DECEMBER 2018

Corporate Finance Disclosure Report

ASC
Alberta Securities Commission

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High-quality corporate reporting promotes investor confidence.

A key principle underpinning a fair and efficient capital market is high-quality corporate reporting. It promotes investor confidence and provides valuable information that enables investors to make informed investment decisions.

Each year, the Alberta Securities Commission conducts full and issue-oriented reviews of corporate disclosure. Along with the specific feedback that we provide to reporting issuers, we summarize our findings in this Report in an effort to share what we learned with reporting issuers. We strive to provide helpful tips, identify and address common misconceptions, and we highlight practices that do, and do not, meet our expectations.

Areas in which we identified significant disclosure issues this year included forward-looking information, unbalanced and promotional disclosures, and the use of non-GAAP financial measures; in this report we explain our concerns and provide examples that did and did not meet our expectations. We have also observed increased market activity in emerging industries and new technologies. Increased diversification is important to Alberta's economy; our objective is to assist these issuers in timely access to the market, while acknowledging that they present additional risks and uncertainties. It's critical for these issuers to get it right the first time in order to establish investor confidence, so we've highlighted some common mistakes and provided clarification of our expectations to make it easier for them to improve their disclosure.

With continuing tough times in Alberta's capital markets, our objective for this Report is to provide useful and straightforward guidance that makes it easier for issuers to achieve good disclosure – we know your time and resources are valuable. Our Corporate Finance division is here to establish and maintain open, two-way communication with reporting issuers, and to assist you in any way we can. Please feel free to contact me or my colleagues identified in this Report with any feedback or questions. I look forward to seeing many of you at our information session on February 5, 2019.

Regards,

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Each year the ASC issues four reports, created to provide timely and relevant information for market participants and reporting issuers. These reports include the annual report, the Alberta capital markets report, the oil and gas review and the corporate finance disclosure review. These reports can be found at www.albertasecurities.com.

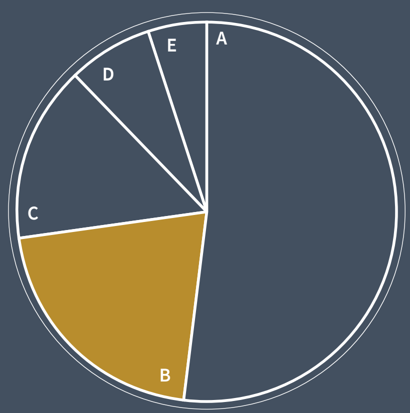
1. The Alberta Capital Market

MARKET CAPITALIZATION AND INDUSTRY TYPE

Alberta is home to the second largest capital market in Canada. The market capitalization of Alberta-based[1] RIs represents approximately 21 per cent of active Canadian RIs[2]. The Alberta Securities Commission **(ASC)** regulates 563 Alberta-based RIs representing a diverse range of industries. The oil and gas industry (including oil & gas services) comprises the majority of RIs and 51 per cent of the total Alberta market capitalization.

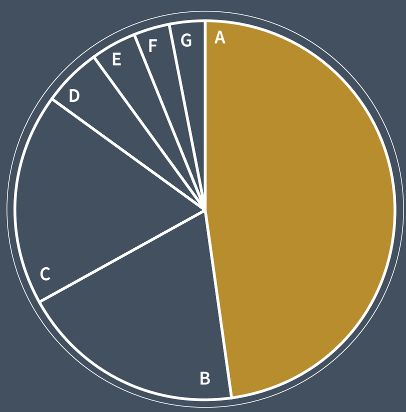
MARKET CAPITALIZATION

ACTIVE CANADIAN RIs



52% ONTARIO (A)
21% ALBERTA (B)
15% QUEBEC (C)
7% BRITISH COLUMBIA (D)
5% OTHER (E)

ALBERTA-BASED RIs BY INDUSTRY



48% OIL AND GAS (A)
19% TECHNOLOGY (B)
18% PIPELINES (C)
5% TRANSPORTATION AND ENVIRONMENTAL SERVICES (D)
4% OTHER (E)
3% OIL & GAS SERVICES (F)
3% UTILITIES (G)

1 Represents RIs whose principal regulator is Alberta.

2 Represents RIs based in Canada that are listed on the Toronto Stock Exchange (**TSX**), TSX Venture Exchange (**TSX-V**) or Canadian Securities Exchange (**CSE**). Source: TMX Group and Canadian Securities Exchange, September 30, 2018.

