

CSA Staff Notice 51-362

Staff Review of COVID-19 Disclosures and Guide for Disclosure Improvements

February 25, 2021

Introduction

The Canadian Securities Administrators (CSA) have prepared this Staff Notice (**Notice**) to report the results of recently completed continuous disclosure reviews (**reviews**) conducted by CSA staff (**staff or we**) of the disclosures provided by reporting issuers¹ on the impact of COVID-19 to their business. Since the World Health Organization declared COVID-19 as a pandemic on March 11, 2020, COVID-19 has had a material adverse impact on the economy and is posing widespread business challenges for many issuers, including reporting on and disclosing the business impact of COVID-19.

This issue-oriented review assessed compliance of issuers' disclosures of the current and anticipated impacts related to COVID-19 on their respective operations, financial condition, liquidity and future prospects. The reviews also assessed key financial reporting areas applicable to issuers that may be subject to significant judgement and measurement uncertainty in the current environment.

We recognize that issuers are preparing disclosure in a rapidly changing environment. However, meaningful disclosures about the business impacts and potential uncertainties regarding COVID-19 are needed for investors to make informed investment decisions. This Notice summarizes our key review findings and includes some disclosure examples and guidance to assist reporting issuers and their advisors with disclosing and reporting on the impact of COVID-19 to their business and operations.

We will continue to closely monitor issuers' continuous disclosure (**CD**) filings in relation to the impact of the COVID-19 pandemic as part of our ongoing CSA CD review program. For further details, see CSA Staff Notice 51-312 (revised) *Harmonized Continuous Disclosure Review Program*². An issuer's disclosure relating to the impacts and risk factors of the COVID-19 pandemic may also be assessed as part of staff's review of prospectus filings in connection with public offerings.

¹ In this Notice "issuers" means those reporting issuers contemplated in National Instrument 51-102 *Continuous Disclosure Obligations* (**NI 51-102**).

² Additional regulatory guidance on COVID-19 can be accessed at the CSA COVID-19 Information Hub at <https://www.securities-administrators.ca/aboutcsa.aspx?id=1885>.

Contents of the Notice

Introduction.....	1
Part 1 - Executive Summary	3
Part 2 - Scope and Methodology.....	3
Part 3 - Summary of Results and Key Themes	5
Appendix A – Key Observations and Considerations	8
A.1 MD&A Reporting	8
A.2 Financial Statements	14
A.3 Other Regulatory Matters.....	20
Appendix B – Disclosure Examples	23
B.1 MD&A Disclosure Examples.....	23
B.1.1 Discussion of Operations and the Impact of COVID-19	23
B.1.2 Discussion of Strategies Related to COVID-19.....	23
B.1.3 Liquidity and Capital Resources	24
B.1.4 Risk Factor Disclosure	25
B.2 Financial Statements Examples.....	27
B.2.1 Impairment of Non-Financial Assets	27
B.2.2 Going Concern	28
B.2.3 Government Assistance	29
B.3 Other Regulatory Matters Examples	30
B.3.1 Non-GAAP Financial Measures	30

Part 1 - Executive Summary

The COVID-19 pandemic has significantly impacted the financial condition, financial performance, operations and cash flows of reporting issuers of varying sizes and industries. This has specific financial reporting implications for issuers.

We were encouraged by the quality of disclosures provided by many issuers significantly impacted by COVID-19. However, we noted certain areas where boiler-plate disclosure was provided regarding the current and expected impact of COVID-19 on an issuer's business with insufficient detail of entity-specific COVID-19 related risks, including but not limited to, the nature and extent of credit risks and liquidity uncertainties. We also observed instances of unbalanced or overly promotional disclosure and isolated non-compliance for non-GAAP financial measures (NGMs) and forward-looking information (FLI). It is important for issuers to tailor their disclosures to provide investors with an entity-specific level of insight to understand the operational challenges, financial impacts, risk profile and the issuer's operational responses related to the COVID-19 pandemic. Such information is necessary to meet securities requirements and to help foster investor confidence in the current environment.

The reviews have resulted in outcomes where no action was required, requests for prospective disclosure enhancements were made, or communication is ongoing to resolve the identified issues.

At a high level, we emphasize the following for issuers to consider in their upcoming CD filings:

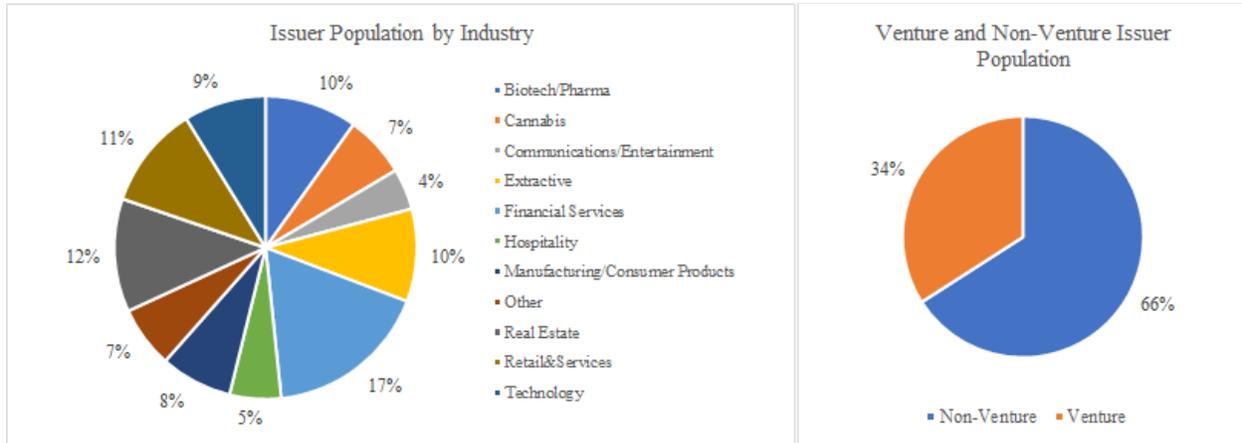
- There is no “one size fits all” model for issuers to follow when assessing the disclosure implications of COVID-19.
- Disclosures are expected to be transparent and balanced.
- Provide disclosures on COVID-19 that facilitates an understanding of:
 - The current and expected impact of COVID-19 on the issuer's operations and financial condition, including liquidity and capital resources.
 - The key risks that the COVID-19 pandemic presents to the issuer.
 - Known trends, demands, events or uncertainties related to COVID-19 that management reasonably believes will materially affect the issuer's future revenues, expenses or projects.
 - The operational changes and other measures taken by management in response to COVID-19.
 - How COVID-19 has impacted the issuer's capacity to meet working capital requirements, debt covenants, planned growth or funding of future development activities and capital expenditures.
 - How the COVID-19 pandemic has impacted areas of financial reporting subject to significant judgement and measurement uncertainty in the current environment.
 - How the issuer has assessed impairment of non-financial assets given the extended impact of the COVID-19 pandemic. Where applicable, sensitivity analysis and disclosures relating to key assumptions will be especially important and should be both realistic and supportable.
 - The accounting policy for, and nature and extent of government grants recognized in the financial statements.

Part 2 - Scope and Methodology

Staff took a risk-based approach in the selection of issuers by considering both qualitative and quantitative criteria. Issuers selected for review included those identified as being materially impacted (both positively and adversely) by the COVID-19 pandemic in terms of their operations and financial performance, as well as issuers that appeared to have a higher risk of impairment and/or financial distress.

