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How to Write an Effective Management's Discussion & Analysis

Corporate Finance Branch

June 5, 2013

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Presentation Outline

Time	Topic
9:00 – 9:05	Welcome and Introduction to the OSC SME Institute
9:05 – 9:10	Securities Regulation 101
9:10 – 10:10	Management’s Discussion and Analysis (MD&A)
10:10 – 10:15	Helpful Information about the OSC
10:15 – 10:45	Industry Perspective – Ron Schwartz
10:45 – 11:00	Questions

Welcome and Introduction to the OSC SME Institute

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OSC SME Institute - Objectives

Our goal is to:

- Help SMEs navigate the regulatory waters
- Demystify disclosure requirements so companies can focus on building their business
- Reduce SMEs' cost of compliance so that this money can be better spent on strategic initiatives
- Provide an opportunity for informal dialogue with OSC staff

Disclosure requirements, including those for financial reporting, are a cornerstone of investor confidence

Securities Regulation 101

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Securities Regulation 101 – Periodic Requirements

Document	Venture	Non-venture
Audited annual financial statements accompanied with: • Annual MD&A • Annual CEO and CFO Certificates	120 days after year-end	90 days after year-end
Interim financial report accompanied with • Interim MD&A • Interim CEO and CFO Certificates	60 days after quarter end	45 days after quarter end
Annual Information Form (AIF)	N/A - but may elect to file	Usually 90 days after year-end
Information Circular	Generally mail 21 days before meeting and file promptly	
Executive Compensation	File with related document (usually with Information Circular or AIF)	
Corporate Governance (i.e. Board information)		

Management’s Discussion & Analysis

MD&A Background

- MD&A is a narrative explanation "through the eyes of management" which:
  - Provides a balanced discussion of a company's results, financial condition and future prospects – openly reporting bad news as well as good news
  - Helps current and prospective investors understand what the financial statements show and do not show
  - Discusses trends and risks that have affected or are reasonably likely to affect the financial statements in the future
  - Provides information about the quality and potential variability of company's earnings and cash flow

The MD&A should complement and supplement the company's financial statements

Why Should I Write a Good MD&A?

- Opportunity to explain events from management's point of view
- Provide current and new investors with information to make investment decisions
- Help increase knowledge of your business, beyond the numbers
- Facilitate attempts to raise financing
- Decrease the likelihood of comments from regulators
- Reduce complaints

MD&A goes beyond the numbers in the financial statements to provide a greater understanding of a company's business

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Where Do I Start?

Company	Industry
▪ Financial statements and other filings ▪ Key performance indicators ▪ Minutes ▪ Press releases ▪ Analyst reports ▪ Investor presentations and annual meetings	▪ Political factors ▪ Social issues ▪ Economic conditions ▪ Competitors ▪ Regulatory updates
Outlook	
▪ Approved budget ▪ Presentations to Board	▪ Agreements with stakeholders ▪ Planned development

Tips Before You Start

MD&A quality is not measured by its length,
but in the breadth and depth of its analysis.

How to Write an Effective MD&A

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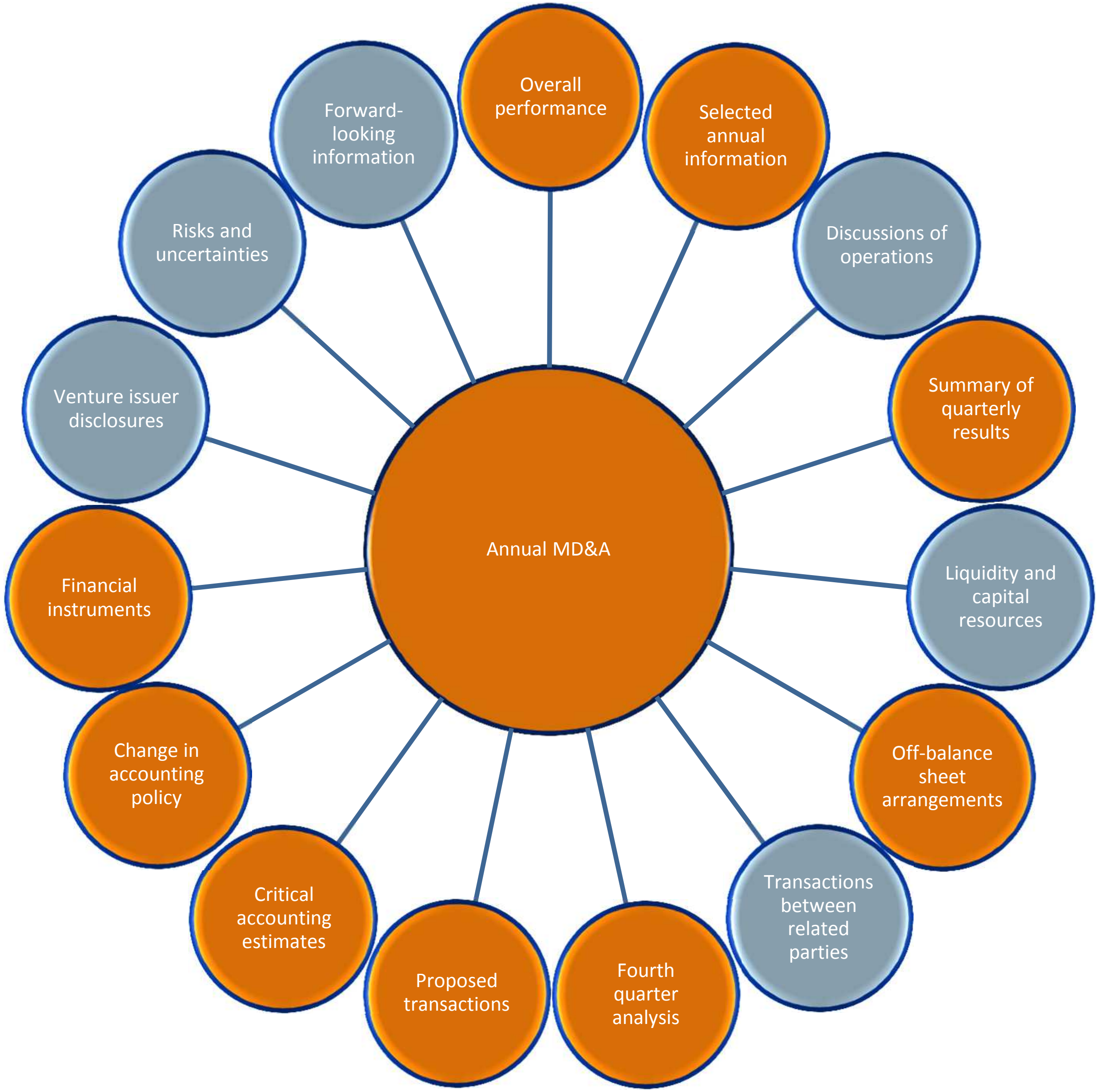
Annual MD&A



Discussion of Operations

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Discussion of Operations
51-102 F1 – Part 2, Item 1.4

- 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
  - Producing mines or mines under development
  - 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 qualitatively explaining a variance without quantifying the impact of the explanation is not sufficient.

