BUILDING A BETTER MD&A

A GUIDE FOR SMALLER ISSUERS

CA Chartered Accountants of Canada

A CANADIAN PERFORMANCE REPORTING BOARD PUBLICATION

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PREFACE

The Canadian Institute of Chartered Accountants (CICA) established the Canadian Performance Reporting Board (CPRB) to advance the measurement and reporting of organizational performance outside of financial statement reporting.

In support of its mission, the CPRB publishes guidance materials to assist preparers and thought-leadership documents that raise awareness about issues or that report the results of environmental scans and research.

Building A Better MD&A — A Guide For Smaller Issuers supplements the CPRB's earlier material *Management's Discussion and Analysis: Guidance on Preparation and Disclosure* that was published in 2004. *Building A Better MD&A — A Guide For Smaller Issuers* is intended to assist senior management and boards of directors in maximizing the usefulness of their MD&A for investors. While it is targeted at smaller companies, the CPRB believes it may also be useful for larger entities.

The CPRB welcomes comments about this guidance. They should be addressed to:

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1. INTRODUCTION

It is generally recognized today that financial statements alone do not communicate all the information that investors seek.

Securities regulators and capital market participants view the Management's Discussion and Analysis (MD&A) as an integral component of financial reporting, an essential companion to the financial statements.

What are the most useful disclosures beyond financial statements that smaller issuers will want to provide to capital markets in their MD&As?

This guide urges companies to consider the MD&A as a key communication vehicle to investors, not just a regulatory compliance document. The MD&A can be used to integrate and accumulate in one location material information about the company that investors most need to know.

The MD&A can serve as an effective information source not only for use by investors and debt providers, but also as a helpful orientation for new directors and others interested in knowing about a company's performance and prospects.

The CICA publication *Management's Discussion and Analysis: Guidance on Preparation and Disclosure* offers more comprehensive guidance than that provided in this document.[1] Many larger reporting issuers have chosen to follow this Guidance, to a greater or lesser extent, in preparing and presenting their MD&As.

This document offers tips and guidance for smaller issuers in preparing MD&As that are useful to investors. While written principally for the benefit of smaller issuers, companies of any size may find this guide helpful.

Some of the disclosures suggested in this guide are not mentioned specifically in securities regulations but are consistent with the underlying principles and purpose of an MD&A as stated by regulators. This guide does not set out all the detailed disclosures mandated by securities regulators as it is expected that MD&A preparers will always refer to applicable requirements. Headings of the key regulatory requirements related to the content of MD&As are provided in the appendix.

1 For a summary of this and other CPRB publications, see http://www.cica.ca/cpr

2. PREPARING THE MD&A

2.1 WHERE TO START

Begin by reviewing the six general disclosure principles for MD&As[2].

1. *Through the eyes of management*: enable readers to view the company through the eyes of management

2. *Integration with financial statements*: complement by providing useful quantitative and qualitative information that may not be reported in financial statements, as well as supplement through insightful analysis of financial statements

3. *Completeness and materiality*: be reliable, that is, complete, fair and balanced, and providing material information—namely, information that could influence a reasonable investor in making a decision to invest or continue to invest in the company

4. *Forward-looking orientation*: is fundamental to useful MD&A reporting

5. *Strategic perspective*: focus on management's strategy for generating value for investors over time

6. *Usefulness*: be written in plain language, with candour and without exaggeration, and embody the qualities of understandability, relevance, comparability and consistency over reporting periods

For both annual and interim MD&As, review information that will help to identify the key disclosures most likely to be important to investors.

- **Financial Statements**: Identify key items and issues arising from financial statements that are likely to be of most interest to investors and that are not self-evident.

- **Corporate Objectives**: Consider business goals, objectives and challenges for the year as communicated internally and externally by management.

- **Board Meetings**: Review board agendas, minutes and submissions to identify relevant issues discussed—e.g. strategy, risks, operational or financial matters. Identify issues that need to be drawn to the attention of investors, including significant transactions, commitments, events and changes.

