CORPORATE FINANCE DISCLOSURE REPORT

DECEMBER 2013

Introduction

The Alberta Securities Commission (**ASC**) is pleased to publish its 23rd annual Corporate Finance Disclosure Report (**Report**). The Report continues to be an important vehicle to share with market participants our observations on public disclosure provided by Alberta reporting issuers (**RIs**).

Reliable and accurate reporting by issuers is critical to the strength and credibility of the capital markets. Continuous disclosure obligations remain at the core of an RI's communications with investors; as a result, ensuring a high degree of compliance with these requirements continues to be a top priority at the ASC.

During a review of an RI's disclosure, we will often request additional information from the RI to determine whether a misstatement exists. Our inquiries often result from unintentionally incomplete or unclear disclosures made by RIs. While this may not result in a restatement or remedial action, it does highlight the importance for clarity in reporting. As communicated in prior years' reports, more disclosure is not necessarily better disclosure. Concise and specific information, when communicated in a balanced manner, may often outperform a lengthier narrative. With that in mind, our key objectives include maintaining and incrementally improving the quality of disclosure.

The majority of RIs are diligent and conscientious in their reporting obligations. Where significant misleading disclosures have been made, however, our goal is to identify these as soon as practicable. Our reviews have become increasingly intensive as a result, and we expect to continue to examine RIs' disclosure closely.

Issuers' management, professional accountants, legal advisors, engineering and geological professionals all have important roles to play in ensuring the integrity of reporting. The capital market relies to a significant degree on these individuals, and our expectation is that they will make considered and appropriate decisions.

Finally, we welcome your input. We consider very carefully any observations of disclosures that are of concern to market participants. In addition, feedback on our ASC reports helps us to create new and useful features, such as the inclusion of a Glossary section in this year's Report.

Glossary of Terms

The Act – the *Securities Act* (Alberta)

Additional GAAP measure – a line item, heading, subtotal, or note disclosure, beyond the minimum line items for financial statements, that meets the IFRS criteria for disclosure in the financial statements (i.e., relevant to an understanding of an entity's financial position and performance)

AIF – Annual Information Form, specifically, a completed Form 51-102F2 *Annual Information Form* (**Form 51-102F2**)

ASC – the Alberta Securities Commission

BAR – Business Acquisition Report, specifically, a completed Form 51-102F4 *Business Acquisition Report*

CD – Continuous Disclosure

CSA – the Canadian Securities Administrators

FLI – 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**))

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

MCR – Material Change Report, specifically, a completed Form 51-102F3 *Material Change Report*

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

Non-GAAP financial measure – a numerical measure of an issuer's historical or future financial performance, financial position or cash flow, that is not required by an issuer's GAAP and that either: (i) excludes amounts that are included in the most directly comparable measure calculated and presented in accordance with the issuer's GAAP, or (ii) includes amounts that are excluded from the most directly comparable measure calculated and presented in accordance with the issuer's GAAP

RI – Reporting Issuer, as that term is defined in the Act

SEDAR – System for Electronic Document Analysis and Retrieval

PLEASE NOTE

Throughout this report we use the terms RI and issuer. Sections 1(cc) and 1(ccc) of the Act provide the definition of issuer and reporting issuer respectively. Although most of this report is directed towards to Alberta RIs, certain securities legislation addressed in this report applies to both issuers and RIs, such as National Instrument 41-101 *General Prospectus Requirements* (**NI 41-101**) and National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (**NI 52-107**). 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.

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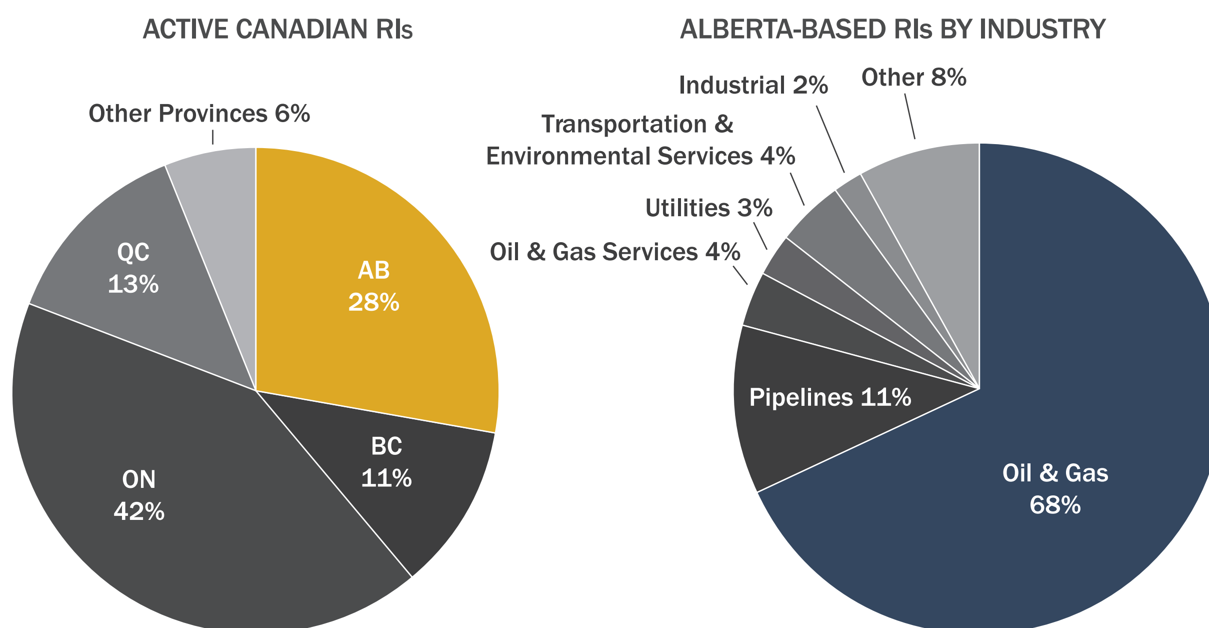
1. The Alberta Capital Market

Market Capitalization and Industry Type

Alberta is the second largest capital market in Canada. The market capitalization of Alberta-based[1] RIs constitutes approximately 28 per cent of active Canadian RIs[2]. Alberta-based RIs have the highest average market capitalization per listing.

The ASC regulates 779 Alberta-based RIs representing a diverse range of industries. The oil and gas industry comprises the majority of RIs with 68 per cent of the total Alberta market capitalization. For further information about Alberta's capital market, refer to *The Alberta Capital Market: A Comparative Overview 2013 Report*[3].

MARKET CAPITALIZATION



Corporate Finance

The ASC is entrusted to protect investors and to foster a fair and efficient capital market. The Corporate Finance division of the ASC supports investor protection by ensuring investors receive the necessary information they can rely on in making investment decisions. Our efforts toward an efficient capital market include: compliance work; policy research; outreach to issuers, investors and professional advisors to promote a high level of compliance as well as to obtain their feedback; policy and rule development and interpretive guidance.

1 Represents RIs whose principal regulator (**PR**) is Alberta.

2 Represents RIs based in Canada that are listed on the TSX or TSXV. Source: TMX Group, October 31, 2013.

3 Available on the ASC's website at www.albertasecurities.com in the Reports & Publications section under the News & Publications tab.

In order to meet the needs of Alberta investors and issuers, the Corporate Finance division is comprised of a diverse group of professionals working together to apply their expertise across all industries represented in the Alberta capital market, while maintaining a key focus on sustaining our regulatory leadership in the oil and gas industry.

This Report presents our findings from reviews of CD and offering documents completed during the 12 months ended November 30, 2013, and identifies key areas where issuers can improve disclosure. In order to establish our expectations and provide practical guidance to issuers, where possible we provide examples, practice tips and reminders. We also refer readers to the ASC *2012/2013 Oil and Gas Report*[4], which provides additional observations on RIs' oil and gas disclosures.