Discussion of Operations
Changes in Revenues and Costs

Discussion of Operations
Changes in Revenues and Costs

Observations

Discussion of operations is boilerplate and does not provide entity-specific disclosure about changes in revenues and cost of sales

Why important

Investors require meaningful discussion of operations so that they can better understand the reasons for any changes

Provide analysis of operations by discussing why revenues and costs have changed

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Discussion of Operations Hot Buttons
Changes in Revenues and Costs

Areas	Considerations
Revenues	▪ Have changes caused by the following factors been disclosed? ▪ Selling prices ▪ Volume / quantity of goods and services ▪ Introduction of new products or services ▪ Any other factors
Costs	▪ Have changes caused by the following factors been disclosed? ▪ Labour and material costs ▪ Price changes ▪ Inventory adjustments
Segments	▪ Does the disclosure discuss performance of all reportable segments disclosed in the financial statements?

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Changes in Revenues and Costs
Example of Boilerplate Disclosure

Repetition from financial statements

No discussion of variances

Revenue increased from $900,000 to $1,100,000, a 22% increase. Gross profit increased from $400,000 to $408,000, a 2% increase.

Changes in Revenues and Costs Example of Entity-Specific Disclosure

Discussion of variances

Revenue increased from $900,000 to $1,100,000, a 22% increase. Three factors caused revenue to increase by $200,000:

Quantification of factors

- the introduction of a new product during the fourth quarter, Product Y $170,000
- increased sales volume of Product X $60,000; and
- decreased unit price of Product X ($30,000).

Relationship with gross profit

Gross profit increased from $400,000 to $408,000, a 2% increase. As a percentage of revenue, gross profit decreased by 7%. In late 2012, we anticipated new competition entering our market, so we discounted our remaining Product X units to encourage their sale and to allow us to focus on its replacement, Product Y. Discounts on Product X caused the reduced gross profit percentage. We expect to continue discounting Product X in the first quarter, but expect our gross profit to improve as Product Y replaces Product X.

Discussion of Operations
Projects Not Yet Generating Revenue

Discussion of Operations
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

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Discussion of Operations Hot Buttons Projects Not Yet Generating Revenue

Areas	Considerations
Status	▪ Is the current plan for each project disclosed? ▪ Is there disclosure of the project's progress compared to the plan? ▪ Have the results from pre-production and field tests been disclosed?
Expenditures	▪ Have the following been disclosed? ▪ Expenditures to date ▪ Whether the company anticipates spending more than budget on each project ▪ Amounts that need to be spent to get project to next level ▪ Whether financing has been secured to advance the project

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Projects Not Yet Generating Revenue Example of Boilerplate Disclosure

Lacks comparison

Does not address future spending

The Company is developing a medical device to treat burn victims. The product will require clinical testing and is subject to FDA approval. The Company has spent $1.2 million to date developing and testing the technology. The Company expects the product to launch in approximately two years.

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Projects Not Yet Generating Revenue
Example of Entity-specific Disclosure

Describes the project

The Company is developing a medical device to treat burn victims. The product will accelerate the victim's healing process, while reducing pain and scarring. The Company expects this technology will have other applications such as in cosmetic surgery. The Company intends to market the product to hospitals and large care centres, and license the product for use internationally.

Achievement to date

Before the Company can market the product, it must receive regulatory approval. In this past year, the Company successfully completed the preliminary testing of its technology. In August of this year, the Company began clinical trials to obtain FDA approval. Initial test results are positive, and the Company has provided additional information to the FDA. The Company does not expect to receive FDA approval for at least 2 years.

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Projects Not Yet Generating Revenue
Example of Entity-Specific Disclosure (cont'd)

Additional financing

The Company expects to begin shipping the product four months after receiving FDA approval. The Company has spent approximately $1.2 million to date developing and testing the technology, and will require an additional $1.3 million to complete testing and receive FDA approval. Following FDA approval, the Company expects to incur $2 million in production and marketing costs to bring this product to market.

Status compared to plan

As disclosed in previous MD&A, initial test results required the Company to modify its prototype. As a result, the Company is currently $500,000 over budget and 6 months behind schedule. Since this initial setback, the Company has experienced no additional delays or unexpected costs.

Discussion of Operations
Producing and Development Mines

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Discussion of Operations
Producing and Development Mines

Observations

Discussion of producing mines or mines under development do not clearly or adequately explain the scale and status of the project

Why Important

Investors want information on the progress of significant projects to assess management, the company's performance, as well as future prospects

The MD&A form requires project updates to discuss milestones, expansion plans, productivity improvements, plans to develop a new deposit, production decisions and the basis for any such milestones

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Discussion of Operations Hot Buttons
Producing and Development Mines

Areas	Considerations
Milestones	▪ Have milestones been identified? ▪ Are there any plans for expansion? If so, what are the plans? ▪ Will the company take any steps to improve productivity? ▪ Are there any plans to develop a new deposit? ▪ What decisions have been made about production? ▪ Are any of the milestones based on a technical report?

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Producing and Development Mines Example of Boilerplate Disclosure

Lacks detail of status

Disclosure not updated

In fiscal 2012, the Company completed studies on the XYZ Lake project and decided to proceed with construction to bring the project to production. Additional financing will be required to achieve this goal.