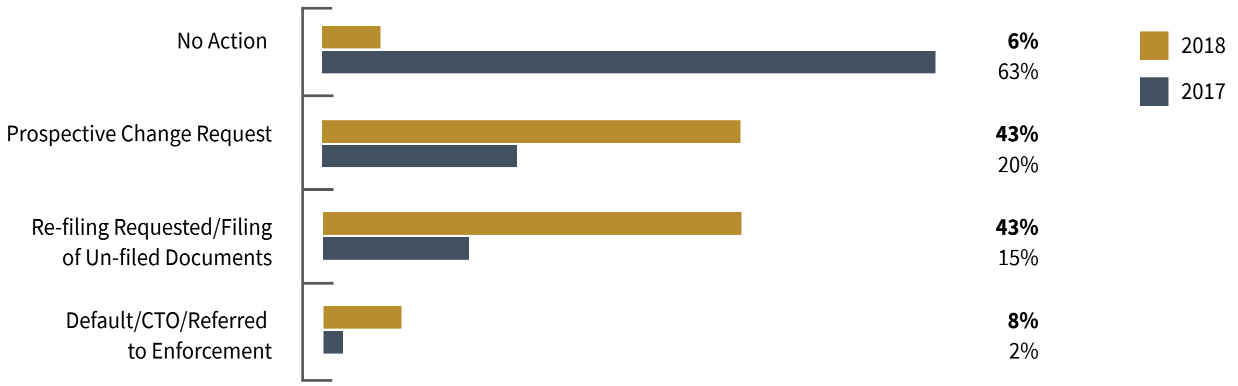
2. Review Process & Outcomes

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 CD disclosure for its most recently completed annual and interim periods, including: financial statements, MD&A, business acquisition reports, information circulars, news releases, MCRs, AIFs (if applicable) and other relevant disclosures. We may also review and assess other disclosures such as websites, webcasts and investor materials.

In conducting IORs, the scope of our review is 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, investor presentations, information circulars, MD&As and financial statements.



As illustrated above, 94 per cent of our CD reviews in 2018 resulted in an action outcome. In some cases, we requested that the RI make prospective changes or re-file/file documents. In more serious instances, we placed the RI on the default list, cease-traded the RI or referred the file to enforcement for further investigation. The change in the "No Action" and "Prospective Change" categories this year was primarily due to our focus on full CD reviews in 2018, which generally leads to a higher number of action outcomes. One significant IOR carried out in 2017 was the review of all Alberta-based non-venture RIs' gender disclosures, where a number of the RIs reviewed resulted in a no action outcome. The 2018 outcomes in the "no action" and "prospective outcome" categories were more consistent with years where a major IOR was not conducted.

Forty three per cent of the actions taken in 2018 were to request that RIs re-file or file un-filed documents. Requests to re-file documents represented 53 per cent of this category, and were most frequently related to MD&A and corporate presentations. The remaining 47 per cent of this category related to un-filed documents, most frequently related to material contracts, executive compensation and other corporate governance disclosures.

This Report identifies some of the key areas where significant deficiencies were observed. It highlights our expectations for improvements and provides practical guidance, examples and practice tips to RIs.

3. Notable Review Observations

UNBALANCED AND PROMOTIONAL DISCLOSURES

One of the key principles underpinning a fair and efficient capital market is appropriate disclosure practices. In the past year we observed continued use of unbalanced and promotional disclosures, most frequently in news releases and investor presentations. National Policy 51- 201 *Disclosure Standards*, establishes that an RI's news release should contain enough detail to enable investors and the media to understand the substance and importance of the change it is disclosing. The disclosure should avoid including unnecessary details, exaggerated reports or promotional commentary.

WHY IS THIS IMPORTANT?

Issuers with overly promotional disclosures do harm to the capital markets by reducing investor confidence that the market is operating fairly, which can lead to less capital invested even in compliant RIs with balanced disclosures. While this type of activity is more prevalent among smaller RIs, it is an important consideration for all issuers.

We have observed issuers using the term “blockchain” in their issuer name, despite not having established nor intending to establish a blockchain-related business. For these issuers, we required that the prospectus provide clear disclosure that the issuer has not yet, and may not, establish a business in blockchain.

In one example an issuer indicated it intended to invest indirectly in disruptive technologies such as artificial intelligence, e-commerce and blockchain. The issuer identified certain entities relating to these technologies that it was contemplating investing in. However, after inquiry with the issuer it was clarified that the entities were not developing the technologies nor had they indicated an intention to do so; rather, they were entities that could benefit from the advancement of the technology. The issuer was required to amend its disclosures to clarify this fact.

