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OSC SME Institute — Objectives

• Help SMEs navigate regulatory waters
• Demystify disclosure requirements so issuers can focus on building their business
• Help SMEs reduce the cost of compliance
• Provide an opportunity for informal dialogue with OSC staff
## Agenda

<table>
<thead>
<tr>
<th>Topic</th>
<th>Slide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuous disclosure (CD) review program overview</td>
<td>5-8</td>
</tr>
<tr>
<td>CD review program results – CSA SN 51-355</td>
<td>9-17</td>
</tr>
<tr>
<td>Corporate Finance branch report – OSC SN 51-729</td>
<td>18-25</td>
</tr>
<tr>
<td>MD&amp;A issues</td>
<td>26-55</td>
</tr>
<tr>
<td>Non-GAAP measures</td>
<td>56-64</td>
</tr>
<tr>
<td>Mining disclosure issues</td>
<td>65-72</td>
</tr>
<tr>
<td>Cannabis update</td>
<td>73-77</td>
</tr>
<tr>
<td>M&amp;A issues – related party transactions</td>
<td>78-83</td>
</tr>
<tr>
<td>Whistleblowing</td>
<td>84-91</td>
</tr>
<tr>
<td>Reducing regulatory burden – CD initiatives</td>
<td>92-96</td>
</tr>
<tr>
<td>Questions</td>
<td>97</td>
</tr>
<tr>
<td>Contact information</td>
<td>98-99</td>
</tr>
</tbody>
</table>
Continuous Disclosure (CD) Review Program Overview
CD Review Program

• Our CD review program is critical to investor protection as it monitors issuer compliance with CD obligations.

• We help companies understand and comply with their CD obligations through our compliance programs and issuer outreach and education initiatives.

• Types of reviews
  - Full reviews are broad in scope and generally involve a detailed review of an issuer’s CD record for at least 12 months.
  - Issue-oriented reviews ("IOR") focus on specific accounting, legal or regulatory issues that we believe warrant scrutiny.
CD Review Program (cont’d)

- Issuers are generally selected for review using a risk-based approach.
- May also select an issuer for review if:
  - Filing appears to be substantially non-compliant with a requirement of the Act or regulations.
  - Filing appears to contain information that is misleading, false, deceptive or a misrepresentation.
  - Assess compliance with new regulatory or accounting requirements.
  - Issuers impacted by emerging risks and market conditions.
CD Review Program (cont’d)

• Correspondence with issuers is primarily done through comment letters
• Outcomes of reviews
  ▪ Prospective disclosure enhancements in filings
  ▪ Issuer outreach and education
  ▪ Refilings and other regulatory actions for significant deficiencies
    ▪ Refiling - OSC’s 3-year Refilings and Errors List
    ▪ Enforcement referral / cease trade order / default list
  ▪ No action
CD Review Program Results

CSA Staff Notice 51-355
Continuous Disclosure Review Program
Activities for the fiscal years ended
March 31, 2018 and March 31, 2017
CSA CD Staff Notice — Background

- CD Review Program based on CSA Staff Notice 51-312 (revised) Harmonized Continuous Disclosure Review Program.
- CSA Staff Notice 51-355 contains the results of the CD reviews conducted by the CSA within the scope of their CD review program for the fiscal years ended March 31, 2018 and March 31 2017.
- Published July 19, 2018.
- During fiscal 2018, 840 continuous disclosure reviews were completed by CSA staff, of which 19% were full reviews and 81% were IORs.
- During fiscal 2017, 1,014 continuous disclosure reviews were completed by CSA staff, of which 20% were full reviews and 80% were IORs.
CSA CD Review Outcomes for Fiscal 2018 and Fiscal 2017

- Referred to Enforcement/Cease-traded/Default list: 6% (2018), 8% (2017)
- Refiling: 13% (2018), 18% (2017)
- Prospective changes: 24% (2018), 25% (2017)
- Education and awareness: 24% (2018), 24% (2017)
- No action required: 33% (2018), 39% (2017)
# Common Deficiencies Identified

## FS Deficiencies
- Statement of cash flows
- Fair value measurements – Level 3
- Adoption of new accounting policies

## MD&A Deficiencies
- Investment entities/non-investment entities that record investments at fair value
- Non-GAAP financial measures (NGM) – real estate industry
- Discussion of operations – disclosure of capital spending and milestones
- Related party transactions

## Other Regulatory Disclosure Deficiencies
- Statement of executive compensation – external management companies
- Statement of executive compensation – filing deadline
- NGM on issuers’ websites
- Social media
- Climate change-related disclosure
- Disclosure of material relationships
- Change of auditor reporting package

## Mineral Project Disclosure Deficiencies
- Technical report content
- Preliminary economic assessments
- Disclosure of historical estimates
Example of Insufficient Disclosure of RPTs

As at December 31, 2017, the Company was owed $10,000 from a related party (2016 - $7,500).

- Repetition from financial statements
- Related party is not identified
- No business purpose of the transactions were disclosed.
Example of Improved Disclosure of RPTs

As at December 31, 2017, the Company was owed $9,742 (2016 - $12,000) from John Smith, the CEO of the Company. An amount of $12,000 was loaned to the CEO at the end of 2016 as a personal loan for a home. The Company offers personal loans for a home to all employees that have worked at the company for 5 years or more up to an amount of $15,000. The loan to the CEO carries interest at 3% and is payable in monthly instalments over a term of 5 years. The loan is carried at amortized cost.

Related party is identified.

Business purpose of the transaction is disclosed.

