

December 5, 2018

The Secretary  
Ontario Securities Commission  
20 Queen Street West  
19<sup>th</sup> Floor, Box 55  
Toronto, ON M5H 3S8

M<sup>e</sup> Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800, rue du Square-Victoria, 22<sup>e</sup> étage  
C.P. 246, tour de la Bourse  
Montreal, QC H4Z 1G3

***Re: Proposed National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure***

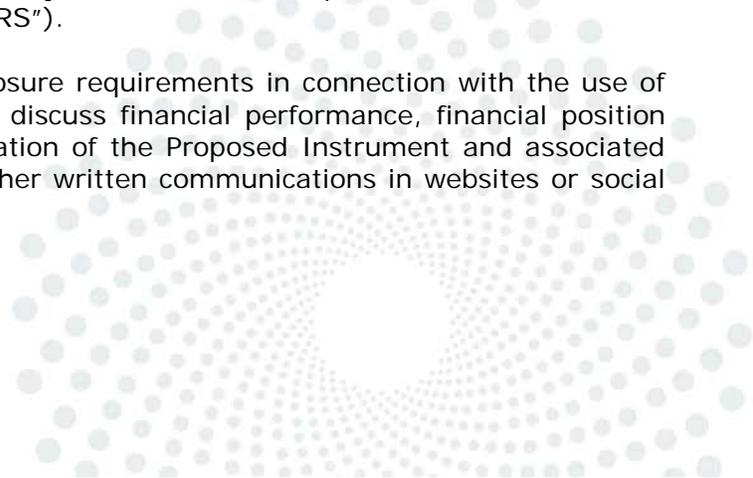
Alberta Securities Commission  
British Columbia Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers (Québec)  
Financial and Consumer Services Commission (New Brunswick)  
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

Dear Sirs/Mesdames:

Cenovus Energy Inc. ("Cenovus") is pleased to provide comments on *Proposed National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure* (the "Proposed Instrument") dated September 6, 2018.

Cenovus is a leading Canadian integrated oil company, listed on both the Toronto and New York stock exchanges, with a market capitalization of approximately \$12 billion. We report our financial results under International Financial Reporting Standards ("IFRS").

While Cenovus agrees with the need for certain disclosure requirements in connection with the use of non-GAAP financial measures by reporting issuers to discuss financial performance, financial position and cash flows, we strongly disagree with the application of the Proposed Instrument and associated disclosure requirements to all documents including other written communications in websites or social media.



Cenovus acknowledges that the disclosure requirements noted in the Proposed Instrument should apply to a reporting issuer's core filing documents of Management's Discussion & Analysis ("MD&A"), Annual Information Form ("AIF") and Prospectuses. However, we believe that it is sufficient and reasonable that other documents, including news releases, supplemental information on an issuer's website, transcripts of conference calls and social media, clearly identify the non-GAAP or other financial measures used and provide a cross reference to where additional information (in satisfaction of requirements under the Proposed Instrument) may be found in the reporting issuer's core filing documents or Financial Statements.

It is our view that in order to promote efficiency and reduce duplication, reference to the document containing the required disclosures (Financial Statements, MD&A, AIF or Prospectuses), is more than adequate for these other written documents. We note that the ability to cross-reference information in disclosure documents is common in securities legislation and, in fact, the short form prospectus system is predicated on filing a capital raising document (a short form prospectus) that leverages other continuous disclosure information filed by a public company. In addition, the oil and gas disclosure rules permit reference to important investor information filed in other disclosure documents (see Items 6.3 and 6.6 in Form 51-101F1).

One of the key functions of disclosure requirements in securities regulations is to ensure clarity, transparency and accountability to the investing public. It is our view that the Proposed Instrument will add extensive disclosure to advisories that are already lengthy and complex. We draft advisories with the intention of having our readers understand the critical assumptions and risks with each piece of disclosure. Our concern is that the additional disclosure will detract from the advisory's clarity, causing readers to gloss over what is otherwise relevant and issue-specific disclosure. A cross reference to the detailed disclosure required under the Proposed Instrument will allow readers to know where to go for further details, without reducing the impact of the other critical information in the advisory.

