we questioned other RIs that did not recognize impairment losses upon material events such as significant asset dispositions, closing of certain divisions, and other types of restructurings.

Disclosures related to impairment testing and impairment loss recognition were the most frequent areas of deficiency noted this year.

Impairment recognized for assets or CGUs:

- the nature of an individual asset or description of the CGU for which the impairment loss was recognized – IAS 36.130(c)(i) or (d)(i);
- the recoverable amount of the impaired asset or CGU – IAS 36.130(e); and
- key assumptions used in level 2 and 3 fair value hierarchy for FVLCD – IAS 36.130(f)(iii).

[3] Exploration and Evaluation Assets, as that term is defined in IFRS 6 *Exploration and Evaluation of Mineral Resources*.

[4] Property, Plant and Equipment as that term is defined in IAS 16 *Property, Plant and Equipment*.

Estimates used to measure recoverable amount of CGUs containing significant goodwill or intangible assets with indefinite useful lives:

- key assumptions used in level 2 and 3 fair value hierarchy for FVLCD or in measuring VIU – IAS 36.134(d)(i) and (e)(i);
- a description of management's approach to determining the value to each key assumption, and whether those values reflect past experience or are consistent with external sources, and if not, how and why they differ from past experience or external sources of information for VIU or FVLCD – IAS 36.134(d)(ii) and (e)(ii);
- when applied, why a period over five years is justified in measuring VIU – IAS 36.134(d)(iii); and
- sensitivity analysis of key assumptions used in determination of the recoverable amount – IAS 36.134(f).

Our observation is that most RIs provided very general descriptions of their key assumptions and very few provided a sensitivity analysis. While disclosure of key assumptions and sensitivity analyses under IAS 36 are only required for a CGU when material goodwill or intangible assets with indefinite useful lives are included in the carrying amount of that unit, disclosure of key assumptions are encouraged for assets or other CGUs (IAS 36.132). Additionally, for many RIs, the calculation of an asset's or CGU's recoverable amount are often estimates that require management's most difficult, subjective or complex judgements. When those items have a significant risk of causing material adjustment to carrying amounts within the next financial year, the nature of the assumptions and estimation uncertainty may be required to be disclosed (IAS 1.125).

Key assumptions are those to which the recoverable amount of the asset or CGU is most sensitive. As part of the description of each key assumption, in addition to qualitative disclosure, RIs should consider providing quantitative disclosure when quantitative information is reasonably available and would provide material and useful information for investors.

REMINDER

When RIs have performed an impairment test during a reporting period and determined that there is no impairment, RIs should consider if IAS 1.122 and 1.125 would trigger disclosure of the significant judgements, assumptions and estimates used in its impairment test.

Sensitivity Analysis

Even when CGUs do not contain significant goodwill or intangible assets with indefinite useful lives, and there is a significant risk that a reasonably possible change in a key assumption (including the consequential effects of that change on other variables) may result in a material adjustment to the recoverable amount of an asset or CGU within the next financial year, RIs should consider providing a sensitivity analysis (IAS 1.129).

EXAMPLE THAT MET OUR EXPECTATIONS

An excerpt from an RI's notes to the 2015 annual financial statements:

For the purpose of impairment testing, goodwill is allocated to the Company's CGUs which represent the lowest level within the Company at which the goodwill is monitored. As at December 31, 2015, the Company noted indicators of impairment due to the significant decline in commodity prices and the resulting continued reduction in demand for the Company's products and services. The Company's impairment analysis indicated that the recoverable amount of the net assets for each CGU did not exceed its respective carrying value and, therefore, goodwill allocated to each CGU was impaired by, and the resultant goodwill balances were, as follows:

$000's	Region 1 CGU	Region 2 CGU	Total
Balance at December 31, 2014	75,000	225,000	300,000
Impairment loss	(33,000)	(107,000)	(140,000)
Balance at December 31, 2015	42,000	118,000	160,000

The recoverable amount for each CGU was based on their value in use and was estimated to be $195,000 for the Region 1 CGU and $410,000 for the Region 2 CGU. The key assumptions for the value in use calculations are the discount rates and expected growth rates. An estimated risk adjusted, pre-tax discount rate of 14.5 per cent was used as at December 31, 2015 for both CGUs (December 31, 2014 – 13.5 per cent). The growth rates represent management's current assessment of future industry trends and are based on both external and internal sources, as well as historical data. The Company prepares cash flow forecasts for the purpose of the impairment analysis for a five year period using growth rates that range from negative 12 per cent in 2016 to as high as positive 17 per cent in later years for the Region 1 CGU and a range of negative 25 per cent in 2016 to as high as positive 14 per cent in later years for the Region 2 CGU. For both CGUs, the Company has used a 2 per cent terminal growth rate. A gross margin percentage averaging 26 per cent and 27 per cent has been used for the forecasted period of the Region 1 CGU and the Region 2 CGU, respectively.