Measurement basis of the loan is disclosed.
Common Deficiencies Identified (cont’d)

• Disclosure Examples and Discussion
  ▪ MD&A Deficiencies
    • Forward-looking information
    • Non-GAAP financial measures
  ▪ Other Regulatory Disclosure Deficiencies
    • Mineral project disclosure
Across the CSA, Staff conducted the following IORs in fiscal 2017 that resulted in the publication of CSA staff notices:

- **CSA Multilateral Staff Notice 51-347 Disclosure of cyber security risks and incidents**
  - Compliance with risk disclosure requirements relating to cyber security risks that are material

- **CSA Staff Notice 51-348 Staff’s Review of Social Media Used by Reporting Issuers**
  - Social media disclosures

  - Compliance with required disclosures under IFRS 10 by Investment Entities of fair value measurements

- **CSA Multilateral Staff Notice 58-308 Staff Review of Women on Boards and in Executive Officer Positions**
  - Compliance with NI 58-101 Disclosure of Corporate Governance Practices
Issue Oriented Reviews in Fiscal 2018

Across the CSA, Staff conducted the following IORs in fiscal 2018 that resulted in the publication of CSA staff notices:

- **CSA Staff Notice 52-329 Distribution Disclosures and Non-GAAP Financial Measures in the Real Estate Industry**: Distribution disclosures where the issuer is distributing more cash than they are generating from their operations, and transparency regarding various adjustments made in arriving at non-GAAP financial measures.

- **CSA Multilateral Staff Notice 58-309 Staff Review of Women on Boards and in Executive Officer Positions**: Compliance with NI 58-101 Disclosure of Corporate Governance Practices.

- **CSA Staff Notice 51-354 Report on Climate Change-related Disclosure Project**: Compliance with risk disclosure requirements relating to climate change.
OSC Staff Notice 51-729
Corporate Finance Branch 2017-2018
Annual Report
Corporate Finance Branch Annual Report — Objectives

The report aims to:

- reinforce the importance of compliance with regulatory obligations
- improve disclosure in regulatory filings
- provide insights on trends
- provide guidance on novel issues
- inform on key policy initiatives
Corporate Finance Branch Annual Report — Compliance

Areas covered include:

- Continuous Disclosure Review Program
- Offerings - Public
- Offerings - Exempt Market
- Exemptive Relief Applications
- Insider Reporting
- Designated Rating Organizations
Corporate Finance Branch Annual Report — Continuous Disclosure

• Trends and guidance
  ▪ MD&A
  ▪ Mining Technical Reports
  ▪ Non-GAAP Financial Measures
  ▪ Forward-looking information
Corporate Finance Branch Annual Report — Public offerings

Prospectuses receipted by industry (%) - Fiscal 2017 & 2018

- Biotech/Pharma
- Cannabis
- Communications/Entertainment
- CPC
- Financial Services
- Manufacturing
- Mining
- Oil & Gas
- Real Estate
- Retail & Services
- Technology
- Utilities
- Other

0% 5% 10% 15% 20% 25%

2017 2018
Corporate Finance Branch Annual Report — Public offerings

Description of the business and regulatory environment

- Issues may arise in circumstances where an issuer
  - appears to have no business or the offering is a blind pool,
  - has a complex corporate structure,
  - has a significant change in business or operations,
  - is in the cannabis industry or cryptocurrency sector and lacks disclosure about its specific regulatory environment, or
  - has recently completed a significant acquisition or capital restructuring where a securities regulatory review has not been carried out.

Risk factors relating to the business and/or offering

- Avoid boilerplate language and tailor the disclosure to the issuer’s situation (e.g. assess political/regulatory risk, discuss factors that may affect the issuer’s title to its assets).
- Be specific about any new risks affecting the issuer’s business.
- Discuss any steps the issuer has taken to mitigate the risk.
- Do not include risk factors that do not apply to the issuer just because another issuer in the same industry does.
MD&A disclosure in a long form prospectus

- Include relevant information and provide sufficient detail, especially regarding those items highlighted in this report under the heading “Compliance – Continuous Disclosure Review Program – Trends and Guidance”.
- MD&A included in a long form prospectus should be just as comprehensive as a stand-alone MD&A.

Use of proceeds

- Provide sufficient detail and be comprehensive. Generic phrases such as “for general corporate purposes” are insufficient disclosure.
- Provide an itemized description of how the proceeds will be used.
- If proceeds are being raised to take advantage of favourable market conditions, state so clearly in the prospectus.
- Use a table format to explain and disclose variances between the intended and actual uses of proceeds from prior financings, if not already disclosed in the MD&A.
Corporate Finance Branch Annual Report — Responsive Regulation

- Exempt Distribution Reporting
- Foreign Issuer Resale Exemption
- Syndicated Mortgages
- Climate change related disclosures
- Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers
- Women on Boards and in Executive Officer Positions
- Faith-Based, Not-for-profit Organizations Distributing Securities
MD&A issues
MD&A – General Considerations

• Focus on material information
• Would a reasonable investor’s decision whether or not to buy, sell or hold securities of the Company likely be influenced or changed if the information in question was omitted or misstated?
  ▪ If yes, then likely material
• Explain the why’s
• Ensure that financial information reconciles with financial statements
• Ensure that discussion reconciles with technical report, if one has been filed
• Ensure technical disclosure complies with NI 43-101 and NI 51-101
• Use plain language
MD&A – Common Deficiencies

- Discussion of Operations
- Liquidity & Capital Resources
- Forward-Looking Information
Discussion of Operations
Discussion of Operations

- Companies should provide an in-depth analysis of:
  - Net sales or total revenues by operating segment
  - Cost of sales or gross profit
  - Significant projects that have not generated operating revenues
  - Previous financing

Simply repeating variances that can be calculated from the financial statements does not help investors understand trends. Omitting the analysis of a material variance or simply explaining a variance qualitatively without quantifying the impact of the explanation is not sufficient.
Issuers with revenue

Discussion of revenue often does not include analysis of selling prices, quantity, or the introduction of new products or services.

A fulsome analysis of revenue helps investors understand how key factors impact the issuer’s revenue.

