POLICY STATEMENT TO REGULATION 52-112 RESPECTING NON-GAAP AND OTHER FINANCIAL MEASURES DISCLOSURE

Introduction

Regulation 52-112 respecting Non-GAAP and Other Financial Measures Disclosure (*insert the reference*) (the "Regulation") sets out specific disclosure requirements for an issuer that discloses non-GAAP financial measures (including non-GAAP financial measures that are ratios or financial outlooks), segment measures, capital management measures and supplementary financial measures.

Compliance with the Regulation does not relieve an issuer from any other obligations under other securities legislation. In particular, an issuer may not present a non-GAAP financial measure or other financial measure in a way that would be misleading.

The Regulation applies to all issuers, including investment funds, with the exception of SEC foreign issuers. The Regulation does apply to an SEC issuer that is not an SEC foreign issuer.

The purpose of this Policy Statement is to state the view of the securities regulatory authorities on certain provisions of the Regulation. This Policy Statement includes explanations, discussions, and examples of various parts of the Regulation.

The Regulation uses the terms "disclosed" and "presented" in the context of location within the financial statements. A financial measure is disclosed if it is included in the notes to the financial statements. A financial measure is presented if it is included in the "primary financial statements", as that term is defined in the Regulation. The definition of a non-GAAP financial measure excludes all measures presented or disclosed within the financial statements.

Section 1 - Definition of a non-GAAP financial measure

Common terms used to identify non-GAAP financial measures may include "adjusted earnings", "adjusted EBITDA", "free cash flow", "pro forma earnings", "cash earnings", "distributable cash", "cost per ounce", "adjusted funds from operations" and "earnings before non-recurring items". Many of these terms lack standard meanings and issuers across a spectrum of industries may use the same term to refer to different calculations.

Accounting policies include an issuer's presentation, recognition, and measurement under the financial reporting framework used in the preparation of its financial statements (often referred to as Generally Accepted Accounting Principles ("GAAP")). The accounting policies encompass all principles to be applied by an issuer in preparing and presenting its financial statements, not just those which are disclosed in the notes to the financial statements or those selected when the issuer has to make a choice between alternative accounting policies.

Paragraphs 55 and 85 of IAS 1 *Presentation of Financial Statements* require the presentation of additional subtotals when such presentation is relevant to an understanding of the issuer's financial position or financial performance. An issuer that presents an additional subtotal in the primary financial statements, such as Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"), would be presenting the subtotal in accordance with the accounting policies used to prepare its financial statements, if it has determined such presentation is relevant to an understanding of its financial performance. That financial statement measure would not meet the definition of a non-GAAP financial measure if it were also disclosed outside the issuer's financial statements.

Measures that are a disaggregation of a line item presented in the primary financial statements, if that measure has been calculated in accordance with the issuer's accounting policies used to prepare the financial statements, would not meet the definition of a non-GAAP financial measure. The disaggregation of a line item includes disclosure of more granular information regarding that line item. This information could be presented through a table illustrating the disaggregation of revenues by certain products or by division, even if the table did not sum to the revenue amount presented in the issuer's primary financial statements, assuming that division or product revenue was calculated in accordance with the issuer's accounting policies under the financial reporting framework used in the preparation of the issuer's financial statements.

However, such measure(s) would meet the definition of a non-GAAP financial measure if the revenue amounts were adjusted in any manner.

Disaggregation of subtotals and totals presented in the primary financial statements are captured by the definition of non-GAAP financial measures. For example, if EBITDA is not presented in the primary financial statements, it would be inappropriate to conclude that it is not a non-GAAP financial measure on the basis that it is a disaggregation of profit as presented in the statement of profit or loss. Likewise, a measure calculated by combining numbers disaggregated from different line items would also meet the definition of a non-GAAP financial measure, unless that measure is separately disclosed in the notes to the financial statements, for example, when expenses in the statement of profit and loss are presented by function and then also presented by nature in the notes to the financial statements.