4 Published October 2013, available on the ASC's website at www.albertasecurities.com in the Reports & Publications section under the News & Publications tab.

2. CD Review Process and Results

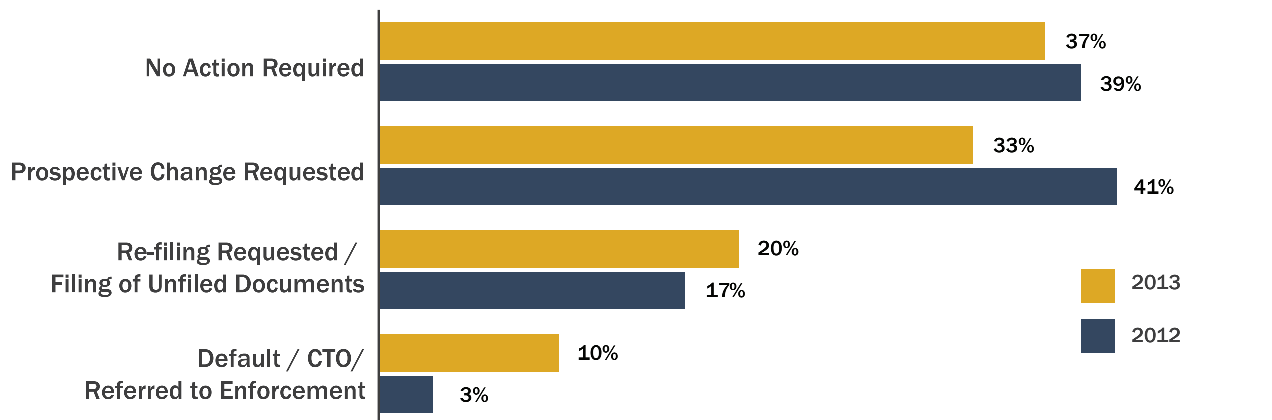
The ASC CD review program continues to be an area of significant focus for the Corporate Finance division. Our goal is to ensure RIs provide disclosure in a manner that allows investors to make informed investment decisions. Our reviews are conducted to ensure compliance with regulatory requirements and also to provide 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. A CD review will generally include an examination of an RI's disclosures for its most recently completed annual and interim periods, including: financial statements, MD&A, information circulars, news releases, MCRs, websites, and when applicable, AIFs, BARs, and any other relevant disclosures.

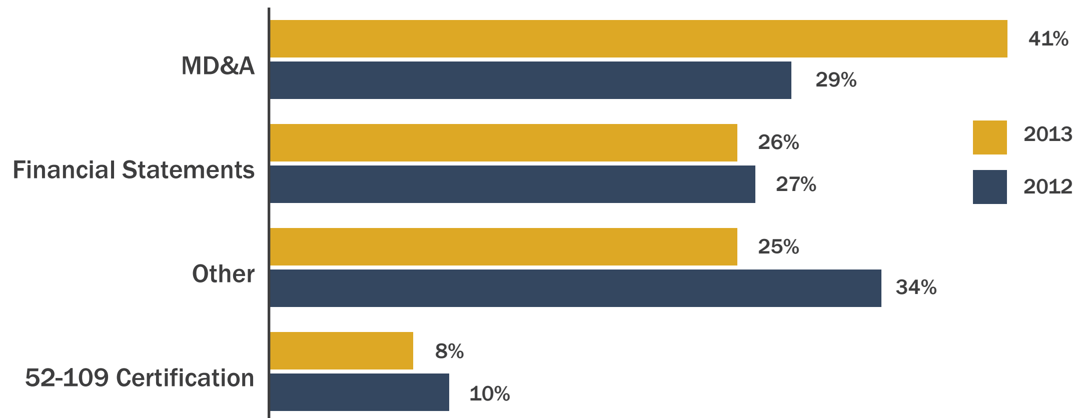
We perform IORs when we want to narrow the scope of our review and focus on specific issues. We conduct some IORs jointly with other CSA, while other IORs are ASC-specific.

This year's IORs included specific disclosure issues in news releases, AIFs, MD&As, and financial statements. One IOR we conducted this year included the review of RIs' disclosure relating to the adoption of IFRS 10 – *Consolidated Financial Statements* (**IFRS 10**), IFRS 11 – *Joint Arrangements* (**IFRS 11**) and IFRS 12 – *Disclosure of Interests in Other Entities* (**IFRS 12**). We discuss some of our observations from this review in the Financial Statements and Related Disclosures section of this Report.

OUTCOMES



NATURE OF RE-FILINGS



As seen in the CD Review Outcomes chart, there was an increase in the “re-filing requested/filing of unfiled documents” and the “default/CTO/referred to Enforcement” outcomes this year. The increases in re-filings resulted primarily from MD&A deficiencies, which were offset by decreases in the other categories. Some of the MD&A deficiencies related to insufficient disclosure on liquidity and capital resources and discussion of operations. The “other” category is made up of AIFs, material contracts, news releases and MCRs. This Report highlights some of the key deficiencies and observations that were noted in our reviews.

3. CD Reviews

3.1 Financial Statements and Related Disclosures

A. IFRS 10, IFRS 11 and IFRS 12

During the year we conducted an IOR of the adoption of IFRS 10, IFRS 11 and IFRS 12 (**collectively IFRS 10, 11 and 12**)[5]. Our review focused on oil and gas RIs with calendar year ends. We reviewed the 2012 annual financial statements, the first 2013 interim financial report, and the MD&A for both periods.

Overall, we observed that the new standards had an immaterial impact on most of the RIs reviewed. However, for those RIs where there were material changes, we noted that many did not provide sufficient disclosure of the underlying changes to their accounting policies. In these instances, it was not transparent as to what factor(s) led to the change such as the underlying structure, the agreements in place, the relevant activities, or management's judgements. In many of these circumstances, we noted that the 2012 annual financial statements did not provide sufficient significant judgement disclosure to explain the basis for management's conclusion. In absence of this disclosure, the rationale for the change in accounting policy would likely be unclear to investors.

In one example, the RI held an 80 per cent interest in an entity. Under IAS 31 *Interests in Joint Ventures* (**IAS 31**), the RI concluded that it had joint control and recognized the jointly controlled entity using the proportionate consolidation method. Subsequently, with the adoption of IFRS 10, 11 and 12, the RI concluded in its first 2013 interim financial report that it had control over that same entity resulting in full consolidation. Upon inquiry, the RI was able to demonstrate sufficient rationale for its conclusion that it had control over the entity in accordance with IFRS 10. However, the RI's 2012 annual financial statements did not provide disclosure concerning the significant judgements and assumptions management made in determining that its ownership of 80 per cent voting rights did not constitute control. In addition, the RI's first 2013 interim financial report did not provide disclosure of the significant judgements and assumptions that management made in applying the new standards. In this example, the disclosure in the first 2013 interim financial report (when read with the 2012 annual financial statements) was insufficient for an investor to understand the impact of the new standards; specifically, how management determined that its interest changed from joint control to control. The RI was required to remedy this disclosure deficiency by providing significant judgements and assumptions disclosure, as well as a description of the purpose and role of the entity, the changes in the relevant activities and the factors considered in management's decisions under IAS 31 and IFRS 10.

IFRS 12 requires disclosure to enable users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effect of those interests on the entity's financial position, performance and cash flows. The standard also requires disclosure of judgements and assumptions that the entity has made in determining whether it controls another entity, including any changes to those judgements and assumptions.