Producing and Development Mines
Example of Entity-Specific Disclosure

Future plans

Anticipated time and costs

Expenditures made

In fiscal 2012, the Company completed a feasibility study technical report, dated October 1, 2012, on the XYZ Lake project. The Company's Board of Directors accepted the feasibility study and instructed management to initiate development and construction of the project to bring it into commercial production by late 2015. The anticipated capital cost for mine construction is approximately $850 million. In the first half of 2013, the Company plans to commence construction which will last approximately two years. The Company spent $80.5 million in 2012 compared to $24.5 million in 2011 due to expenditures related to the feasibility study and environmental assessments. In October 2012, the Company completed a $400 million financing with the proceeds to be used for construction of the XYZ Lake project. Subsequent to year end, the Company was able to obtain the additional required financing to complete construction as discussed in Note 21.

Discussion of Operations

Variances in the Use of Proceeds

Discussion of Operations
Variances in the Use of Proceeds

Observations

Funds raised by way of a prospectus are often for specific projects or stages of specific projects. Companies do not always adequately explain how proceeds raised in public offerings were subsequently used and the impact of any changes from their originally intended use.

Why Important

Investors should be made aware of how their investment is being spent. Updating the use of proceeds in the MD&A will allow investors to assess how management has ultimately spent the funds.

Companies are required to compare, in tabular form, the changes in the use of proceeds and to explain the impact of the changes on the company's ability to achieve its business objectives and milestones

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Discussion of Operations Hot Buttons
Variances in the Use of Proceeds

Areas	Considerations
Variances	▪ How does the nature and amount of expenditures made by the company compare to the use of proceeds from previous financing? ▪ How do variances impact future operations? ▪ How will the variance affect the company's ability to achieve its business objectives and milestones? ▪ Will the company require additional financing to meet its next milestone?
Disclosure	▪ Have the above items been disclosed? ▪ Does the disclosure comply with MD&A requirements?

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Variances in the Use of Proceeds Example of Boilerplate Disclosure

Disclosure from prospectus

Disclosure not updated

Although the company intends to expend the net proceeds from the prospectus as described in the preceding paragraph, there may be circumstances where for sound business reasons, a reallocation of funds may be deemed prudent or necessary. While actual expenditures may differ from the above amounts and allocations, the net proceeds will be used by the company in furtherance of its business.

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Variances in the Use of Proceeds
Example of Entity-Specific Disclosure

Additional investment

Impact on other projects

The following table provides an update on the anticipated use of proceeds raised in the most recent financing, along with amounts actually expended and a description of the variances. The company recently determined that additional investment is required to get Project A to the testing phase. The final column of the table indicates the company's revised estimate of the total expenditure required to complete the indicated phase. Given the anticipated increased costs for Project A, the company was not able to use the funds for Project B as noted in the prospectus. The expected budget for Project B remains unchanged from that disclosed in the prospectus and the company is developing a strategy to ensure funding is available so that the time of Project B is not delayed.

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Variance in the Use of Proceeds
Example of Entity-Specific Disclosure (cont'd)

Revised expenditures

Project A – Update of costs expended and project budget

Phase	Previously disclosed	Spent to date	Variance	Reason	Total revised budget
R&D	$4,600	$5,200	$600	Additional design modifications required	$5,300
Testing	$1,200	Nil	($1,200)	To be started next fiscal	$1,200
Total	$5,800	$5,200	($600)		$6,500

Project B – Update of costs expended and project budget

Phase	Previously disclosed	Spent to date	Variance	Reason	Total revised budget
R&D	$700	Nil	($700)	Deferred project until financing can be secured	$700
Total	$700	Nil	($700)		$700

Liquidity and Capital Resources

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Liquidity
51-102 F1 – Part 2, Item 1.6

- Companies should discuss the following:
  - How they intend on generating sufficient amounts of cash in the short and long term to maintain capacity or to meet planned growth
  - If a working capital deficiency exists, its ability to meet obligations and how the company intends on remedying the deficiency
  - Trends or expected fluctuations in liquidity, including balance sheet conditions or income or cash flow items that may affect company's liquidity
  - Liquidity risks associated with financial instruments
  - Significant risks of defaults 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

Capital Resources
51-102 F1 – Part 2, Item 1.7

- 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 planned activities to meet growth and fund development activities, along with a quantification of the capital expenditures to be incurred for those activities

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Liquidity and Capital Resources

Observations

A meaningful analysis of the company's ability to generate sufficient cash, address its working capital requirements and its ability to access financing to meet its committed expenditures is not always provided

Why Important

Investors need to clearly understand any anticipated funding shortfalls and financing resources available to meet spending commitments and continue key projects

Companies should explain their current liquidity position and how they will fund upcoming operating commitments and other obligations

Liquidity and Capital Resources Hot Buttons

Areas	Considerations
Ability to generate sufficient cash	▪ Is there analysis of the company's ability to generate sufficient cash in the short term and the long term to: ▪ Meet funding needs? ▪ Meet planned growth? ▪ Fund development activities?
Working capital requirements	▪ Are the company's working capital requirements disclosed? ▪ If a working capital deficiency exists, or is expected, is there a discussion on the company's: ▪ Ability to meet obligations as they become due? ▪ Plans, if any, to remedy the deficiency?

Liquidity and Capital Resources Hot Buttons

Areas	Considerations

Spending requirements	▪ Is analysis provided on commitments for:
	  ▪ Capital expenditures?
	  ▪ Any expenditures required to continue key projects?
	▪ Has the nature, amount and purpose of commitments, and expected source of funds to meet these commitments been disclosed?

Sources of financing	▪ Is there a discussion on how difficulties in obtaining financing could affect:
	  ▪ Status of projects?
	  ▪ Ability to continue as a going concern?
	▪ Have the expected sources of financing that are being pursued been identified?

Liquidity and Capital Resources
Working Capital Deficiency

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Working Capital Deficiency
Example of Boilerplate Disclosure

Ability to meet obligations?

Lacks explanation of remedy

At year end, the Company had cash of $10,000, total current assets of $200,000 and total current liabilities of $500,000. This resulted in a working capital deficiency of $300,000. The Company is actively seeking alternative sources of financing.

