



June 26, 2020

British Columbia Securities Commission  
Alberta Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
Financial and Consumer Services Commission (New Brunswick)  
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island  
Nova Scotia Securities Commission  
Securities Commission of Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Yukon Territory  
Superintendent of Securities, Nunavut

**Re: CSA Second 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**

Dear Commissions:

Canadian Natural Resources Limited (“Canadian Natural”) is pleased to respond to the Canadian Securities Administrators (“CSA”) second notice and request for comment on Proposed National Instrument 52-112 “Non-GAAP and Other Financial Measures Disclosure” (the Proposed Instrument), and Proposed Companion Policy 52-112 “Non-GAAP and Other Financial Measures Disclosure” (the Proposed Companion Policy) (collectively, the “Proposed Materials”).

Canadian Natural is a senior independent oil and gas exploration and production company headquartered in Calgary, Alberta, Canada, with operations in Western Canada, the North Sea, and Offshore Africa. Our shares are publicly traded on the Toronto Stock Exchange and the New York Stock Exchange.

As an overall comment, we applaud the CSA on its efforts to address many of the concerns identified by respondents in the request for comments related to the original draft of the Proposed Materials, specifically related to enhanced readability, addition of provisions to incorporate information by reference, and simplified disclosure for non-GAAP financial measures that are forward-looking information. However, consistent with our general comments previously provided on the original versions of the Proposed Instrument and the Proposed Companion Policy (collectively the “Original Materials”), we continue to express concern that the Proposed Materials regarding non-GAAP and other financial measures disclosure requirements are too restrictive. This creates a risk that management may opt to not disclose these measures at all or revert to boilerplate disclosures, depriving the reader of the ability to understand different measures that are of importance to management.

**Canadian Natural Resources Limited**

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Comments on specific areas are included as an Appendix to this letter. If you have any questions or wish to discuss our comments in more detail, please do not hesitate to contact the undersigned.

Sincerely,



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Mark Stainthorpe  
Chief Financial Officer &  
Senior Vice-President, Finance



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Ronald D. Kim  
Vice-President, Finance &  
Principal Accounting Officer

## **Appendix**

### **Incorporating information by reference**

We support the changes made to the Original Materials to reduce the scope of application of the Proposed Instrument and eliminate duplication in many areas, including the provisions to allow incorporation of information by reference back to the issuer's MD&A filed on SEDAR.

However, we believe that there are still certain areas where the Proposed Materials will contribute to additional unnecessary and/or redundant disclosures within news releases and MD&A that are filed together in a reporting cycle alongside the related financial statements, making these documents difficult to understand for users and more costly to prepare.

We propose that the provisions to allow incorporation of information by reference can be further improved through revisions to apply to cross-referencing of information found in news releases related to the issuer's MD&A issued in respect of the same reporting cycle, filed in accordance with securities legislation.

For clarity, news releases and MD&A related to the issuer's quarterly and/or annual financial statements are subject to filing requirements under NI 51-102 *Continuous Disclosure Obligations*. Absent such provisions to include cross referencing, the same disclosures, including reconciliations, could, under the Proposed Materials, be duplicated in related documents for the same reporting cycle filed in accordance with securities legislation (i.e. Be replicated in the MD&A and related news release for the same period). Such redundancy would increase complexity for the reader, and as an unintended consequence could result in material information being obscured by the repetition of identical information.

### **Disclosure Requirements for Segment Measures**

We believe that the requirement for a quantitative reconciliation of the total of segments measure to the most comparable financial measure presented in the primary financial statements of the entity is unnecessary when that measure has already been reconciled to the issuer's primary financial statements within the segmented information note. We propose revisions to remove the requirement.

We suggest that the 'total of segments measures' definition be updated for additional clarity and that appropriate guidance be provided in the Companion Policy to remove any ambiguity about reconciliation of information already reconciled in an issuer's related financial statements for the same reporting cycle filed on SEDAR in accordance with timing specified under securities legislation.

We believe that this clarification would appropriately align the definition of 'total of segments measures' with the definitions of both non-GAAP measures and supplementary financial measures within the Proposed Instrument, where all three measures would apply when these measures "[are] not presented in the financial statements of the entity".

### **Scope of Application - Oil and Gas Activities**

We note that in certain industries, reporting issuers typically disclose a number of measures that are commonly understood by users to be indicative of operational performance. We believe that the intention to specify the requirements around these measures could provide value to readers, for example where those measures aren't already well-defined or commonly understood.