Sensitivity Analysis

The most sensitive inputs to the Company's impairment model are the discount rate and the annual growth rates. An increase of 1 per cent in the discount rate, and all other assumptions held constant, would result in an additional goodwill impairment of $16,138 for the Region 1 CGU and $50,336 for the Region 2 CGU. A decrease of 1 per cent in the annual growth rates, and all other assumptions held constant, would result in an additional goodwill impairment of $4,994 for the Region 1 CGU and $15,454 for the Region 2 CGU.

MD&A Disclosure

RIs should consider whether additional disclosure associated with an impairment assessment is required in their MD&A. This may include a discussion of important trends and risks that have affected the financial statements, or are reasonably likely to affect them. For example, changes in commodity prices or political and environmental issues may represent developments that are reasonably likely to affect future results. Such disclosures should provide additional insight to the financial statements, not simply a repeat of the notes to the financial statements.

4. Other Areas of Review

A. Material Contracts

Given the deficiencies noted regarding material contracts in last year's reviews, we conducted an IOR to assess compliance with the filing and disclosure requirements of section 12.2 of NI 51-102 and item 15 of the AIF. The IOR consisted of 75 per cent non-venture RIs and 25 per cent venture RIs. The outcome of the review resulted in 19 per cent of the RIs being required to file or re-file their material contracts.

Several deficiencies were noted:

Inappropriate redactions – A description of information omitted or marked unreadable, as required by subsection 12.2(5), was either vague or missing. There were also a few instances where provisions relating to debt covenants in financing and credit agreements and events of default were redacted despite paragraphs 12.2(4)(a) and (b), which indicate that these provisions are not to be redacted. In one example where the debt covenants were redacted, the RI responded that disclosure of that information would be seriously prejudicial; however, subsection 12.2(4) indicates that subsection 12.2(3) does not apply to certain specified provisions, which includes debt covenants in financing and credit agreements.

Failure to file amendments to filed material contracts – In determining whether an amendment is material and therefore required to be filed, RIs should consider whether the amendment significantly changes the mechanics, structure, covenants and/or other terms of the original agreement.

Failure to file a contract that subsequently becomes material – There were a few instances where we noted references to contracts that appeared material to the RI, but were un-filed. Upon inquiry, some RIs responded that at the time of entering the contract it was not material. However, over time, that contract became material due to a change of circumstances. We remind RIs that the requirement to assess the materiality of a contract and the requirement to file under section 12.2 is not limited to the date on which the contract is entered. A contract that is material that was entered into within the last financial year, or before the last financial year and still in effect, is required to be filed under subsection 12.2(1).

Failure to file a material contract in the ordinary course of business where it is a continuing contract to sell the majority of the RI's products or services or to purchase the majority of the RI's requirements of goods, services or raw materials – In one example, an RI entered into a material agreement to purchase the majority of its service requirements from another party. The RI, while acknowledging the contract was material, indicated it was not a contract to sell. We pointed out that paragraph 12.2(2)(b) applies to both sales and purchase contracts.

Failure to file a material contract listed in the AIF – In some circumstances, there was an inconsistency between the contracts identified as material in the AIF and those actually filed. Upon inquiry, one RI indicated that the contract had been determined not to be material. In other cases, the RIs confirmed the contract was material and were required to file the material contracts.

Failure to disclose particulars of material contracts in the AIF – Section 15.1 of the AIF requires that particulars of contracts such as dates, parties, consideration, and general nature and key terms be disclosed. In one example, an RI disclosed that its senior notes were redeemable at the RI's option, but did not disclose key terms such as the date(s) the RI could begin redeeming the notes and the redemption price(s).

PRACTICE TIP

RIs should continually assess whether an agreement is a material contract that is required to be filed, as set out in section 12.2 of NI 51-102, based on the current facts and circumstances specific to the RI. At the time an agreement is entered into, an RI may conclude that it is not a material contract and is therefore not required to be filed; however, the contract may become material at a later date as facts and circumstances change.

B. Cybersecurity

Cybersecurity is a priority area identified in the CSA 2016-2019 Business Plan. As part of these efforts, the CSA recently published CSA Staff Notice 11-332 *Cyber Security* (**SN 11-332**).