Working Capital Deficiency
Example of Entity-Specific Disclosure

Remedy

Ability to meet obligations

At year end, the Company had cash of $10,000, total current assets of $200,000 and total current liabilities of $500,000. This resulted in a working capital deficiency of $300,000. Subsequent to year end, the Company has entered into discussions to borrow an additional $350,000 from both private investors and shareholders to meet current and future working capital requirements. The Company is also exploring other financing alternatives, such as factoring accounts receivables and a sale and leaseback of capital assets. In the short term, the Company will rely on advances from shareholders and the exercise of options to fund operating costs.

Liquidity and Capital Resources
Debt Covenants

Debt Covenants
Example 1 of Boilerplate Disclosure

Nature of covenants

Remediation plan

The Company's credit facility contains certain covenants that it must comply with; otherwise, the amounts outstanding are payable on demand. As at December 31, 2012 the Company violated such covenants.

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Debt Covenants
Example 1 of Entity-Specific Disclosure

Covenants and restrictions

Breach

Remediation plan

The Company's share capital is not subject to any external restrictions; however its credit facility is subject to periodic reviews. The credit facility also contains certain covenants, such that the Company cannot, without prior approval of the bank, hedge or contract petroleum or natural gas volumes, on a fixed price basis, exceeding 50 per cent of production volumes, nor can it monetize or settle any fixed price financial hedge or contract. The credit facility also contains a financial covenant that requires the Company to maintain a working capital ratio of at least 1:1. As at December 31, 2012, this ratio was 0.5:1. The bank waived the breach prior to the year ended December 31, 2012 and has allowed the Company six months to remedy the deficiency. The Company intends to acquire additional financing through private placements to fund current working capital needs and remedy the deficiency.

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Debt Covenants
Example 2 of Boilerplate Disclosure

Breach after year end not disclosed

The amount available for borrowing under the facility is subject to certain financial and restrictive covenants as defined under the credit facility agreement. As of December 31, 2012, the company was not in breach of these covenants.

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Debt Covenants
Example 2 of Entity-Specific Disclosure

Covenants and restrictions

The amount available for borrowing under the Facility is subject to certain financial and restrictive covenants. These include: (1) a debt-to-equity ratio of not more than 0.50; (2) accounts receivable turnover of not less than 10 times in any 12 month-period; and (3) annual maximum capital expenditure of $5.0 million.

Breach

As of and during the year of December 31, 2012, the company was not in breach of these covenants. However, as of January 31, 2013, the company's debt-to-equity ratio was at 0.53, temporarily exceeding the maximum stipulated under the Facility. It decreased back to 0.44 as of February 28, 2013, and as of the date of this MD&A, the company continued to be in compliance with all covenants. The high debt-to-equity ratio as of January 31, 2013 was a result of the strike as mentioned under Discussion of Operations.

Potential of future breach

Management believes the company will comply with all covenants in the foreseeable future.

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Liquidity and Capital Resources
Cash Burn Rate

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Cash Burn Rate
Example of Boilerplate Disclosure

No analysis of burn rate

During the three months ended March 31, 2013, cash flow used in operating activities was $656,000.

No explanation of why sufficient

Management believes the cash and cash equivalents balance of $3,253,000 is sufficient for the company's operations in the foreseeable future.

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Cash Burn Rate
Example of Entity-Specific Disclosure

Current burn rate and trend

Plan in response to burn rate

During the three months ended March 31, 2013, cash flow used in operating activities was $656,000. During the period from January 1, 2013 to March 31, 2013, the company's average monthly cash burn rate was $198,000. Due to the strategic plans the company expects to execute in the coming fiscal year, management expects the monthly cash burn rate to increase to $265,000, mainly as a result of an increase in marketing expenditures. Management believes the cash and cash equivalents balance of $3,253,000 is sufficient for the company's operations in the foreseeable future, even with the increased cash burn rate. However, management is also in the process of obtaining an additional operating line of credit to provide the company with additional working capital when necessary.

Liquidity and Capital Resources Commitments for Expenditures

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Commitments for Expenditures
Example of Boilerplate Disclosure

Contractual Obligations Table at December 31, 2012 (in 000's)

Contractual Obligations	***Total***	***< 1 Yr***	***1-3 Yrs***	***3 – 5 Yrs***	***> 5 Yrs***
Long-term debt	*4,567*	*724*	*1,320*	*1,407*	*1,116*
Capital leases	*775*	*236*	*539*	-	-

Commitments for Expenditures
Example of Entity-Specific Disclosure

Committed expenditures

[Contractual Obligation Table]

The company has entered into a development and license agreement with XYBio Inc. under which the company and XYBio Inc. collaborate in certain research and development activities to conduct further studies on the commercialization potential of patent #345. The company is obligated to provide XYBio Inc. with up to $2,000,000 in research funding and milestones payments, of which $500,000 is to be paid over the next 5 years at $100,000 per year upon the completion of the activities stipulated in the agreement, and the remainder is to be paid in three instalments of $700,000, $400,000 and $400,000 respectively upon the achievement of three milestones. The timing of achieving the milestones is uncertain, but the first milestone is expected to be achieved in the summer of 2013, and all milestones are expected to be achieved by 2016.

Risks and Uncertainties

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Risks and Uncertainties 51-102F1 – Part 1(a)

- Companies should discuss the following:
  - Risks and uncertainties that:
    - may affect/have affected the company and that would be most likely to influence an investor's decision to purchase its securities
    - affect the company's financial statements and/or are reasonably likely to affect them in the future
  - Entity specific disclosure describes:
    - the risk in detail
    - its potential impact on the company's business, financial condition, and results of operations
    - the company's strategy for monitoring and mitigating risks

To be meaningful to investors, risk disclosure needs to be entity-specific and continuously updated

Risks and Uncertainties

Observations

Disclosure of risks and uncertainties is often boilerplate in nature and the potential impact of how the risks may affect the company is rarely disclosed

Why Important

Investors need to understand the entity-specific risks and how those risks may impact the company and its business, both of which may affect an investment decision or the value of their investment should the risks be realized

Throughout each section of the MD&A, companies should disclose risks and uncertainties that are material and entity-specific

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Risks and Uncertainties Hot Buttons

Areas	Considerations
Enterprise risk management	▪ Has information been sought from industry associations and competitors to remain abreast of emerging risks? ▪ Has the Board been informed of the risks that **are not** being actively managed and those that **are** being actively managed?