A financial outlook is a non-GAAP financial measure unless an equivalent measure is presented in the primary financial statements. A financial measure is equivalent to a financial outlook if the 2 were prepared on a consistent basis. For example, if revenue is presented on a forward-looking basis using consistent accounting policies applied by the issuer in its latest set of financial statements (i.e. revenue as presented in the financial statements adjusted only for assumptions about future economic conditions and courses of action) it would not be a non-GAAP financial measure.

For clarity, the definition of a non-GAAP financial measure is not intended to include non-financial information such as:

- number of units;
- number of subscribers;
- volumetric information;
- number of employees or workforce by type of contract or geographical location;
- environmental measures such as greenhouse gas emissions;
- information on major shareholdings;
- acquisition or disposal of own shares; and
- total number of voting rights.

The above list is not exhaustive.

We remind issuers that while non-financial information is not subject to the requirements of the Regulation, non-financial information is subject to various disclosure requirements under applicable securities legislation, including the requirement not to disclose misleading information.

Section 1 – Definition of primary financial statements

The Regulation uses the terms “statement of financial position”, “statement of profit or loss and other comprehensive income”, “statement of changes in equity”, and “statement of cash flows”, to describe the primary financial statements. Issuers may use titles for the statements other than those terms as long as the titles are in compliance with the financial reporting framework used in the preparation of the issuer’s financial statements. For example, an issuer may use the title “statement of comprehensive income” instead of “statement of profit or loss and other comprehensive income”, or “balance sheet” instead of “statement of financial position”.

Section 1 - Definition of a supplementary financial measure

An attribute of a supplementary financial measure is that it is disclosed, or is intended to be disclosed, on a *periodic* basis (for example quarterly and/or annually) to present, often in a prominent manner, an aspect of financial performance, financial position or cash flow. Some entities refer to such financial measures as key (financial) performance indicators (“KPIs”). For example, an entity that operates in the retail industry may consider same-store sales a KPI and discloses same-store sales (where same-store sales is a disaggregation calculated in accordance with the accounting policies used to prepare the sales line item presented in the primary financial statements) to periodically report sales performance from period to period. In this case, same-store sales meet the definition of a supplementary financial measure.

For clarity, if an issuer discloses a financial measure that is a disaggregation of a financial statement line item in order to simply explain how the financial statement line item changed from period to period, such a measure would not meet the definition of a supplementary financial measure because the issuer is not presenting an aspect of its financial performance. For example, if an issuer experienced an unexpected increase in administrative expenses, it may analyze the nature of, and reasons for, changes in administrative expenses, by among other things, disclosing disaggregated information about administrative expenses (where the disaggregation was calculated in accordance with the accounting policies used to prepare the administrative expenses line item presented in the primary financial statements).

Section 2 - Application

The Regulation applies to all documents, including a written communication prepared and transmitted only in electronic form,

- that are required to be filed with the securities regulatory authority, or

- that are not required to be filed with the securities regulatory authority; and

    - that are filed with the securities regulatory authority, or

    - that are filed or required to be filed with a government or an agency of a government under applicable securities or corporate law or with an exchange or quotation and trade reporting system under its bylaws, rules or regulations, or

    - that are any other communication the content of which would reasonably be expected to affect the market price or value of a security of the issuer. We expect that information presented on websites and social media would meet this criteria.

Issuers should not disclose non-GAAP financial measures, segment measures, capital management measures or supplementary financial measures on social media, if character limits would preclude the disclosure of all the required information in accordance with the Regulation (e.g., Twitter).

If an issuer uses social media to provide links to their publications, such publications are in the scope of the Regulation.

The Regulation does not apply to oral statements. However, if a written transcript of an oral statement is provided by the issuer, the issuer must provide the disclosures required by the Regulation. This could be done in an attachment or appendix to the transcript.