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2 CICA *Management's Discussion and Analysis: Guidance on Preparation and Disclosure—2004*

- **Press releases**: Review the content of press releases since the last MD&A (annual or interim) for material information.
- **Other filings**: Review other filings such as annual information forms, information circulars or material change reports that may contain information to consider including in the MD&A.
- **External factors**: Identify industry specific and economic or environmental issues that are expected to impact performance going forward (and therefore should be explained in the MD&A).
- **Competitors' disclosures**: Review other companies' disclosures, especially those of primary competitors. (There is also an increased risk of regulatory review/scrutiny of MD&As that do not compare well with those of other companies in the same industry.)
- **Award winning disclosures**: Consider looking at the disclosures of winners of the CICA Corporate Reporting Awards, especially those of the small cap/venture issuers category.[3]
- **Regulatory continuous disclosure review reports**: Review recent CSA reports and staff notices that summarize recurring MD&A disclosure deficiencies.[4] Examples of deficiencies include:
  - only reproducing financial statement information,
  - lack of segment reporting,
  - failure to provide appropriate disclosures about liquidity and capital resources,
  - inadequate discussion of one time adjustments, such as write downs,
  - failure to provide appropriate forward looking information,
  - failure to provide information on risks,
  - lack of analysis and disclosure of operating costs and their relationship to revenues,
  - failure to discuss environmental issues that have impacted or may impact results,
  - not including information on quarterly trends and fourth quarter adjustments,
  - not including information on financial instruments,

3 See http://www.cica.ca/index.cfm/ci_id/131/la_id/1 for information on the awards and award winners.

4 An example of a relevant staff notice is CSA Staff Notice 51-316 *Continuous Disclosure Review of Smaller Issuers*.

- lack of discussion about projects under development for operations that are not producing significant revenue, and failure to provide sufficient disclosures about related party transactions.

Review any comment letters received from regulators.

If applicable to your company:

- **Analyst reports**: Look at analyst reports on your company or on competitors in the same industry.
- **Conference or investor presentations**: Review questions and discussions at conference or investor presentations about your company or any presentations by companies in the same industry.

2.2 HELPFUL HINTS

Some helpful hints for preparing effective MD&A disclosures include:

Consider the purpose of your MD&A:

- Use the MD&A to integrate material information about the company that investors need to know—investors and analysts appreciate finding information accumulated and integrated in one location.
- Make your MD&A a primary disclosure document about your company, rather than considering it simply as a regulatory compliance document.

Seize the opportunity to provide context:

- The MD&A is to be prepared "through the eyes of management", enabling management to present the company's situation and outlook in context and in a meaningful manner.

Involve the CEO and other management:

- To ensure consistency in messaging, the CEO needs to be involved early in the process to participate in identifying key messages for the MD&A.
- In addition, other management (sales, operations, legal, etc. as appropriate) needs to be involved in identifying themes.

Seek directors' input:

- Ask directors for their input based on their work on other boards or in capital markets.

Create a mock-up of the redesigned MD&A:

- To build management and director commitment to a redesigned MD&A consider creating a mock-up that will illustrate the concept, content and presentation for the new MD&A. Present pros and cons of moving to the new design.

Start early:

- In the first year of redesigning the MD&A, it will be particularly important to begin the process early. The time required in subsequent years may be less, as the redesigned template can be used
- Allow sufficient time for review by senior management and the audit committee and for any resulting revisions.
- Develop a reporting calendar (see suggested reporting calendars at 2.3).

Use plain language:

- Avoid jargon, boilerplate and long sentences; make disclosures understandable to investors.

Explain the whys:

- Provide insights in analyzing information; connect the dots for investors.
- Add value for the reader; don't simply repeat information that is apparent in the financial statements, such as year over year revenue increases.

Provide balanced reporting:

- Address the bad news as well as the good (consistent with disclosure principle 3 on page 3).
- Management earns credibility in the eyes of investors when it acknowledges things that have gone wrong and demonstrates a plan to rectify or respond.

Highlight and discuss trends:

- Communicate and explain trends and indicate expectations as to whether the trends will continue into the future.

Ensure a forward-looking orientation:

- Provide insight into the future.
- Give readers information about longer term goals and metrics and then report progress on them.