Disclosure	▪ Have all risks **material** to the company been disclosed?
	  ▪ Is there disclosure on how the risk may impact the company?
	  ▪ Has the risk disclosure been updated to reflect changes in current and expected conditions?
	Note: Do not provide a 'laundry list' of every conceivable risk

To provide meaningful information, companies should disclose the strategies used to manage its risks

Competition Risk
Example of Boilerplate Disclosure

General and not specific

Potential impact is not disclosed

Competition Risk

Our industry is very competitive. We face significant competition from other software companies in all aspects of our business. Our competitors are larger in size, well established, international in scope and have significant financial resources. We continue to actively monitor the activities of our competitors with a view to ensuring that we will be able to effectively compete in the marketplace and attract new customers.

Competition Risk
Example of Entity-Specific Disclosure

Entity-specific

Potential impact

Competition Risk

We face significant competition from other manufacturers in Canada and Country ABC. Our competitors include Company Calao and Company Lagos. These competitors are well established, international in scope and have significant financial resources that permit them to develop new products, modify existing products, use proprietary software and market products on a global basis. Competition is based mainly on price, quality of product and efficiency of production. The increased competition may affect our sales, cash flow and financial condition.

Competition Risk
Example of Entity-Specific Disclosure (cont'd)

Risk management

Risk Management Strategies

To mitigate competition risk, our strategies include creating long-term value for our customers and implementing efficient processes to manufacture our main product TopProgram.

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Key Supplier Risk
Example of Boilerplate Disclosure

General and not specific

Potential impact is not disclosed

The company is reliant on a key supplier for the supply of component parts for widgets.

Key Supplier Risk
Example of Entity-Specific Disclosure

Entity-specific

Potential impact

Reliance on Supplier XYZ

The company obtains its supply of the component parts for widgets from Supplier XYZ under the Supply Agreement dated March 31, 2010 for a five year term. Under the terms of the Supply Agreement, the company is required to purchase a minimum of 30% of its supply of component parts of widgets from Supplier XYZ on an annual basis and Supplier XYZ is to also provide the supplies upon the company's request. The company obtains a discount on the supplies of component parts. Should the supplier fail to meet its obligations under the terms, manufacturing operations could be negatively impacted as the production process of widgets may be set back. Further, the possible non-renewal of the Supply Agreement may result in significant increased production costs and a possible compromise on the quality of widgets.

Key Supplier Risk
Example of Entity-Specific Disclosure (cont'd)

Risk management

Risk Management Strategy

The company manages the risks of reliance on Supplier XYZ through alternative supply arrangements with various other suppliers of component parts. These arrangements provide for similar discounts and are of comparable quality as those provided under the Supply Agreement.

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Foreign Operational Risk
Example of Boilerplate Disclosure

General and not specific

Potential impact is not disclosed

The company's operations are located in Mali. The company is subject to the political risks and economic considerations of operating in Mali.

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Foreign Operational Risk
Example of Entity-Specific Disclosure

Potential impact

Entity-Specific

Risk Factor

Currently, the company's principal property is located in Mali. Consequently, the company is subject to certain risks associated with foreign ownership, including currency, inflation, political and property title risk. On March 21, 2013 a coup was initiated by members of Malian army, creating uncertainty within the country. Work on our principal property has been suspended until security is re-established within Mali for our personnel and assets. Travel and access to the property may be curtailed due to political instability or risks to personnel in remote areas which may result in project delays.

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Foreign Operational Risk
Example of Entity-Specific Disclosure (cont'd)

Potential impact

Operations may be affected in varying degrees by government regulations with respect to community rights, restrictions on development, price controls, export controls, restriction of earnings, taxation laws, expropriation of property, environmental legislation, water use and labour standards.

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Foreign Operational Risk
Example of Entity-Specific Disclosure (cont'd)

Risk management

Risk Management Strategies

The Board of Directors (the Board) and senior management monitor the political and operating environment in Mali on an ongoing basis. The company meets with government officials on a quarterly basis to foster a greater understanding of the value that the Mali project brings to the Mali government and local community. Furthermore, the company maintains the majority of its funds in Canada and only forwards sufficient funds to meet current obligations, all which must be approved by the Board.

Transactions Between Related Parties

Transactions between Related Parties 51-102 F1 – Part 2, Item 1.9

- Companies should discuss transactions between related parties including:
  - Qualitative and quantitative characteristics
  - Relationship and identity of the related person or entities
  - Business purpose of the transaction
  - Recorded amount and the measurement basis used
  - Ongoing contractual or other commitments resulting from the transaction

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Transactions between Related Parties

Observations

The business purpose and economic substance of related party transactions (RPTs) is sometimes not disclosed

Why Important

By virtue of their nature, related party transactions lack the independence inherent in arm's length transactions. Investors need to understand the business purpose and economic substance of RPTs, so they can understand the rationale for transactions and impact on the business

Companies should clearly discuss ALL related party transactions, including the identity of the parties and their relationship to the company, as well as the business purpose and economic substance of each transaction

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Examples of Common Related Party Transactions

- Office space rented from a company with common officers and directors to the company
- Administrative services provided by a company controlled by a director
- Advisory fees, management fees or other services to companies controlled by officers or directors
- Loans and advances provided by a director to the company or vice-versa
- Equity investments made by the company in other entities with common officers and directors

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Transactions between Related Parties
Example 1 of Boilerplate Disclosure

Lacks detail

During the year, the company paid $3,000,000 to a company with common directors for services and interest on a loan.

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Transactions between Related Parties Example 1 of Entity-Specific Disclosure

Relationship/ identity

Business purpose and amount

Measurement basis used

During the year, the company paid $3,000,000 to DrugCo, who has common directors with the company. The company paid $200,000 to DrugCo for the use of laboratory space, and $2,400,000 for materials in connection with Phase 2 of the development of NewDrug. The laboratory space and materials, which were both provided in the normal course of operations at rates comparable to what would have been paid to unrelated parties, were measured at the exchange amount.

Business purpose and amount

The company also paid DrugCo $400,000 in interest on a loan it provided in the principal amount of $4,000,000. The unsecured loan bears interest at 10% per annum, and matures in five years with an option by the company to extinguish the debt at any time without penalty. The company entered into this related party transaction because alternate sources of financing were unavailable due to the company's limited operating history, lack of collateral and limited access to public financing due to current market conditions.