We suggest that the Proposed Instrument be aligned with the short form prospectus system and permit a similar approach of clearly highlighting the non-GAAP or other financial measure, identifying it as being associated with additional important information, and providing a cross reference to where that additional information can easily be found in a core document. This approach avoids duplication, ensures the additional information is consistent for all disclosures, avoids potential confusion in the marketplace, ensures the emphasis remains on other critical disclosures of assumptions and risks currently required to be included in advisories and reduces the burden to reporting issuers of compliance with the Proposed Instrument.

Finally, while the Proposed Instrument provides some guidance on the disaggregation of a line item, Cenovus believes further clarification is necessary around how the disaggregation of a line item(s) in the primary financial statements or the notes to the financial statements applies to non-GAAP, capital management, segment and supplemental financial measures. The use of examples may be the best way to achieve this clarity.

Detailed responses to the questions asked in the Proposed Instrument are attached as Appendix A.

Thank you for the opportunity to comment on this important area of Canadian securities regulations.

Yours truly,

Cenovus Energy Inc.

Jonathan M. McKenzie  
Executive Vice-President & Chief Financial Officer

## APPENDIX A

*Question 1 – Does the proposed definition of a non-GAAP financial measure capture (or fail to capture) specific financial measures that should not (or should) be captured? Please explain using concrete examples.*

In Cenovus's opinion the proposed definition of a non-GAAP financial measure in most cases appropriately captures those measures that should be captured. However, we do not believe there is adequate clarity between how the disaggregation criteria applies to non-GAAP measures, segment measure and supplemental financial measures. We believe providing further clarity is critical to achieving the goals as outlined by the Proposed Instrument.

For example, Cenovus uses the measure "operating margin" to describe the financial performance of its operating segments as defined by International Financial Reporting Standards ("IFRS"). Operating margin by segment is reported in note 1 of the financial statements and, as required by IFRS, is reconciled to the consolidated statement of earnings (part of the primary financial statements). Operating margin is defined clearly in both the note to the financial statements and the MD&A as gross sales less royalties, transportation and blending, operating expense, production and mineral taxes and realized risk management gains/losses. The components of operating margin are the disaggregation of line items in the primary financial statement calculated in accordance with accounting policies used to prepare the financial statements. We have concluded it would meet the definition of a segment measure. In our MD&A, we use a disaggregation of the segment operating margin measure to further analyze our operating segment at a product level (crude oil and natural gas). The disaggregation of operating margin by product does not appear to meet the definition of a segment measure; therefore we would conclude that it meets the definition of a non-GAAP measure as it is not disclosed or presented in the financial statements and it is not a disaggregation of a single line item presented in the primary financial statements. We believe clarity needs to be provided on the disaggregation criteria specifically when a measure is a disaggregation of multiple line items within the primary financial statements and when it is a disaggregation of a segment measure.

The current definition of a non-GAAP financial measure captures some financial measures that should not, in our respectful submission, be captured. For example, section 2.1(4) of Form 51-102F6 *Statement of Executive Compensation* ("Form F6") requires disclosure of performance goals or similar conditions that are based on objective, identifiable measures, such as the company's share price or earnings per share. If such performance goals or similar conditions are non-GAAP financial measures, Form F6 requires an explanation of how such measures were calculated from the financial statements. The disclosure requirements required under the Proposed Instrument, in addition to the disclosure requirements required under Form F6, would be repetitive and excessive. We strongly suggest that for any disclosure measures for which securities legislation requires an explanation as to how the measure was calculated, the issuer be permitted to refer to such disclosure consistent with the system in place that allows for the filing of short form prospectuses rather than being required to replicate it and the measure be excluded from the definition of non-GAAP measure.

*Question 2 – Are there any specific additional disclosures not considered in the Proposed Instrument, that would significantly improve the overall quality of disclosure and be of benefit to investors? Please explain using concrete examples.*

Cenovus believes there are no additional disclosures that need to be considered.

However, we believe the quantitative reconciliation in the Proposed Instrument for segment measures should not be required as it will result in redundant duplicate disclosure between the financial statements and the other documents.

We have interpreted the definition of a segment measure to be consistent with the definition of an “operating segment” under IFRS (IFRS 8 paragraph 5) as follows:

*An operating segment is a component of an entity:*

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),*
- (b) whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and*
- (c) for which discrete financial information is available.*

When reporting operating segment information, IFRS requires an entity to reconcile the totals of segment revenues, segment profit and loss, assets and liabilities to the entity’s total of these items.