Use graphics and tables:

- Effective use of graphics and tables can enhance communication about trends or complex issues and shorten the length of the MD&A.

Provide a table of contents:

- A table of contents provides a roadmap for locating key information located throughout the MD&A.

Establish a review process:

- Establish a process involving management (CEO, sales, operations and legal executives, if appropriate) to review drafts to ensure the MD&A provides a complete and fair picture. (Larger companies establish a disclosure committee to provide a structure to ensure that information percolates up to management and that the MD&A and other disclosures provide a complete and fair picture.)

- Allow sufficient time to enable the audit committee and board of directors to review and provide feedback on the MD&A.

Challenge attempts to omit disclosures due to competitive reasons:

- Some may hesitate to disclose significant information due to concerns about maintaining competitive advantage. Challenge such concerns to determine the extent to which they are truly justified (for example, if employees or others are aware of the issue, it is likely no longer confidential). Weigh these concerns against the risks of losing the confidence of the capital markets and failing to meet regulatory requirements by not providing key information.

Use a checklist:

- Use a checklist to ensure you include all necessary disclosures.[5]

- In designing a checklist, consider applicable disclosure requirements[6] to ensure completeness of the MD&A (see appendix) and consider reviewing the CICA's Management's Discussion and Analysis Guidance on Preparation and Disclosure of MD&As to identify opportunities for enhancing the usefulness of the drafted MD&A.[7]

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5 e.g. CICA MD&A Self-Assessment Tool for Preparers available at http://www.cica.ca/cpr.

6 Canadian Securities Administrators have set out continuous disclosure requirements for all companies that are reporting issuers with them. These requirements set out both what must be disclosed and where the disclosures should be located. National Instruments 51-102 (Continuous Disclosure Obligations), 43-101 (Standards of Disclosure for Mineral Projects), and 51-101 (Standards of Disclosure for Oil and Gas Activities) are important documents. In addition, National Policy 51-201 (Disclosure Standards) sets out disclosure standards regarding fair and timely disclosure of information to the capital markets.

7 for a summary of the publication, see http://www.cica.ca/cpr.

Adopt a continuous improvement approach:

- Consider incremental improvements in MD&A reporting, as changes do not have to be made all at once. Pick an area, e.g. liquidity, and focus on improving disclosures about the chosen topic in that period's MD&A.

2.3 SUGGESTED REPORTING CALENDARS

A Suggested Reporting Calendar for the Annual MD&A Preparation Process for Non-Venture Issuers (annual MD&A due no later than 90 days after period end)*	
Step	*Timing*
Develop and circulate a reporting calendar	prior to period end
CEO/CFO/other management identification of key themes/messages, (develop mock-up MD&A design if helpful)	prior to period end
Draft a pro-forma MD&A (without actual results) and circulate to senior management for comments	prior to period end
Review for compliance with regulatory requirements and revise pro-forma draft as necessary	prior to period end
Insert actual results, along with necessary revisions of discussion and analysis	after closing
Circulate draft MD&A, review with senior management and revise as necessary	between closing and 2 to 3 weeks before filing
Final CEO review and approval, CEO/CFO certification sign off (N.B. ensure consistency of MD&A with earnings press release)	1 to 2 weeks prior to filing
Audit committee review of MD&A, revisions as necessary	1 to 2 weeks prior to filing
Board of director approval	last week prior to filing
Filing with securities regulators	no later than 90 days after period end

* 120 days for venture issuers

A Suggested Reporting Calendar for the Interim MD&A Preparation Process for Non-Venture Issuers (interim MD&A due no later than 45 days after period end)*	
Step	*Timing*
Review annual MD&A to determine if any key themes/messages need to be revised or updated	prior to period end
Draft a pro-forma MD&A (without actual results)	prior to period end
Review for compliance with regulatory requirements and revise pro-forma draft as necessary	prior to period end
Insert actual results, along with necessary revisions of discussion and analysis	after closing
Circulate draft MD&A, review with senior management and revise as necessary	between closing and 2 to 3 weeks before filing
Final CEO review and approval, CEO/CFO certification sign off (N.B. ensure consistency of MD&A with earnings press release)	1 to 2 weeks prior to filing
Audit committee review of MD&A, revisions as necessary	1 to 2 weeks prior to filing
Board of director or audit committee approval	last week prior to filing
Filing with securities regulators	no later than 45 days after period end

* 60 days for venture issuers

3. MD&A DISCLOSURES MOST IMPORTANT TO INVESTORS

Most issuers agree that it is important to communicate why investors should invest or continue to invest in their companies.