For 2013 annual financial statements, we expect RIs to fully comply with IFRS 12 disclosure requirements. We also remind RIs that if their 2012 annual financial statements had insufficient judgement and assumption disclosures relating to IAS 27 *Separate Financial Statements*, we would expect the 2013 annual financial statements to provide sufficient disclosure and to explain any changes relating to judgements and

5 IFRS 10, 11 and 12 came into effect for years beginning on or after January 1, 2013.

assumptions resulting from the adoption of IFRS 10, 11 and 12.

REMINDERS

When considering disclosure in accordance with IFRS 12, paragraph 7, management should include significant judgements and assumptions made by the RI, and changes in those judgements and assumptions, to support its conclusion that it has control, joint control or significant influence.

The following are some examples where an RI is required to disclose significant judgements and assumptions:

- **when it does not control another entity even though it holds more than 50 per cent of the voting rights;**
- **when it controls another entity even though it holds less than 50 per cent of the voting rights;**
- **when determining whether it is an agent or a principal;**
- **when it does not have significant influence even though it holds 20 per cent or more of the voting rights of the entity; and**
- **when it has significant influence even though it holds less than 20 per cent of the voting rights of the entity.**

B. Revenue

IAS 18 *Revenue* (**IAS 18**) defines revenue as income that arises in the course of ordinary activities of an entity, and sets out a framework for recognizing revenue. We identified some RIs that had deficiencies relating to the presentation of revenue.

IAS 18, paragraph 8 states that revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties are not economic benefits of the entity and should not be recognized as revenue. In agency relationships, the amounts collected on behalf of the principal are not revenue to the entity; instead, revenue is limited to the amount of commission or fees collected. We noted instances where RIs inappropriately recorded revenues on a gross basis for transactions where they were acting on behalf, and for the benefit, of another party in an agency agreement.

In one example, the RI provided project management services; in return for these services, the RI received a certain percentage share of net profits generated from its partner's projects. A significant portion of the RI's reported revenue related to its project management services, and its disclosure indicated that the RI was reporting the gross profits generated from projects of the partner as revenue with a corresponding gross cost of sales amount. We questioned the RI's basis for recognizing the revenue as principal since its disclosure seemed to suggest the RI was acting as agent. Upon further analysis, the RI concluded that it was not exposed to the significant risks and rewards associated with the sale of goods or the rendering of services, other than the project management services provided as outlined in the agency agreement. The RI corrected this error by restating its interim and annual financial statements to report revenue on a net basis for the project management services provided under the agency agreement. Given the material nature of this change, a news release was also required to be issued to explain the error.

REMINDERS

When considering whether to recognize revenue on a gross basis as the principal, the RI should consider if it is bearing the risks and rewards. Indicators that suggest the RI is acting as the principal include if it:

- **assumes the risk of inventory before or after the customer order;**
- **is responsible for providing the goods or services to a customer;**
- **has the ability to establish prices, either directly or indirectly; and**
- **assumes the credit risk on the receivable due from the customer.**

C. Combined Financial Statements

In certain circumstances RIs present combined financial information about two or more entities that would not otherwise be combined since they do not constitute a single group (i.e., parent-subsidiary relationship); these are generally referred to as combined financial statements. In last year's report, we identified combined financial statements as an emerging potential issue. After considerable review of this issue, staff have concluded that, subject to certain criteria and considerations, we would generally be prepared to accept combined RI financial statements and combined acquisition statements where the combined entities were under common control or common management during the periods presented.

RIs should consider the appropriateness, relevance and representativeness when considering the use of combined financial statements. A few specific considerations could include: how the RI determines common control or common management; whether presenting the information on a combined basis (rather than separately) provides more relevant information to investors and whether the combined financial statements represent the operations of the business going forward.

We encourage RIs to consult staff early on to allow sufficient time to review the particular facts and circumstances in each case where an RI intends to present combined financial statements.

D. Understanding Operations and Principal Activities

IAS 1 *Presentation of Financial Statements*, paragraph 138(b), requires disclosure of the nature of the entity's operations and principal activities, if this information is not disclosed elsewhere in information published with the financial statements (e.g., MD&A). Our observation is that most RIs provide this disclosure in the notes to the financial statements.

Several RIs, however, either provide boilerplate disclosure or do not include disclosure describing their business and principal operating activities in their financial statements; a satisfactory description of these activities is also not included in the MD&A. Given insufficient information to otherwise form an assessment, we found it necessary to inquire as to the appropriateness of many of these RIs' various measurement and recognition policies.

Without an understanding of the business and its activities, the relevance and understandability of the financial statements is diminished. In order to understand the RI's financial position, financial performance and cash flows, the investor must first understand the business of the RI. With sufficient information about

the RI's business, the financial statements provide predictability, comparability and allow the investor to properly evaluate the RI.

PRACTICE TIP

RIs should ask themselves whether an investor would clearly understand the nature of the RI's principal activities, market(s) and key drivers through reviewing the RI's financial statements, MD&A and other CD documents. If the answer is no, additional disclosure should be provided to enhance the investor's understanding.

E. Decommissioning Liabilities

Decommissioning liabilities are established using the present value of best estimate future costs that are required to settle present obligations. Internal or external sources for determining costs can be used, when appropriate, in estimating the future costs. The Alberta Energy Regulator (**AER**) Directive 011: Licensee Liability Rating (LLR) Program: Updated Industry Parameters and Liability Costs (**Directive 11**) is one such source that some oil and gas RIs have considered in estimating future costs.

Recently, the AER implemented amendments to the LLR Program which came into effect May 1, 2013[6]. These amendments update the abandonment costs (using the estimated 2012 costs) over a three year transitional plan[7]. We highlight these amendments as it has come to our attention that some RIs who use Directive 11 as a source in their cost estimates have not appreciated that the costs included in Directive 11 (effective May 1, 2013) reflect one third of the estimated 2012 costs.

To illustrate an example, in Directive 11 (effective May 1, 2013) a well abandonment cost in Area 1 - Medicine Hat, 3000 + meters in depth with tubing and rods has a liability rating program cost of $72,545. The same well in the AER's Directive 11 (2005) had a value of $51,700. Based on the AER three year transitional plan, the cost increase of $20,845 represents one third of the AER's well abandonment estimate cost increase in 2012. The actual new AER 2012 value for abandonment of a well in the Medicine Hat area with these parameters is $114,235.

6 Alberta Energy Regulator, (March 12, 2013) - *Amendments to Directive 006: Licensee Liability Rating (LLR) Program and Licence Transfer and Directive 011: Licensee Liability Rating (LLR) Program: Updated Industry Parameters and Liability Cost.*

7 Alberta Energy Regulator, (March 12, 2013). Bulletin 2013-09.

3.2 MD&A Disclosure

A. Liquidity and Capital Resources

In last year's report we noted several areas relating to liquidity and capital resources where RI disclosures could be improved. These areas included financial statement, MD&A and prospectus disclosures regarding financial covenants, risks, and working capital.

There was general improvement in these areas this year, especially with respect to the covenant disclosure; however, we have observed inconsistency in the nature and extent of disclosures provided amongst RIs. We remind RIs that we expect greater depth of discussion from those RIs that have, or are more likely to have, covenant breaches, working capital deficiencies, liquidity issues and/or capital resource shortfalls.

We continue to highlight the requirement to update previously disclosed FLI when events or circumstances occur that lead to a significant risk that actual results will differ materially from a previously presented FLI or outlook. We have seen deficiencies in this area when an RI issues corporate guidance in the form of capital spending and other budgets. RIs are required to discuss in their MD&As the expenditures necessary to meet their planned growth or development activities, and how those expenditures compare to their expected sources of financing. Material changes in the budgeted amounts are likely to have an effect on the RI's overall liquidity analysis and related risks. As a result, we expect these changes to be included in an RI's CD filings on a timely basis. These are also important considerations when disclosing the use of proceeds in an offering document.