To gain an understanding of how Alberta RIs are addressing this emerging issue, we conducted an IOR of RIs' disclosures of cyberrisk. Our review sample was comprised of all Alberta RIs on the S&P/TSX Composite Index. The purpose of the review was to obtain an initial understanding of RIs' disclosures such as:

- whether cybersecurity was identified as a risk factor;
- to what extent a cyberattack would impact the RI's operations and what level of disclosure detail was provided;
- what governance structure and controls are in place as oversight to cyberrisk; and
- whether a material cyberattack had occurred and if so, what disclosures were provided.

Of the RIs we reviewed, 48 per cent disclosed cybersecurity as a risk factor. While a few of these RIs ranked cybersecurity as a material risk, most ranked cybersecurity as low in their risk hierarchy.[5]

A significant number of RIs disclosed that a cyberattack could have a material adverse impact on their business; however, less than 50 per cent provided specific information regarding the potential impact on operations and the inherent risks of technology. While most of these RIs disclosed they had systems and controls in place to mitigate the risks, and some provided detail on risk governance, very few indicated whether there was a remediation plan in place.

We intend to continue our reviews in this area, and encourage RIs to review and consider the guidance in SN 11-332. To the extent that RIs have determined that cybersecurity is a material risk,

[5] Section 5.2 of the AIF sets out instructions for disclosure of risk in order of seriousness from the most serious to the least serious.

we expect RIs to provide risk disclosure that is as detailed and entity-specific as possible. While we note there were no disclosed incidents of a material cyberattack, RIs are encouraged to have a remediation plan including how to assess the materiality of a cyberattack and the appropriate timing and nature of disclosure required, in that event.

5. Raising Funds

A. What We Focus On

A prospectus should include or incorporate by reference, full, true and plain disclosure of all information that investors would reasonably require to make an informed investment decision. As part of our review of prospectus filing materials, we have, from time-to-time, highlighted areas of incomplete and otherwise deficient disclosure and provided feedback on these items to the RI during the prospectus review period. The key areas we focused on this year relate to disclosures of use of proceeds, consolidated capitalization and restrictions by creditors.

Use of Proceeds

The use of proceeds section of a prospectus typically provides a detailed account of how the net proceeds from the sale of the securities is intended to be used. We continue to see vague or boilerplate use of proceeds disclosure; including, in some instances, the use of the phrase "for general corporate purposes." We view such disclosure as insufficient. Instead, use of proceeds disclosure should be detailed, and should provide an itemized description of how the funds will be used.

When proceeds are directed towards an RI's capital expenditure program, whether the intent is to first reduce its credit facility and subsequently redraw on the facility for that purpose, we expect to see specific disclosure related to these capital expenditures. In one example, an RI indicated the proceeds would be used for its capital expenditure program. However, its disclosure of the capital expenditure program was incomplete, both in the prospectus and documents incorporated by reference. The disclosure indicated the amount planned for capital expenditures and the amount incurred to date, but there was insufficient disclosure of the nature of the expenditures.

When RIs have negative cash flows from operating activities, it is important to prominently disclose this in the use of proceeds section. The disclosure should also include whether, and to what extent, the proceeds will be used to fund any anticipated negative cash flows from operating activities in future periods.

Consolidated Capitalization

The consolidated capitalization section of a prospectus identifies and describes the share and loan capital of the RI. The disclosure requirements under securities legislation[6] contemplate material changes that will result from the issuance of the securities under the prospectus, as well as any material change in, and resulting effect on, the RI's share and loan capital since the date of the RI's most recently filed financial statements. When there are material changes to RIs' share and loan capital, updating the consolidated capitalization section provides investors with important information on the RIs' financial condition as well as the potential diluting effect on its share capital.

In recent prospectus reviews, we have noted material changes in RIs' loan capital that are not always reflected in the consolidated capitalization disclosures. In the example below, the RI provided insufficient disclosure that it subsequently improved.

EXAMPLE OF IMPROVED DISCLOSURE

An excerpt from an RI's consolidated capitalization disclosures in the preliminary prospectus:

From January 1, 2016 to April 30, 2016, there were no material changes in the share or loan capital of the Company.