Revenue analysis should include changes in amounts caused by selling prices, quantities, or the introduction of new products and services.
The Company reported revenue of $7,600,000 for the year ended December 31, 2017, compared with $7,000,000 a year earlier, an increase of 9%. The growth is mainly due to an increase in the sales of product X.
Example #1 of Entity-specific Disclosure

During fiscal 2017, the Company's sales increased by 9%. The Company undertook a new activity, namely the distribution of product X in the Canadian manufacturing sector. As at year end, because of a delay in the manufacturing of product X, this activity had not yet reached the level that management had anticipated. The sales of product X increased sales by 7%. Since 30% of sales are made in US dollars, the depreciation of the Canadian dollar had a positive impact on sales. This impact was a 3% increase in sales.

Despite the positive effect of the introduction of product X and of the exchange rate, the arrival of a new competitor forced the Company to decrease its sale price on product Y. With this decrease, the Company was able to maintain the sale volume of product Y. Due to the quality and reputation of product Y, management believes that no other decrease of the sale price will be necessary to maintain the sale volume of product Y in the future. The decrease in the sale price caused a 1% decrease in sales.
Projects not yet generating revenue

Observations
Discussion of significant projects that have not yet generated revenue often do not include status updates against originally projected plans.

Why important?
Investors want information on the progress of significant projects to assess management, the company’s performance, as well as future prospects.

Project updates should discuss status, expenditures made, and anticipated timing and costs to reach the next phase or milestone.
In 2017, the Company continued its exploration efforts on the XYZ Lake property including additional drilling on the Fire Zone which continued to intersect significant zone of mineralization. In addition, geophysical surveys identified several targets for testing which may represent zones of mineralization similar to the Fire Zone.

In 2018, the Company expects to continue its drilling efforts to outline the Fire Zone mineralization and also drill test the geophysical targets. The Company anticipates it will be in a position to disclose an initial mineral resource estimate on the XYZ Lake property in 2018.
Example #2 of Entity-specific Disclosure

In 2017, the Company spent $873,100 on exploration expenses on the XYZ Lake property which consisted mainly of two phases of diamond drilling on the Fire Zone (totaling 25 holes for 4,820 metres) which were completed in February, 2017 and September, 2017. This drilling continued to outline significant zones of mineralization, the results of which were reported by the Company in news releases on May 30, 2017, June 24, 2017 and November 29, 2017. In addition, an airborne geophysical survey (703 line km) was completed in the summer which identified several targets for testing which may represent zones of mineralization similar to the Fire Zone.

In early 2018, the Company expects to spend approximately $800,000 conducting additional diamond drilling on the Fire Zone as well as follow-up drill testing of the high priority geophysical targets. It is expected that both drilling programs will consist of approximately 20 drill holes totaling about 5,000 metres. By the third quarter of 2018, the Company anticipates it will have completed a sufficient amount of drilling in order to commission an initial independent NI 43-101 mineral resource estimate on the Fire Zone which is expected to be disclosed by the end of 2018.
Additional Disclosure for Venture Issuers Without Significant Revenue
Venture issuer disclosures — NI 51-102 — section 5.3

• A venture issuer that has not had significant revenue from operations in either of its last two financial years, must disclose in its MD&A, a breakdown of material components of:
  ▪ Exploration and evaluation assets or expenditures;
  ▪ Expensed research and development costs;
  ▪ Intangible assets arising from development;
  ▪ General and administration expenses; and
  ▪ Any other material costs, whether expensed or recognized as assets.

• If the venture issuer’s business primarily involves mining exploration and development, the analysis of exploration and evaluation assets or expenditures must be presented on a property-by-property basis.
## Example #2 of Boilerplate Disclosure

No breakdown by material components

<table>
<thead>
<tr>
<th></th>
<th>Property A</th>
<th>Property B</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance, as at December 31, 2015</strong></td>
<td>$3,300,000</td>
<td>$1,075,000</td>
<td>$200,000</td>
<td>$4,575,000</td>
</tr>
<tr>
<td><strong>Additions</strong></td>
<td>1,812,910</td>
<td>180,620</td>
<td>36,520</td>
<td>2,030,050</td>
</tr>
<tr>
<td><strong>Impairments</strong></td>
<td>-</td>
<td>-</td>
<td>(35,000)</td>
<td>(35,000)</td>
</tr>
<tr>
<td><strong>Balance, as at December 31, 2016</strong></td>
<td>5,112,910</td>
<td>1,255,620</td>
<td>201,520</td>
<td>6,570,050</td>
</tr>
<tr>
<td><strong>Additions</strong></td>
<td>825,220</td>
<td>469,840</td>
<td>46,120</td>
<td>1,341,180</td>
</tr>
<tr>
<td><strong>Impairments</strong></td>
<td>-</td>
<td>(1,725,460)</td>
<td>-</td>
<td>(1,725,460)</td>
</tr>
<tr>
<td><strong>Balance, as at December 31, 2017</strong></td>
<td><strong>$5,938,130</strong></td>
<td>-</td>
<td><strong>$247,640</strong></td>
<td><strong>$6,185,770</strong></td>
</tr>
</tbody>
</table>

Does not allow an investor to understand where and how the money was spent.
## Example #2 of Entity-specific Disclosure