In one example, a preliminary prospectus included disclosure that a portion of the proceeds from the offering was to be used to fund an increase in the RI's 2013 drilling program; however, there was no disclosure of the actual budget increase in the prospectus, or in the RI's MD&A incorporated by reference. In the absence of this disclosure, it was not possible to assess whether the offering proceeds allocated to the increased budget, in conjunction with the other available resources, would be sufficient to meet the objectives stated in the prospectus. As a result, the RI was required to add disclosure to its final prospectus to include the amount of the budget increase and the reason for the revised budget. The RI was also required to provide the updated information in its CD filings.

REMINDER

Given the level of material capital expenditures in the oil and gas industry, comprehensive and timely disclosure of an RI's capital budget is critical information for investors. This disclosure must include how the anticipated capital expenditures will be funded, such as availability under credit facilities and other borrowings, securities offerings, and cash from operating activities. Keeping this information current, and disclosing reasons for material changes, allows readers to better understand the impact on the RI as well as the related risks.

B. Significant Projects Not Producing Revenue

For investors in RIs with a significant project(s) that has not yet generated revenue, it is particularly important to understand the timing and capital investments necessary for the project. In these circumstances, section 1.4(d) of Form 51-102F1 requires disclosure describing the project. Expected disclosure includes the RI's plans for the project, such as total expected project expenditures, and the amount

and timing of anticipated costs to reach the next phase of the project. Several RIs fail to provide sufficient disclosure in this area.

In one example, the RI had no revenue-producing activities and its main focus was on securing an exploration licence for a certain property. Significant costs were being incurred in obtaining the exploration licence on the property; however, the nature of the costs being incurred was not disclosed. The RI also failed to appropriately disclose and update relevant milestones towards obtaining the licence. Since this RI experienced multiple delays in obtaining the exploration licence, updates on the anticipated timelines and any impact that these delays would have on the RI's financial condition, financial performance and/or cash flows would be important information to an investor.

EXAMPLE THAT DID MEET OUR EXPECTATIONS

Disclosure presented in the RI's December 31, 20X2 annual MD&A:

Milestones

In order to meet the business objectives of the Company, the following milestones are projected for Project X. The cost related to each event and time period is indicated.

Phase	Significant Event	Anticipated Cost	Anticipated Timing (Completion)
Phase 1	Geological mapping of the property	$15,000	Fall 20X3
	Seismic survey	$30,000	Fall 20X3
	Analyses of data	$12,000	Spring 20X4
	Supervision of the project	$10,000	Spring 20X4
	Documentation of reports and maps	$10,000	Spring 20X4
	Total Phase 1	**$77,000**	
Phase 2	Positive results obtained from Phase 1	See above	See above
	Drilling to a total of 2000m	$562,500	Dependent on Phase 1 results
	Supervision of the project, reports and maps	$40,000	Dependent on Phase 1 results
	Total Phase 2	**$602,500**	
	Total Phase 1 and 2 Combined	**$679,500**	

C. Underlying Investee

In instances where an RI has entered into a joint arrangement that is accounted for as a joint venture[8] using the equity method, the items presented in an RI's financial statements are limited to: (1) the investment in joint ventures on the statement of financial position and (2) the equity income (loss) on the statement of comprehensive income (loss).

If the joint venture is material to the RI, paragraphs 21-23 of IFRS 12 require additional disclosure in the notes to the financial statements. This added disclosure includes: summarized financial information; a reconciliation of this information to the RI's carrying amount of its interest in that joint venture; and the

8 Joint venture is defined in IFRS 11.

relevant risks associated with its interest.

Although we found that most RIs provided this disclosure in their financial statements, we observed significant deficiencies in their MD&A. Many had insufficient discussion or insight of variations caused by their significant joint venture operations.

When an RI's joint venture(s) represents a significant proportion of its statement of financial position or statement of comprehensive income (loss) for the period, sufficient financial statement and MD&A note disclosure of the RI's interest in the joint venture(s) is necessary for an investor to have an overall understanding of the RI's operations. Form 51-102F1 instructs an RI to consider discussion and analysis of overall performance, selected annual information, discussion of operations and summary of quarterly results as it relates to a significant equity investee[9].

In one example, substantially all of the RI's business was its jointly controlled entity. In its 2012 annual financial statements, the RI recognized the jointly controlled entity using the proportionate consolidation method. However, on adoption of IFRS 10, 11 and 12, the RI was required to account for its joint venture using the equity method. Although the RI provided the correct financial statement disclosure using the equity method, the MD&A omitted discussion and analysis of its interest in the joint venture. In this circumstance, since the omission was material, the RI was required to re-file its MD&A.

REMINDERS

When preparing its MD&A, an RI should consider the overall objective and intent of this important document. Specifically, the MD&A should improve the RI's overall financial disclosure by helping current and prospective investors understand what the financial statements show and do not show and discussing material information that may not be fully reflected in the financial statements.

When considering how to disclose information about material interests in a joint venture, an RI should consider its own facts and circumstances and present information that provides the reader with a clear understanding of the business in a manner that is not misleading.

EXAMPLE THAT DID MEET OUR EXPECTATIONS

In this example, the RI was required to report its joint venture assets, liabilities and financial activities using the equity method of accounting under IFRS 11. For purposes of analysis in its MD&A, the RI discussed its proportionate share of assets, liabilities and financial activities to provide readers with a better understanding of the results of operations of its significant joint venture. As the joint venture represented the RI's only oil and natural gas operations, an analysis of the financial statement line items themselves would not provide any insight into the significant underlying operations that resulted from the joint venture (i.e., none of the expected line items, such as production revenues, operating expenses, transportation and storage fees, etc., were presented due to the equity accounting presentation).

9 NI 51-102 defines an Equity Investee as a business that the issuer has invested in and accounted for using the equity method.

As a result, in addition to presenting the overall performance, results of operations, and summary of quarterly results for the RI on a consolidated basis, the RI's MD&A included separate analysis in each of these sections for its joint venture, using the following format:

GG Joint Venture

	Total JV		Corporation's Share	
Six months ended June 30 ($000s)	**2013**	**2012**	**2013**	**2012**
Financial				
Revenues	77,484	66,894	38,742	33,447
Net income (loss)	(5,802)	(23,310)	(2,901)	(11,655)
Operating				
Sales Volumes:				
Oil and condensate (bbl/d)	2,994	2,334	1,497	1,167
Natural gas (mcf/d)	24,258	23,334	12,129	11,667
Barrel oil equivalent (boe/d)	7,038	6,222	3,519	3,111
Average Price:				
Oil ($/bbl)	101	104	101	104
Net realization price ($/bbl)	99	102	99	102
Brent oil price ($/bbl)	107	113	107	113
Natural gas price ($/mcf)	4	4	4	4
Capital Items				
Total Assets	79,292	58,912	39,646	29,456
Total Liabilities	28,962	21,146	14,481	10,573
Net Assets	50,330	37,766	25,165	18,883

Note: A comparable table was presented with the results for the 3 months ended June 30, for each of the relevant columns.

The Corporation's share of GG Joint Venture's petroleum revenues for the three and six months ended June 30, 2013 were $14.7 million and $27.6 million, respectively, compared to $12.0 million and $22.2 million, respectively, for the same periods in 2012. Natural gas revenues for the three and six months ended June 30, 2013 were $5.1 million and $8.7 million, respectively, compared to $4.2 million and $8.4 million, respectively, for the same periods in 2012. Petroleum and natural gas revenues are recorded net by GG Joint Venture after deducting for the government's share of profit petroleum and compensatory petroleum production.