Staff examined the CD filings of approximately 90 issuers, focusing on the disclosures of the most recent interim reporting period ending September 30, 2020 for issuers with a calendar financial year end. The issuers selected for review varied by size and by industry as illustrated in the charts below:

Figure #1



Our reviews primarily focused on issuers’ disclosure obligations under National Instrument 51-102 *Continuous Disclosure Obligations (NI 51-102)*. We also assessed compliance with certain recognition, measurement and disclosure requirements in International Financial Reporting Standards (**IFRS**) and compliance with CSA Staff Notice 52-306 (*Revised*) – *Non-GAAP Financial Measures (SN 52-306)*. The following outlines the focus areas of the reviews conducted:

MD&A	<ul style="list-style-type: none"> • Overall performance and discussion of operations • Known trends, events and uncertainties • Liquidity and capital resources • Debt covenants • Risk factor disclosure
Financial Statements	<ul style="list-style-type: none"> • Impairment of non-financial assets • Going concern • Significant judgements and measurement uncertainties • Expected credit losses • Fair value changes for the real estate industry • Financial instrument risk disclosures • Government assistance • COVID-19 related amendments to IFRS 16 Leases for lessees
Other Regulatory Requirements	<ul style="list-style-type: none"> • NGMs • FLI • Material change reporting • Promotional disclosures

Part 3 - Summary of Results and Key Themes

Our reviews covered a variety of industries and highlighted the diverse impacts of the COVID-19 pandemic on issuers' operations and businesses. Some of these impacts included:

Operational Impacts

- Decrease or increase in demand for products or services
- Modification of operations due to workplace health and safety requirements
- Constraints on human resources
- Operational closures
- Supply or distribution channel disruptions
- Change in prices
- Altered terms with customers/lessees/borrowers
- Inability to continue capital projects

Financial Impacts

- Decrease or increase in revenues
- Restructuring charges
- Asset impairments
- Credit losses
- Loan loss and receivable provisioning
- Fair value changes
- Increase or decrease in other expenses
- Negative working capital
- Negative cash flow from operations
- Material uncertainties regarding going concern

Issuers adjusted their operations in numerous ways to manage the impact of COVID-19 on their operations and liquidity. Various measures/operational responses disclosed by issuers included:

Measures Taken to Reduce COVID-19 Impact/ Operational Responses

- Government assistance programs
- Change in product or service mix
- Reduction in discretionary expenses
- Change in budget or deferral of capital projects/acquisitions
- Decrease in salaries/director fees
- Employee layoffs
- Additional oversight measures
- Modification of payment terms with suppliers
- New or amended credit agreements
- Change in dividends or distributions
- Accessing third party financing
- Implementation of business continuity plans
- Suspension of issuer share buybacks
- Disposal of assets

Most issuers reviewed were proactive in providing quality and detailed disclosures. For example, we observed several issuers significantly expand their MD&A to provide detailed operational updates addressing the impact of COVID-19 as well as issuers providing additional disclosure addressing debt covenants and related compliance. We also noted most issuers adequately disclosed impairments of non-financial assets due to a deterioration in their business since the onset of the pandemic. However, we identified several areas where disclosure could be improved for many issuers including the following:

Area of Disclosure	Key Observations
MD&A	<ul style="list-style-type: none"> • Discussion of measures taken to reduce COVID-19 impact - Many issuers provided “lists” of measures employed to manage operational and liquidity risks but did not provide an adequate discussion to address the anticipated impact to the issuer. • Analysis of overall performance and operations - Most issuers that quantitatively disclosed variances related to COVID-19 (e.g., impact to sales) did not explain the methodology used by management in determining that fluctuations were isolated to COVID-19. • Several issuers provided limited disclosure of known trends or events related to COVID-19 that are likely to affect future performance. • Liquidity and capital resources - Many issuers with material liquidity risks did not disclose in detail their ability to meet working capital requirements, planned growth initiatives or to fund developmental activities and capital expenditures. Lack of disclosure regarding trends or expected fluctuations in liquidity taking into account events or uncertainties related to COVID-19 was commonly observed. • Risk factor disclosure - Several issuers provided “lists” of risks without discussion or general disclosures that touched on general economic or societal impacts of COVID-19 and did not describe entity-specific COVID-19-related risks.
Financial Statements	<ul style="list-style-type: none"> • General - Some issuers failed to adequately update their disclosures and assumptions impacted by COVID-19 in the context of testing impairments of goodwill and intangible assets, measuring fair value (FV) and estimating expected credit losses. • Significant judgements and measurement uncertainties – Some issuers failed to include entity-specific disclosure for significant judgements or measurement uncertainties or only included this disclosure in their MD&A but not in their financial statements. • Impairment of non-financial assets – A few issuers did not identify reasons for impairments or just noted “negative economic impacts of COVID-19” as an impairment indicator for all cash generating units (CGUs) but did not elaborate on those impacts. • Going concern - Some issuers breached financial covenants during the reporting period but did not disclose the implications of breaches on the issuer’s ability to continue as a going concern. Some issuers disclosed “close call” situations but did not disclose the mitigating actions that impacted their determination that there were no material uncertainties that cast significant doubt on the issuer’s ability to continue as a going concern (e.g. successful negotiation of credit facilities subsequent to period end).

Area of Disclosure	Key Observations
	<ul style="list-style-type: none"> • Government assistance - Over half of the issuers we reviewed recognized, or disclosed in subsequent events, COVID-19 related government assistance in their financial statements since the outbreak of the COVID-19 pandemic. Some issuers did not disclose the nature and extent of the government assistance or the accounting policy adopted including the methods of presentation. • Expected credit losses (ECL) - Only a few issuers disclosed the use of COVID-19-induced adjustments/overlays to their ECL models. • Financial Instrument Risk Disclosure - Some issuers that experienced material adverse impacts of COVID-19 did not provide an entity-specific update to their risk disclosure in the financial statements. • COVID-19 related amendments to IFRS 16 Leases for Lessees – Certain issuers did not sufficiently disclose whether they applied the practical expedient to either all or some of their rent concessions.
NGMs	<ul style="list-style-type: none"> • NGMs adjusted for COVID-19 - Most issuers did not present NGMs that adjusted for the impact of COVID-19. However, our review found isolated instances of potentially misleading NGMs in relation to COVID-19 (e.g., adjusting for expenses attributable to COVID-19 without adjusting for government subsidies or “normalizing” revenue or expenses for the year-to-date period based on more positive results for one quarter).
FLI	<ul style="list-style-type: none"> • FLI related to COVID-19 - In certain cases, we observed insufficient disclosure of assumptions used to develop FLI and failure to adequately update the MD&A for events and risks that could cause actual results for future periods to differ materially from previously disclosed FLI.
Material Change Reporting	<ul style="list-style-type: none"> • If COVID-19 has an equal effect throughout an issuer’s industry, a material change report may not be required. Only a few issuers reviewed filed material change reports in relation to COVID-19 although in some instances changes to the issuer’s business, operations or capital were more unique or more significant to them than to others in their industry.
Promotional Disclosures	<ul style="list-style-type: none"> • Potentially misleading disclosures - Some issuers concentrated in the biotech/pharma industry provided disclosure in relation to COVID-19 that was overly promotional and/or lacked specificity to fully address the issuer’s business intentions and expected milestones.

Please refer to **Appendix A – Key Observations and Disclosure Considerations** – for more detail regarding the significant issues identified in our reviews and disclosure guidance. Please refer to **Appendix B – Disclosure Examples** where we have included some examples of deficient disclosure contrasted against improved entity-specific disclosure. The observations and disclosure considerations presented do not represent an exhaustive list and do not represent all the requirements that could apply to a particular issuer’s situation. Issuers should consider their specific business and operations and provide clear and transparent disclosure of the impact of COVID-19.

Appendix A – Key Observations and Disclosure Considerations

A.1 MD&A Reporting

MD&A is the cornerstone of a reporting issuer’s overall financial disclosure and should provide an analytical and balanced discussion of the issuer’s results of operations and financial condition through the eyes of management. MD&A disclosure should be specific, useful and understandable. The MD&A requirements are set out in Form 51-102F1 *Management’s Discussion and Analysis* (**Form 51-102F1**).

Some of the observations and considerations below may be relevant for issuers that prepare an annual information form (**AIF**) with reference to Form 51-102F2 *Annual Information Form* (**Form 51-102F2**). Specifically, issuers should consider additional disclosure for COVID-19 under Item 4-*General Development of the Business* and Item 5-*Describe the Business* of Form 51-102F2.