<table>
<thead>
<tr>
<th></th>
<th>Property A</th>
<th>Property B</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Acquisition Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, as at December</td>
<td>300,000</td>
<td>75,000</td>
<td>75,000</td>
<td>450,000</td>
</tr>
<tr>
<td>31, 2015</td>
<td>50,000</td>
<td>15,000</td>
<td>-</td>
<td>65,000</td>
</tr>
<tr>
<td>Incurred during the period</td>
<td>-</td>
<td>5,000</td>
<td>-</td>
<td>5,000</td>
</tr>
<tr>
<td>Mineral properties</td>
<td>-</td>
<td>-</td>
<td>(10,000)</td>
<td>(10,000)</td>
</tr>
<tr>
<td>abandoned</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, as at December</td>
<td>300,000</td>
<td>80,000</td>
<td>65,000</td>
<td>445,000</td>
</tr>
<tr>
<td>31, 2016</td>
<td>50,000</td>
<td>15,000</td>
<td>-</td>
<td>65,000</td>
</tr>
<tr>
<td>Incurred during the period</td>
<td></td>
<td>50,000</td>
<td>15,000</td>
<td>65,000</td>
</tr>
<tr>
<td>Mineral properties</td>
<td>-</td>
<td>(80,000)</td>
<td>-</td>
<td>(80,000)</td>
</tr>
<tr>
<td>abandoned</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, as at December</td>
<td>$350,000</td>
<td>-</td>
<td>$80,000</td>
<td>$430,000</td>
</tr>
<tr>
<td>31, 2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Example #2 of Entity-specific Disclosure (cont’d)

Separate disclosure for exploration expenditures from acquisition costs

Breakdown of material components of exploration expenditures

Similar disclosure also required for the comparative period

Would expect qualitative discussion of the expenditures

<table>
<thead>
<tr>
<th>Exploration Expenditures</th>
<th>Property A</th>
<th>Property B</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, as at December 31, 2016</td>
<td>4,812,910</td>
<td>1,175,620</td>
<td>136,520</td>
<td>6,125,053</td>
</tr>
<tr>
<td>Assays and geochemistry</td>
<td>41,050</td>
<td>27,390</td>
<td>5,880</td>
<td>74,320</td>
</tr>
<tr>
<td>Camp costs</td>
<td>25,550</td>
<td>5,410</td>
<td>-</td>
<td>30,960</td>
</tr>
<tr>
<td>Consulting</td>
<td>15,490</td>
<td>7,650</td>
<td>-</td>
<td>23,140</td>
</tr>
<tr>
<td>Drilling</td>
<td>466,820</td>
<td>330,390</td>
<td>-</td>
<td>797,210</td>
</tr>
<tr>
<td>Geology</td>
<td>38,690</td>
<td>17,420</td>
<td>12,770</td>
<td>68,880</td>
</tr>
<tr>
<td>Geophysics</td>
<td>25,990</td>
<td>-</td>
<td>-</td>
<td>25,990</td>
</tr>
<tr>
<td>Travel and lodging</td>
<td>77,260</td>
<td>36,120</td>
<td>4,990</td>
<td>118,370</td>
</tr>
<tr>
<td>Salaries and labour</td>
<td>84,370</td>
<td>45,460</td>
<td>7,480</td>
<td>137,310</td>
</tr>
<tr>
<td>Mineral properties abandoned</td>
<td>-</td>
<td>(1,645,460)</td>
<td>-</td>
<td>(1,645,460)</td>
</tr>
<tr>
<td>Balance, as at December 31, 2017</td>
<td>$5,588,130</td>
<td>-</td>
<td>$167,640</td>
<td>5,755,770</td>
</tr>
<tr>
<td>Cumulative Mineral Property Balance, as at December 31, 2017</td>
<td>$5,938,130</td>
<td>-</td>
<td>$247,640</td>
<td>$6,185,770</td>
</tr>
</tbody>
</table>
Discussion of Operations - Regulatory Observations

Have changes to **revenue** and **costs** caused by the following factors been disclosed?

- **Selling prices**
- **Volume** / quantity of goods and services
- Introduction of **new products** or services

Has the timing and cost to take the project to the next stage been disclosed for significant projects that have not yet generated revenue?

Has the issuer considered additional disclosure requirements for venture issuers without significant revenue?
Liquidity and Capital Resources
Liquidity

• Companies should discuss the following:
  ▪ How they intend on generating sufficient amounts of cash in the short and long term
  ▪ If a working capital deficiency exists, its ability to meet obligations and how the company intends on remediying the deficiency
  ▪ Trends or expected fluctuations in liquidity
  ▪ Liquidity risks associated with financial instruments
  ▪ Significant risks of default or arrears
  ▪ How the company intends to cure the default or arrears or address the risk

• Repeating cash flow information that is readily available from the financial statements is not sufficient.

While these disclosures are required for all issuers, they are especially important when issuers have negative cash flows from operations, negative working capital position or deteriorating financial condition
Capital Resources

• Companies should provide an analysis of capital resources including:
  ▪ Commitments for capital expenditures as of the date of the financial statements detailing:
    ▪ the amount, nature and purpose of these commitments
    ▪ the expected source of funds to meet these commitments
    ▪ the expenditures not yet committed but required to maintain capacity, to meet growth or fund development activities
  ▪ Known trends or expected fluctuations in company’s capital resources
  ▪ Sources of financing that the company has arranged but not yet used

Disclosure should include an explanation of the expenditures not yet committed but required to meet growth and fund development activities, along with a quantification of the capital expenditures to be incurred for those activities.
Example of Boilerplate Disclosure

At year end, the company had cash of $10,000, total current assets of $500,000 and total current liabilities of $700,000. This resulted in a working capital deficiency of $200,000. Nonetheless, management is confident that the company has adequate financial resources to address its requirements and can arrange alternative sources of financing, if necessary.
The Company had $500,000 of working capital at year end. Fixed costs to maintain operations, pay taxes and royalties and upkeep are about $60,000 per annum. Corporate and general costs to maintain the requirements of a listed company were $95,000 in both 2017 and 2016. Therefore, minimum working capital requirements are estimated at $155,000 per year.