The average prices received for crude oil during the three and six months ended June 30, 2013 were $97 and $101 per barrel, respectively, compared to average prices of $99 and $104, respectively, for the same periods in 2012. The price for natural gas remained contractually constant at $4 per thousand cubic feet. The Corporation's share of GG Joint Venture's crude oil daily entitlement production for the three and six months ended June 30, 2013 was 1,668 bbl/d and 1,497 bbl/d, respectively, a 26% increase for the quarter and a 28% increase year to date when compared to production of 1,326 bbl/d and 1,167 bbl/d, respectively, for the same periods in 2012. Natural gas daily entitlement production for the three and six months ended June 30, 2013 was 13,935 mcf/d and 12,129 mcf/d, a 20% increase for the quarter and a 4% increase year to date when compared to production of 11,640 mcf/d and 11,667 mcf/d, respectively, for the same periods in 2012.

The year to date increase in oil production is primarily the result of production from the new wells completed in the first half of 2013 as well as workovers and recompletions. The year to date increase in gas production is primarily the result of recompletions on wells 111, 222 and 333. In terms of oil equivalent daily production, during the three and six months ended June 30, 2013, the Corporation's share of GG Joint Venture production was 3,990 boe/d and 3,519 boe/d, respectively, which represented a 22% increase for the quarter and a 13% increase year to date when compared to the production of 3,267 boe/d and 3,111 boe/d, respectively, for the same periods in 2012.

The RI included this type of joint venture specific discussion for each of the significant income and expense items that impacted the consolidated "income/(loss) on investment in joint venture" line item that was presented in its statement of income (loss), providing readers with the RI's analysis of its share of oil and natural gas operations conducted by the joint venture.

Appropriately, the risk factor disclosure in the RI's MD&A also contained discussion of the risks specific to the joint venture operations.

D. Non-GAAP Financial Measures

Guidance relating to the use and disclosure of non-GAAP financial measures is not new, yet it appears that this is an area in which RIs still have difficulty.

One deficiency we continue to note is the presentation of non-GAAP financial measures with greater prominence than the most directly comparable GAAP measure. While the intent of non-GAAP financial measures is to provide investors with additional information to better understand critical metrics, operations and financial condition, doing so with more prominence can be misleading.

Another area where we observed increased deficient disclosure is with respect to non-GAAP financial measures that are presented using terms that have a generally understood or defined meaning. For instance, we are concerned with the use of the term EBITDA and how varying use of the term can lead to misleading and confusing disclosure. We are of the view that EBITDA is a generally understood term (i.e., to mean earnings before interest, taxes, depreciation and amortization); therefore, any use of the term EBITDA should be comprised solely of these elements. If adjustments are applied to the elements of EBITDA, we would expect use of an alternative term to differentiate from the term EBITDA.

There are additional considerations with respect to adjustments made to non-GAAP financial measures and how they are disclosed. Particular concern is raised when the disclosure does not clearly indicate why adjusting for an item would be relevant to an investor. CSA Staff Notice 52-306 *Non-GAAP Financial Measures and Additional GAAP Measures* states that RIs should explain why the non-GAAP financial measure provides useful information and should include a discussion of each of the adjustments made. Another concern is when adjustments are described as non-recurring, but those adjustments appear to be either normal operating items or have occurred during multiple years. In these instances, it is critical for RI disclosure to clearly explain why the adjustment is appropriate; we may question the appropriateness depending on the nature of the adjustment.

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

Adjusted EBITDA

Adjusted EBITDA is defined as earnings before interest, income taxes, depreciation and amortization, stock-based compensation, foreign exchange gains or losses, gains or losses on sale of equipment, and non-recurring items. Adjusted EBITDA per share is defined as Adjusted EBITDA divided by the Company's basic number of common shares. Management believes Adjusted EBITDA and Adjusted EBITDA per share provides useful information to investors and shareholders as it provides increased transparency and predictive value. Management uses Adjusted EBITDA to set targets and assess performance of the Company and its management. Adjusted EBITDA is not a measure that has a standardized meaning prescribed by GAAP and is not considered a GAAP measure; therefore, this measure may not be comparable with similar measures presented by other issuers. Following is a reconciliation of net income (loss) as calculated in accordance with IFRS to Adjusted EBITDA.

For the years ended December 31 ($000s)	2012	2011
Net (loss) income	(2,467)	427
Tax (benefit) expense	(11,275)	2,220
Interest expense	19,797	6,330
Loss on Sale of Equipment	642	397
Other Expense (income)	437	(107)
Loss on damage	1,345	-
Impairment of Accounts Receivable	15,587	-
Impairment of assets held for sale	7,832	-
Foreign exchange (gain) loss	(4,480)	4,475
Stock-based compensation	3,072	4,565
Amortization of intangibles	757	760
Depreciation of property and equipment	67,392	29,977
	98,639	49,044
Non-recurring items:		
Inventory adjustments	727	3,555
Other	-	2,072
Adjusted EBITDA	99,366	54,671

Disclosure deficiencies for this MD&A include:

- ***inappropriate labelling:***
  - ***the RI presents a blank subtotal for what the RI represents to be EBITDA;***
- ***inappropriate adjustments/categorization:***
  - ***if the blank subtotal is meant to be EBITDA, there are several adjustments beyond the elements of EBITDA;***
  - ***the RI's own definition of Adjusted EBITDA (presented in the narrative before the table) is not consistent with the actual adjustments presented, which raises questions as to the consistency between periods of the composition of the measure; and***

  - *'Inventory adjustments' is disclosed as a non-recurring item despite having been an adjustment in each of the two prior years (this would appear to be in the normal course for the RI's operations);*
- *missing disclosure:*
  - *if the unlabelled subtotal is not meant to represent EBITDA, then the RI did not present required disclosures, including a reconciliation, for EBITDA (despite that measure being referenced throughout the MD&A); and*
  - *the RI does not provide the necessary information as to why each of the adjustments are relevant to the investor.*

As a result of these deficiencies the RI's stated purpose for the non-GAAP financial measure (to increase transparency and predictive value) was not achieved.

EXAMPLE THAT DID MEET OUR EXPECTATIONS

Excerpt from an RI's interim MD&A:

EBITDA

EBITDA refers to net income before finance cost, taxes, depreciation, and amortization. Adjusted EBITDA is calculated as EBITDA before costs associated with non-recurring business acquisition costs and share based compensation. These measures do not have a standardized definition prescribed by IFRS and therefore may not be comparable to similar captioned terms presented by other issuers.

Management believes that EBITDA and Adjusted EBITDA are useful measures of performance as they eliminate non-recurring items and the impact of finance and tax structure variables that exist between entities.

A reconciliation of net income to EBITDA and Adjusted EBITDA is provided below:

Three months ended September 30 ($000s)	2013	2012
Net Income:	3,904	872
Add:		
Finance costs	3,480	2,156
Depreciation	11,032	8,484
Amortization of Intangibles	2,008	1,088
Income Taxes	1,764	96
EBITDA	22,188	12,696
Add:		
Stock-based Compensation	912	12
Business Acquisition Costs	40	72
Adjusted EBITDA	23,140	12,780

3.3 Other Notable Areas

A. Material Contracts

Part 12 of NI 51-102 outlines the requirements for filing certain documents including material contracts. When we question why an RI has not filed a material contract that we would expect to have been filed, RIs often respond that the contract was entered into in the ordinary course of business, and therefore is not required to be filed per section 12.2(2) of NI 51-102. However, there are additional factors that should be considered before applying the ordinary course of business exclusion.

We have frequently raised comments when a contract appears to be one on which the RI's business is substantially dependent. This could include, for example, a financing arrangement, a production sharing contract, or a sales/purchase agreement. In order to not be misleading, these contracts should be filed to provide necessary information to the investor as to the effect that the contract has on the business.