This involves providing:

- evidence of the quality of management,
- a discussion and analysis of historical performance,
- a discussion and analysis of future prospects or outlook,
- a discussion of risks, risk management and sensitivities.

As regulators have stated:

> "...users are interested in understanding what is behind the historical results of the RI [reporting issuer], what to expect in the future, and the rationale behind decisions made by management."[8]

This publication does not attempt to present all the detailed information that is required by securities regulators. Requirements of National Instrument 51-102 Form F1 MD&A and MI 52-109 Certification of Disclosure of Issuers' Annual and Interim Filings must be satisfied. The appendix sets out the headings of the content requirements that apply to MD&As and references in the right hand column of the appendix are provided to assist preparers in linking regulatory requirements to relevant sections of this publication.

3.1 ANNUAL MD&A

Annual MD&A disclosures are intended to provide a context and bigger picture for assessing past financial performance and future prospects. Annual MD&As tend to be particularly useful to investors who are considering or analyzing a company for the first time. Otherwise investors use annual MD&As to confirm previously dis-

8 Alberta Securities Commission, Continuous Disclosure Review Program 2006 Report, February 16, 2007, page 2

closed information or identify significant changes in direction. The main elements of a useful MD&A, as discussed below, are:

- profile and strategy,
- key resources and competencies,
- performance analysis,
- outlook, and
- risks.

3.1.1 PROFILE AND STRATEGY

- <u>Company profile and business segments</u>

  Set the context for investors by communicating matters such as:

  - what the company does and what industry it is in,
  - its key business segments and key business locations,
  - its key assets e.g., for resource industries, the location and quality of properties and their stage of development (e.g. exploration, production),
  - landmark events in the company's history, its stock exchange listing(s) and number of shares outstanding.

- <u>Strategy and markets</u>

  Provide information about the company's strategy for growth and shareholder value creation to answer questions such as:

  - What is management's specific strategy to grow the company?
  - How does the company generate, or plan to generate, revenue?
  - What are key industry sector features such as market size and growth, competition and relevant economic trends? What is the company's current and potential market share?
  - What are the assumptions that shape the company's strategy and outlook?
  - What is the distinctiveness and/or excellence of the product or service offered? In what way is the company unique?

- Are there barriers to entry in the market that provide a competitive advantage?
- What is management's assessment of the risks to achieving its strategy and what are its plans to address these risks?

For venture issuers that are not yet producing significant revenue and for any issuer that has significant projects that are not generating operating revenue, there is a regulatory requirement that their MD&As should discuss their plans, progress to date against those plans and the additional costs and time to complete the plans.[9]

3.1.2 KEY RESOURCES AND COMPETENCIES

Investors want to understand the particular capabilities, advantages or disadvantages that the company has in comparison to other companies in the industry. Discuss your company's key resources and competencies such as:

- Leadership — Key people

  Investors want to invest in companies that have strong management and oversight teams with known track records, integrity, knowledge of the industry and familiarity with relevant business models. For MD&A purposes, it is appropriate to provide pertinent and crisp disclosures about the capabilities of key management and directors.[10]

  Investors also want to know whether management's interests are aligned with theirs. For example, are the compensation of management and directors aligned appropriately with the achievement of results and is the compensation appropriate in amount?

- Cash and financing (liquidity and capital resources)

  Investors in smaller issuers are particularly interested in the cash resources of the company. MD&A disclosures should answer questions such as:

  - Where has the company obtained its cash?
  - How has it used its cash?
  - What cash will be needed to implement business strategies?
  - What is the budget for capital expenditures?
  - What shareholder distributions are expected?