Estimated Working Capital Requirements 2018
• $300,000 Complete Preliminary Economic Assessment
• $155,000 Corporate & general
• $1,200,000 Convertible note repayment
Total $ 1,655,000
As at December 31, 2017, the Company’s cash and cash equivalents were $684,000. The Company has access to sufficient funds to meet its current overhead requirements. The Company also has sufficient cash to fund the preliminary economic assessment (PEA). The resulting PEA report will provide the basis of a decision to advance development, finance further exploration or consider other options. The Company does not currently have sufficient resources to repay the convertible notes in December 2018. The Company plans to complete an offering of new debt securities in the fall to fund the repayment.
Liquidity & Capital Resources – Regulatory Observations

- Are working capital requirements disclosed?
- What are the expenditures required to maintain capacity, meet planned growth, or fund development?
- Is there an analysis of the company’s ability to generate sufficient cash in short term and long term?
- Has the nature, amount and purpose of commitments, and expected source of funds to meet these commitments been disclosed?
- Have the expected sources of financing that are being pursued been identified?
Forward-Looking Information
What is Forward-looking Information (FLI)?

- **Disclosure regarding:**
  - possible events
  - possible financial performance

- **Based on:**
  - future economic conditions
  - future courses of action
  - includes non-financial information such as:
    - key performance indicators
    - FOFI
    - financial outlook
    - targeted efficiencies
    - metal price assumptions
    - projected production levels

- **FOFI**
  Forward-looking financial information presented in the format of historical financial statements.

- **Financial Outlook**
  Forward-looking financial information **NOT** presented in the format of historical financial statements.
  - Examples include:
    - projected EBITDA
    - projected earnings per share (EPS)
    - revenue targets
    - operating ratios
    - R&D spending
    - projected operating costs
Questions to Consider

- Is FLI identified?
- Are the assumptions reasonable and entity-specific? Are they disclosed?
- Is there a reasonable basis for the FLI?
- Have risk factors that could cause actual results to vary been identified?
- Have users been cautioned that actual results may vary from FLI?
- Has previously disclosed FLI been updated if actual results differed materially?
Corporate Finance Branch Report

Observations

- OSC Staff Notice 51-729 - Corporate Finance Branch 2017-2018 Annual Report

- FLI presented for multiple years (e.g. projected store openings)

- Update previously disclosed FLI

- Comparison of actual results to previously disclosed FLI

Reasonable assumptions

Quantitative

Qualitative
ABC Company achieved sales growth of 10.5% in 2017 and maintained capital expenditures at $15 million.

No comparison of actual results to financial outlook
Example of Entity-specific Disclosure

Comparison of Actual Results

<table>
<thead>
<tr>
<th>2017 Objectives</th>
<th>Accomplishments in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth of 3 to 4%</td>
<td>▪ Sales growth of 10.5%.</td>
</tr>
<tr>
<td></td>
<td>▪ The increase in sales growth achieved during fiscal 2017 was due to the introduction of product X in Q3 which resulted in sales growth of 6% and a 75% increase in the sales volume of product R which explains the remaining increase in sales growth.</td>
</tr>
<tr>
<td></td>
<td>▪ Spending was substantially lower than anticipated due to lower information technology enhancement requirements ($8 million) and less equipment replacements ($7 million).</td>
</tr>
</tbody>
</table>
Non-GAAP measures
Background: GAAP vs. Non-GAAP

**GAAP**
- **Financial statements** (including notes)

**Non-GAAP**
- **Other reporting documents**
  - Management Discussion’s & Analysis (MD&A)
  - Press Release
  - Prospectus
  - Other

**Staff Notice 52-306 Non-GAAP Financial Measures**

**International Financial Reporting Standards (IFRS)**

E.g., Net income

E.g., Adjusted Net income

Staff Concern: Misleading
Background: Findings

External

<table>
<thead>
<tr>
<th>TSX 60</th>
<th>80%+</th>
</tr>
</thead>
</table>

Generally:
- Upwardly focused
- Lacks transparency & comparability
- Inconsistent with SN 52-306

Internal

<table>
<thead>
<tr>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
</table>

Identification–Naming–Usefulness–Prominence–Breadth–Reconciliation
Proposals

National Instrument

1. Application
   - Who does it apply to?

2. Definitions
   - What does it apply to?

3. Disclosures
   - What disclosures are required?

Companion Policy

Related Consequential Amendments or Changes
An Issuer
Person or company who has:
• security outstanding,
• issues/proposes to issue security.
(includes Investment Funds)

Exemption
SEC Foreign Issuer
(not extended to other SEC Issuers).

Document
Written communication, including communication prepared and transmitted only in electronic form.

Applies to each discrete document, such as:
• MD&A
• Press release
• AIF
• Prospectus
• Website
• Social media (e.g., Twitter)
## Definitions

<table>
<thead>
<tr>
<th>Non-GAAP Financial Measures</th>
<th>Other Financial Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-GAAP Financial Measure</td>
<td>Segment Financial Measure</td>
</tr>
<tr>
<td>Example</td>
<td>Capital Manage. Financial Measure</td>
</tr>
<tr>
<td>Adjusted Net Income</td>
<td>Supp. Financial Measure</td>
</tr>
<tr>
<td></td>
<td>Example</td>
</tr>
<tr>
<td></td>
<td>Segment Operating Income</td>
</tr>
<tr>
<td></td>
<td>Normaliz. Debt</td>
</tr>
<tr>
<td></td>
<td>Example</td>
</tr>
<tr>
<td></td>
<td>Same Store Sales</td>
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</tbody>
</table>
## Disclosures – Summary

### Disclosure Requirements: Simplified Summary

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Disclosures</th>
<th>Non-GAAP Financial Measures</th>
<th>Other Financial Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Historical $</td>
<td>Historical %</td>
</tr>
<tr>
<td>1 Labelling</td>
<td>Labelled appropriately</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>3 Comparability</td>
<td>Includes a comparative</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>5 Cautionary</td>
<td>State does not have a standardized meaning and may not be comparable</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>6 Usefulness</td>
<td>Explains how the measure is useful and the additional purposes, if any, for which management uses it</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>8 Explains Changes</td>
<td>Explains reasons for changes (e.g., label, composition, or calculation)</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**Disclaimer:** The above is a very simplified summary of the disclosure requirements. To ensure compliance, reference to the specific National Instrument is required.