REMINDERS

Exceptions to the ordinary course of business exclusion for material contracts include:

- **a contract to which directors, officers or promoters are parties (other than a contract of employment);**
- **a continuing contract to sell the majority of an RI's products or services or to purchase the majority of the RI's requirements of goods, services or raw materials;**
- **a franchise, licence or other agreement to use a patent, formula, trade secret, process or trade name;**
- **a financing or credit agreement with terms that have a direct correlation with anticipated cash distributions;**
- **an external management or external administration agreement; or**
- **a contract on which the RI's business is substantially dependent.**

Another issue we have observed is inappropriate redactions in filed material contracts. In one example, the RI redacted the terms of covenants and the events of default in one of its financing agreements on the basis that the inclusion of those provisions would be seriously prejudicial to the interests of the RI or would violate confidentiality provisions (section 12.2(3) of NI 51-102). As outlined in section 12.2(4) of NI 51-102, certain items that are not permitted to be omitted or redacted include debt covenants and ratios in financing or credit agreements, events of default or other terms relating to termination of the material contract, and other terms necessary for understanding the impact of the material contract on the business of the RI. As a result, the RI was required to file an un-redacted version of the material contract.

B. Cease Trade Order (CTO)

One of the more serious consequences of deficient CD (including failure to file a document required under Alberta securities laws, or filing a required document that has not been completed in accordance with Alberta securities laws[10]) is the issuance of a CTO. Generally, a CTO would require that both purchasing and trading cease in respect of any securities of the RI until the CTO has been revoked or varied. National Policy 12-202 *Revocation of a Compliance-Related Cease Trade Order* (**NP 12-202**) outlines the process that RIs must follow to apply for a revocation (whether full or partial).

The majority of RIs that are subject to a CTO adhere to the conditions set out therein; however, we identified a few cases where an RI engages in activities or transactions that would constitute a breach of the CTO. In some cases, RIs have inadvertently effected what is considered to be a "*trade*" in a "*security*" as a result of a lack of understanding as to the full meaning of each of those terms.

REMINDERS

The terms "trade" and "security" are defined in sections 1(jjj) and 1(ggg), respectively, of the Act.

A **trade** encompasses not only an actual sale, disposition or transfer, etc. but also any act in furtherance (such as the solicitation or negotiation) of such an activity.

As noted in NP 12-202, whether a step take by an RI is an act in furtherance of a trade is a question that frequently requires legal interpretation. Therefore, RIs should consult their legal counsel whenever there is doubt.

A **security** can represent more than simply the equity shares of the RI (e.g., bonds, debentures, options). As a result, an RI that is subject to a CTO needs to be mindful of a broad range of activities and transactions that would likely constitute a breach.

In certain cases, we will consider granting partial revocation orders to permit one or more RIs or individuals to conduct specific trades while a CTO is in effect. This may be done to facilitate transactions that allow RIs to raise funds or recapitalize, or to enable the RI to conduct the activities necessary to maintain operations and prepare for a full CTO revocation.

The regulatory consequences of a CTO breach may include a referral to the ASC's Enforcement division, which could result in further action. We remind RIs under a CTO to apply for partial revocation before entering into an agreement under which a security would be purchased or traded, or disclosing a financing.

C. Risk Disclosure

Risk disclosure is a requirement in offering documents and most continuous disclosure documents. The AIF, a required filing for non-venture RIs, contains the explicit requirement to disclose risk factors relating to an RI and its business in order of seriousness. Several sections of the MD&A, such as section 1.2 – *Overall Performance*, 1.4 – *Discussion of Operations*, 1.6 – *Liquidity*, and 1.14 – *Financial Instruments and Other Instruments* require discussion of the related risks that affect, or are likely to affect, the RI .

10 Section 33.1 of the Act.

In previous years' reports we highlighted weaknesses in risk disclosure relating to liquidity, breach of covenants, going concern, assumptions underlying FLI, environmental matters, and emerging markets. Some RIs omit risk disclosure completely, or present boilerplate and/or incomplete risks. In particular, we noted that many venture RIs, who are not required to file an AIF, often omit critical risk disclosure in their MD&A. We have also observed that some RIs simply roll-forward their risk disclosure from period to period without considering changes in the business' operations and environment.

PRACTICE TIP

When disclosing risk factors, the issuer needs to consider *what* needs to be said, *how* it needs to be said, *when* it needs to be said and *where* to say it.

If risk factors relevant to the RI are not disclosed in a timely, clear and accurate manner, an investor will have insufficient information to assess how the RI is managing that risk. One unintended outcome might be that investors seek out their own information to make an assessment of risk and as a result may make an investment decision that could have negative consequences — either to them or the RI. Risk factors should be explained specifically, factually and in a balanced manner. If relevant risk factors are obscured by a laundry list of risk factors or buried in a document, the information loses its relevance and investors simply stop reading. If there are significant risk factors that the RI believes would influence an investor's decision, then these should be presented prominently; one approach is to disclose this information near the beginning of a document. We also remind RIs that it is important to assess their risk environment on an ongoing basis to ensure that relevant risk factors are disclosed.

D. Pro forma Financial Statements

Issuers are often required to prepare and file pro forma financial statements as part of their disclosure of recently completed or probable acquisitions. Whether this disclosure is included in BARs, prospectuses or other documents, we continue to note deficiencies that can result in re-filings.

Pro forma Adjustments

We have noted an increase in the type of adjustments that RIs are including in their pro forma financial statements, and in some cases, the nature of the adjustments appears to extend beyond what we consider to be appropriate.

Pro forma adjustments are generally limited to the two types of required adjustments:[11]

a) those directly attributable to the specific acquisition transaction for which there are firm commitments and for which the complete financial effects are objectively determinable; and,

b) adjustments to conform amounts for the acquired business to the RI's accounting policies.

The objective of pro forma financial statements is to illustrate the impact of a transaction on an RI's financial position and performance, by adjusting the financial statements of the RI to give effect to the transaction[12].

11 Set out in section 8.4 of NI 51-102 and section 32.7 of Form 41-101F1 *Information Required in a Prospectus.*

12 Section 8.7(1) of the companion policy to NI 51-102.

The potential difference in interpretation of what is considered "directly attributable to the specific acquisition" can result in RIs including adjustments that are inconsistent with this objective.

We have observed an increase in the prevalence of pro forma adjustments to reflect new contractual arrangements, operational changes and anticipated expenses. In some cases, the RIs are applying new or forward-looking assumptions to the historical results. Even if some of these new assumptions are objectively determined (e.g., contractually based), it may not be appropriate to apply them to the actual results reported in prior periods, as there are generally other variables that would be impacted, resulting in the complete financial results not being objectively determinable (i.e., it is not necessarily appropriate to assume that all other variables would remain unchanged). It is also critical to assess whether the new arrangements are directly attributable to the transaction.

To the extent that an RI wants to illustrate the anticipated effects of changes and adjustments to its financial results that may result from the completion of a transaction, it may be useful to present future-oriented financial information such as a forecast.

Given the judgment required when assessing the appropriateness of pro forma adjustments that are beyond what is contemplated in NI 51-102, RIs are encouraged to consult Staff early on in the process, particularly when such pro forma financial statements are expected to be included or incorporated by reference in a prospectus.

PRACTICE TIPS

Adjustments generally considered inappropriate to include in pro forma financial statements:

- **the elimination of discontinued operations;**
- **the estimated costs of being an RI (i.e., following an Initial Public Offering);**
- **the effect of operational synergies; and**
- **new supplier or purchaser contracts that are not directly attributable to the transaction.**

Appropriate Accounting Principles & Policies

There appears to be an increase in the prevalence of acquisitions where the accounting principles of the acquired business differ from those of the RI. While the acquisition financial statements may be prepared using different accounting policies than that of the RI (to the extent that they comply with NI 52-107), there are additional considerations for the preparation of pro forma financial statements in these situations, as outlined in section 8.7(9) of the companion policy to NI 51-102. Generally, since the pro forma financial statements must be presented using the accounting policies that are permitted by the RI's GAAP, and that would apply to the information as if it were included in the RI's financial statements, an RI would be required to describe any adjustments presented in the pro forma financial statements to adjust amounts to the RI's GAAP and accounting policies.