Certain "specific financial measures" that are required to be calculated in accordance with prescribed requirements under applicable securities legislation are not subject to the Regulation. Examples of specific financial measures that are not subject to the Regulation include:

- Earnings coverage ratios prescribed by item 9 of Form 41-101F1 *Information Required in a Prospectus*;

- Summary of Quarterly Results prescribed by section 1.5 of Form 51-102F1 *Management's Discussion & Analysis*;

- Net Present Value of Future Net Revenue prescribed by section 2.1 of Form 51--101F1 *Statement of Reserves Data and Other Oil and Gas Information*; and

- Net Asset Value prescribed by part 14 of *Regulation 81-106 respecting Investment Fund Continuous Disclosure* (chapter V-1.1, r. 42).

The above list is not exhaustive. While disclosure of a specific financial measure in accordance with other securities legislation is not subject to the requirements of the Regulation, the disclosure is subject to the provisions of that legislation.

The Regulation also does not apply to a financial measure that is disclosed in accordance with the laws of a jurisdiction of Canada. This exclusion is, however, only applicable in situations where a specific financial measure is required to be disclosed and the law specifically defines the measure and the method to be used in its calculation, for example a government payment calculated and disclosed in accordance with the *Extractive Sector Transparency Measures Act* (S.C. 2014, c. 39, s. 376).

For the purposes of paragraph 3(d), paragraph 4(3)(b) and paragraph 5(2)(c) of the Regulation, the requirements must be applied the first time a non-GAAP financial measure is disclosed in a document. Therefore, this disclosure is not required to be repeated throughout a document even though the financial measure may appear more than once in the document.

The “first time” concept is intended to be applied to each discrete document that relates to a specific period or date.

Paragraph 3(a) – Labelling non-GAAP financial measures

Any label or term used to describe a non-GAAP financial measure or adjustments in a reconciliation must be appropriate given the nature of information.

The following are a few examples which we consider would not be in compliance with the labelling requirement in paragraph 3(a) of the Regulation:

- Labels that cause confusion with amounts prepared in accordance with the financial reporting framework used in the preparation of the issuer’s financial statements. Using terms or labels which are the same as, or confusingly similar to, those normally used under the financial reporting framework is misleading. For example, a measure labelled as “cash flows from operations” calculated as cash flows from operating activities before changes in non-cash working capital items, is confusingly similar to the term “cash flows from operating activities” specified in IAS 7 *Statement of Cash Flows*;

- Labels which are purporting to represent “results from operating activities” or a similar title but which exclude items of an operating nature, such as inventory write-downs, restructuring costs, impairment of assets used for operations and stock-based compensation;

- Labels that are overly optimistic or positive (e.g., guaranteed profit or protected returns); and

- Labels that cause confusion based on the financial measure’s composition. For example, in presenting EBITDA as a non-GAAP financial measure, it would be inappropriate to exclude amounts for items other than interest, taxes, depreciation and amortization.

The above list is not exhaustive.

The label used for a non-GAAP financial measure may arise from a written agreement, such as a credit agreement containing a material covenant regarding a non-GAAP financial measure. If the label in the written agreement is inconsistent with the requirements of paragraph 3(a) of the Regulation, the issuer will be expected to clarify that the label is from a written agreement so that a reader does not confuse it with an amount prepared in accordance with the financial reporting framework used in the preparation of the issuer’s financial statements.

Paragraph 3(b) – Prominence of a non-GAAP financial measure

Determining whether a non-GAAP financial measure is presented with no more prominence is a matter of judgment, taking into account the overall disclosure and the facts and circumstances in which the disclosure is made.

We expect that presentation of a non-GAAP financial measure would not in any way confuse or obscure the presentation of financial measures presented in accordance with the financial reporting framework used in the preparation of the issuer's financial statements.