Focus Area	Observations	Considerations
<p>General: Discussion of Operational Status</p>	<ul style="list-style-type: none"> Some issuers provided detailed operational updates in press releases but included limited disclosure in MD&A filings. <p>Useful disclosure observed:</p> <ul style="list-style-type: none"> Many affected issuers significantly expanded their MD&A to explain the impact of COVID-19 to the issuer’s industry, operations, customers, suppliers etc. Several issuers disclosed industry and relevant operational information to help users frame and understand the effects on the issuer’s financial results. 	<ul style="list-style-type: none"> Provide a detailed and transparent discussion on how COVID-19 has altered the issuer’s industry and day to day operations. Insight should be provided into the issuer’s current operating status and the operational challenges that management is monitoring. This will vary materially by issuer and by industry. MD&A is a standalone document. Material operational updates should be reflected in MD&A filings to provide additional context for analyzing financial results. Having a separate “COVID-19” section in the MD&A preceding the discussion of financial results may provide a useful framework in understanding the issuer’s analysis of financial performance, financial condition and liquidity. <p>Issuers should consider:</p> <ul style="list-style-type: none"> Impact of health and safety guidelines on operations and on how the issuer conducts its business How the current environment has altered demand or ability to provide products and services (both adversely and positively) Details of operational closures and restrictions Providing information to understand the impact of shutdowns and closures Disclosing relevant industry data that assists with understanding restrictions and other impacts to the issuer’s business Discussing how customers and suppliers have been impacted and the effect on the issuer

Focus Area	Observations	Considerations
		<ul style="list-style-type: none"> • Providing a discussion for each segment or geographic location to the extent operations are impacted differently • Explaining how industry and economic factors have uniquely impacted the issuer <p>Reference: Part 1, Item 1.2, Item 1.4 of Form 51-102F1</p>
<p>General: Discussion of Operational Responses</p>	<ul style="list-style-type: none"> • The majority of issuers included qualitative disclosure of the measures taken in response to COVID-19. However, some issuers only listed measures taken without providing sufficient detail to understand the impact to the issuer. <p>Useful disclosure observed:</p> <ul style="list-style-type: none"> • Discussion of the measures taken, the current and expected impact to revenue or expenses and the anticipated time period such measures will remain in effect. 	<ul style="list-style-type: none"> • It is important for investors to understand operational measures taken in response to COVID-19 that have had a material impact on operations and that may reasonably affect future performance. This includes disclosing in sufficient detail cost saving measures, restructuring initiatives or realignments of operational and financial resources in response to COVID-19. <p>Issuers should consider:</p> <ul style="list-style-type: none"> • Discuss the impact of operational measures taken that may increase costs (e.g., salary premiums) • Describe how operational responses change as conditions evolve <p>Reference: Part 1, Item 1.2, Item 1.4 of Form 51-102F1</p>
<p>Analysis of Overall Performance and Operations</p>	<ul style="list-style-type: none"> • Approximately 20% of issuers disclosed COVID-19 as the reason for period over period variances without analyzing entity-specific factors. • It was unclear for some issuers how certain costs, in particular restructuring costs, were fully attributable to COVID-19 when the issuer had pre-existing operational issues. • Most issuers that quantitatively disclosed variances related to COVID-19 (e.g., impact to sales) did not explain the methodology used by management in determining that fluctuations were isolated to COVID-19. 	<ul style="list-style-type: none"> • Avoid simply making statements attributing negative results to COVID-19. Instead, provide a meaningful discussion on the material impacts (both positive and negative) of COVID-19 on the issuer’s operations. Disclose issuer-specific impacts on both revenues and expenses and provide disclosure by segment. • Issuers must have a basis for attributing costs to COVID-19, especially when certain conditions existed prior to COVID-19. Other reasons for material fluctuations not related to COVID-19 should be disclosed with equal prominence. • Quantification of material factors, where practicable, can provide an understanding of an issuer’s performance. However, it may be difficult for an issuer to determine with accuracy the quantitative impact of COVID-19. In order to avoid misleading investors, issuers should explain the methodology used in their calculation and provide information about the judgements

Focus Area	Observations	Considerations
	<ul style="list-style-type: none"> • Some issuers did not disclose the impacts that government assistance attributable to COVID-19 had on their performance, operations and cash flows. <p>Industry observations:</p> <ul style="list-style-type: none"> • We observed additional disclosures to assist in understanding COVID-19 impacts. For example: <ul style="list-style-type: none"> ○ Retail/service industry – details of store closures, # of weeks operating, ecommerce sales vs in store sales ○ Real estate industry - an analysis of space leased by customers that were negatively affected/unaffected/positively affected by the pandemic and the proportion of tenants that have applied for government assistance 	<p>and estimations made by management when quantifying impacts.</p> <ul style="list-style-type: none"> • An understanding of the amounts of government assistance received and where such funding is recorded in the financial statements may be necessary to understand historical results and future trends, when material. Issuers are reminded to provide balanced disclosure of both the positive and adverse impacts to operations, financial condition and cash flows. Also see “Appendix A.2– Key Observations and Considerations on Financial Statements.” <p>Issuers should consider:</p> <ul style="list-style-type: none"> • How decreases or increases in demand for products and services impacted financial results • Impact of operational closures • How costs, including changes in prices, influenced results • Effect of altered terms with customers / lessees / borrowers • Impact on customers’ supply chains or distribution channels • Changes to planned projects and development activities • Impact of government support • Reasons for fair value changes/impairment charges/credit losses • Details of restructuring plans and related costs • Material variations in other expenses related to COVID-19 • A discussion of any breaches of material contracts • Explaining any changes in use of proceeds from financing as compared to prior disclosures and the impact on the issuer’s ability to achieve business objectives/milestones <p>Reference: Item 1.2, Item 1.4 of Form 51-102F1</p>
<p>Known Trends and Events that are Reasonably Likely to Affect Future Performance</p>	<ul style="list-style-type: none"> • Approximately one third of issuers provided boilerplate disclosure in this area. Some issuers cited the degree of uncertainty related to COVID-19 making it too difficult to 	<ul style="list-style-type: none"> • In times of uncertainty, there may be less investor focus on historical information and more focus on known trends, and uncertainties that are likely to impact future performance. As the COVID-19 pandemic evolves, insightful disclosure

Focus Area	Observations	Considerations
	<p>predict the overall impact of COVID-19 on the issuer’s future performance.</p> <p>Useful disclosure observed:</p> <ul style="list-style-type: none"> • “Outlook” sections discussing the anticipated medium to longer term impact of a continuing pandemic to the issuer’s business and industry. • Disclosure of how operations may be impacted post-COVID-19 due to anticipated economic impacts or anticipated changes in consumer behaviour. 	<p>how COVID-19 may impact future operations will be important to investors.</p> <p>Issuers should consider:</p> <ul style="list-style-type: none"> • How future periods may be impacted differently in comparison to the current period • Impacts to the issuer’s business or industry that may continue post COVID-19 • Whether the issuer anticipates material restructuring charges going forward • Future operating plans as issuers plan for recovery from the COVID-19 pandemic <p>Also see “Appendix A.3 – Key Observations and Considerations on Other Regulatory Matters - FLF”</p> <p>Reference: Item 1.2, Item 1.4 of Form 51-102F1</p>
<p>Liquidity and Capital Resources</p>	<ul style="list-style-type: none"> • The majority of issuers reviewed had indicators of liquidity risk. However, approximately 25% of issuers did not adequately disclose their ability to meet working capital requirements or planned growth initiatives, or to fund developmental activities and capital expenditures. • A common deficiency was the lack of disclosure regarding trends or expected fluctuations in an issuer’s liquidity and capital resources, taking into account events or uncertainties related to COVID-19. • Many issuers discussed a wide range of remedies to address liquidity uncertainties. However, some issuers did not quantify the impact or discuss how long certain remedies will remain in effect. <p>Industry Observations:</p> <ul style="list-style-type: none"> • We observed additional disclosure regarding customers/tenants to help understand the issuer’s liquidity risk and future trends. For 	<ul style="list-style-type: none"> • COVID-19 has had a significant impact on the liquidity and capital resources of many issuers creating unique challenges and the need for new financing resources. It is important for issuers to provide a comprehensive discussion of their initiatives to manage current and expected liquidity and funding risks. • Issuers that have material liquidity risks might consider disclosing: their most current working capital amount, significant obligations that are maturing in the short term, their cash burn rate on a monthly or quarterly basis, the period of time that they expect to be able to fund operations and how they intend to prioritize expenditures in the short term. <p>Issuers should:</p> <ul style="list-style-type: none"> • Provide a clear picture of the issuers working capital, working capital needs and how those needs relate to business plans and milestones • Detail liquidity risks including risk of default or arrears on distributions, lease and debt payments • Discuss the impact of altered payment terms with customers and lessees • Discuss whether the issuer’s cost or access to capital has changed