E. Executive Compensation

We have noted examples where RIs' disclosure of executive compensation tables has not met the requirements or the intent of Form 51-102F6 *Statement of Executive Compensation* (**Form 51-102F6**).

Departures from format

Although additional disclosure can be useful to investors and is permitted by Form 51-102F6, the additional information should not detract from the prescribed summary information[13] and should not be presented so as to be misleading. In one example the RI included a table in the same format as the summary compensation table required by section 3.1 of Form 51-102F6 adjusting the numbers presented for the change in the fair value of the stock options granted. A negative change to the value of share options, based on a decrease in the value of the RI's stock price during the period, was presented as a reduction in actual cash compensation paid in the year. This resulted in disclosing an overall compensation amount significantly less than the actual amount paid. In this instance, the presentation represented a significant departure from the intent of Form 51-102F6.

External management companies or agreements

In another example, the RI shared named executive officers (**NEOs**) with its ultimate parent or promoter, and these NEOs were paid through an overlying management services agreement that provided executive services and other services. The RI disclosed compensation for its NEOs as nil in the summary compensation table. It is our view that the disclosure requirements for external management companies set out in section 1.3(4) of Form 51-102F6 would apply in this situation. This would require disclosure of any compensation that: (1) the RI paid directly to the individual employed, or retained by the external management company, who is acting as NEO or director of the RI; and (2) the external management company paid to the individual that is attributable to the services they provided to the RI either directly or indirectly.

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS

Name and principal position	Year	Salary ($)	Share-based awards ($)	Option-based awards ($)	Non-equity incentive plan compensation ($)		Pension value ($)	All other Compensation ($)	Total Compensation ($)
					Annual incentive plans	Long term incentive plans			
NEO X	2012(1)	-	-	286,000	-	-	-	-	286,000
	2011(2)	-	-	-	-	-	-	-	-
	2010(3)	-	-	-	-	-	-	-	-
NEO Y	2012(1)	-	-	596,000	-	-	-	-	596,000
	2011(2)	-	-	-	-	-	-	-	-
	2010(3)	-	-	-	-	-	-	-	-

13 See instructions included in section 1.3(2) of Form 51-102F6.

NEO Z	2012[1]	-	-	398,000	-	-	-	-	398,000
	2011[2]	-	-	-	-	-	-	-	-
	2010[3]	-	-	-	-	-	-	-	-

(1) In 2012, the Corporation paid management fees to ParentCo. for management services during the financial year ended December 31, 2012 in the amount of $96,000. ParentCo. paid a salary of $331,000 to NEO X, $202,250 to NEO Y and $331,000 to NEO Z. In addition, ParentCo. paid bonuses of $291,000 to NEO X, $112,000 to NEO Y and $188,000 to NEO Z for the financial year ended December 31, 2012.

(2) In 2011, the Corporation paid management fees to ParentCo. for management services during the financial year ended December 31, 2011 in the amount of $96,000. ParentCo. paid a salary of $320,000 to NEO X, $334,200 to NEO Y and $280,000 to NEO Z. In addition, ParentCo. paid bonuses of $360,000 to NEO X, $376,000 to NEO Y and $176,000 to NEO Z for the financial year ended December 31, 2011.

(3) In 2010, the Corporation paid management fees to ParentCo. for management services during the financial year ended December 31, 2010 in the amount of $144,000. ParentCo. paid a salary of $319,600 to NEO X, $318,250 to NEO Y and $176,000 to NEO Z. In addition, ParentCo. paid bonuses of $356,800 to NEO X and $356,000 to NEO Y, for the financial year ended December 31, 2010.

Although the RI disclosed the total amounts paid to the NEOs by ParentCo in the footnotes to the Summary Compensation Table, it should have disclosed the compensation amounts attributable to the RI in the table. If ParentCo allocated the compensation paid to the NEOs, then the basis or methodology used to allocate should also be disclosed.

New RIs

We found that a few RIs disclosed incomplete information for the three most recently completed financial years. In one instance the RI, a successor entity, presented information in the summary compensation table for only its most recently completed financial year, 2012. Its reasoning was that the successor entity was not an RI prior to 2012. While section 1.3(8) of Form 51-102F6 only requires a new RI to disclose the information for completed financial years when it was a RI, the information would be required for three years if the issuer became a reporting issuer as a result of a restructuring transaction. In this instance, the successor issuer was required to provide the information for the three most recently completed financial years.

4. Offering Documents

During the 12 months ended November 30, 2013, there was a total of 141 offering documents filed by RIs and issuers where Alberta is the principal regulator, a 21 per cent decrease from the prior year. A large part of the overall decline in short form and CPC prospectuses resulted from the continued uncertainty in the capital markets.

Type of Filing	12 months ended November 30, 2013	12 months ended November 30, 2012	% Change
Initial Public Offering (IPO) Prospectus	15	15	0%
Long Form Prospectus	6	6	0%
Short Form Prospectus	113	140	(19%)
Rights Offering Circular	3	4	(25%)
CPC Prospectus	4	14	(71%)
Total	**141**	**179**	**(21%)**

A. Marketing and Premarketing Activities

The CSA recently introduced amendments to the prospectus rules[14] (and related policies) effective August 13, 2013 that focused on the marketing of prospectus offerings. The amendments provided for additional marketing and pre-marketing activities in connection with prospectus offerings. The two significant changes allow:

- investment dealers of non-reporting issuers to “test the waters” to assess interest in an potential initial public offering by communicating with accredited investors prior to filing a preliminary prospectus; and
- investment dealers to use marketing materials and conduct road shows after the announcement of a bought deal, during the “waiting period” and following the receipt of a final prospectus.

There were also additional considerations and filing requirements introduced; these are outlined in the relevant instruments.

To the extent that a standard term sheet is used in the RI’s marketing activities, the RI should ensure that the information disclosed in the term sheet is limited to what is acceptable per the relevant instrument. If an RI is using marketing materials in connection with a prospectus offering, the marketing materials need to be filed on SEDAR on the first day that the materials are provided to a potential investor. In addition, the marketing materials must be included or incorporated by reference in the relevant prospectus and, accordingly, will form part of the prospectus document that is subject to the full, true and plain disclosure standard.

14 NI 41-101, National Instrument 44-101 *Short Form Prospectus Distributions*, National Instrument 44-102 *Shelf Distributions* (**NI 44-102**) and National Instrument 44-103 *Post-Receipt Pricing*.

B. Offering Structure – Shelf Prospectuses

While many RIs may meet the qualification criteria to file a shelf distribution under NI 44-102, there have been circumstances where we have questioned the appropriateness of the offering being structured as a base shelf prospectus. For example if the RI had significant working capital deficiencies, negative cash flows and had significant non-discretionary short term capital obligations, we would have concerns related to whether the incremental draw downs under the shelf structure would be sufficient to meet the purpose of the issue stated in the prospectus[15].

CSA Staff Notice 41-307 – *Concerns Regarding an Issuer's Financial Condition and the Sufficiency of Proceeds from a Prospectus Offering* (**SN 41-307**) provides guidance on areas of concern that may arise in a base shelf offering.

PRACTICE TIPS

Prior to structuring an offering as a base shelf prospectus, consider whether it is appropriate given:

- **anticipated timing and amount to be raised in prospectus supplements (and whether this is reasonable given the RI's history and the market conditions);**
- **availability of other sources of financing; and,**
- **working capital and short term liquidity and capital obligations.**

C. Third Party Sources

In some prospectus reviews we have noted disclosure of information obtained or derived from third party sources, such as data about the market in which the RI operates (e.g., demographics, growth prospects). When third party information is presented we would expect that the source be provided. It is important that a reader be able to differentiate between RI-specific information and the third party information. For instance, a general disclaimer at the beginning of the prospectus that states that there may be information in the prospectus that is derived from third party sources is not, on its own, satisfactory disclosure. By including disclosure that specifically identifies the third party information and where it is presented in the document, readers can identify and differentiate information prepared by management from that obtained from outside sources. It is important that the citation of the source be sufficiently specific to enable a reader to corroborate the third party information.