**Footnotes:**
1. Exempt if complies with subsection 4(1).
2. Exempt if complies with subsection 4(2) (i.e., all components GAAP).
3. Exempt if complies with subsection 4(3).
4. Exempt if complies with section 5.
5. State that the accounting policies used to prepare the financial statements do not specify how the capital management measure is calculated.
6. Rather than a reconciliation: describe how the supplementary financial measure is calculated.
7. Sufficiently considered within financial statements requirements under GAAP. No additional disclosures required.
8. Not relevant because it is a disaggregation of a GAAP number.
9. No additional disclosures required.
10. Subject to both sections 4 and 5. Choice exists to apply the reconciliation requirements in either subsection 4(3) or section 5.
11. Exempt if the Capital Management Measure is a ratio.
Thought Process

[Diagram: Decision tree for identifying financial measures and their classification based on criteria such as being a financial measure, in the financial statements, a capital management measure, or out of scope of NI 52-112.]
Next Steps

September 6, 2018
Published proposals (90-day period)

December 5, 2018
Comment period ended

2019
Analyze feedback
Revise proposals
Issue final rule
Mining disclosure issues
What are the core principles of NI 43-101?

Qualified Person

CIM Standards & CIM Best Practices

Technical Report

"Disclosure with professional accountability"

Sources:
https://www.geologyforinvestors.com
https://www.cim.org
https://archive.macleans.ca
Red flags: sometimes the problems are obvious!

Source:
http://kcsbikes.com/topic.asp?TOPIC_ID=598
Disclosure red flags

• No QP named (3.1)
  ▪ Required for all written disclosure

• Overly promotional language (NP 51-201)
  ▪ e.g. world class, spectacular, bonanza, super deposit

• Missing location, azimuth, dip of drill holes (3.3(2)(b))
  ▪ Provides context for drilling information

• Lack of information about true widths of mineralization (3.3(2)(c))
  ▪ Provide approximate true widths, or state unknown

• Reporting wide mineralized zones without noting higher-grades (3.3(2)(d))
  ▪ e.g. 1.0 g/t Au over 100 m – is this really representative of the zone?
Disclosure red flags

• Non-compliant mineral resource and mineral reserve modifiers (2.2a)
  ▪ e.g. mineable, geologic, global, drill indicated, possible

• Adding inferred mineral resources to other categories (2.2c)
  ▪ Never!

• Reporting mineral estimates as contained metal only (2.2d)
  ▪ e.g. 1.2 Moz Au, 750 Mlbs Cu, 28 Mlbs U3O8
  ▪ Provide resource or reserve category, tonnage, and grade with the numbers rounded-off

• Lack of providing key assumption, parameters, and methods (3.4c)
  ▪ Date of estimate, cut-off grade, metal price, recovery, etc. in order to meet “reasonable prospects”
Disclosure red flags

• Lack of required cautionary language (2.3(2), 2.3(3), 2.4)
  ▪ Exploration targets, inferred resources used in a PEA, and historical estimates

• Reporting estimates as combined grades only (2.3(1)(d))
  ▪ e.g. 5.0 g/t TPM or 2.0% TREO
  ▪ Show grade of each element that makes up the combined grade

• Reporting metal equivalent grades without assumptions (2.3(1)(d))
  ▪ 2.2% Cueq or 10.0 g/t Aueq
  ▪ Provide information how these were calculated showing grades element by element
  ▪ Report equivalent grade using the most valuable metal (generally)
Disclosure red flags

• Reporting gross metal value or in-situ value (2.3c)
  - Don’t – this is a very misleading and meaningless value
  - Ignores development, mining, and processing costs

• Use of the term “ore” (2.3(2) in CP)
  - Implies technical feasibility and economic viability
  - Use only in the context of mineral reserves

• Disclosing economic outcomes without a supporting technical report (4.2(1)(j))
  - Outcomes include cash costs, production rates, mine life, NPV, IRR
  - Disclosure of an economic analysis may trigger a technical report
## Key staff notices for mining issuers

<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
<th>Reference</th>
</tr>
</thead>
</table>
| Jul 22, 2011 | Mineral Brines                     | OSC Staff Notice 43-704  
Mineral Brine Projects and NI 43-101                                      |
| Aug 16, 2012 | Preliminary Economic Assessments  | CSA Staff Notice 43-307  
Mining Technical Reports – Preliminary Economic Assessments                |
| Nov 9, 2012  | Emerging Markets                   | OSC Staff Notice 51-720  
Issuer Guide for Companies Operating in Emerging Markets                    |
| Jun 13, 2013 | Forward Looking Information       | CSA Staff Notice 51-721  
Forward Looking Information Disclosure                                       |
| Jun 27, 2013 | Technical Reports                  | OSC Staff Notice 43-705  
Staff’s Review of Technical Reports by Ontario Mining Issuers               |
| Dec 11, 2013 | Non-GAAP Financial Measures        | OSC Staff Notice 52-722  
Staff’s Review of Non-GAAP Financial Measures                               |
| Feb 6, 2014  | Mining MD&A                        | OSC Staff Notice 51-722  
Review of Mining Issuers’ MD&A and Guidance                                 |
| Apr 9, 2015  | Website Investor Presentations     | CSA Staff Notice 43-309  
Review of Website Investor Presentations by Mining Issuers                  |
| Feb 25, 2016 | Companion Policy 43-101CP          | CSA Notice  
Changes to Companion Policy 43-101CP                                       |
| Nov 29, 2018 | Promotional Activities             | CSA Staff Notice 51-356  
Problematic Promotional Activities by Issuers                                |
Cannabis update
Cannabis Industry Background

- Political, legal and social climates are changing in favor of cannabis use:
  - Canadian medical marijuana regulations became effective in 2014, creating a new corporate industry segment
  - The Canadian federal government introduced the *Cannabis Act* in April 2017 which legalized the recreational use of marijuana on October 17, 2018
  - Other countries and certain U.S. states continue to explore liberalization measures around marijuana law