Focus Area	Observations	Considerations
	<p>example: some real estate issuers disclosed % of tenants undergoing restructuring, cash rents received during the period and categorized their tenant base based on management’s assessment of risk.</p>	<ul style="list-style-type: none"> • Quantify the impact of remedies where possible • Discuss how financing sources (e.g., public/private offerings, unused lines of credit) meet the issuers immediate and longer-term liquidity needs • Discuss how long other remedies to address liquidity concerns are anticipated to be in effect and the risks to the issuer when remedies expire • Consider what additional information management is monitoring in relation to liquidity that may be useful information to investors • Discuss known trends or events that may impact future liquidity and capital resources (e.g., what events or uncertainties may impact ability to service debt, meet other financial obligations or access financing?) • Update material factors impacting liquidity and capital resources up to the date of the MD&A <p>Reference: Item 1.6 and Item 1.7 of Form 51-102F1</p>
<p>Debt Covenants</p>	<ul style="list-style-type: none"> • While issuers generally disclosed compliance with debt covenants, disclosure varied in relation to providing the details of covenants applicable to the issuer. • Many issuers disclosed amendments to credit agreements including changes to covenants, covenant forgiveness for certain periods and additional restrictions placed on the issuer. <p>Useful disclosure observed:</p> <ul style="list-style-type: none"> • Additional disclosure to facilitate understanding of debt covenants including quantitative disclosure of covenant terms and related compliance. 	<ul style="list-style-type: none"> • We encourage issuers with debt covenants to discuss the terms and conditions of the debt covenants, especially when a breach of the covenant could trigger a material funding requirement or early repayment. • If an issuer is close to breaching covenants or at risk of default in future periods, this is material information to be disclosed. • Discuss any additional requirements in agreements with lenders that may restrict the issuer’s business or access to other financing. <p>Other considerations:</p> <ul style="list-style-type: none"> • Amended credit agreements may be a material contract. <p>Reference: Item 1.6 of Form 51-102F1, Item 12.2 of NI 51-102</p>

Focus Area	Observations	Considerations
<p>Risk Factor Disclosure</p>	<ul style="list-style-type: none"> • Most issuers updated their risk factors in their MD&A from disclosure provided in annual filings to include COVID-19 related disclosure. • Over 30% of issuers provided “lists” of risks or disclosures that only touched on general economic or societal impacts of COVID-19 and did not describe entity-specific COVID-19-related risks. <p>Useful disclosure observed:</p> <ul style="list-style-type: none"> • Some issuers provided useful disclosure by distinguishing between short term risks and anticipated longer term risks related to the pandemic. 	<ul style="list-style-type: none"> • Provide entity specific risk factor disclosure related to COVID-19 in enough detail to understand the current and potential impact of COVID-19 on the issuer’s business. • Disclosure of risks in the order of seriousness from the most serious to least serious helps investors understand how management views the importance of such risks. (Note that this is a requirement for disclosure of risks in an issuer’s AIF). <div style="background-color: #f0f0f0; padding: 5px;"> <p>Issuers should consider the impacts of:</p> <ul style="list-style-type: none"> • Disruptions to day-day operations resulting from health and safety measures and government-imposed closures • Human resource/staff constraints • Cybersecurity or information technology risks that may be heightened with the pandemic • Ability to sustain changes in revenues/expenses/negative cash flow from operations • Changes in consumer demand • Ability to access government funding • Requirements under lending agreements • Changes in commodity prices • Volatility in the capital markets and access to financing and capital on reasonable terms • Limitations on the ability of issuers’ customers to perform and make timely payments • Reliance on major customers that have decreased operations • Disruption to supply chains • Temporary or longer-term delays to projects and development plans • Financial statement impacts related to restructuring, impairment and measurement uncertainty • Change to consumer behaviour resulting from the pandemic and impact to future operations • Additional litigation risks resulting from the pandemic • The issuer’s ability to recover from the pandemic that may be unique to the issuer or its industry </div> <p>Reference: Part 1, Item 1.4 of Form 51-102F1, Item 5.2 of Form 51-102F2</p>

A.2 Financial Statements

The impact of COVID-19 could be significant for many businesses. Given the continued impact of COVID-19, there is a higher degree of uncertainty in determining reasonable and supportable assumptions used in preparing financial statements. Management should carefully consider the impact of COVID-19 on each of the following key aspects in the financial statements.

Focus Area	Observations	Considerations
<p>Impairment of Non-financial Assets</p>	<ul style="list-style-type: none"> • Events and circumstances most commonly identified by issuers as indications of impairment and that led to the recognition of impairment losses in connection with COVID-19 included: decreased demand for the issuer’s products or services, significant customers experiencing financial difficulties and increased costs/business interruption due to supply chain issues. • A few issuers did not identify the events or circumstances that led to an impairment or simply noted “negative economic impacts of COVID-19” as an impairment indicator for all CGUs but did not elaborate on those impacts. • Approximately 10% of the issuers we reviewed did not disclose or update the disclosure of the key assumptions used in their impairment calculations. 	<ul style="list-style-type: none"> • Disclose the key assumptions on which management based its determination of the recoverable amount. • Consider whether using probability weighted scenarios in making estimates of fair value or value in use is more appropriate than a single best estimate. <p>For issuers with investments in associates or joint ventures accounted for using equity method</p> <ul style="list-style-type: none"> • Issuers should carefully analyze the impact of COVID-19 on the operations and financial conditions of their associates and joint ventures to consider whether there is a ‘loss event’ that has an impact on the future cash flows of the investment. <p>Other considerations:</p> <ul style="list-style-type: none"> • Whether there is any indication that an asset has been impaired in an interim period, which would then require the issuer to estimate the recoverable amount of the asset in the period (e.g., a significant decrease in an issuer’s share price during the reporting period such that market capitalization is lower than carrying value). • Disclosure may be required for changes in key assumptions used to determine recoverable amount of a CGU that contains goodwill or intangible assets with indefinite useful lives. <p>Reference: International Accounting Standards (IAS) 36 <i>Impairment of assets</i>, para. 41A of IAS 28 <i>Investments in Associates and Joint Ventures</i></p>
<p>Going Concern</p>	<ul style="list-style-type: none"> • A few issuers identified material uncertainties that cast significant doubt on their ability to continue as a going concern in light of a deterioration in their business since the onset of the pandemic. 	<ul style="list-style-type: none"> • If issuers breach debt covenants prior to the financial statement date and the lender has the right to demand repayment, the issuer is required to reclassify the loan as current and should discuss the implications of such breach on their ability to continue as a going concern.

Focus Area	Observations	Considerations
	<ul style="list-style-type: none"> • Some issuers disclosed “close call” situations but did not disclose the mitigating actions that impacted their determination that there were no material uncertainties that cast significant doubt on the issuer’s ability to continue as a going concern. • Some issuers breached financial covenants during the reporting periods but did not: <ul style="list-style-type: none"> ○ disclose how the breaches will impact the company's ability to continue as a going concern, or ○ reclassify the loan as a current liability. 	<ul style="list-style-type: none"> • If an issuer is working with its lenders to change terms of existing debt agreements or to obtain waivers for debt covenants, it should closely examine changes to its debt agreements to assess whether they are subject to modification or extinguishment accounting, as required by IFRS 9 <i>Financial Instruments</i> • When management is aware of material uncertainties in relation to COVID-19 that may cast significant doubt upon the issuer’s ability to continue as a going concern, those uncertainties are required to be disclosed. • If management determined there were no material uncertainties that cast significant doubt on the issuer’s ability to continue as a going concern, but there were significant doubts about going concern that were addressed by mitigating actions judged sufficient to conclude the going concern basis of accounting is appropriate, then such situations are commonly referred to as a “close call”. In these situations, issuers are required to disclose the significant judgments to support their determination that going concern is appropriate, including those mitigating actions that impacted their determination that material uncertainties have been addressed (i.e., successful negotiations of credit facilities subsequent to period end or the identification of other feasible sources of financing). <p>References: para. 25 and 122 of IAS 1 <i>Presentation of Financial Statements, IFRS 9 Financial Instruments</i></p>
<p>Significant Judgements and Measurement Uncertainties</p>	<ul style="list-style-type: none"> • While many issuers updated their disclosure since March 2020 regarding significant judgements and measurement uncertainties, notably with respect to the impairment of non-financial assets, going concern analysis and the estimate of credit losses and credit risks, a number of issuers only stated in their interim financial statements that the significant judgements and measurement uncertainties remained the same as those 	<ul style="list-style-type: none"> • Issuers that operate in sectors that are significantly affected by COVID-19 are expected to update the following disclosure in their interim and annual financial statements: <ul style="list-style-type: none"> ○ timely and entity-specific disclosure of significant judgements and measurement uncertainties pertaining to the amounts recognized in the financial statements in light of the rapidly changing environment and the extended impact of COVID-19 (e.g., estimate of credit loss and valuation of non-financial assets); and