In one example the RI disclosed "that the sustaining capital expenditures in the SAGD market will grow from the current year into the next decade by greater than 400%, as reflected in the chart below." Upon Staff's inquiry, this was confirmed to be third-party information; however, it had not been identified as such. The disclosure in the final prospectus was revised to include a reference to the source of the third-party information, including the authoring organization, as well as the title and date of its particular study.

In addition, some RIs provided a general paragraph discussing the third party source information they included in a prospectus; however, we noted that some of the disclaimers included with respect to that

15 Pursuant to section 120 of the Act.

information were not appropriate. For example, while an RI may indicate that it has not independently verified the third party information, it is not appropriate to state that the RI does not make any representation as to the accuracy of the information. Our expectation is that if an RI includes third party source information in its prospectus, management must believe the information to be accurate and the source reliable.

D. Personal Information Forms (PIFs)

Prospectus amendments relating to PIFs, related documents and their filing process came into effect as of May 14, 2013. These amendments require that a PIF be filed with each prospectus in the prescribed form set out in subsection 9.1(b)(ii) of NI 41-101. Exceptions to this requirement apply if the certificate and consent included in or attached to the PIF was filed within three years, and the responses to specified questions in the previous PIF[16] are correct within 30 days of the preliminary prospectus. To clarify the PIF filing requirements, definitions of "personal information form," "predecessor personal information form" and "TSX/TSXV personal information form" were added as part of the amendments. Since the effective date of the amendments, we have received inquiries relating to these definitions, indicating there may be some confusion as to whether, and how, a previously filed PIF can be relied upon, and if not, how to meet the new PIF requirements.

In an attempt to provide some insight into these amendments, we have summarized various scenarios on the next page where the pre-May 14, 2013 PIF filings would be considered acceptable and scenarios where a new PIF should be filed. The exceptions from the requirement to file a new PIF are outlined in section 9.1(2) of NI 41-101 for PIFs, and section 9.1(3) of NI 41-101 for predecessor PIFs. The scenarios listed on the next page do not comprise an exhaustive list of all scenarios. An RI should consider its specific case in conjunction with the prospectus amendments when determining if its PIF meets the requirements.

16 Questions 6 through 10 of the "personal information for" and questions 4(b) and (c) and questions 6 through 9 of the "TSX/TSXV personal information form" in effect after September 8, 2011, questions 6 through 10, of the " predecessor personal information form".

PRACTICE TIPS – SCENARIOS

Scenario	Analysis and Action Required
Company A filed a PIF for Director X in April 2010 and files a prospectus in June 2013	**Analysis** The PIF would meet the definition of predecessor PIF but it was not executed within three years of the date of filing the preliminary prospectus, therefore does not meet the exception in s. 9.1(3). **Action** File a new PIF for Director X.
Company A filed a PIF for Director X in January 2012 and files a prospectus in June 2013	**Analysis** The PIF would meet the definition of predecessor PIF and the certificate and consent attached to the predecessor PIF was executed within three years. **Action** No new PIF is required as this would meet the exception in s. 9.1(3) (assuming the responses to questions 4(b) and (c) and questions 6-9 of the PIF are correct as at a date that is within 30 days before the filing of the preliminary prospectus).
Company A files a PIF for Director X in July 2013 and Company B files a prospectus in September 2013.	**Analysis** The PIF would meet the definition of personal information form and the certificate and consent attached to the personal information form was executed within three years. **Actions** No new PIF required as this would meet the exception in s. 9.1(2) (assuming the responses to questions 6-10 of the July 2013 PIF are correct as at a date that is within 30 days before the filing of the preliminary prospectus). Company B provides the relevant SEDAR project number for Company A's prospectus filing that includes the July 2013 PIF for Director X.
Company A files a PIF for Director X in December 2012 and Company B files a prospectus in September 2013. Director X has not completed a certificate and consent in the form set out in Schedule 1- Part B of Appendix A of NI 41-101, effective May 14, 2013.	**Analysis** The December 2012 PIF would meet the definition of a predecessor PIF but the exception in s. 9.1(3) is only applicable if the predecessor PIF was filed by the same issuer. **Action** Company B must file a new PIF for Director X.

5. 2013 ASC and CSA Initiatives

Throughout the year, the ASC and the CSA publishes staff notices and amendments to securities legislation. Some of these notices communicate securities regulators' expectations or provide guidance to improve disclosure. Other notices summarize results from recent reviews conducted across the CSA and identify areas where RIs did not comply with requirements. We identified and discussed some of these CSA staff notices in this Report. Copies of all CSA staff notices are available on the ASC website (www.albertasecurities.com). RIs and their advisors should review these publications in advance of their 2013 year-end reporting and future filings.

ASC and CSA Staff Notices published in 2013:

- CSA Notice of Consequential Amendments to Registration, Prospectus and Continuous Disclosure Rules Related to National Instrument 25-101 *Designated Rating Organizations* (March 14, 2013)
- CSA Staff Notice 13-318 *Changes to www.SEDAR.com* (March 28, 2013)
- ASC Staff Notice 51-702 *Establishing Reserves Estimates in Oil and Gas Accumulations* (May 29, 2013)
- CSA Notice of Amendments to National Instrument 41-101 *General Prospectus Requirements*, National Instrument 44-101 *Short Form Prospectus Distributions*, National Instrument 44-102 *Shelf Distributions* and National Instrument 44-103 *Post-Receipt Pricing* (May 30, 2013)
- CSA Notice of Amendments to NI 81-101 *Mutual Fund Prospectus Disclosure*, Form 81-103F3 *Contents of Fund Facts Document*, Companion Policy 81-101 and related consequential amendments (June 13, 2013)
- CSA Staff Notice 51-339 *Continuous Disclosure Review Program Activities for the fiscal year ended March 31, 2013* (July 18, 2013)
- CSA Notice 51-340 *Update on proposed National Instrument 51-103 Ongoing Governance and Disclosure Requirements for Venture Issuers* (July 25, 2013)
- CSA Staff Notice 11-326 *Cyber Security* (September 26, 2013)
- CSA Notice of Amendments to National Instrument 81-106 *Investment Fund Continuous Disclosure*, Companion Policy 81-106CP *Investment Fund Continuous Disclosure* and Related Amendments (October 3, 2013)
- CSA Notice and Request for Comment Proposed Amendments to National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* and Proposed Changes to Companion Policy 51-101CP *Standards of Disclosure for Oil and Gas Activities* (October 17, 2013)
- Multilateral CSA Notice 45-312 *Proposed Prospectus Exemption for Distributions to Existing Security Holders* (November 21, 2013)

6. 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 directed to any of the individuals listed below:

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UPCOMING PRESENTATIONS

From time to time, the ASC will also host webinars and breakfast seminars on various topics related to securities requirements including CD matters. Breakfast seminars related to this Report and other topics are scheduled for Edmonton on January 14, 2014 at the Sutton Place Hotel and for Calgary on January 15, 2014 at the Westin Calgary. A related webinar is scheduled for January 15, 2014. 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 10, 2014. We will consider submissions after this date for potential future presentations. Information about future seminars and webinars can be found on the ASC website at www.albertasecurities.com. Archived presentation slides and related reference materials from past seminars are also available on the ASC website[17].

17 Archived presentation materials are available on the ASC's website at www.albertasecurities.com in the Events & Presentations section under the News & Publications tab.

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