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9 Form 51-102 F1, Part 1 General Provisions (h) and Part 2 item 1.4 (d)

10 MD&A disclosure about key management and directors differs in purpose and detail from disclosures required for information circulars and executive compensation filings.

- Will the company be able to meet its current and future cash and working capital needs and if so, how?
- Are there any restrictions on cash?
- Is there any risk of default on debt instruments?
- What is the company's current and planned debt/equity mix?
- How will debt be managed e.g., will it be repaid and if so how or will it be rolled over?
- Is there any off-balance sheet financing?
- Are there any related party transactions or payments? Why do these exist and is there flexibility regarding these payments in the event of a cash crunch?
- Is the company economically dependent on any parties, related or otherwise?

Depending on the industry and company, other resources and competencies to discuss might include:

- <u>Speed to production/market</u>

  Investors want to know how quickly it will take a company to obtain necessary permits or approvals to explore and operate properties, bring mineral or oil and gas resources into production or new technologies and pharmaceutical products to market.

- <u>Size and quality of resources and reserves/new product pipeline</u>

  Investors in mining and oil and gas companies are interested in the size and quality of the company's resources and reserves. Avoid promotional disclosures, bearing in mind the disclosure requirements in NI 43-101 (mineral projects) and NI 51-101 (oil and gas activities). Investors in technology companies are interested in the size and quality of the new product pipeline.

- <u>Permits and patents</u>

  As it is increasingly difficult for companies in a number of industries (e.g. mining, oil and gas) to get regulatory approval for operating new facilities, existing operating permits are valuable resources. Similarly, for companies in the technology industry, holding patents on new technologies is important and valuable. Investors want to know about material permits and patents or other intangibles that may or may not be apparent in financial statements.

- Access to services, workforce

  Investors want to know if companies have the necessary services and skilled workforce to achieve their strategic goals. If not, what is the impact of this on plans going forward and what is the company doing to obtain the necessary services and workforce?

- Costs and gross margins

  For resource industries, investors want to understand the company's ability to extract resources in a cost-effective manner and how these costs compare to companies in the same industry. For technology and other companies, investors want to understand the company's ability to control or grow their gross margins.

3.1.3 PERFORMANCE ANALYSIS

Investors want to know if the company has delivered on its strategy.

Financial Statements

Financial statements are used by investors to screen for prospective investments and to understand an issuer's financial condition and performance.

Investors want an *insightful line-by-line analysis* of financial statements focusing on what happened, why and what it suggests about strategy and operations going forward. Line-by-line commentary is not helpful if it merely restates what is in financial statements, adding nothing insightful. Investors prefer that companies provide more, rather than less, information in their analysis of financial statements.

Important analyses include, as relevant:

- geographical segments,
- product revenue segments,
- information about product lines,
- detailed explanations of cost of goods sold and gross margins,
- input costs,
- selling, general and administrative costs,
- research and development costs,
- related party transactions.

Investors want similar insightful line-by-line analysis for balance sheet and cash flow items. The fewer assumptions analysts have to make, the better.

In addition, investors want discussion and explanation about:

- trends and the underlying reasons for them,
- quarterly fluctuations, especially fourth quarter adjustments,
- seasonality issues that have impacted or may impact results,
- unusual period to period variations in performance.

In all of the analysis, the focus should be on interpreting historical performance with a view to communicating:

- how well management has executed on its stewardship responsibilities, and
- implications for future prospects.

Beyond-GAAP Financial Measures

Beyond-GAAP financial performance measures (non-GAAP financial measures in securities regulators' terminology) such as earnings before interest, taxes, depreciation and amortization (EBITDA) and distributable cash (for income trusts) are often provided by management and employed by investors to obtain additional analytical insight into the performance and financial condition of an entity not provided by GAAP financial statements. The measures may involve an inherent degree of subjectivity such as identifying matters as "non-recurring items" and may omit items such as "non-cash" expenses that are required elements of any GAAP computation of performance. To the extent that beyond-GAAP financial measures are disclosed, regulatory authorities expect certain accompanying disclosures.[11] The CPRB has published guidance about reporting distributable cash[12] and is currently developing guidance for reporting EBITDA and Free Cash Flow.