Some issuers have included charts and tables in their disclosures of industry data related to customer demand and revenue projections in markets other than in which the issuer intends to operate. Without a reasonable basis for the relevance of the market data to the issuer's business, we have required that disclosure be removed.

Another area where we have observed unbalanced and promotional disclosure is forward-looking information (FLI) in news releases or presentations. We have seen RIs provide material FLI metrics or FLI non-GAAP financial measures (NGM) in one or more time periods, then subsequently stop reporting on the metric or NGM without explanation. It would be important to note that a discontinuation of a FLI metric or FLI NGM constitutes a withdrawal of previously disclosed FLI. As established in subsection 5.8(5) of NI 51-102, RIs must disclose the decision to withdraw the FLI in its MD&A in the period it is withdrawn. This disclosure must include a discussion of the events and circumstances that led to the decision to withdraw and the assumptions underlying the FLI that are no longer valid.

To address the incidence of unbalanced and promotional disclosures we have observed across Canada, the CSA recently issued Staff Notice 51-356 *Problematic Promotional Activities by Issuers*. This notice provides additional examples and guidance to assist RIs. We intend to monitor this issue closely.

GOING PUBLIC – EMERGING INDUSTRIES AND NEW TECHNOLOGIES

We have seen increased market activity in emerging industries and new technologies over the past year, such as cryptocurrency, blockchain, disruptive technologies, biotechnology and cannabis. These business opportunities face many different challenges. Whether an issuer is going public via a reverse takeover (RTO) or prospectus filing (Initial Document)[3], getting the disclosure right builds investor confidence and prepares the issuer for its ongoing continuous disclosure obligations.

3 An initial document would include an initial public offering prospectus, non-offering prospectus, information circular, or filing statement

Issuers in emerging industries and new technologies present additional risks and uncertainties for investors such as:

- Unestablished markets and customer base
- Limited financial history - if any
- Evolving regulations
- Lack of established consumer acceptance rates
- Limited access to capital
- Requirements for license and permit approvals
- Unestablished supply chains

WHY IS THIS IMPORTANT?

Given the short financing windows that can occur for issuers, the quality of the initial submissions is critical to an efficient and timely review process.

Areas we focus on that will assist issuers in a more efficient going-public transition are discussed below.

TELLING YOUR STORY

Detailed disclosure of the issuer's business plan is a critical component in the initial document. It provides an opportunity for the RI to tell its story to prospective investors, within the framework of the prospectus rules[4]. The plan should describe how the issuer plans to develop the business or how it has developed, including a description of its products or services. When entering an emerging industry or new technology additional disclosure required includes:

- Objectives and key milestones
- Expected timelines for key milestones
- Estimated expenditures to achieve key milestones
- Status of the milestones, applications or license approval
- Whether there is a marketing strategy to establish a customer base or has one been established

RESOURCES AND ACCESS TO CAPITAL

The disclosure should include a discussion of what resources the issuer has and what other sources of funding are available in order to meet its operational obligations and achieve its objectives. For issuers raising capital as part of a prospectus filing, the disclosure should include in reasonable detail the principal purposes of the proceeds.

EARLY STAGE TECHNOLOGY AND PRODUCTS

Issuers working on innovative technologies or products should disclose the stage of development for its technologies or products. If in early stages of research and development, should specify if it is conducting its own research and development, subcontracting out the research and development or using a combination of those methods. Information about what additional steps are required to reach commercial production and an estimate of costs and timing should also be included. Other considerations include information about rights to the technology or product, such as patents or licenses.

RISK DISCLOSURE AND REGULATIONS

Many emerging industries have unique or novel risks and regulatory frameworks and/or laws applicable to them. Disclosure for issuers in these industries should include risk factors relating to the issuer and its business, the general risks inherent in the business carried on by the issuer, regulatory constraints, economic or political conditions and financial history and any other matter that would be likely to influence an investor's decision to purchase securities

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4 Long form prospectus rules-Form 41-101F1 of NI 41-101

of the issuer. Other considerations include disclosure about any permits or licenses required before the business operations can commence or regulations that apply.

PRACTICE TIP

Risks:

- *A risk factor must not be de-emphasized by including excessive caveats or conditions.*
- *Risks should be presented in order of seriousness and not obscured by presenting a laundry list of risks.*

Regulations:

- *RIs with cannabis activities should provide disclosure about the regulatory frameworks applicable in the jurisdictions in which they have operating activities or planned operating activities.*
- *RIs in technology industries such as blockchain and cryptocurrency should consider implementing programs and processes to monitor evolving regulations.*

NON-GAAP FINANCIAL MEASURES (NGMs)

While our focus on issues relating to NGMs is not new, we placed significant emphasis on NGMs in this year's review as their use is becoming increasingly widespread and potentially problematic. Further, the CSA is proposing to formalize our guidance in CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures* (**SN 52-306**) as a rule[5]. While we don't expect the new rule to change our review of NGMs disclosure, it will provide us with a more effective tool with which to regulate non-compliance.