Focus Area	Observations	Considerations
	<p>disclosed in the issuers' most recent annual financial statements.</p> <ul style="list-style-type: none"> • About 30% of the issuers we reviewed with material sources of measurement uncertainty related to COVID-19 did not disclose the expected resolutions of the uncertainty or the range of reasonably possible outcomes within the next financial year. • Some issuers only disclosed significant judgements in their MD&A but not in their financial statements. 	<ul style="list-style-type: none"> ○ explanation of the nature of estimation uncertainty and sensitivity analysis to help investors fully understand the potential impact of estimates made in the financial statements. • While issuers are expected to supplement their discussion of significant judgments and measurement uncertainty in the MD&A (critical accounting estimates, risk factors, forward looking information) the discussion of significant judgements and measurement uncertainty is required in the notes to the annual financial statements. <p>References: Para 122 and 125 of IAS 1 <i>Presentation of Financial Statements</i></p>
<p>Expected Credit Losses (ECL)</p>	<p>Financial Institutions</p> <ul style="list-style-type: none"> • Some issuers disclosed an elevated level of credit risk on their material financial assets by each asset class in light of the outbreak of COVID-19 and updated the key assumptions considered by management and their strategies to strengthen their risk profile (e.g., through temporarily reducing risk appetite for certain asset classes or increasing loan-to-value ratios). • Some issuers disclosed increased ECL or provided an adequate explanation regarding their expectation that COVID-19 will not significantly impair their capital position and credit quality. • Many issuers that provided loan deferral programs/payment holidays to borrowers during COVID-19 pandemic also discussed the impact of these changes on risk of default and discussed the impact of these deferrals, including that the deferral of payments may not immediately or always result in a significant increase in credit risk (SICR). 	<p>Issuers are required to disclose the following:</p> <ul style="list-style-type: none"> • An explanation of the inputs, assumptions and judgments made in estimating ECL • The quantitative and qualitative factors taken into account in determining what constitutes a SICR • An issuer's definitions of default, including the reasons for selecting those definitions • An issuer's write-off policy, including the indicators that there is no reasonable expectation of recovery • How forward-looking information has been incorporated into the determination of ECL. Forward-looking information can include macroeconomic information, for example: unemployment rate, GDP growth rate, housing price index/home price index growth rate, and interest rate forecasts. Staff expect that forward-looking information should take COVID-19 impacts into consideration. • Information about credit risk management practices and any significant changes to credit risk exposure, which may in part be due to the impact of COVID-19. <p>Other considerations:</p> <ul style="list-style-type: none"> • Relying solely on historic loss rates in determining ECL would not be appropriate if the entity has been, or is expected to be, impacted by the pandemic. • It may be difficult at this time to incorporate the specific effects of the pandemic (e.g. government support and customer relief

Focus Area	Observations	Considerations
	<ul style="list-style-type: none"> • Some issuers did not update their sensitivity analysis or disclose adjustments/overlays to the ECL model in their financial statements that may have been necessary due to COVID-19 pandemic. <p>Useful disclosure observed:</p> <ul style="list-style-type: none"> • Some issuers used sensitivity analysis with respect to the ECL model by providing multi-factor sensitivities to show the impact of possible changes in multiple assumptions affecting the ECL allowance. • A few issuers tailored the forward-looking information incorporated in determining their ECL to reflect the changes in characteristics of individual loan books (e.g., changes of credit risk in loans provided to borrowers in vulnerable sectors/geographic regions or of higher downgrade sensitivity) <p>Issuers Applying the “simplified” ECL model</p> <ul style="list-style-type: none"> • Over 20% of the issuers we reviewed did not disclose ECL/allowance for doubtful accounts for their significant accounts receivable balance, or did not provide sufficiently detailed updates to the measurement of ECL due to the COVID-19 outbreak (e.g., the adjustment for key assumptions and change in grouping of trade receivables). 	<p>measures) into the ECL models as systems may not be calibrated to address the impacts of COVID-19. When it is not possible to reflect such information in models, issuers should consider post-model overlays or adjustments, and provide adequate disclosure of those overlays and adjustments.</p> <ul style="list-style-type: none"> • Other disclosure considerations include: <ul style="list-style-type: none"> ○ The values of the key macroeconomic inputs used in the multiple economic scenario analysis and the probability weights of these scenarios. ○ The assumptions used to determine how the different challenges for specific sectors and regions have been taken into account. ○ If material, issuers may consider disclosing further details about payment deferral programs such as the amount and nature of the total principal balance outstanding within payment deferral/payment holiday programs provided to borrowers as a result of COVID-19. Issuers may also consider disclosing total mortgages previously included in payment deferral programs that are now included in total mortgage arrears to provide investors with timely and transparent disclosure of the impact of such programs. <p>Reference: para 5.5.11 of IFRS 9 <i>Financial Instruments</i>, IFRS 7 <i>Financial Instruments: Disclosure</i></p>
<p>FV Changes for Real Estate Industry</p>	<ul style="list-style-type: none"> • Some issuers did not disclose in sufficient detail the inputs used in determining FV or discuss the sensitivity of level 3 fair value measurements to changes in unobservable inputs. 	<ul style="list-style-type: none"> • Issuers are required to disclose the extent to which the FV of an investment property has been independently valued (or the fact that there has been no such independent valuation). • Issuers should consider disclosing qualitative factors impacting the fair values

Focus Area	Observations	Considerations
		<p>of commercial properties, including, for example:</p> <ul style="list-style-type: none"> ○ Possible changes in consumer preferences between retail and online shopping ○ Changes in the financial condition of existing tenants ○ Restructuring of agreements with tenants. <p>Issuers with material assets measured using level 3 inputs</p> <ul style="list-style-type: none"> ● Issuers are required include a narrative description of the sensitivity of recurring fair value measurements to changes in unobservable level 3 inputs if a change in those inputs might result in a significantly higher or lower fair value measurement. Examples of unobservable inputs may include discount rates, interest rates on loans, and terminal capitalization rates. <p>Reference: para. 93(h)(i) of IFRS 13 <i>Fair Value Measurement</i>, IAS 40 <i>Investment Property</i></p>
<p>Financial Instrument Risk Disclosures</p>	<ul style="list-style-type: none"> ● We noted issuers that disclosed material impacts of COVID-19 on their business operations in their MD&A appeared to have increased their liquidity/market/credit risk but did not provide an entity-specific update to their risk disclosure in the financial statements. 	<ul style="list-style-type: none"> ● Issuers should carefully consider whether there have been changes to their credit risk. The following factors may be taken into consideration in assessing credit risk: <ul style="list-style-type: none"> ○ Risk concentrations ○ Significant risk in ECL (i.e., financial condition of specific lenders/clients) ○ Significant assumptions underlying ECL measurement <p>Issuers should also consider updating the disclosure of their credit risk management practices accordingly.</p> <p>References: Para. 35A of IFRS 7 <i>Financial instruments: Disclosures</i></p>
<p>Government Assistance</p>	<ul style="list-style-type: none"> ● Over half of the issuers we reviewed recognized, or disclosed in subsequent events, COVID-19 related government grants in their financial statements since the outbreak of COVID-19 pandemic, including but not limited to, CEWS, Canada Emergency Commercial Rent Assistance (CECRA), etc. 	<ul style="list-style-type: none"> ● Issuers are required to disclose the following in connection with the government assistance received during the period: <ul style="list-style-type: none"> ○ The accounting policy adopted for government grants, including the method of presentation adopted in the financial statements (e.g. offsetting against expenses or presenting as a separate financial statement line item)

Focus Area	Observations	Considerations
	<ul style="list-style-type: none"> • Only some issuers included separate note disclosure in their financial statements in connection with the COVID-19 related government grants. • Some issuers only disclosed that they have received government grants for pandemic expenses without identifying the amount received, naming the specific assistance program or disclosing the accounting policy for recognizing government grants. 	<ul style="list-style-type: none"> ○ The nature and extent of government grants recognized in the financial statements ○ Unfulfilled conditions and other contingencies attaching to government assistance that has been recognized • For issuers that received government loans with forgiveness options, issuers are required to disclose the terms and conditions of the government assistance. <p>Reference: para. 39 of IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i></p>
<p>COVID-19 Related Amendments to IFRS 16 Leases for Lessees</p>	<p>The IASB issued amendments to IFRS 16 <i>Leases</i> to provide a practical expedient that allows lessees to elect not to assess whether a rent concession is a lease modification. The application of the practical expedient is permitted, but not required. In order to apply the practical expedient, certain conditions specified in IFRS 16 need to be met.</p> <ul style="list-style-type: none"> • The vast majority of the issuers we reviewed with material rent concessions met the required conditions, but some did not sufficiently disclose whether they applied the practical expedient to all their rent concessions or only to some of them, or the amount recognised in profit or loss as a result of applying the practical expedient 	<ul style="list-style-type: none"> • When the practical expedient is elected and applied, a lessee is required to disclose: <ul style="list-style-type: none"> ○ it has applied the practical expedient to all its rent concessions that meet the conditions, or if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient. ○ the amount recognised in profit or loss for the reporting period to reflect changes in lease payments arising from such rent concessions to which the lessee has applied the practical expedient. <p>Reference: para 46A,46B and 60A of IFRS 16 <i>Leases</i></p>