Operational Measures

Operational performance measures used by management are also used by investors to compare corporate performance within the same industry (e.g. barrels of oil equivalent per day, load factors, average commodity prices, etc.). It is important to disclose key assumptions and estimates used in calculating these measures.

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

12 See Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities, available at www.cica.ca/cpr

3.1.4 OUTLOOK

An assessment of outlook is the primary goal of investors in analyzing whether a company's current market price warrants investment or continued investment in the company.

Investment professionals are constantly looking for clues as to the future potential of businesses. MD&A disclosures that provide insights into the issuer's future prospects are critical. Such insights might arise both from trends observed in past performance and in other information not yet reflected in financial statements.

What trends does the company perceive going forward? What are the future prospects for the company's performance? On what assumptions has management based its assessment of future prospects? What factors can impact the outlook presented?

Investors expect that discussion of the company's outlook be realistic and reflect outcomes considered reasonably likely by management. Investors also expect disclosures to have been produced through a fact-based analysis of the business and its environment, and be consistent with plans and reports presented to the board of directors.

Outlook should permeate a company's MD&A disclosures but a separate section entitled "outlook" within an MD&A is also valued by investors.

Appropriate cautionary language should accompany forward-looking information. Many companies provide an overall cautionary statement at the beginning or end of their MD&A.

3.1.5 RISKS

Investors want to know what could go wrong — in the industry and within the company — that could derail an issuer's strategic plan.

It is important to feature risks that are either significant in their potential to harm the business or those that distinguish the issuer from its direct competitors in the industry. It is helpful to prioritize identified risks; it is not helpful to provide a boilerplate list of every conceivable risk.

A smaller issuer might, for example, discuss particular operating risks related to the geographical locations of key properties. It might highlight particular environmental matters that could impact operations.

It is also important to provide a sense of how risks can affect the issuer and communicate the potential significance of the risks to on-going operations. For example, a smaller issuer might discuss sensitivity to currency fluctuations.

Investors are interested too in knowing about actions or strategies, if any, that a smaller issuer has taken to mitigate identified risks.

3.2 INTERIM MD&A

Interim MD&A reporting is intended to update performance information, including trends and progress-to-date regarding strategic goals and targets. It focuses on analysis of performance in the period and discussion of progress towards goals and plans to remediate any areas where progress is not meeting expectations.

Material events that occur between MD&A filing dates are reported in press releases (and regulatory material change reports). These press releases can significantly influence investors and are important communication channels for the smaller issuer. The information contained therein should be reflected in the next MD&A to provide continuity of disclosure on a cumulative basis and to integrate the information into one document.

There are two primary aspects to interim MD&A reporting.

Financial Statement Analysis

Investors want to know what happened during the interim period. They want an insightful line-by-line analysis of the interim and year-to-date financial statements, focusing on what happened and why, how amounts compare with those for the same period last year and what this suggests about strategy, operations, results and financial condition going forward. Line-by-line commentary is not helpful if it merely restates what is in financial statements, adding nothing insightful.

Investors appreciate disclosures that highlight what has changed in the period and what is expected to change going forward. Address seasonality if an issue during the latest quarter.

Update Previous MD&A Disclosures

As necessary, update other elements of previous MD&As, such as the strategic outlook or significant changes in assumptions, business environment, financing plans, liquidity, capital expenditures, merger/acquisition activity, risks, etc.

It is reasonable to assume that investors have read the annual MD&A and previous interim MD&As; therefore, it is only necessary to update disclosures if changes have occurred that have not been previously disclosed in the MD&A. Some companies choose, however, to provide succinct contextual information from their annual MD&As to help readers of the interim MD&A place results in perspective.

Given investors' interest in future prospects, it is useful to provide an outlook section within an interim MD&A, if only to confirm that the outlook provided in previous MD&As is still valid.

4. OVERSEEING THE RELIABILITY AND TIMELINESS OF DISCLOSURES

The quality of corporate disclosures has a significant impact on a company's reputation. In particular, reliable and timely disclosures build investor confidence and management credibility and may reduce a company's cost of capital.

The importance of reliable and timely disclosures is emphasized by regulatory requirements for certification and approval of disclosures.