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Transactions between Related Parties Example 2 of Boilerplate Disclosure

Lacks detail

During the year, the Company paid $200,000 of interest on a loan payable to a majority shareholder.

Transactions between Related Parties Example 2 of Entity-Specific Disclosure

Details of amount

Relationship/ identity

Measurement basis used

Business purpose

During the year, the Company paid $200,000 in interest on a loan of $2,000,000 received from the CEO, who is a majority shareholder. The unsecured loan bears interest at 10% per annum and matures in five years with an option by the Company to extinguish the debt at any time without penalty. The transaction was recorded in the Company's financial statements at the exchange amount. The Company entered into this related party transaction because alternate sources of financing were unavailable due to the Company's limited operating history, lack of collateral and limited access to public financing due to current global financial conditions.

Forward-Looking Information

Forward-Looking Information Requirements NI 51-102 – Parts 4A and 4B

- Companies must have a reasonable basis for the FLI and must include disclosure that:
  - Identifies forward-looking information as such
  - Cautions that actual results may vary from FLI and states the material factors that could cause actual results to differ materially from the FLI
  - Identifies material risk factors
  - States the material factors or assumptions used to develop FLI
  - Describes the policy for updating FLI

MD&A disclosure should include specific risks and assumptions that may impact future performance and these assumptions should be supportable and reasonable

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Forward Looking Information Requirements NI 51-102 –section 5.8

- The MD&A should include disclosure of:
  - Events and circumstances that occurred during the period to which the MD&A relates that are reasonably likely to cause actual results to differ materially from FLI previously disclosed to the public and the expected differences
  - Material differences between actual results for the annual or interim period and any FOFI/financial outlook for the period that the company previously disclosed

OSC Staff Notice 51-721 Forward-Looking Information, to be published June 2013

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Forward-Looking Information

Observations

Companies are not always aware that disclosure of future operational activities is considered forward-looking information (FLI) which is subject to additional disclosure requirements under securities legislation

Why Important

Securities legislation requires companies to discuss in their MD&A occurrences that are likely to cause actual results to differ materially from previously disclosed FLI. This allows investors to evaluate the company's forecast and see how it is progressing toward the achievement of its objectives.

If companies choose to disclose FLI, then they are also required to provide updates in subsequent MD&A

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Forward-Looking Information Hot Buttons

Areas	Considerations
General	▪ Is there a reasonable basis for the disclosed FLI? ▪ Are assumptions supportable and entity-specific? ▪ Is the FLI presented for a reasonable period?
Disclosure	▪ Is FLI clearly identified? ▪ Are the assumptions used to develop FLI disclosed? ▪ Has previously disclosed FLI been updated if actual results differ materially?

Forward-Looking Information
Example 1 of Boilerplate Disclosure

FLI not identified

No assumptions provided

In fiscal 2013, the company anticipates meeting the following targets:

- Total revenues expected to be between $1.5 - $2 billion
- Total sales to increase by 5.0% to 6.0%

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Forward-Looking Information
Example 1 of Entity-Specific Disclosure

Identification of FLI

Assumptions

The following represents forward-looking information and users are cautioned that actual results may vary. In fiscal 2013, the company expects total sales to increase by 5.0% to 6.0%, resulting in revenues of $1.5 - $2 billion. This expectation is based on same-store sales growth of between 3.0% and 4.0% and the introduction of new brands to our city centre stores. It is expected that new brands will contribute to the increase in sales and will be offset by increased competition from U.S. retailers. A key performance indicator for the company includes retail sales per square foot, this target assumes an average sale per square foot of $45.

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Forward-Looking Information
Example 2 of Boilerplate Disclosure

FLI not identified

No assumptions provided

In order to attain its profitability objectives and ensure its continued operation, the Company must continue to increase cash flows from day-to-day operations. To do so, the Company expects sales to increase in 2013.

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Forward-Looking Information
Example 2 of Entity-Specific Disclosure

In order to attain its profitability objectives and ensure its continued operation, the Company must continue to increase cash flows from day-to-day operations. To do so, the Company expects that the level of sales in 2013 will increase.

Assumptions

The following factors support management's assessment about the increase in sales:

- Economic recovery;
- Seller network completed in the course of 2012; and
- Restructuring of the Western sale territories will result in securing more sales contracts.

Forward-Looking Information
Example 2 of Entity-Specific Disclosure (cont'd)

Assumptions

Unknown risks and uncertainties could impact our expectation for sales increases such as increased competition, continued pressure on sales prices and failure to launch new products. We will update our forward-looking statement for any adverse events that could materially impact management's expectation of increased sales.

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Forward-Looking Information
Example of Updating Previously Disclosed FLI

2012 objectives	Accomplishments in 2012
Sales growth of 3-4%	<u>Sales growth of 10.5%</u> • A 6% increase in sales was achieved during fiscal 2012 due to the introduction of product X in Q4. • The remaining 4.5% of sales growth resulted from sales of product Y. The reduction of product Y's selling price drove an increase in sales volume for product Y.
Capital expenditure $25-35 million	<u>Capital expenditure of $15 million.</u> Spending was substantially lower than anticipated in 2012 due to lower information technology enhancements as a result of the delay in the system conversion which should be completed by Q2 of 2013.

Venture Issuer Disclosures

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.

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Venture Issuer Disclosures

Observations

Venture issuers that have not had significant revenue from operations do not always provide a breakdown of material costs and expenditures

Why Important

A breakdown of costs helps investors assess how well a company is being managed. A presentation of exploration and evaluation assets or expenditures on a property-by-property basis helps investors evaluate the impact of those expenditures in forwarding the exploration or development of those properties.

Venture issuers without significant revenue should provide more granular disclosures of their costs

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Venture Issuer Disclosures Hot Buttons

Areas	Considerations
Additional disclosure for venture issuers without significant revenue	▪ Is there a breakdown of material components of: ▪ Exploration and evaluation assets or expenditures? ▪ General and administration expenses? ▪ Other material costs? ▪ Has the breakdown been provided for each of the last two financial years? *Note: Considered material component of cost if exceeds greater of 20% of total amount of class or $25,000*
Mining exploration and development companies	▪ Have exploration and evaluation assets or expenditures been presented on a property-by-property basis?