WHY ARE NGMs PROBLEMATIC AND WHY OUR FOCUS ON THEM?

Using a standardized accounting framework is critical for RIs to maintain consistency in their presentation of financial results and reduce the risk of misrepresentation. It also allows investors to compare and assess companies. When GAAP measures are transformed into NGMs by individual RIs, consistency and reliability may be lost. While NGMs may be useful in helping to describe how management views the business, it becomes problematic when the required GAAP results are obscured.

We observed significant NGMs disclosure deficiencies in this past year and have taken action to have those deficiencies remedied. These actions have included requiring re-filings, retraction of news releases, removal of certain NGMs from disclosure documents and amendments to investor presentations.

Notably, most NGMs disclosures we reviewed did not comply with SN 52-306. Prominence was the most prevalent concern. A significant number of RIs are disclosing excessive numbers of NGMs, with some RIs noted using upwards of 15 NGMs in their disclosures. The proliferation of these NGMs obscures the RIs' GAAP measures, creating confusion to investors and resulting in potentially misleading disclosure.

PROMINENCE

SN 52-306 outlines that an RI should present, with equal or greater prominence to that of the NGM, the most directly comparable GAAP measure presented in the financial statements (**GAAP measure**). This year we observed several RIs fail to meet this expectation. These RIs had disclosed several NGMs in tables without presenting the GAAP measure with equal or greater prominence. There was often a disproportionate discussion and analysis of the NGMs and, in many instances, the GAAP measure was not presented at all. When assessing whether NGMs have been presented with too much prominence an RI should consider both its narrative discussion and charts and/or tables that may be heavily or solely focused on NGMs.

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5 See the Important Staff Notices section of this Report for further reference

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

Excerpt from an RI's Q2-2018 MD&A

Financial Highlights (\$000, except per share amounts)	Period ended June 30, 2018	Period ended June 30, 2017
KEY FINANCIAL MEASURES		
Revenue	1000	500
Royalty expense	(50)	(25)
Operating expense	(150)	(85)
Operating netback	**800**	**390**
Realized hedging gains (losses)	(25)	(5)
Marketing income	15	5
Adjusted operating netback	**790**	**390**
General and administrative	(30)	(15)
Finance expense and other	(40)	(50)
Corporate netback	**720**	**325**
FINANCIAL RESULTS		
Liquids and natural gas sales	850	495
Operating income	220	60
Per share – diluted	0.65	0.15
Net income (loss)	(35)	175
Per share – diluted	(0.10)	0.40
Funds from operations	530	275
Per share – diluted	1.55	0.70
Cash provided by operating activities	500	195
Cash return on capital	20%	20%
Return on total assets	12%	10%
Available funding	1,250	1,575
Net debt	2,275	1,800

Shaded items in the table above represent NGMs, as defined in SN 52-306.

Prominence:

There is a prevalent use of NGMs in the table above. Many of the NGMs are presented with more prominence than the RI's directly comparable GAAP measure, and some of the RI's comparable GAAP measures were omitted. Some NGMs presented in the table did not appear elsewhere in the MD&A, bringing the usefulness of the NGM into question. In addition, we note that the RI included a greater focus on the discussion and analysis of the NGMs within the MD&A, instead of highlighting and discussing its GAAP measures.

Other Deficiencies:

The RI failed to identify "operating netback," "finance expense and other" and "liquids and natural gas sales as NGMs and did not provide the accompanying disclosures set out in SN 52-306 for the NGMs.

Given the concerns outlined above, we requested that the RI permanently remove certain NGMs from its future filings, improve its next MD&A filing by increasing the prominence of its GAAP measures and to ensure its NGMs are accompanied with the disclosures set out in SN 52-306.