The following are examples that we view as causing a non-GAAP financial measure to be more prominent than the most directly comparable measure presented or disclosed in the financial statements:

- Presenting a full statement of profit or loss and other comprehensive income of non-GAAP financial measures without presenting it in the form of a reconciliation of each non-GAAP financial measure to the most directly comparable measure, sometimes referred to as a single column approach;

- Omitting the most directly comparable measure from a press release headline or caption that includes a non-GAAP financial measure;

- Presenting a non-GAAP financial measure using a style of presentation (for example, bold or larger font) that emphasizes the non-GAAP financial measure over the most directly comparable measure;

- Describing a non-GAAP financial measure as, for example, "record performance" or "exceptional" without at least an equally prominent descriptive characterization of the most directly comparable measure;

- Multiple non-GAAP financial measures being used for the same purpose thereby obscuring disclosure of the most directly comparable measure;

- Providing tabular or graphical disclosure of non-GAAP financial measures without presenting an equally prominent tabular or graphical disclosure of the most directly comparable measures or without including the most directly comparable measures in the same table or graph; and

- Providing a discussion and analysis of a non-GAAP financial measure in a more prominent location than a similar discussion and analysis of the most directly comparable measure. For greater certainty, we take the view that a location is not more prominent if it allows an investor who reads the document, or other material containing the non-GAAP financial measure, to be able to view the discussion and analysis of both the non-GAAP financial measure and the most directly comparable measure contemporaneously. For example, within the previous, same or next page of the document.

The above list is not exhaustive.

The Regulation requires that the non-GAAP financial measure be disclosed with "no more prominence in the document than the most directly comparable financial measure presented in the primary financial statements". If the most directly comparable measure is disclosed with "equal or greater prominence" than the non-GAAP financial measure, the requirement under paragraph 3(b) of the Regulation has been met.

Paragraph 3(c) – Comparative information

Paragraph 3(c) of the Regulation requires presentation of the same non-GAAP financial measure for the comparative period. For greater clarity, "same" includes the label, composition, and calculation of the non-GAAP financial measure. If there has been a change in label, composition or calculation from what has been disclosed previously, the requirements of subparagraph 3(d)(v) of the Regulation will apply.

We expect that the disclosure required by paragraph 3(c) of the Regulation would not be feasible only in rare circumstances, such as in the first period of operations where no comparative period exists.

Paragraph 3(d) – First time disclosure requirements

The information required by paragraph 3(d) of the Regulation should be presented in the same document as the non-GAAP financial measure. To satisfy these requirements, an issuer may identify the non-GAAP financial measure as such when it first occurs in the document using a footnote that refers to a separate section within the same document. The requirements in subparagraphs 3(d)(ii), (iii), (iv) and (v) of the Regulation may then be presented in the separate section the footnote referred to.

There may be types of documents where it is not clear when the non-GAAP financial measure first occurs or appears, for example, websites and social media. In these instances, we consider that issuers meet the “first time” objective by, for example, clearly identifying the measure as being a non-GAAP financial measure and providing a link to the other required disclosure.

To prevent duplicate disclosure, an issuer may provide all the required disclosures for all non-GAAP financial measures in one section of the document, and cross-reference to that section each time a non-GAAP financial measure is presented in that same document.

Subparagraph 3(d)(i) – Identification of a non-GAAP financial measure

Non-GAAP financial measures do not have standardized meanings under the financial reporting framework used in the preparation of the issuer’s financial statements. Therefore, it is important that non-GAAP financial measures are identified as such. This also signals to an investor that additional information about the measure should be considered as it may not be comparable to similar measures presented by other issuers.

We are of the view that the subparagraph 3(d)(i) identification requirement of the Regulation would be met by footnoting the non-GAAP financial measure and at the bottom of the page, including the following or similar wording as part of the footnote, “A non-GAAP financial measure which is defined in the Non-GAAP Financial Measures section of this document”.

Subparagraph 3(d)(iii) – Usefulness of non-GAAP financial measure disclosure

The Regulation does not define the term “useful”. The term “useful” is intended to reflect how management believes that presentation of the non-GAAP financial measure provides incremental information to investors regarding the issuer’s financial position, financial performance or cash flows. The level of detail is a matter of judgment, which takes into account the complexity of the information and how familiar a reasonable person would be with the measure.