($ millions, except the number of common shares)	As at December 31, 2015	As at December 31, 2015 after giving effect to the Offering[2]
Long-term debt, including current portion[1]	$192	$139
Share capital	$290	$343
Number of common shares	89,365,290	106,288,367

[1]As at December 31, 2015, the Company has credit facilities comprised of a $250 million revolving term facility with a syndicate of banks (the "Credit Facility"). **The balance of $192 million includes the credit facility drawings of $76 million and $116 million of other debt.**

[2]Based on the issuance of 16,923,077 Common Shares issued pursuant to this Offering for aggregate gross proceeds of $55 million less the Underwriters' Fee of $2.2 million and expenses of this offering estimated to be $0.3 million.

As part of our review, we asked that the RI confirm whether there were any material changes in their loan capital from January 1, 2016 to the date of the prospectus. The response indicated that credit facility drawings increased from $76 million as at December 31, 2015 to approximately $195 million as at April 30, 2016. Given this increase we asked the RI to update the loan capital amounts within the consolidated capitalization table, or alternatively, within a footnote to the consolidated capitalization table.

The following disclosure was added by the RI as a footnote to the consolidated capitalization table:

From January 1, 2016 to the date of this prospectus, the amount due under the Credit Facility increased from $76 million to approximately $195 million primarily as a result of drawings to fund the cash consideration for the acquisition completed on February 26, 2016 and the payment of trade and other payables. The consolidated capitalization table above does not reflect the increase in drawings under the Credit Facility.

[6] Section 3.1 of Form 44-101F1 *Short Form Prospectus* and section 11.1 of Form 41-101F1 *Information Required in a Prospectus*.

Restrictions by Creditors

As discussed earlier in this Report, many RIs had redeterminations of their credit facility borrowing base during the year. We have observed that for several RIs, this redetermination occurred just prior to, or concurrent with, the filing of a prospectus. In a few cases certain details, such as timing and the amendments to the facility, were known at the time the prospectus was filed but had not been fully disclosed. In these instances, we inquired whether the creditors were requiring the RI to raise capital in order to repay their debt.

EXAMPLE OF IMPROVED DISCLOSURE

An excerpt of an RI's use of proceeds disclosure in the preliminary prospectus:

The Company intends to use the net proceeds from the sale of the Units hereunder to permanently repay the full amount of indebtedness under its credit facility of approximately $20 million and the balance thereafter to repay a portion of indebtedness under its senior credit facility. On August 31, 2016, the Company expects that the borrowing base under the senior credit facility will be reduced to $75 million.

Although the RI stated that it intended to "permanently repay" the indebtedness under its credit facility, the disclosure did not make it clear to investors that, pursuant to the terms of the amended credit facility agreement, the RI was required to use the net proceeds from the offering to permanently repay the full amount of indebtedness under its credit facility. In addition, this was not prominently disclosed within the prospectus, nor was there a discussion of the impact of the reduction of the senior credit facility from $140 million to $75 million.

In response to our comments, the RI improved its disclosure to indicate that they were required to use the net proceeds to permanently repay the full amount of indebtedness under its credit facility, and this payment would permanently reduce and cancel the available facility commitment. The RI also added prominent disclosure of the reduction in aggregate availability of the senior credit facility from $140 million to $75 million, as well as the other material revised terms and conditions within the amended credit facility agreement.

B. What's New

During 2015 and early 2016, amendments and policy changes made by each member of the CSA to the prospectus exemptions came into force. The purpose of the amendments was to facilitate capital raising, while maintaining appropriate investor protection. Two of these amendments are described below.

Rights Offering Circular

Amendments to National Instrument 45-106 *Prospectus Exemptions* came into effect December 8, 2015, streamlining the process relating to prospectus-exempt rights offerings in order to address concerns that the exemption was seldom used due to the associated time and cost.

Key amendments include:

- removing the requirement for a prior review of the rights offering circular by CSA staff;
- removing the requirement to send the rights offering circular to security holders and requiring instead that a new prescribed notice, Form 45-106F14 *Rights Offering Notice for Reporting Issuers*, be sent providing certain basic information about the offering and how to access the rights offering circular electronically;
- adopting a new simplified form of rights offering circular, Form 45-106F15 *Rights Offering Circular for Reporting Issuers* (required to be filed but not sent), prepared in a question and answer format, intended to be easier to prepare and more straightforward for investors to understand;
- increasing the dilution limit from 25 per cent to 100 per cent;
- adding statutory secondary market civil liability; and
- adding a requirement to file a news release on closing, providing certain prescribed information.