Another practice we observed that contributed to the prominence of NGMs was that many RIs presented more than one NGM with the same or similar purpose and usefulness. An example of this is illustrated below:

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

Excerpt from an RI's 2017 annual MD&A

($000)	Year-ended December 31, 2017	Year-ended December 31, 2016
Revenue	18,000	8,500
Royalties	(1,500)	(600)
Operating	(4,000)	(2,000)
Transportation	(1,000)	(600)
Operating netback(1)	**11,500**	**5,300**
General and administrative	(2,500)	(1,700)
Interest and financing expenses	(500)	(100)
Interest income	50	100
Corporate netback(2)	**8,550**	**3,600**

($000)	Year-ended December 31, 2017	Year-ended December 31, 2016
Cash flow from operating activities	8,600	2,500
Decommissioning liabilities settled	100	50
Changes in non-cash operating working capital	(150)	1,050
Adjusted funds flow(3)	**8,550**	**3,600**

Excerpt from the RI's NGMs discussion of usefulness of the NGMs

(1) Operating netback denotes total sales less royalty expenses, operating costs and transportation costs.

(2) Corporate netback denotes operating netback less general and administrative, interest and financing expense and exploration expense, if any, plus interest income.

(3) Adjusted funds flow is used to evaluate operating results and the corporation's ability to generate cash flow to fund capital expenditures and repay indebtedness.

Deficiencies:

- *The RI failed to reconcile its "corporate netback" NGM to its most directly comparable GAAP measure, "net income (loss)". Instead the RI simply presented a compilation of the components of the NGM.*
- *Instead of disclosing why the "corporate netback" NGMs is useful, the RI's MD&A simply provided a narrative of how the NGM was calculated.*
- *Upon inquiry into the usefulness of the "corporate netback," the RI indicated that the NGM was useful for demonstrating the RI's ability to fund capital and debt repayment. This statement appeared to serve the same purpose as the "adjusted funds flow" NGM. In addition, the "corporate netback" NGM was only presented in a table in its MD&A and did not appear elsewhere in the MD&A bringing the usefulness of the NGM into question and potentially confusing to investors.*

Given the concerns outlined above, we requested that the RI remove the "corporate netback" NGM.

ADDITION OF NEW NGMs AND DISCONTINUED USE

We have observed a significant increase of NGMs disclosure relating to material acquisitions or transactions. An RI will often disclose a new NGM in a corporate presentation, news release or material change report announcing an acquisition or transaction, but in the RI's subsequent continuous disclosure documents these NGMs are not disclosed. While there is no specific expectation in SN 52-306 to state why an NGM has been removed, the general premise for disclosing these new NGMs is that they provide useful information to investors. As such, if only used one time we question whether these measures provide useful information or simply add clutter and confusion to the disclosure document.

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

The following is a comparison of NGMs disclosed by an RI in its: (1) MD&A filing prior to a material acquisition, (2) MCR announcing the close of the acquisition and (3) annual MD&A, post-acquisition.

	NGMs used in the RI's MD&A immediately prior to announcing the acquisition	NGMs presented in the RI's MCR filed in respect of the acquisition	NGMs used in the RI's annual MD&A post-acquisition
Cash flow NGMs	• funds flow	• adjusted cash flow	• funds flow • adjusted funds flow
Financial performance NGMs	• operating netback	• operating netback	• operating netback • corporate netback • operating income
Liquidity NGMs	• net debt	• pro forma leverage • adjusted debt • adjusted debt/EBITDA ratio	• net debt • market capitalization • enterprise value
Financial outlook NGMs	none disclosed	• adjusted cash flow • operating netback • adjusted debt • adjusted debt/EBITDA ratio	none disclosed and no comparison to actual disclosure relating to previously disclosed financial outlook NGMs
Number of NGMs disclosed	3	5	8
New NGMs		4	5
NGMs included in MCR that were discontinued post-acquisition			• adjusted cash flow • pro forma leverage • adjusted debt • adjusted debt/EBITDA ratio

Deficiencies:

- *The RI's MCR did not provide the requisite disclosures for each of the new NGMs. This includes a description of why it is useful and a reconciliation of the NGM to its most directly comparable GAAP measure. SN 52-306 disclosure expectations apply to each disclosure document. The exception to the reconciliation expectation is when an NGM is disclosed on a website, in that case the reconciliation can be referenced to another document.*
- *The FLI NGMs disclosed in the MCR were not accompanied with disclosure of the material assumptions and risk factors used to calculate the financial outlook as required by parts 4A and 4B of NI 51-102. We also question the usefulness of providing financial outlooks for new NGMs to investors where the historic NGM is not provided.*

- *Although there were material differences between the previously disclosed operating netback financial outlook and the actual results, the RI's annual MD&A did not disclose and discuss these material differences, as required by subsection 5.8(4) of NI 51-102.*
- *The RI's annual MD&A disclosure describing the acquisition and its impact on the RI's operations was boilerplate, simply stating "the increase is primarily due to the acquisition" without quantifying the impact or including sufficient information to assist the investor in understanding the effect on the RI's financial performance and cash flows.*