However, in the case of the Oil and Gas sector, the Proposed Instrument may create significant additional complexity for readers. As an example, many oil and gas metrics, including measures such as "Netback" and other similar measures are calculated on a unit of revenue or cost incurred per unit of production sold basis, or alternatively at a lower level of disaggregation than the financial statement caption. For example, "Depletion per barrel, by segment". We note that the requirement to reconcile these measures and ratios at multiple levels of disaggregation, would present a large volume of additional information that is not necessarily informative for users. Further, we find that the requirement to do so not only within the MD&A,

but to also provide similar reconciliations in a related news release filed for the same reporting cycle, will significantly lengthen disclosure, and will likely lead to a reduction in what many users consider helpful disclosures.

In our view, the exceptions listed in the Proposed Instrument should also apply to required and voluntary Oil and Gas Metrics disclosures made under section 5.14 of NI 51-101, for the reasons stated below:

- The Oil and Gas Metrics disclosures are already subject to the disclosure requirements under 5.14 of NI 51-101, as specified by NI 51-101, section 5.1 Application of Part 5 Requirements Applicable To All Disclosure.
- The Oil and Gas Metrics disclosures determined in accordance with Form 51-101F1 Statement of Reserves Data and Other Oil and Gas Information, comply with the COGE Handbook as mandated by NI 51-101. NI 51-101 indicates “terms used in this Instrument but not defined in this Instrument, NI 14-101 or the securities statute in the jurisdiction, and defined or interpreted in the COGE Handbook, have the meaning or interpretation ascribed to those terms in the COGE Handbook”.

For example, as Netback is not defined in NI 51-101, NI 14-101, or the securities statute under the provincial jurisdiction, the COGE Handbook guidance in respect of the use of and calculation of netback applies.

## Disaggregation

The Proposed Materials no longer contain the proposals on disaggregation previously included in the Original Materials, which provided helpful clarification for issuers, given that from time to time they may choose to disaggregate financial statement line items to provide additional information to users, particularly in their MD&A. It is not clear why this was removed, and whether the changes are intended to expand the scope of application of the Proposed Instrument.

We recommend the proposals on disaggregation be retained, including:

“Measures that are a disaggregation of a line item presented in the primary financial statements, if that measure has been calculated in accordance with the issuer’s accounting policies used to prepare the financial statements, would not meet the definition of a non-GAAP financial measure.

The disaggregation of a line item includes disclosure of more granular information regarding that line item. For example, information could be presented through a table illustrating the disaggregation of revenues by certain products or by division, even if the table did not sum to the revenue amount presented in the issuer’s primary financial statements, assuming that division or product revenue was calculated in accordance with the issuer’s accounting policies under the financial reporting framework used in the preparation of the issuer’s financial statements.”

## Single cross-reference of each non-GAAP measure

We suggest that the Proposed Instrument be updated to clarify that certain common practices for defining and referencing information with an external disclosure document continue to be allowed in application.

Specifically, we believe that current common practice to define a term in its first instance of use, and thereafter to use the defined term, should continue to be permitted. Should any further definition or reconciliation of that term be required, the issuer could then refer the reader to the complete definition and corresponding reconciliation in the first instance it was defined, as applicable.

As a result, we disagree with the guidance in the Proposed Companion Policy “To prevent duplicate disclosure, an issuer may provide all the required disclosures for all non-GAAP financial measures in one section of the document that contains the non-GAAP financial measures, **and cross-reference that section each time a non-GAAP financial measure is presented in that document [emphasis added].**” While we find that it is helpful that the guidance makes specific allowance to provide all of the non-GAAP

financial measures in one section of the document, we find it unnecessary that an issuer would be required to reference that section, in not only the first instance, but also in every subsequent instance that the non-GAAP measure is used.

### **Illustrative Examples**

We recommend illustrative examples of requirements be included in the Proposed Materials. For example, Annex C of the Original Materials could be retained, and updated to reflect changes from the Original Materials. Annex C provided a general overview of the application process for the Proposed Instrument, including a visual flowchart to help determine the scope of application and what category each measure fits into. In addition, it would be helpful for the Proposed Materials to include a tabular summary of definitions and requirements, highlighting commonalities and differences between all the measures.

### **IASB's proposals - consideration of potential changes**

Canadian Natural supports the CSA's intention to monitor progress of the International Accounting Standards Board exposure draft on General Presentation and Disclosures (ED 2019-07) in conjunction with the Proposed Instrument. ED 2019-07 proposes that some management performance measures be included in the notes to the financial statements, thereby creating the potential for duplication between these measures and the non-GAAP and other financial measures defined in the Proposed Instrument. Specifically, we appreciate the CSA's continued focus on reducing regulatory burden for issuers.