The statement satisfying the requirement of subparagraph 3(d)(iii) of the Regulation should:

- not be boilerplate;
- be clear and understandable;
- be specific to the non-GAAP financial measure used, the issuer, the nature of the business and the industry; and
- be specific to the way the non-GAAP financial measure is assessed and applied to decisions made by management.

Issuers should avoid inappropriate or potentially misleading implications about usefulness. The Regulation does not explicitly prohibit certain adjustments. However, if adjustments are not consistent with the usefulness explanation, this may result in a non-GAAP financial measure that is inappropriate or misleading.

A non-GAAP financial measure may be misleading if it includes positive components of the most directly comparable measure but omits negative components. For example, presenting an operating performance measure that excludes normal, recurring, operating expenses necessary to operate an issuer’s business could be misleading. Another example is “free cash flow”, which is typically calculated as cash flows from operating activities as presented in the statement of cash flows under the financial reporting framework used to prepare the financial statements, less capital expenditures. “Free cash flow” should not be used in a manner that inappropriately implies that the measure represents the residual cash flow available for discretionary expenditures, if issuers have mandatory debt service requirements or other non-discretionary expenditures that are not deducted from the measure.

Subparagraph 3(d)(iv) – Reconciliation of a non-GAAP financial measure

Subparagraph 3(d)(iv) of the Regulation requires a quantitative reconciliation between the non-GAAP financial measure and the most directly comparable financial measure. An issuer may satisfy this requirement by providing a reconciliation in a clearly understandable way, such as a table. An issuer must ensure that its disclosure is not misleading and will have to consider the level of detail required to provide the necessary context.

The Regulation does not define the “most directly comparable financial measure” and therefore the issuer needs to apply judgment in determining the most directly comparable financial measure. In applying judgment, it is important for an issuer to consider the context of how the non-GAAP financial measure is used. For example, where the non-GAAP financial measure is discussed primarily as a performance measure used in determining cash generated by the issuer or its distribution-paying capacity, its most directly comparable GAAP measure will be from the statement of cash flows. In practice, earnings-based measures and cash flow-based measures are used to disclose operational performance. If it is not clear from the way the non-GAAP financial measure is used what the most directly comparable measure is, consideration should be given to the nature, number and materiality of the reconciling items.

For purposes of presenting the reconciliation, it is permissible to begin with the non-GAAP financial measure or the most directly comparable financial measure presented in the primary financial statements, provided the reconciliation is presented in a comprehensible manner.

The reconciliation should be quantitative, separately itemizing and explaining each significant reconciling item. Disclosure supporting the reconciliation should discuss significant judgments and estimates that management has made in developing the reconciling item.

Where a reconciling item is taken directly from the issuer’s primary financial statements, it should be named such that investors are able to identify the item in those statements, and no further explanation of that reconciling item is required.

Where a reconciling item is not extracted directly from the issuer’s primary financial statements, but is a component of a line item in the issuer’s primary financial statements or originates from outside the primary financial statements, the reconciliation should:

- explain how the figure is calculated;

- include a description of the line item of the primary financial statements where the reconciling item originates, if any; and

- discuss significant judgments and estimates, if any, that management has made in developing the reconciling items used in the reconciliation.

Reconciling items should be calculated using issuer-specific inputs. An issuer may make adjustments that are accepted within an industry; however, the quantum of these adjustments should be calculated using issuer-specific information. For example, an issuer may make an adjustment for operating capital expenditures, which is a standard adjustment in certain industries, however the amount of the adjustment should be calculated based on the issuer’s operating capital expenditures, and not by using only an ‘industry average’ amount as the sole factor.

The level of detail expected in the reconciliation depends on the nature and complexity of the reconciling items. The adjustments made from the most directly comparable financial measure should be consistent with the explanation required by subparagraph 3(d)(iii) of the Regulation regarding why the information is useful to investors and if applicable, how it is used by management. Explanations should be more detailed than merely stating what the reconciling item represents and should also cover the circumstances that give rise to the particular adjustment. For example, an adjustment for impairment of goodwill should be supported by the cause of the impairment.