Failure to provide reliable and timely disclosures can result in civil liability. In many Canadian jurisdictions, investors can now sue management, directors and others for misrepresentation in a public document or oral statement or failure to make timely disclosure of a material change. Proper documentation of process and attention to MD&A reporting is more important than ever.

CERTIFICATION

There is a need to ensure that information in MD&A disclosures, as well as financial statements, is supported by rigorous systems and controls. The importance of this is reflected in securities regulators' certification requirements.

CEOs and CFOs are required to certify annually and quarterly that their financial statements, MD&A and AIF (if required) together fairly present the financial condition, results of operation and cash flows of the company and do not omit to state any material fact. In addition, they must provide certifications about disclosure controls and procedures and internal control over financial reporting.[13]

Securities regulators also require MD&A disclosures regarding controls.[13] Larger companies have tended to establish disclosure committees to assist CEOs and CFOs in the certification process. Smaller companies should consider establishing a formal process to involve senior management in reviewing drafts to ensure the MD&A provides a complete and balanced picture.

13 See 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings

The certification requirements provide particular challenges for smaller issuers as discussed in four CICA publications:

- *CEO/CFO Certification*
- *Internal Control 2006: The Next Wave of Certification Guidance for Management*
- *Internal Control 2006: The Next Wave of Certification Guidance for Directors*
- *Internal Control: The Next Wave of Certification — Helping Smaller Public Companies with Certification and Disclosure about Design of Internal Control over Financial Reporting.*[14]

OVERSIGHT AND REVIEW

Boards of directors are required to review and approve annual and interim MD&As before they are filed with regulators (they may delegate the approval of the interim MD&A to their audit committee).

Experienced and independent directors can fulfill a particularly important review role for smaller issuers, providing the benefit of a depth and range of expertise and review not otherwise always available to smaller issuers.

MD&A disclosures about strategy, risk, performance and financial condition need to be consistent with information that boards of directors have received in the normal course of their directorship duties.

While directors are explicitly required to approve MD&A disclosures, many boards review all material disclosures to ensure consistency and in recognition that investors rely on all disclosures provided by the company — whether in an MD&A, on the corporate website, in a press release, in a corporate presentation, or wherever.

14 See *Additional Resources*.

ADDITIONAL RESOURCES

There are a number of additional resources that smaller issuers may find helpful in preparing their MD&As.

For examples of MD&A disclosures that may be helpful to smaller issuers, see: http://www.cica.ca/index.cfm/ci_id/10304/la_id/1.htm

For information on the CICA's MD&A Guidance see:
http://www.cica.ca/cpr

For regulatory requirements, each province has its own website. Below are listed the sites for four of them:

Alberta:	http://www.albertasecurities.com/
British Columbia:	http://www.bcsc.bc.ca/
Ontario:	http://www.osc.gov.on.ca/index.jsp
Ontario Small Business:	http://www.osc.gov.on.ca/PublicCompanies/SmallBusiness/sb_index.jsp
Quebec:	http://www.lautorite.qc.ca/index.en.html

Certain regulatory requirements and reports:

NI 51-102 Continuous Disclosure Obligations see
http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/rrn_part5_index.jsp

NI 51-101 Standards of Disclosure for Oil and Gas Activities
http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/rrn_part5_index.jsp

Oil and Gas Review 2006 Report Alberta Securities Commission March 2007
http://www.albertasecurities.com/DisComp/Pages/DisclosureReviewPrograms.aspx

NI 43-101 Standards of Disclosure for Mineral Projects
http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part4/rule_20051223_43-101_mineral-projects.pdf

CSA Staff Notice 51-316 Continuous disclosure review of smaller issuers, December 2005
http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/csa_20051209_51-316_cont-dis-sm-iss.pdf

MI 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings
http://www.osc.gov.on.ca/Regulation/Rulemaking/Current/Part5/rule_20051025_52-109_consolidated.pdf

Continuous Disclosure Review Program 2006 Report Alberta Securities Commission
http://www.albertasecurities.com/dms/5821/5836/15510_CONTINUOUS_DISCLOSURE_REVIEW_PROGRAM_2006_REPORT.pdf