A.3 Other Regulatory Matters

Disclosure related to the COVID-19 pandemic may also result in consideration of other regulatory requirements including the requirements and/or guidance related to the following:

Focus Area	Observations	Considerations
<p>NGMs Adjusted for Impacts Related to COVID-19³</p>	<ul style="list-style-type: none"> • Less than 5% of the issuers we reviewed disclosed NGMs adjusted for impacts related to COVID-19. • In certain cases where a NGM was disclosed, issuers did not adequately explain how adjustments were attributable to the pandemic and/or were non-recurring. • CSA staff found a few instances where the disclosure of NGMs was potentially misleading as the issuer: adjusted for expenses attributable to COVID-19 without adjusting for government subsidies or attempted to “normalize” revenue or expenses for the year-to-date period based on more positive results for one quarter. 	<ul style="list-style-type: none"> • Before presenting NGMs adjusted for COVID-19 impacts, consider how it assists investors, how management uses the measure and why management believes it is a useful and meaningful alternative to explain the impact of COVID-19. • Consider whether the adjustment matches the corresponding usefulness of the NGM and the disclosure is balanced (i.e., whether both positive and negative components are disclosed). • As the pandemic continues, there may be a limited basis for management to conclude that an adjustment is non-recurring, infrequent or unusual even if the item is directly related to COVID-19. • Be specific in describing adjustments (and not simply disclose, for instance, “other costs related to COVID”). • If disclosing NGMs adjusted for COVID-19, include balanced adjustments and consider the impacts of government subsidies, insurance recoveries and relief from landlords. • All adjustments should be based on actual results. Adjustments that attempt to estimate or forecast results as if the pandemic had not occurred are not appropriate. <p>Reference: SN 52-306</p>
<p>FLI in Effect During COVID-19</p>	<ul style="list-style-type: none"> • Most issuers that disclosed financial outlooks prior to COVID-19, withdrew their FLI. • Some issuers provided detailed and meaningful disclosure 	<ul style="list-style-type: none"> • FLI can provide useful insight into how management anticipates how COVID-19 will impact the issuer’s future operations and liquidity positions. However, the issuer must have a reasonable basis for providing the FLI

³ To improve the disclosure surrounding non-GAAP financial measures and certain other financial measures, the CSA is intending to replace SN 52-306 with [Proposed National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure](#) and a related proposed Companion Policy (Proposed NI 52-112).

Proposed NI 52-112 sets out disclosure requirements for non-GAAP financial measures and other financial measures (e.g., segment measures, capital management measures, and supplementary financial measures as defined in Proposed NI 52-112). It was published on September 6, 2018 for a first comment period and, after making revisions for comments received during the first comment period, it was published on February 13, 2020 for a second comment period, which ended on June 29, 2020.

Focus Area	Observations	Considerations
	<p>including “outlook” sections with FLI discussing the anticipated medium to longer term impact of COVID-19 to the issuer’s business and industry.</p> <ul style="list-style-type: none"> • However, we also observed isolated instances of insufficient disclosure of assumptions and risks related to FLI and failure to update the MD&A for events that are likely to cause actual results for future periods to differ materially from previously disclosed FLI. 	<p>in the current environment and provide sufficient disclosure for investors to understand how the FLI was derived and the related risks.</p> <ul style="list-style-type: none"> • With rapidly changing circumstances, it is essential that issuers update their MD&A to discuss the events or circumstances that are reasonably likely to cause actual results to differ from previously disclosed FLI. <p>Issuers should consider:</p> <ul style="list-style-type: none"> • If internal processes are in place to monitor and update FLI as conditions change <p>References: Parts 4A, 4B and section 5.8 of NI 51-102; and Part 4A of Companion Policy 51-102CP</p>
<p>Material Change Reporting</p>	<ul style="list-style-type: none"> • Many issuers issued news releases in relation to changes to their business, operations or capital as a result of COVID-19. • A few issuers filed material change reports in relation to COVID-19 although in some instances changes to the issuer’s business, operations or capital were unique or more significant to them than to others in their industry. 	<ul style="list-style-type: none"> • The term “material change” is generally defined in each jurisdiction’s securities legislation and is usually based on a market impact test. Issuers should refer to their principal regulator’s applicable securities legislation for the definition of “material change”. • If COVID-19 has an equal effect throughout an issuer’s industry, a material change report may not be required. • Issuers should be aware of the impact of COVID-19, or resulting governmental or regulatory policies, that may be unique or more significant to them than to others in their industry as the pandemic evolves. <p>Examples of potentially material information includes:</p> <ul style="list-style-type: none"> • Material changes in distributions or dividends • Changes in credit arrangements • Significant disruptions to an issuer’s workforce or operations • Negative changes in markets, economy or laws • Supply chain delays or disruptions that are critical to an issuer’s business • Increased cost of goods or services • Suspension of exports <p>References: Part 7 of NI 51-102, Form 51-102F3 Material Change Report.</p>

Focus Area	Observations	Considerations
Promotional Disclosure	<ul style="list-style-type: none">• Some issuers concentrated in the biotech/pharma industry provided disclosure in relation to COVID-19 that was overly promotional in nature and often lacked specificity necessary to enable a full understanding of the issuer’s business intentions and expected milestones.• In these instances, issuers filed numerous press releases that either overstated the positive impact on the business of the issuer or were at such an early stage that the true impact was unknown and/or dependent upon too many variables to realistically determine if COVID-19 would positively affect the issuer or its business.• In one instance, an issuer failed to disclose material facts that caused the issuer to have a misrepresentation in its public disclosure record.	<ul style="list-style-type: none">• Issuers are prohibited from making false or misleading statements or omitting facts from a statement necessary to make that statement true or not misleading.• Disclosure should be complete, balanced and focused on material information. Both positive and negative news should be given equal prominence.• Establishing good disclosure practices can help avoid the above situations. We recommend that companies look to Part 6 of National Policy 51-201 <i>Disclosure Standards</i> to assist them in setting up practices that assist them in complying with the law and ensuring investors have the best disclosure about their company in a concise manner. <p>References: National Policy 51-201 <i>Disclosure Standards</i>.</p>

Appendix B – Disclosure Examples

B.1 MD&A Disclosure Examples

Below are examples of useful disclosure focused on a few aspects of certain disclosure requirements. Issuers should determine how specific securities requirements may apply to them.

B.1.1 Discussion of Operations and the Impact of COVID-19

Example of deficient disclosure

EXAMPLE B.1.1(a)

- Did not describe the specific operational factors contributing to the decline in revenue and expenses
- Did not describe the judgements and estimations made by management in determining the impact of COVID-19

Revenue decreased by 30% in Q3 2020 as compared to the prior period primarily due to the negative impact of the COVID-19 pandemic.

Selling, general and administrative expenses decreased by \$5M in Q3, 2020 due to management's efforts to reduce costs due to COVID-19.

Example of improved disclosure

EXAMPLE B.1.1(b)

- Provides an entity-specific analysis to explain variances
- Describes the methodology used to estimate the impact of COVID-19

As described above, we shut down 25 locations country-wide in mid-September, and these locations remain closed as at the date of this MD&A. 14 locations remained open during the quarter for take-out only. In order to mitigate the impacts of store closures and reduced revenues, we have temporarily laid off certain staff. Our mitigating efforts are described in further detail in the Recent Developments section.

- Revenue decreased by 30% from Q3, 2019 due to an estimated loss of sales of \$7M from restaurants negatively affected by COVID-19. The closures noted above were in effect for 2 weeks during the reporting period. Based on our estimate for each location, the loss in revenues due to store closures was approximately \$3M for Q3, 2020 (based on a 2-week average sales at those stores in prior periods). A further reduction of revenue of \$4M is estimated from locations that remained open as take-out only or were subject to reduced capacity limits for Q3, 2020 due to a reduction in revenue/hour from the loss of customers dining in and shorter operating times.
- Selling, general and administrative (SG&A) expenses decreased by \$5M from Q3, 2019:
- The decrease reflects an estimated \$2M in rent savings and a decrease in \$2M of wages based on management's calculation of the impact of location closures and reduced capacity limits.
- In Q3 2020, the Company also benefitted from \$1.5M due to the Canadian Emergency Wage Subsidy Program, of which \$1M was recorded as a reduction to SG&A expenses, and \$500K as a reduction to cost of sales which allows the Company to maintain a comparable gross margin to the prior period.