An “other” or “adjusting items” category to describe numerous insignificant reconciling items should not be used without further explanation as to the nature of items which comprise the category.

Issuers should consider significant reconciling items on an absolute basis. For example, an issuer is expected to separately itemize positive and negative adjustments unless netting is permitted under the financial reporting framework used in the preparation of the issuer’s financial statements.

An issuer should disclose any income tax effects of its non-GAAP financial measure depending on the nature of that measures. However, adjustments to arrive at the non-GAAP financial measure should not be presented “net of tax” but should be shown as a separate adjustment and clearly explained.

Where comparative non-GAAP financial measures are presented for a previous period, a reconciliation to the corresponding most directly comparable measure should be provided for that previous period.

An issuer may present adjusted financial information outside the issuer’s financial statements using a format that is similar to one or more of the primary financial statements, but that is not in accordance with the issuer’s accounting policies under the financial reporting framework used in the preparation of the issuer’s most recently completed financial statements. In this case, the adjusted financial information would contain non-GAAP financial measures. Specifically, this would arise if an issuer presents non-GAAP financial measures in a form that is similar to:

- a statement of financial position;
- a statement of profit or loss and other comprehensive income;
- a statement of changes in equity; or
- a statement of cash flows.

Presentation of this information as a single column that excludes the most directly comparable GAAP financial measures in a separate column would be considered misleading. However, this information may be presented in the form of a reconciliation of the non-GAAP financial measure to the most directly comparable financial measure if such presentation shows in separate columns each of the most directly comparable measures, the reconciling items, and the non-GAAP financial measures.

When the adjusted presentation is used as a basis for the qualitative discussions and analysis of an issuer’s financial performance, financial position or cash flows with greater prominence than financial measures presented in the primary financial statements, this would be considered not in compliance with the requirement in paragraph 3(b) of the Regulation.

Subparagraph 3(d)(v) – Changes in a non-GAAP financial measure

If the comparative non-GAAP measure presented in accordance with paragraph 3(c) of the Regulation is not the same as that previously presented, the requirement of subparagraph 3(d)(v) of the Regulation would apply. This would be the case when the label, composition, or calculation of the comparative non-GAAP financial measure is not the same as previously presented.

Including additional reconciling items or excluding previously included reconciling items between the non-GAAP financial measure and the most directly comparable measure constitutes a change in composition or calculation. A clear explanation of the reason for this change is required under subparagraph 3(d)(v) of the Regulation.

A change in magnitude of an individual item would not constitute a change in composition or calculation. For example, an issuer may define adjusted earnings as earnings before impairment losses and transaction costs. Transaction costs may only be incurred every 3 years, such that there may be no adjustment in year 2 to reflect transaction costs, but there should be an explanation noting that the issuer expects that it will incur transaction costs in the future. In this example, the issuer should continue to include transaction costs in either the explanation about the usefulness (in periods where no transaction costs have been incurred) or in presenting the reconciliation, to maintain consistency of the non-GAAP financial measure.

Given that the disclosure of non-GAAP financial measures is optional, disclosing a particular non-GAAP financial measure does not generate a requirement to continue disclosing that measure in future periods. If, however, an issuer replaces a non-GAAP financial measure with another measure that achieves the same objectives (that is, the information provided to comply with subparagraph 3(d)(iii) of the Regulation was consistent for both measures), the requirement of subparagraph 3(d)(v) of the Regulation would apply.

Section 4 – Disclosure of non-GAAP financial measures that are ratios

Financial ratios may be useful in communicating aspects of an issuer’s financial performance, financial position or cash flow. Ratios fall under the definition of a non-GAAP financial measure, unless they are disclosed or presented in accordance with the financial reporting framework used in the preparation of the issuer’s financial statements. Specifically, earnings per share disclosed in the statement of profit or loss and other comprehensive income is not a non-GAAP financial measure. However, a working capital ratio or sales per square foot are examples of ratios that would meet the definition of a non-GAAP financial measure. For clarity, ratios include those measures expressed as percentages.