USEFULNESS

RIs should include clear and specific disclosure of how a particular NGM is used by management and why it is useful for investors. These usefulness statements made about a NGM will determine the starting point of the reconciliation (e.g., cash flow from operations or net income) and the type of adjustments made in calculating the NGM; therefore, it is important that the NGM usefulness description be given careful consideration. If adjustments made in the calculation of the NGM are not consistent with its usefulness explanation, this may result in a NGM that is inappropriate or misleading. In one example, we noted an RI disclosed that the usefulness of a NGM was to "increase comparability between reporting periods"; however, recurring expenditures and charges such as expenditures on decommissioning and finance expenses were adjusted for in the calculation of the NGM.

PRACTICE TIP

To assess the appropriateness of the NGMs, RIs should ask themselves:

- Do our NGMs across all disclosures outnumber our reported GAAP measures?
- Is our discussion of the NGM, including chart and tabular presentation, more prominent than the related GAAP measure?
- Is an NGM presented in our disclosure without including a corresponding narrative explanation for its variation from the prior period?
- Does our disclosure sufficiently explain to investors why each NGM is useful, or is the disclosure simply a list of the NGM's components?
- Is what we have labelled our NGM similar to that of a GAAP measure?
- Are we using terms/labels inconsistently within documents and between periods?
- Have we reconciled an NGM back to another NGM?
- Are the adjustments we've made in the calculation of the NGM inconsistent with the stated usefulness of the NGM?

If the response to any question is 'YES', this may indicate that the RI's NGM(s) are unbalanced, confusing or obscuring the most directly comparable GAAP measure and potentially misleading.

MD&A

The MD&A disclosures are intended to provide investors insight into an RI's historical performance, and current financial condition and management's outlook over the longer term. Many of the CD disclosure deficiencies we have identified over a number of years relate to MD&A disclosures with common key elements:

- Overall performance
- Discussion of operations
- Liquidity
- Capital resources

OVERALL PERFORMANCE AND DISCUSSION OF OPERATIONS

The overall performance disclosure is intended to give investors a high level perspective of the RI's financial condition, financial performance and cash flows of the recently completed financial year compared to the prior year. This would include any changes that have occurred, as well as risks or trends that have or are reasonably likely to have a financial impact. The discussion of operations is then intended to provide a more in-depth perspective of the most recently completed financial year.

We have observed that a significant number of RIs have increased the use of tables in their MD&A to present financial information and performance metrics; however, there is often very limited narrative accompanying the tables. Without a balanced and meaningful discussion and analysis, an investor cannot understand the changes, risks or trends that have or are reasonably likely to impact the RI.

Many other RIs when discussing their operations, will present the variances without sufficiently explaining what caused the variances. For example, when discussing revenue variances, RIs should give a full discussion and analysis of the elements effecting revenue such as price and volume, and why those underlying variables have changed. Similarly, when discussing cost variances, providing a meaningful analysis and discussion of the material components to the costs will provide investors with an understanding of the operations.

EXAMPLE THAT MET OUR EXPECTATIONS

Excerpt from an RI's Q2-2018 MD&A

Petroleum and natural gas sales were $647 million for the six months ended June 30, 2018, an increase of $499 million compared to the same period in 2017. The increases were primarily due to higher sales volumes and higher liquids prices, partially offset by lower natural gas prices. The impact of changes in sales volumes and prices are as follows:

	Natural Gas	Condensate and Oil	Other NGLs	Royalty & Sulphur	Total
Six months ended June 30, 2017	40	100	7	1	148
Effect of changes in sales volumes	225	238	32	-	495
Effect of changes in prices	(96)	79	14	-	(3)
Change in royalty and sulphur revenue	-	-	-	7	7
Six months ended June 30, 2018	169	417	53	8	647

This RI used a table effectively by providing a supporting narrative and quantifying the key elements (sales volume and sales prices) that explain the variances.

When discussing the changes in the RI's financial condition and results, it is important to include an analysis of the effect on operations of any acquisition, disposition, write-off, abandonment or other similar transaction. We have observed several RIs that had shut in wells, acquired or disposed of assets, but failed to discuss the effect these transactions had or will have on their performance and financial condition.

EXAMPLE THAT MET OUR EXPECTATIONS

Excerpt from an RI's Q2-2018 MD&A

In June 2018, XYZ completed the dispositions of certain non-core miscellaneous petroleum and natural gas properties and related assets. The cash consideration was $6 million, before customary closing adjustments. As a result of the dispositions, XYZ recorded a loss on the sale of assets of approximately $9.1 million ($6.6 million net of tax) in the reporting periods.