B.1.2 Discussion of Measures Taken to Reduce the Impact of COVID-19

Example of deficient disclosure

EXAMPLE B.1.2(a)

- Did not explain the impact of measures taken to reduce the impact of COVID-19

The Company has implemented a series of cost reduction measures in response to COVID-19. These measures include the following: suspension of the quarterly dividend, reduced compensation, reduction of discretionary spending, delayed capital projects, sales of assets and taking advantage of the Canadian Emergency Wage Subsidy Program. The Company is monitoring the situation and will adjust these measures as the situation evolves.

Example of improved disclosure

EXAMPLE B.1.2(b)

- Discussed specific measures taken and effect on the issuer

The Company has implemented several operational responses to address the reduced current demand and the high degree of uncertainty in future sales. These strategies include an estimated annual reduction of \$25M in expenses, a reduction of capital spending and generating \$10M in cash from non-core asset sales. The Company has completed the following actions to reduce costs and meet its stated targets as at September 30, 2020:

- Suspension of the quarterly dividend commencing in Q2, 2020 (anticipated to remain in effect until at least Q2 2021).
- Reduced Board of Director compensation by 40% and executive compensation by 25% resulting in an estimated reduction in compensation costs of \$3M for fiscal 2020.
- Elimination of all non-essential travel, entertainment and other discretionary spending estimated to reduce annual costs by \$8M
- Reduction of purchases of property, plant and equipment to approximately \$30.0 million over the next 12 months
- Sales of non-core assets of \$5M in Q3, 2020 with additional sales of non-core assets of \$5M anticipated to be completed in Q4, 2020.
- Taking advantage of the Canadian Emergency Wage Subsidy Program (CEWS) to help offset the reduction in revenues. The Company realized \$6M under this program for Q3, 2020 which is recorded as a reduction in SG&A expenses. The Company expects it will continue to qualify for this program for the balance of 2020.

B.1.3 Liquidity and Capital Resources

Example of boilerplate disclosure

EXAMPLE B.1.3(a)

- Did not discuss covenant terms or provide for an understanding of liquidity risk

The Company is currently in compliance with the financial covenants under its credit facility. The Company expects that the COVID-19 pandemic may impact covenant compliance in future periods and has entered into an amending agreement with lenders and will be subject to revised measures for Q4 2020.

Example of improved disclosure

EXAMPLE B.1.3(b)

- Provided quantitative and qualitative disclosure to understand compliance with financial covenants and related liquidity risk

The Company's lending agreements require the Company to comply with the following covenants: maximum leverage ratio of 4.5 and minimum interest coverage ratio of 2.75. Calculation of financial covenants for Q3 2020 is as follows:

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Interest Coverage Ratio	3.0	5.0
Total Leverage Ratio	4.0	3.0

The Company now expects that the combination of lower expected EBITDA in 2020 combined with the Company's current debt profile and the ongoing uncertainty created by the COVID-19 pandemic, may impact compliance with the total leverage ratio and interest coverage covenants at December 31, 2020. Management has been negotiating with its syndicate of lenders and has entered into an amended agreement under its credit facility. Under the amended agreement, the Company is subject to a maximum leverage ratio of 5.5 and minimum interest coverage ratio of 2.5 from Q4, 2020 to Q2, 2021. The Company has incurred fees and expenses of \$1 million to date to implement these amendments and expects to incur another \$0.5 million in Q4 2020.

B.1.4 Risk Factor Disclosure

Example of deficient disclosure

EXAMPLE B.1.4(a)

- Disclosure was generic and did not provide any information on the risks specific to the issuer

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 to be a pandemic. Governments have imposed measures to contain the outbreak, including business closures, travel restrictions, quarantines and social distancing measures. The spread of the COVID-19 virus has resulted in a sharp decline in global economic growth as well as causing increased volatility in financial markets. If the COVID-19 pandemic is prolonged, the adverse impact on the global economy could worsen. Accordingly, the full impact of the COVID-19 is uncertain and may have a material adverse effect on the Company.

Examples of improved disclosure

EXAMPLE B.1.4(b)

- Provided entity-specific disclosure of risks and impacts to the issuer

Based on events and circumstances known to us to date, we believe that the Company may be subject to the following risks beyond Q3 2020:

- Consumer demand will continue to be the Company's most significant risk due to the uncertainty in the global economy, negatively impacting our retail stores. Many of our stores are located in areas that historically have had higher densities of tourism and will experience a greater negative impact and slower recovery than perhaps other retailers. While eCommerce sales have increased, we expect to continue to incur significant sales losses as overall customer demand and consumer spending is expected to continue to decline, as compared to prior year, in response to COVID-19 and the related global economic impacts.
- Social distancing restrictions to protect the safety of our customers and employees may limit both the number of customers we can serve at our retail stores, and the volume of goods we are able to fulfill through our distribution centre. More severe government-imposed restrictions, including store capacity restrictions and lockdowns, could further restrict our ability to service our customers. See also "Subsequent Events" for further discussion on store closures in relation to COVID-19.
- We may also face supply chain challenges if there are disruptions in service at our distribution centre, suppliers, or logistics providers. Increased market demand for logistic providers may continue to increase our operating costs and/or limit our ability to fulfill sales.
- The costs of operating our stores and distribution centre may continue to increase due to enhanced health and safety measures taken to protect our employees, including the increased costs of personal protective equipment.
- Access to government financial assistance programs may place restrictions on our business and operations, including our ability to deploy capital or return capital to our shareholders.

While the full-extent of the impact of COVID-19 on the Company's business remains uncertain, we believe that the cost reductions and liquidity management strategies employed will partially mitigate the above risks as further described under "Recent Developments".

B.2 Financial Statements Examples

Below are examples of useful disclosure focused on a few aspects of certain IFRS requirements. Issuers should determine how specific IFRS requirements may apply to them.

B.2.1 Impairment of Non-Financial Assets

Example of deficient disclosure

EXAMPLE B.2.1(a)

- Did not identify reasons for impairments
- Did not disclose the key assumptions used in estimating the recoverable amount

The Company recognized for the quarter ended September 30, 2020, costs related to the write-down of assets totalling \$XXX mainly due to the impairment of PP&E.

Example of improved disclosure

EXAMPLE B.2.1(b)

- Identified impairment indicators as the government-imposed closures and significant decrease in the issuer's market capitalization
- Adequately disclosed supportable assumptions used to determine fair value less costs of disposal with the implications of COVID-19

The majority of the Company's operations in segment XYZ were closed, and currently remain closed or are operating at a reduced occupancy as a result of mandatory closure orders from various government authorities. In light of this temporary closure and a material decrease in the Company's market value due to a sharp decline in its share price, the Company concluded that this segment, which is a cash generating unit ("CGU"), should be tested for impairment at period end. The Company did not identify any further indicators of impairment or impairment reversals for its other CGU's.

The recoverable amount for the CGU has been estimated using a discounted cash flow (value in use) model. The Company calculates value in use using a five-year discounted cash flow method based on the most recent financial budget forecasts approved by management. The future cash flows are based on a range of estimates and assumptions, including growth in average sales from XX% to XX% for the period 2020-202X to reflect a staged reopening and other scenarios and a pre-tax discount rate of XX% (which represents the weighted average cost of capital). For the nine months ended September 30, 2020, the Company recorded a total impairment charge of \$XXX million relating to the entire goodwill balance allocated to this CGU of \$XX million and an impairment on the PP&E in this CGU of \$XXX million. The recoverable amount of the Company's impaired CGU at September 30, 2020 was \$XXX million.

The Company conducts sensitivity analyses by varying the pre-tax discount rate upward by X% and the growth rates down by X%. Such sensitivity analyses demonstrate that a reasonable change in assumptions would not result in the CGU's carrying value exceeding its value in use.