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Venture Issuer Disclosures
Example of Boilerplate Disclosure

The following is a detailed list of expenditures incurred on the company's A and B mineral properties:

Lacks detail

	31-Dec-2012	31-Dec-2011
Opening Balance	3,100	2,150
Drilling	505	230
Exploration expenditures	722	420
Closing Balance	**4,327**	**2,800**

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Venture Issuer Disclosures
Example of Entity-Specific Disclosure

The following is a detailed list of expenditures incurred on the company's A and B mineral properties:

Presented on a property-by-property basis

	Property A		Property B	
	31-Dec-2012	31-Dec-2011	31-Dec-2012	31-Dec-2011
Opening Balance	2,200	1,500	900	650
Drilling	400	200	105	30
Geology/geophysics	200	200	135	40
Equipment Rental	115	0	102	60
Lab analysis	100	100	70	20
Closing Balance	**3,015**	**2,000**	**1,312**	**800**

Non-GAAP Financial Measures

Non-GAAP Financial Measures
CSA Staff Notice 52-306 (Revised)

- Companies should clearly define any non-GAAP financial measures and explain their relevance
- Companies should:
  - Explicitly state that the non-GAAP financial measure does not have any standardized meaning prescribed by the issuer's GAAP
  - Present with equal or greater prominence the most directly comparable measure calculated in accordance with the issuer's GAAP
  - Explain why it provides useful information to investors and how management uses the non-GAAP measure
  - Provide a clear quantitative reconciliation from the non-GAAP financial measure to the most directly comparable measure calculated in accordance with the issuer's GAAP

Companies need to consider whether the inclusion of a non-GAAP measure provides more clarity

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Non-GAAP Financial Measures

Observations

Many companies disclose non-GAAP financial measures, such as EBITDA, however they often do not explain why these measures provide useful information to investors. As well, these measures are not always reconciled to the most directly comparable GAAP measure.

Why Important

Since non-GAAP financial measures do not form part of IFRS and as such do not have a standardized meaning or calculation, it is critical that companies explain the composition of the measure and its relevance so that investors and analysts are fully informed

When providing non-GAAP financial information, companies should not mislead investors nor obscure the company's GAAP results

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Non-GAAP Financial Measures Hot Buttons

Areas	Considerations
Usefulness	▪ Has the company disclosed: ▪ Why the non-GAAP financial measure is useful to an investor? ▪ Why management considers the non-GAAP financial measure to be useful?
Reconciliation	▪ Is a reconciliation between the non-GAAP financial measure and the most directly comparable GAAP measure provided?
No standardized meaning	▪ Does the disclosure explicitly state that there is no standardized meaning of the non-GAAP financial measure?
Prominence	▪ Has the comparable GAAP measure been presented with equal or greater prominence to the non-GAAP financial measure?
Explain changes from previous years	▪ If composition of the non-GAAP financial measure has changed from the previous year, has disclosure of the reasons for these changes been made?

Non-GAAP Financial Measures
Example of Boilerplate Disclosure

- No explanation of why useful
- No reconciliation provided
- Standardized language missing

Our operating income before specific items rose 31%, reaching a new peak of $101 million.

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Non-GAAP Financial Measures
Example of Entity-Specific Disclosure

Our profit for the fiscal year was $50 million compared to $31 million in the previous fiscal year. Operating income before specific items (OIBI) rose 31%, reaching a new peak of $101 million. OIBI of the previous fiscal year was $77 million.

Highlights that there is no standardized meaning

OIBI is a non-GAAP measure and is mainly derived from the consolidated financial statements but does not have any standardized meaning prescribed by IFRS. Therefore it is unlikely to be comparable to similar measures presented by other companies.

Why useful

OIBI is used by management to evaluate the performance of its operations based on a comparable basis which excludes specific items that are non-recurring. When a specific item occurs in two prior fiscal years, or is reasonably likely to occur within the next two years, it is no longer considered to be non-recurring by management.

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Non-GAAP Financial Measures
Example of Entity-Specific Disclosure (cont'd)

Why useful

We believe that a significant number of users of our MD&A analyze our results based on OIBI since it is a yearly comparable measure of the performance of the Company.

Presented with equal prominence to IFRS

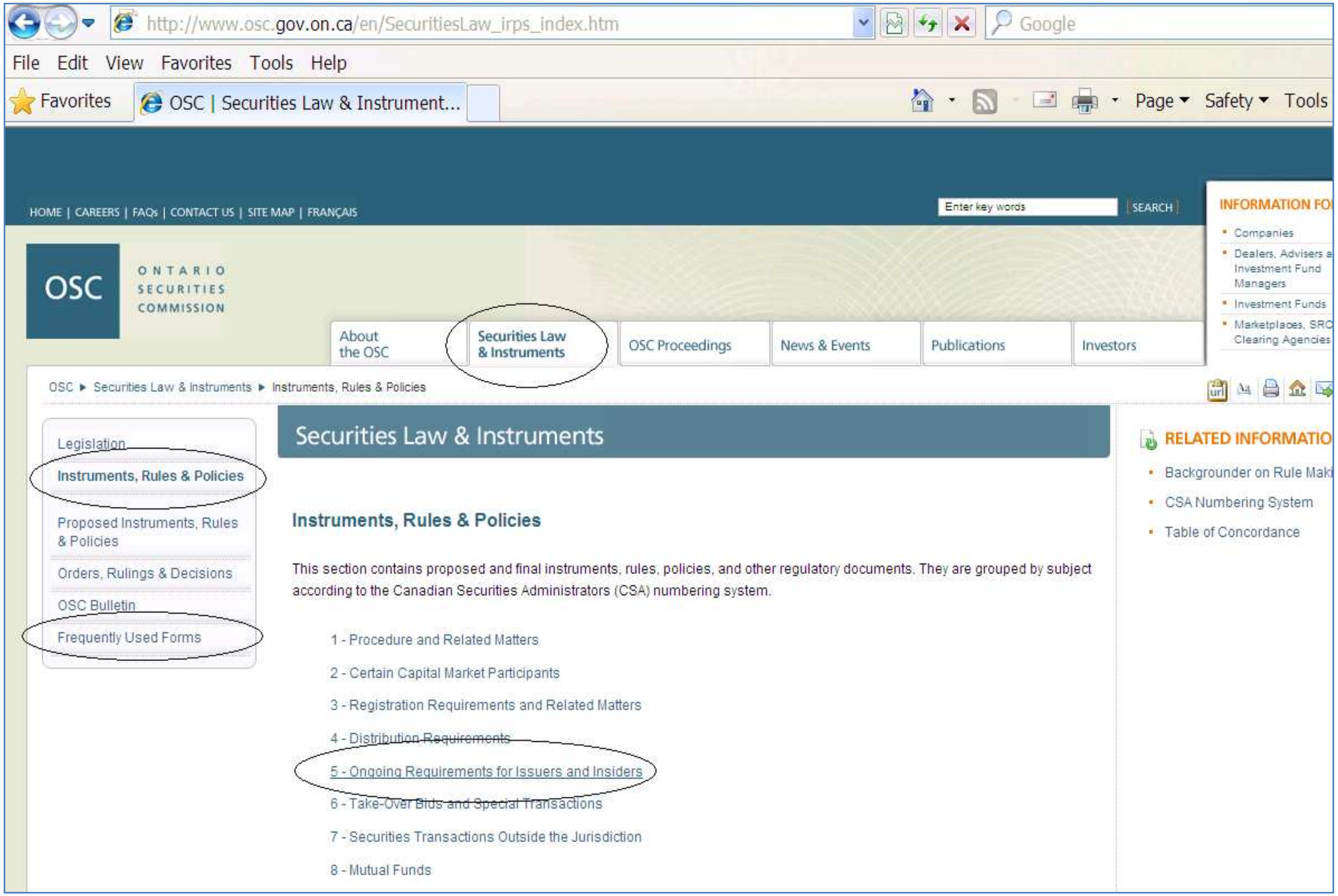
Reconciliation of OIBI to profit in thousands of dollars:

Quantitative reconciliation

OIBI	$101	$77
Restructuring of distribution network	($6)	$0
Relocation of production	$0	($9)
Gross income as per financial statements	$95	$68
Sales and administrative expenses	$23	$19
Financial expenses	$12	$9
Taxes	$10	$9
Net income as per financial statements	$50	$31

Helpful Information About the OSC

Useful Links for Companies



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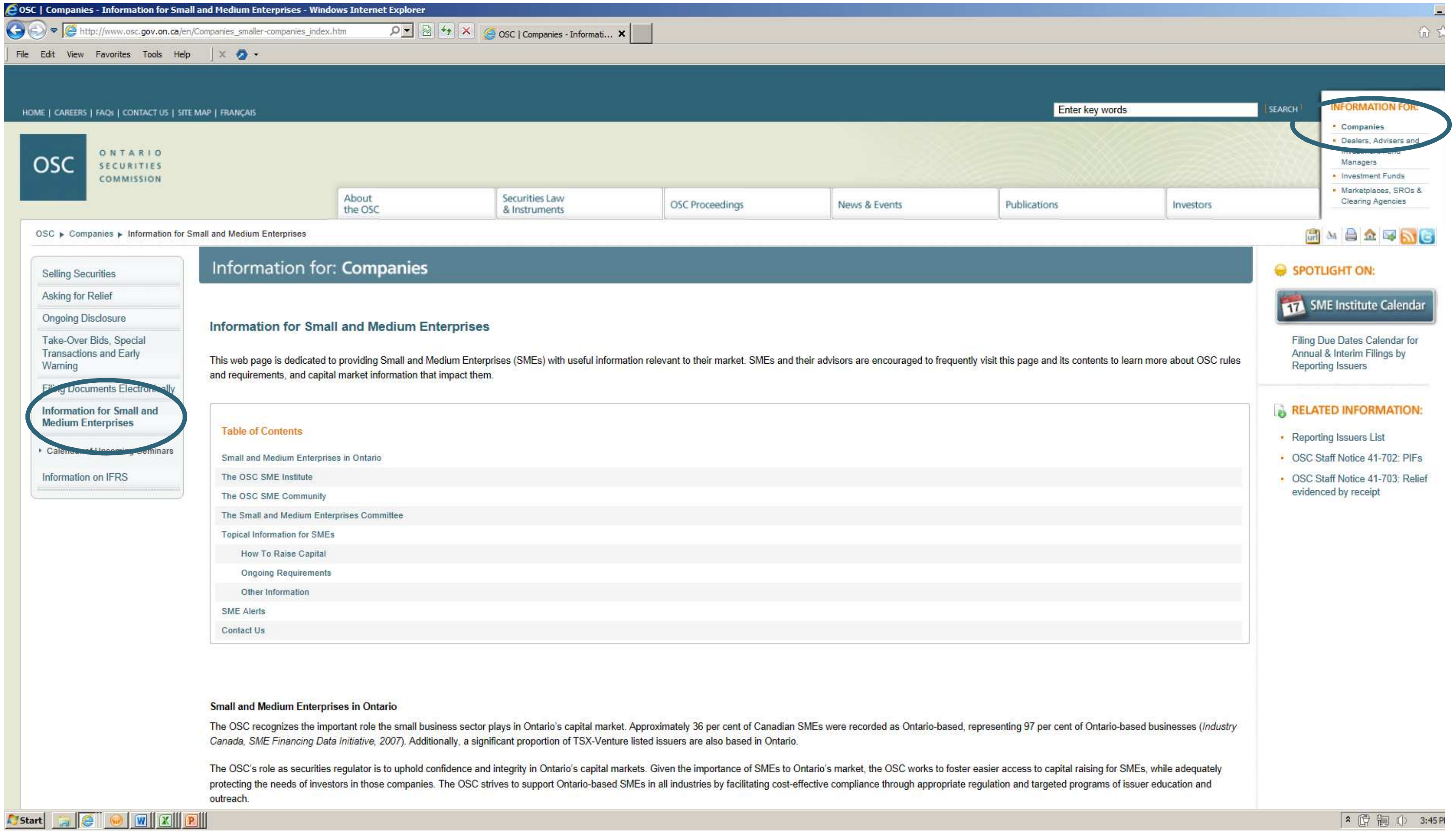
Useful Links for Companies



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