For example, Cenovus uses the segment measure “operating margin” to discuss the financial performance of its operating segments. The reconciliation of the components of operating margin is included in note 1 of Cenovus’s financial statements. This financial statement note would need to be replicated in other documents to meet the disclosure requirements of the Proposed Instrument.

The Proposed Instrument suggests that the disclosure requirements, including any quantitative reconciliation, must be included in all other documents including those on websites and in social media. While Cenovus agrees with the importance of clearly defining non-GAAP, capital management, segment and supplemental financial measures, we believe the quantitative disclosure requirements can be met by specific reference to the Financial Statements, MD&A or AIF and an entity should not be required to repeat this information in all written communications including news releases or supplemental information posted on an entity’s website or on social media.

*Question 3 – Is specific content in the Proposed Companion Policy unclear or inconsistent with the Proposed Instrument?*

Cenovus has not noted specific content in the Proposed Companion Policy that is inconsistent with the Proposed Instrument. Please see our response to Question 1 for an area in which the Proposed Companion Policy is unclear regarding disaggregation.

*Question 4 – Is the proposed exemption for SEC foreign issuers appropriate? If not, please explain.*

No comment.

*Question 5 – Is the proposed exclusion of oral statements to the application appropriate? If not, please explain.*

Yes, the exclusion of oral statements to the application of the Proposed Instrument is appropriate.

*Question 6 – Is the proposed inclusion of all documents to the application appropriate? If not, for which documents should an exclusion be made available? Please explain.*

We do not believe the proposed disclosures should apply to all documents. We suggest that the full disclosure requirements should be included in the core filing documents of the MD&A, AIF and Prospectuses. In addition, we do not believe a quantitative reconciliation for a segment measure should be required in the core filing documents as it would result in redundant and duplicate disclosure.

Cenovus believes it is important to identify and define financial measures used in other documents such as news releases, supplemental information on an entity's website, investor presentations and social media. However, we believe an exclusion from the quantitative reconciliation requirement should be provided for news releases, supplemental information on an entity's website and investor presentations not required to be filed under applicable securities laws and social media. We believe that for these documents it is sufficient, appropriate (and permitted under current securities regulations) to reference, by way of a footnote, the core filing documents (Financial Statements, MD&A, AIF and Prospectuses) for the quantitative reconciliations required by the Proposed Instrument. We note that the ability to cross-reference information in disclosure documents is common in securities legislation and the short form prospectus system is predicated on filing a capital raising document (a short form prospectus) that leverages other continuous disclosure information filed by a public company. The oil and gas disclosure rules permit reference to important investor information filed in other disclosure documents (see Items 6.3 and 6.6 in Form 51-101F1). In addition, the inclusion of the proposed disclosure requirements in all documents appears to conflict with other initiatives of the Canadian Securities Administrators ("CSA") notably the Consultation Paper 51-404 "*Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*" (the "Consultation Paper"). In light of feedback received on the Consultation Paper, it is our understanding that a CSA policy project will be initiated to review certain continuous disclosure requirements, with a view to reducing the burden of disclosure on issuers, while enhancing its usefulness and understandability for investors. Topics such as the elimination of duplicative disclosure among the financial statements, MD&A and other NI 51-102 forms will be considered as well as reducing the volume of information in annual and interim filings.

One of the key functions of disclosure requirements in securities regulations is to ensure clarity, transparency and accountability to the investing public. It is our view that the Proposed Instrument will add extensive disclosure to advisories that are already lengthy and complex. We draft advisories with the intention of having our readers understand the critical assumptions and risks with each piece of disclosure. Our concern is that the additional disclosure will detract from the advisory's clarity, causing readers to gloss over what is otherwise relevant and issue-specific disclosure. A cross reference to the detailed disclosure required under the Proposed Instrument will allow readers to know where to go for further details, without reducing the impact of the other critical information in the advisory.

In regard to social media, a requirement to include all disclosure mandated under the Proposed Instrument would effectively eliminate the use of certain channels for communicating this information to investors as the additional information cannot be accommodated. We respectfully submit that providing a reference to the information would adequately inform investors without removing existing and useful avenues of communication with investors.