- CSA Staff Notice 51-342 - *Staff Review of Issuers Entering Into Medical Marijuana Business Opportunities* (2015)
  - Identified concerns regarding misleading, promotional or unbalanced disclosure which does not identify details about the nature of an issuer’s plans/contracts, or all of the material risks/barriers/costs to achieving announced milestones

- CSA Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* (2018)
  - Established a disclosure based approach for issuers with marijuana-related operations in the U.S., ensuring that significant risks about the potential for enforcement of U.S. federal laws against marijuana are disclosed
Recent Engagement with Cannabis Issuers

- Comment letters have been sent to a variety of cannabis industry issuers

- Scope of reviews
  - Multiple CSA jurisdictions
  - Includes reporting issuers with varying levels of involvement in the industry
  - Includes reporting issuers operating in a variety of different countries and under a variety of different regulatory frameworks

- Areas of interest
  - Fair value accounting and related disclosure implications
  - Compliance with U.S. disclosure expectations
  - Other items such as promotional and unbalanced disclosure
Findings

Accounting issues in the cannabis industry

- Cannabis growers are the primary group of reporting issuers in Canada that fall within the scope of an IFRS standard that both requires them to adopt certain accounting policies, and gives them unique accounting policy choices in other areas.
- As a result, there are several accounting and disclosure issues that are unique to this industry.
- We expect clear disclosure about the accounting policies adopted by these issuers, so that investors and other market participants can properly understand the financial statements.
- The disclosure expectations outlined in CSA Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* are not being consistently satisfied.
- Other areas of interest include production estimates, unbalanced disclosure, material contracts and disclosure about foreign regulatory frameworks.
Next Steps

• CSA Staff Notice 51-357 *Staff Review of Reporting Issuers in the Cannabis Industry* was published on October 10, 2018

• We will continue to monitor cannabis industry issuers moving forward, including how they respond to the findings in this notice
M&A issues – related party transactions
Related Party Transactions

• Multilateral Instrument 61-101 *Protection of Security Holders in Special Situations* regulates transactions that may raise conflict of interest concerns because they occur between the company and its related parties.

• Intended to level the playing field for minority shareholders.

• MI 61-101 applies to four types of transaction:
  - Related Party Transactions
  - Insider Bids
  - Issuer Bids
  - Business Combinations
Requirements for Conflict of Interest Transactions

• MI 61-101 sets out three main requirements for conflict of interest transactions:
  
  1. Enhanced disclosure
  2. Independent valuation
  3. Minority shareholder approval

• Guidance on role of directors and independent committee review is included in Companion Policy to MI 61-101

• Certain conflict of interest transactions may be exempt from the formal valuation and/or minority approval requirements, for example where:
  
  - Fair market value of subject matter of transaction not more than 25% of issuer’s market capitalization
  - Issuer not listed on specified senior exchanges (valuation only)
  - Distribution of securities for cash – fair market value not more than $2.5 million
  - Financial hardship and bankruptcy/insolvency
Guidance – Role of Directors in Conflict of Interest Transactions

• Commission’s view on role of directors or independent special committee in conflict of interest transactions is noted in Companion Policy to MI 61-101

• Companion Policy to MI 61-101 recommends independent special committee for all conflict of interest transactions

• Expectations for disclosure of board of director review and approval process
  - Provide sufficient information to enable security holders to make an informed decision
  - Disclosure of reasonable beliefs as to fairness of transaction
    - Including material factors considered and analysis of expert opinions
  - Assessment and discussion of formal valuation and any prior valuation
  - Make a useful recommendation
    - Non-recommendation, without reasons, generally insufficient
MI 61-101 Staff Notice

• On July 27, 2017, Staff in Ontario, Quebec, Alberta, Manitoba and New Brunswick published Multilateral CSA Staff Notice 61-302

• The Staff Notice discusses:
  ▪ Staff’s review and oversight of transactions subject to MI 61-101
  ▪ describes Staff’s recent experience in reviewing materials conflict of interest transactions
  ▪ Staff’s views with respect to: (a) the role of boards of directors and/or special committees in material conflict of interest transactions; and (b) enhanced disclosure obligations for material conflict of interest transactions to enable security holders to make informed decisions

• The Staff Notice is intended to raise the standard of disclosure and quality of board/special committee process
“Real-time” Review Program

• Real-time review program

- Purpose: Identify and resolve issues in real time, before a transaction is put before security holders or closed, so as to reduce the risk of harm to minority security holders

- Current focus is on information circulars

- Assess compliance with the requirements of MI 61-101 and determine whether a transaction raises potential public interest concerns

  - Compliance with disclosure requirements
  - Compliance with conditions for exemptions in MI 61-101 from the formal valuation and minority approval requirements
  - Substance and disclosure of the process conducted by the board/special committee
  - Complaints received by staff will be factored into the review
Whistleblowing
Overview of OSC’s Whistleblower Program

• Program launched and OSC Policy 15-601 in effect in July 2016
• First program of its kind for a Canadian securities regulator where whistleblowers may receive an award of up to $5 M for tips on securities misconduct in Ontario
• Opportunity for reporting issuers to enhance compliance systems to foster a culture where internal reporting of misconduct by employees is encouraged

Returned over 200 calls on OSC’s ‘whistleblower hotline’

- 200 tips
- 10% (19) led to an OSC investigation
- 35% (68) shared with other OSC branches or other regulators
Whistleblowers – Misconduct and Information to Report

Report securities misconduct in Ontario, for example:

- Misstatements in financial statements
- Misleading disclosure (i.e. MD&As and press release)
- Fraud
- Illegal insider trading

Tip must:

- Be high quality with timely, specific and credible facts
- Identify:
  - who is involved,
  - what happened, and
  - when the misconduct occurred or may occur
Whistleblower – Tip Process and Awards