The dispositions are considered non-core as they represented less than 1 per cent of both XYZ's production during the reporting periods, and proved plus probable reserves at June 30, 2018, and therefore were not significant to the XYZ's financial results and operational performance.

PRACTICE TIP

In considering what level of disclosure to provide, RIs should ask themselves – do the disclosures provide investors sufficient insight into:

- **What** material changes happened?
- **Why** they happened?
- **How** or **if** these changes or other potential risks and trends will impact the future performance and financial condition?

LIQUIDITY AND CAPITAL RESOURCES

Unfavourable economic conditions, commodity price volatility, oil price discounts, pipeline constraints and shrinking investment capital continued to impact Alberta RIs this past year. Many are managing these challenges through cost reductions, hedging, disposition of assets, changing asset mix and other diversification strategies. In these circumstances a full discussion and analysis of the RI's liquidity is most critical for investors to understand the impact of economic conditions and the effect the measures taken by the RI to manage risk will have in the short and longer term.

Simply stating that the RI expects it will have sufficient cash flows to meet its obligations and capital expenditures or reproducing the financial statements does not provide investors with sufficient insight. The RI should consider providing a discussion and analysis of:

- Sources of cash flows the RI expects will be available to meet its obligations.
- If there is an expected cash shortfall, how will that be funded.
- Trends or uncertainties that may impact liquidity.
- How the RI expects to remedy a current or expected working capital deficiency.
- Credit or counterparty risk that may impact the liquidity.
- Current or expected difficulties accessing debt or equity markets.
- Risk of breaching loan covenants, and/or are there near-term obligations coming due that may be at risk.

We observed several RIs disclosure indicate they expected to have sufficient cash flows to meet their capital expenditures. Some of these RIs, however, had negative cash flows and negative working capital, so it appeared these RIs did not have a reasonable basis to make that statement. In some cases RIs simply stated that, given the current economic conditions, they would limit capital expenditures for the year without disclosing what their capital expenditures would be for the year.

RIs should present an analysis of capital expenditures commitments in their MD&A. This should include expenditures not yet committed but required to maintain the RI's capacity as well as expenditures required to fund planned growth and development activities.

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

Excerpt from an RI's Q1-2018 MD&A

XYZ remains focused on continuing to drill wells on its YY property due to its high netbacks and opportunities for meaningful growth. XYZ has drilled its second well at the XX location, with completion operations currently underway. Success on this well would prove up additional leased acreage in the area. A third well is planned for late 2018.

Excerpt from the RI's Q2-2018 MD&A

Continue to focus on drilling wells on its YY property with its opportunities for meaningful growth and high netbacks. XYZ plans to spud its third well in the third quarter of 2018.

While this RI updates investors about its capital activity for the current quarter and planned activity for the next quarter, the disclosure does not include expected costs for its capital plans, nor what capital is required to maintain its production capacity.

EXAMPLE THAT MET OUR EXPECTATIONS

Excerpt from an RI's annual 2017 MD&A

The Company's Board of Directors has approved an initial capital budget of $110 million for 2018. The 2018 capital budget includes the drilling of seven new wells in the first quarter and fifteen new wells in the second half.

The budget is expected to increase the Company's annual 2018 production to 11,000 – 12,200 boe/d with cash flow from operations estimated at $95 million to $100 million.

FORWARD-LOOKING INFORMATION

FLI continues to be an area where we observe recurring material deficiencies, as noted in previous years' Reports as well as in the "Unbalanced and Promotional Disclosures" and the "Non-GAAP Financial Measures" sections of this Report. The disclosure deficiencies tend to be most prevalent in news releases, prospectuses, social media and investor presentations.

Parts 4A and 4B and section 5.8 of NI 51-102 set out the requirements for disclosure of FLI. RIs are reminded that these requirements apply to all public disclosures, not just in the regulatory filings. This past year several RIs had deficiencies in some key FLI disclosure requirements:

DISCLOSURE REQUIRED	DEFICIENCIES OBSERVED
• Cautionary disclosure that actual results may vary from the FLI; identification of material risk factors that could cause actual results to differ materially from the FLI.	• Risk factors disclosed are often boilerplate. Several RIs impacted by the volatility of commodity prices and liquidity risks did not sufficiently detail how these risks may cause the FLI results to materially differ.
• Material factors or assumptions used to develop the FLI be stated.	• When disclosing a financial outlook, such as cash flows or performance, many RIs did not provide all material assumptions. A number of RIs provided the material assumptions related to revenue but did not include material assumptions related to costs or other key inputs to the financial outlook.
• The date management approved the financial outlook, if the document containing the financial outlook is undated.	• Several RIs presented financial outlooks in investor presentations and social media, but did not date the document nor provided the date management approved the financial outlook.
• Events or circumstances that have occurred and would be reasonably likely to materially affect previously disclosed FLI. Both the fact that the event or circumstance has occurred as well as the expected difference(s) to previously disclosed FLI should be disclosed in the MD&A for the period in which the potential change occurred.	• RIs are not updating their previously FLI on a timely basis.

✓ EXAMPLE THAT MET OUR EXPECTATIONS

Excerpt from an RI's Q2-2018 MD&A that provides an update to previously disclosed FLI.

We are revising our annual capital spending guidance to $600 million (previous guidance range of $525-$580 million) due to non-operated capital spending in Y and Z, as well as modest increases on a portion of our materials and services.

IMPORTANT STAFF NOTICES

NOTICE	DESCRIPTION	DATE OF PUBLICATION
CSA Staff Notice 51-356 *Problematic Promotional Activities by Issuers*	A useful guide for RIs to help ensure disclosures are balanced and not misleading.	November 29, 2018
CSA Staff Notice 51-357 *Staff Review of Reporting Issuers in the Cannabis Industry*	Observations from the review of RIs engaged in cannabis activities and provides useful guidance and examples on: • Accounting disclosures related to biological assets • Production estimates • Misleading or unbalanced disclosure • Regulatory frameworks • U.S. cannabis activities	October 10, 2018
CSA Notice and Request for Comment Proposed National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure* Proposed Companion Policy 52-112 *Non-GAAP and Other Financial Measures Disclosure* and Related Proposed Consequential Amendments and Changes	Request for public comment in respect to proposed rules to replace CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures.* The comment period closed on December 5, 2018.	September 6, 2018
CSA Staff Notice 51-355 *Continuous Disclosure Review Program Activities for the fiscal years ended March 31, 2018 and March 31, 2017*	Outlines observations resulting from the CSA reviews of RIs' disclosures and provides additional relevant information not covered by this Report.	July 19, 2018
CSA Staff Notice 51-355 *Report on Climate change-related Disclosure Project*	Highlights the outcomes of our research and consultation project related to climate change-related disclosure. Provides RIs with some key themes observed and our plans for next steps.	April 5, 2018
CSA Staff Notice 51-353 *Update on CSA Consultation Paper 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*	Describes the CSA regulatory burden reduction initiatives underway.	March 27, 2018
CSA Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities*	A useful guide to disclosures we expect for RIs carrying out direct and indirect cannabis activities in the U.S.	February 8, 2018

4. Resources Available

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

To keep up-to-date on recent and upcoming changes, please subscribe to our updates[6] 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
BAR	Form 51-102F4
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	SN 52-306 (Revised)
Environmental Reporting Guidance	SN 51-333
Corporate Governance Guidelines	NP 58-201
Corporate Governance	
Audit Committee 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

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

5. 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 either 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. An information seminar related to this Report and other topics is scheduled for Calgary on February 5, 2019 at the Sheraton Calgary. For those unable to attend in person, this event will also be available via webinar. Anyone planning on attending this seminar or webinar can submit topics or questions they would like us to consider addressing by sending an email to cf-report@asc.ca by January 23, 2019. 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.

GLOSSARY OF TERMS

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);

"**BAR**" means Business Acquisition Report; specifically, a completed Form 51-102F4 *Business Acquisition Report*;

"**CD**" means Continuous Disclosure;

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

"**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 *Continuous Disclosure Obligations* (NI 51-102));

"**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;

"**Form 41-101F1**" means Form 41-101F1 *Information Required in a Prospectus*;

"**GAAP**" means generally accepted accounting principles;

"**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);

"**NI 41-101**" means National Instrument 41-101 *General Prospectus Requirements*;

"**RI**" - Sections 1(cc) and 1(ccc) of the *Securities Act* (Alberta) provide the definition of issuer and reporting issuer (RI) respectively. Although most of this Report is directed towards Alberta RIs, certain securities legislation addressed in this report applies to both issuers and RIs in these instances "issuer" has a specific meaning in application and reference. The Report refers to RI unless use of the term issuer is necessary to make the distinction.

"**Venture RI**" means Venture Issuer, as that term is defined in NI 51-102.

Alberta Securities Commission

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