Retail Investors and Existing Security Holders

Between March 2014 and February 2015, all CSA jurisdictions adopted a new prospectus exemption allowing listed RIs to distribute securities to existing security holders without requiring an offering document, in amounts up to $15,000 (the **existing security holder exemption**). In Alberta, this was accomplished through ASC Rule 45-513 *Prospectus Exemption for Distribution to Existing Security Holders* (**ASC Rule 45-513**). On January 14, 2016, the ASC, together with the securities regulatory authorities in British Columbia, Saskatchewan, Manitoba and New Brunswick issued Multilateral CSA Notice 45-318 announcing the adoption of a further new prospectus exemption for distributions of securities by listed RIs through an investment dealer (the **investment dealer exemption**). In Alberta, the new exemption was implemented by ASC Rule 45-516 *Prospectus Exemptions for Retail Investors and Existing Security Holders,* which also repealed and replaced ASC Rule 45-513, consolidating into one rule these two similar prospectus exemptions, the existing security holder exemption and the new investment dealer exemption.

The investment dealer exemption permits listed RIs to raise money without an offering document from retail investors provided each investor has obtained advice about the suitability of the investment from an investment dealer.[7] The key rationales for not requiring an offering document is that the investor can rely on the RI's continuous disclosure; the RI is representing that there are no undisclosed material facts or material changes; and an investment dealer will provide advice regarding the suitability of the investment.

[7] There is no corresponding exemption from the dealer registration requirement. See the guidance in Companion Policy to NI 31-103 R*egistration Requirements, Exemptions and Ongoing Registrant Obligations*.

The investment dealer exemption has the following key conditions:

- must be an RI in at least one jurisdiction in Canada and have a class of equity securities listed on the Toronto Stock Exchange, the TSX Venture Exchange, the Canadian Securities Exchange or Aequitas Neo Exchange Inc.;
- the RI must have filed all timely and periodic disclosure documents as required under the CD requirements of securities legislation;
- the offering can consist only of a listed security or a unit consisting of a listed security and a warrant to acquire another listed security, or another security convertible into a listed security at the security holder's sole discretion;
- the news release announcing the offering must disclose, in reasonable detail, the distribution, including use of proceeds, and a statement that there is no material fact or material change that has not been generally disclosed;
- the investor must obtain advice regarding the suitability of the investment from an investment dealer, which triggers the dealer's obligations e.g., in respect of know-your-client and suitability;
- in Alberta, investors will have a statutory right of action in the event of a misrepresentation in the RI's CD (in other jurisdictions a contractual right of action must be provided); and
- although an offering document is not required, if an RI voluntarily provides one, an investor will have certain rights of action in the event of a misrepresentation in it.

6. Resources Available

Listed below are some commonly used regulations to assist RIs in understanding the requirements and where to find them. The list provides links directly to our website in the online version of this report.

To keep up to date on recent and upcoming changes, please subscribe to our updates[8] or follow us on Twitter @ASCUpdates.

Continuous Disclosure Rules	NI 51-102
Financial Statements	Part 4
Forward-Looking Information	Part 4A & 4B
MD&A	Part 5
Business Acquisitions	Part 8
Material Contracts	Part 12
Continuous Disclosure Forms	
MD&A	Form 51-102F1
AIF	Form 51-102F2
Executive Compensation Non-Venture Issuers	Form 51-102F6
Executive Compensation Venture Issuers	Form 51-102F6V
Interpretation and Guidance	
Understanding Interpretations of the NI 51-102 Rules	51-102CP
Disclosure Standards	NP 51-201
Non-GAAP Financial Measures	CSA SN 52-306 (Revised)
Environmental Reporting Guidance	CSA SN 51-333
Corporate Governance Guidelines	NP 58-201
Corporate Governance	
Audit Committees Rules	NI 52-110
Non-Venture Issuers	Form 52-110F1
Venture Issuers	Form 52-110F2
Corporate Governance Disclosure	NI 58-101
Non-Venture Issuers	Form 58-101F1
Venture Issuers	Form 58-101F2
Certification of Disclosure	NI 52-109

8 http://www.albertasecurities.com/news-and-publications/Pages/subscribe-to-updates.aspx

7. 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:

Cheryl McGillivray, CA
Manager, Corporate Finance
(403) 297-3307
cheryl.mcgillivray@asc.ca

Anne Marie Landry, CA
Senior Securities Analyst
(403) 297-7907
annemarie.landry@asc.ca

Kylie Brown, CA
Securities Analyst
(403) 297-2427
kylie.brown@asc.ca

Mary Fajardo, CA
Securities Analyst
(403) 297-2663
mary.fajardo@asc.ca

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 Calgary on January 11, 2017 and Edmonton on January 12, 2017; please check our website for details and registration. A related webinar is scheduled for January 11, 2017. 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 6, 2017. 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.