CICA Corporate Reporting Awards
http://www.cica.ca/index.cfm/ci_id/131/la_id/1

CICA publication (2007) Internal Control: The Next Wave of Certification Helping Smaller Public companies with Certification and Disclosure about Design of Internal Control over Financial Reporting
http://www.cica.ca/client_asset/document/3/6/8/3/4/document_70049E6E-D80F-51DE-45708BE9979677EB.pdf

APPENDIX

REGULATORY REQUIREMENTS—MD&A CONTENT

MD&A preparers should access securities regulators' websites to obtain the most recent version of MD&A disclosure requirements.

The following represents the headings presented in regulatory requirements regarding MD&A content (i.e. not filing dates, approval requirements, etc.).[15] Under each heading, there are detailed disclosure requirements and instructions on the nature and format of the disclosures required. These details are not presented in this appendix.

The third column of the table below highlights whether this guide addresses the regulatory requirement and, if yes, the section of this guide in which the item is discussed.

Form 51-102F1 MD&A Part 1—General Instructions and Interpretation		
a)	What is MD&A?	Yes 2.1 Where to Start, 2.2 Helpful Hints
b)	Date of information	No
c)	Use of "Company"	No
d)	Explain Your Analysis	Yes 2.2 Helpful Hints, 3 MD&A Disclosures Most Important to Investors
e)	Focus on Material Information	Yes 2.1 Where to Start
f)	What is Material?	Yes 2.1 Where to Start
g)	Forward-Looking Information	Yes 2.1 Where to Start, 2.2 Helpful Hints, 3 MD&A Disclosures Most Important to Investors

15 These are regulatory requirements as of September 2007.

Form 51-102F1 MD&A Part 1 — General Instructions and Interpretation		
h)	Venture Issuers Without Significant Revenues	Yes 2.1 Regulatory continuous disclosure review reports
i)	Reverse Takeover Transactions	No
j)	Foreign Accounting Principles	No
k)	Resource Issuers	Yes 2.2 Use a checklist, footnote 5
l)	Numbering and Headings	No
m)	Omitting Information	No
n)	Defined Terms	No
o)	Plain Language	Yes 2.1 Where to Start and 2.2 Helpful Hints
p)	Available Prior Period Information	No

Form 51-102F1 MD&A Part 2 — Content of MD&A		
	Item 1 Annual MD&A	
1.1	Date	No
1.2	Overall Performance	Yes 3.1.1 Profile and Strategy, 3.1.3 Performance Analysis
1.3	Selected Annual Information	No
1.4	Results of Operations	Yes 3.1.2 Costs and gross margins, Size and quality of resources and reserves, Speed to production/market, 3.1.3 Financial statements

Form 51-102F1 MD&A Part 2 — Content of MD&A		
	Item 1 Annual MD&A	
1.5	Summary of Quarterly Results	No
1.6	Liquidity	Yes 3.1.2 Cash and financing
1.7	Capital Resources	Yes 3.1.2 Cash and financing
1.8	Off-Balance Sheet Arrangements	Yes 3.1.2 Cash and financing
1.9	Transactions with Related Parties	Yes 3.1.2 Cash and financing, 3.1.3 Financial statements
1.10	Fourth Quarter	No
1.11	Proposed Transactions	No
1.12	Critical Accounting Estimates (for non-venture issuers)	No
1.13	Changes in Accounting Policies including Initial Adoption	No
1.14	Financial Instruments and Other Instruments	No
1.15	Other MD&A Requirements	No
	Item 2 Interim MD&A	
2.1	Date	No
2.2	Interim MD&A	Yes 3.2 Interim MD&A

MI 52-109 Certification of Issuers' Annual and Interim Filings — Form 52-109F1			
(this instrument is in the process of revision)			
	Our conclusions about the effectiveness of DC&P…	Yes	4 Certification, footnote 13
	Any (material) change in ICFR in most recent interim period.	Yes	4 Certification, footnote 13

BUILDING A BETTER MD&A

A GUIDE FOR SMALLER ISSUERS

CA Chartered Accountants of Canada