The prominence requirement in paragraph 4(1)(b) of the Regulation for ratios differs from that of other non-GAAP financial measures, however the principle that the presentation of ratios should not confuse or obscure the presentation of the most directly comparable financial measure remains the same. For example, we consider that an issuer does not meet the prominence requirement in paragraph 4(1)(b) of the Regulation if the issuer focused its disclosure on an increased gross margin percentage without giving at least equally prominent disclosure to the fact sales have significantly decreased over the same period of time which has resulted in a reduction in total profit period over period.

Many ratios do not have a directly comparable financial measure. As such, issuers should consider the disclosure of the ratio in relation to the overall disclosure of similar performance measures that have been presented in the primary financial statements. For example an issuer may calculate a debt to equity ratio (where the debt component is the total liabilities line item as presented in the statement of financial position and the equity component is the total equity line item as presented in the statement of financial position) and use this in its discussion of liquidity, however this discussion should form part of an overall discussion that should include relevant measures from the issuers primary financial statements.

A ratio may be calculated using one or more of the following:

(a) measures that are presented or disclosed in the issuer’s financial statements;

(b) non-GAAP financial measures; and

(c) non-financial information.

It is important for investors to understand the calculation of the ratio. For example, if an issuer has disclosed gross margin percentage calculated using total sales minus cost of goods sold, divided by total sales, this method of calculation should be described.

In addition to describing how the ratio is calculated, paragraph 4(3)(b) of the Regulation requires that a reconciliation be completed in one of 2 ways. If the ratio is calculated using one or more non-GAAP financial measures, an issuer could meet this reconciliation requirement by identifying each of the non-GAAP financial measures and applying subparagraph 4(3)(b)(i) of the Regulation to those identified components. Alternatively, an issuer could reconcile the entire ratio to a ratio calculated using the most directly comparable measures presented in the primary financial statements.

Some issuers may disclose sales per square foot, where the sales figure is extracted directly from the primary financial statements. The sales figure may directly agree to a line item included in the issuer's statement of profit or loss and other comprehensive income, or it may be a disaggregated sales figure calculated in accordance with the issuer's accounting policies under the financial reporting framework used in the preparation of the issuer's financial statements.

The disaggregated sales figure may reflect same-store sales, calculated in accordance with the accounting policies used to prepare the sales line item presented in the primary statements. However, if the sales figure in "same-store sales" is computed on a constant foreign exchange basis rather than under the requirements in IFRS under IAS 21 The Effects of Changes in Foreign Exchange Rates, the adjusted sales figure would meet the definition of a non-GAAP financial measure and the reconciliation requirement in subparagraph 4(3)(b)(ii) of the Regulation for the ratio could be met by identifying the adjusted sales figure as a non-GAAP financial measure and applying subparagraph 4(3)(b)(i) of the Regulation to the adjusted sales figure. Alternatively, the reconciliation requirement in subparagraph 4(3)(b)(ii) of the Regulation could be met by reconciling the adjusted sales per square foot to sales per square foot, where sales comes directly from the issuer's statement of profit or loss and other comprehensive income.

If each of the components of the ratio is a line item presented in the primary financial statements, an issuer can meet the requirement in subparagraph 3(d)(iv) of the Regulation by disclosing how the ratio is calculated, for example, when gross margin percentage is calculated and disclosed as being total sales minus cost of goods sold, divided by total sales, where each of sales and cost of sales is a line item in the statement of profit and loss and other comprehensive income.

Subsection 5(1) - Disclosure of non-GAAP financial measure that is a financial outlook and FOFI has been disclosed with the financial outlook

Subsection 5(1) of the Regulation requires that an issuer provide a quantitative reconciliation to the most directly comparable measure presented in the FOFI if the non-GAAP financial measure is a financial outlook and where FOFI has been disclosed with the financial outlook. This quantitative reconciliation must be prepared following the requirements in subparagraph 3(d)(iv) of the Regulation.