Whistleblower(s)

Submit tip to OSC’s Office of the Whistleblower

Tip analysis, any OSC investigation and admin. proceeding

If > $1M sanctions or voluntary payments

Award possible, up to $5M
Amount is 5 to 15% of sanctions or voluntary payments

Single or joint
Exclusions and exceptions
Anonymous reporting option with legal counsel
Whistleblower Protections

Confidentiality of whistleblower identity “reasonable efforts”

Violation to take reprisal against employee for whistleblowing.
‘Reprisal’ includes:
• termination
• demotion
• disciplinary action
• intimidation or coercion
(or threat to do so)

Civil cause of action in the Superior Court
• reverse onus
• possible remedies

Void provisions in agreements that restrict whistleblowing
Market Participants – Practical Considerations

Research shows that employees who want to first report internally to their employer.

83% of employees who received awards from the U.S. SEC first raised concerns internally before reporting to U.S. SEC.

(Source: 2018 U.S. SEC’s Annual Report to Congress on Whistleblower Program)

OSC’s Whistleblower Program:

- incentivizes whistleblowers to report internally but does not require them to do so
- complements other OSC Enforcement tools – credit for cooperation and no-contest settlements
Market Participants – Practical Considerations

• Review and enhance compliance systems to foster an environment where internal reporting of misconduct is encouraged
  ▪ Strong ‘tone at the top’ and board involvement
  ▪ Multiple, anonymous reporting channels
  ▪ Defined processes for handling internal reports
  ▪ Raise awareness to promote understanding and accessibility

• Review internal policies and any existing contracts, agreements and related documents to ensure they do not contain restrictive provisions

• Conduct remediation efforts if any issues are identified

• Establish policies and procedures for reviewing and approving any agreements and related documents
Resources – OSC’s Whistleblower Program

- Website and online tip portal  www.OfficeOfTheWhistleblower.ca

- Whistleblower hotline 1-888-OSC-5553 (1-888-672-5553)

- OSC Policy 15-601 *Whistleblower Program*
Reducing regulatory burden – CD Initiatives
Why focus on reducing regulatory burden?

• Changes brought on by:
  ▪ Shifts in market conditions
  ▪ Investor demographics
  ▪ Technological innovation
  ▪ Globalization

• Both over-regulation and under-regulation can dampen innovation and undermine the competitiveness of our capital markets

• The need for a cost-effective regulatory framework with proportionate regulation that supports innovation and competition – while maintaining appropriate investor protections – is critical
Consultation on options

• CSA Consultation Paper 51-404 *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*
  ▪ Published for comment in April 2017

• Options identified in consultation paper
  ▪ Expanding the application of streamlined rules for smaller public companies
  ▪ Simplifying prospectus rules and process requirements
  ▪ Reducing ongoing disclosure requirements
  ▪ Eliminating overlap in regulatory requirements
  ▪ Identifying ways to enhance electronic delivery of documents
Stakeholder feedback and evaluation of options

• Comment period closed in July 2017
  ▪ 57 comment letters from stakeholders
  ▪ Stakeholder outreach and in-person consultations across Canada

• Need to prioritize and focus regulatory resources
  ▪ Most impact
  ▪ Generally supported
  ▪ Most achievable
  ▪ Within scope of securities regulation
New projects

• CSA Staff Notice 51-353 *Update on CSA Consultation Paper 51-404 Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*
  - Published in March 2018

• Six new projects to be initiated in near-term
  1. Revisiting certain continuous disclosure requirements *CD focused*
  2. Removing or modifying the criteria to file a business acquisition report *CD focused*
  3. Revisiting the primary business requirements
  4. Consideration of a potential alternative prospectus model
  5. Facilitating at-the-market offerings
  6. Enhancing the electronic delivery of documents
Questions?
### Appendix A – Contact Information

<table>
<thead>
<tr>
<th>Contact</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeff Scanlon</td>
<td>Tel: 416-597-7238</td>
</tr>
<tr>
<td>Senior Legal Counsel</td>
<td>Email: <a href="mailto:jscanlon@osc.gov.on.ca">jscanlon@osc.gov.on.ca</a></td>
</tr>
<tr>
<td>Corporate Finance Branch</td>
<td></td>
</tr>
</tbody>
</table>

| Mandy Tam                | Tel: 416-597-7221                |
| Accountant               | Email: mtam@osc.gov.on.ca        |
| Corporate Finance Branch |                                  |

| Alex Fisher              | Tel: 416-593-3682                |
| Senior Accountant        | Email: afisher@osc.gov.on.ca     |
| Office of the Chief Accountant |                        |

| Craig Waldie             | Tel: 416-593-8308                |
| Senior Geologist         | Email: cwaldie@osc.gov.on.ca     |
| Corporate Finance Branch |                                  |
# Appendix A – Contact Information

<table>
<thead>
<tr>
<th>Contact</th>
<th>Information</th>
</tr>
</thead>
</table>
| Katrina Janke                 | ▪ Tel: 416-593-8297  
                              | ▪ Email: kjanke@osc.gov.on.ca                     |
| Senior Legal Counsel          |                                                  |
| Corporate Finance Branch      |                                                  |
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                              | ▪ Email: jkoskela@osc.gov.on.ca                   |
| Manager                       |                                                  |
| Office of Mergers & Acquisitions |                                              |
| Marie-France Bourret          | ▪ Tel: 416-593-8083  
                              | ▪ Email: mbourret@osc.gov.on.ca                   |
| Senior Accountant             |                                                  |
| Corporate Finance Branch      |                                                  |
| Shaifali Joshi-Clark          | ▪ Tel: 416-595-8904  
                              | ▪ Email: sjoshiclark@osc.gov.on.ca                |
| Senior Forensic Accountant    |                                                  |
| Office of the Whistleblower   |                                                  |
Questions?