B.2.2 Going Concern

Example of deficient disclosure

EXAMPLE B.2.2(a)

- Did not provide entity-specific disclosure in connection with the issuer's financial condition considering the impact of COVID-19 outbreak

As at September 30, 2020, the Company is not able to finance day to day activities through operations. The continued operations of the Company are dependent on future profitable operations, management's ability to manage costs, and the future availability of equity or debt financing. Whether and when the Company can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due is uncertain.

Example of improved disclosure

EXAMPLE B.2.2(b)

- Included disclosure indicating there was a "close call" situation where significant judgement was applied in concluding there were no material uncertainties that might cast significant doubt on the Issuer's ability to continue as a going concern
- Disclosed factors used in the decision to conclude the Issuer will continue as a going concern

The spread of COVID-19 in all relevant jurisdictions has impacted the Company's supply chain and consumer base and uncertainty regarding the extent, duration and severity of business disruptions are having a material impact on all aspects of the Company's operations. Currently, the Company is not generating sufficient funds from operations to support its day-to-day activities. These conditions call into question the Company's ability to continue as a going concern.

In response to the uncertainty caused by the COVID-19 global pandemic, the Company has taken or plans to take several actions including:

- announced that it will not be paying dividends in the foreseeable future until conditions improve
- actively monitoring cash flow forecasts and results, which has resulted in significant cost savings in the short-term
- subsequent to period end, the Company successfully negotiated an increase to its credit facility that included revised covenants

Based on these actions, its diversified business and current backlog, the Company expects to generate sufficient cash flows to fund its operations, working capital requirements and capital program for the next 12 months.

As a result, after considering all relevant information, including its actions completed to date and its future plans, management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for a period of 12 months from the consolidated balance sheet date.

The estimates used by management in reaching this conclusion are based on information available as of the date these financial statements were authorized for issuance and include internally generated cash flow forecasts. Accordingly, actual results could differ from these estimates and resulting variances may be material to management's assessment.

B.2.3 Government Assistance

Example of deficient disclosure

EXAMPLE B.2.3(a)

Did not disclose:

- The accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements
- The nature and extent of government grants recognized in the financial statements
- Unfulfilled conditions and other contingencies attaching to government assistance that has been recognized

The Canada Emergency Wage Subsidy (“CEWS”) was put in place by government of Canada to provide a wage subsidy to eligible employers to help get Canadians hired back quickly as provincial and territorial economies began to reopen. The Company recognized \$XXX and \$XXX of CEWS during the three and six months ended Q3 2020 as subsidy.

Example of improved disclosure

EXAMPLE B.2.3(b)

- Provided all the required disclosure under IAS 20

In response to the negative economic impact of COVID-19, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) program in April 2020, retroactive to March 15, 2020. CEWS provides a wage subsidy to eligible employers based on certain criteria, including demonstration of revenue declines as result of COVID-19.

The Company has determined that it has qualified for this subsidy from March 15, 2020 through September 30, 2020 and has, accordingly, applied for, and for certain periods received, the CEWS. The Company also intends to apply for the CEWS in subsequent application periods it is available, subject to continuing to meet the applicable qualification criteria.

For the three and nine month ended September 30, 2020, the Company has recognized \$XXX and \$XXX from the CEWS program, respectively, and has recorded it as a reduction to the eligible remuneration expense in selling, general and administrative expenses. As of September 30, 2020, the Company has received \$XXX from the CEWS program and expects to receive the remaining recognized subsidy in the following fiscal quarter.

B.3 Other Regulatory Matters Examples

Below is an example that focuses on certain disclosure requirements relating to NGMs. Issuers should determine how specific securities requirements may apply to them.

B.3.1 Non-GAAP Financial Measures

Example of deficient disclosure

EXAMPLE B.3.1(a)

- Did not explain how increased costs are related to COVID-19 and the nature of such costs
- Did not explain why this measure provides useful information to investors and the additional purposes, if any, management uses the NGM.
- In this case, the Company also benefitted from government assistance which was not included as an adjustment, making the measure potentially misleading

NGMs in a News Release

COMPANY ABC REPORTS NET EARNINGS OF \$5 MILLION AND ADJUSTED EBITDA OF \$14 M

- Net Earnings decreased 58% from the same period in the prior year to \$5M
- Adjusted EBITDA decreased 12% from the same period in the prior year to \$14M.

*Adjusted EBITDA is a non-GAAP financial measure that is adjusted to exclude amounts that are outside the Company's normal activities. For more information, refer to the section on Non-GAAP Financial Measures at the end of this news release, and below for a reconciliation of adjusted EBITDA to the most comparable GAAP measure.

	<u>XX, 2020</u>	<u>XX, 2019</u>
Net earnings	\$5M	\$12M
Interest	\$2M	\$1M
Depreciation	<u>\$3M</u>	<u>\$3M</u>
EBITDA	\$10M	\$16M
Increased costs due to COVID-19 (1)	<u>\$4M</u>	-
ADJUSTED EBITDA	\$14M	\$16M

1. The increased costs are due to the COVID-19 pandemic.

Example of improved disclosure

EXAMPLE B.3.1(b)

- The below focuses on a few aspects of the expectations for NGMs.
- Issuers should refer to the guidance in SN 52-306 in preparing disclosure documents

NGMs in a News Release

COMPANY ABC REPORTS NET EARNINGS OF \$5 MILLION AND ADJUSTED EBITDA OF \$14 MILLION

- Net Earnings decreased 58% from the same period in the prior year to \$5M
- Adjusted EBITDA decreased 12% from the same period in the prior year to \$14M.

* Adjusted EBITDA is a Non-GAAP Financial Measure adjusted to exclude amounts that are outside the Company’s normal activities. For more information, refer to the section on Non-GAAP Financial Measures at the end of this news release, and below for a reconciliation of adjusted EBITDA to the most comparable GAAP measure.

	<u>XX, 2020</u>	<u>XX, 2019</u>
Net earnings	\$5M	\$12M
Interest	\$2M	\$1M
Depreciation	<u>\$3M</u>	<u>\$3M</u>
EBITDA	\$10M	\$16M
Restructuring costs related to COVID-19 (1)	\$4M	-
Government subsidies (2)	\$(2M)	-
ADJUSTED EBITDA	\$12M	\$16M

1. As a result of the COVID-19 pandemic, management expects decreased demand for our products for the remainder of 2020 and 2021. As a result, management has reorganized its operations to streamline production and reduce head office staff. These restructuring costs include the cost of laying off XX employees and the cost of shifting the majority of the production to manufacturing plant A. Additional restructuring costs are expected in Q1,2021, although the majority of the restructuring costs have already been incurred. Please refer to the COVID-19 impact section of the company’s MD&A and the restructuring costs note in the financial statements, filed concurrently with this news release, for additional details on the impact of COVID-19 on the company’s operations.
2. The Company received government assistance from the Canada Emergency Wage Subsidy program (CEWS). During Q3, 2020, the Company recorded \$2M of wage subsidies as a reduction of salary expenses. More information about government assistance is included in the MD&A.

Questions

Please refer your questions to any of the following:

<p>Jodie Hancock Senior Accountant, Corporate Finance Ontario Securities Commission 416-593-2316 jhancock@osc.gov.on.ca</p>	<p>Stacy Cao Accountant, Corporate Finance Ontario Securities Commission 416-597-7246 scao@osc.gov.on.ca</p>
<p>Allan Lim Manager British Columbia Securities Commission 604-899-6780 alim@bcsc.bc.ca</p>	<p>Anthony Potter Manager, Corporate Disclosure & Financial Analysis Alberta Securities Commission 403-297-7960 Anthony.Potter@asc.ca</p>
<p>Heather Kuchuran Director, Corporate Finance Financial and Consumer Affairs Authority of Saskatchewan 306-787-1009 heather.kuchuran@gov.sk.ca</p>	<p>Wayne Bridgeman Deputy Director, Corporate Finance Manitoba Securities Commission 204-945-4905 wayne.bridgeman@gov.mb.ca</p>
<p>Nadine Gamelin Senior Analyst, Financial Information Autorité des marchés financiers 514-395-0337, ext. 4417 nadine.gamelin@lautorite.qc.ca</p>	<p>Geneviève Laporte Analyst, Financial Information Autorité des marchés financiers 514-395-0337 genevieve.laporte@lautorite.qc.ca</p>
<p>Frank McBrearty Senior Legal Counsel Financial and Consumer Services Commission (New Brunswick) 506-658-3119 Frank.McBrearty@fcnb.ca</p>	<p>Junjie (Jack) Jiang Securities Analyst, Corporate Finance Nova Scotia Securities Commission 902-424-7059 jack.jiang@novascotia.ca</p>