In determining whether FOFI has been disclosed with the financial outlook, as outlined in paragraph 5(1)(b) of the Regulation, there may be situations where an issuer presents or prepares FOFI concurrently or as an add-on to the financial outlook. If an extract or summary of FOFI is disseminated or disclosed, an issuer should consider whether this extract or summary was derived from the complete FOFI and whether the condition in paragraph 5(1)(b) of the Regulation has been met such that the reconciliation requirement in subsection 5(1) of the Regulation should apply.

Issuers are reminded that each material line item presented within the FOFI or the quantitative reconciliation under subsection 5(1) of the Regulation is subject to the disclosure requirements in parts 4A and 4B and section 5.8 of *Regulation 51-102 respecting Continuous Disclosure Obligations* (chapter V-1.1, r. 24).

Subsection 5(2) - Disclosure of non-GAAP financial measure that is a financial outlook for which FOFI has not been disclosed with the financial outlook

Subparagraph 5(2)(c)(i) of the Regulation requires an issuer to present the equivalent historical non-GAAP financial measure the first time that the non-GAAP financial measure that is financial outlook is disclosed. The requirements in section 3 of the Regulation, including the quantitative reconciliation requirements in subparagraph 3(d)(iv) of the Regulation, are applicable to the equivalent historical non-GAAP financial measure.

Determining the relevant historical period to satisfy the quantitative reconciliation requirements in subparagraph 3(d)(iv) of the Regulation is a matter of judgment, taking into account the time period covered by the financial outlook, the nature of the issuer's industry and the extent to which the business of the issuer is cyclical or seasonal. For example, where an issuer presents a financial outlook for the 3 months ending March 31, 20X2, the relevant period for the quantitative reconciliation of the equivalent historical non-GAAP financial measure may be:

- in the case where the business of the issuer is not seasonal, the issuer's most recent interim period ended for which annual financial statements or an interim financial report has been filed (e.g., the 3 months ended December 31, 20X1), or

- in the case where the business of the issuer is seasonal, the comparable historical interim period to that of the financial outlook presented (e.g., the 3 months ended March 31, 20X1).

The reconciliation requirements for a financial outlook non-GAAP financial measure where FOFI has not been disclosed with the financial outlook, are set out in clauses 5(2)(c)(ii)(A) and (B) of the Regulation.

The reconciliation requirement in clause 5(2)(c)(ii)(A) of the Regulation requires that an issuer provide a description detailing the differences between the financial outlook non-GAAP financial measure and the appropriate financial outlook for which an equivalent historical measure is presented in the primary financial statements. An issuer may satisfy this requirement by providing a reconciliation by schedule or other clearly understandable method. To the extent possible, this reconciliation should be quantitative; however, regardless of the format of the presentation, an issuer must ensure that its disclosure is not misleading and will have to consider the level of detail required to provide the necessary context. The disclosure should include the significant judgments and estimates that management has made in developing the reconciling items.

Where a reconciliation for a non-GAAP financial measure that is financial outlook is presented in the format outlined in clause 5(2)(c)(ii)(B) of the Regulation, the reconciliation information provided will be primarily driven by the process followed by the issuer with respect to the preparation, derivation or calculation of the financial outlook, and may include:

(a) a description of each of the significant components of the financial outlook, or

(b) a description of what was used in the calculation of the financial outlook.

For paragraph (a), the description is expected to include the identification and disclosure of each of the significant components of the financial outlook non-GAAP financial measure. For example, if a gross margin financial outlook has been derived by estimating each of its components, revenue and cost of sales, then the description required under clause 5(2)(c)(ii)(B) of the Regulation should include the quantification of each of the revenue and cost of sales components used in the calculation of the gross margin financial outlook.

For paragraph (b), the description is expected to include the process followed in preparing and reviewing the financial outlook. The description should not be boilerplate and should also disclose the material factors or assumptions relevant to the financial outlook.

Non-GAAP financial measures that are financial outlook ratios are subject to both section 4 and section 5 of the Regulation and issuers may choose to apply the reconciliation requirements in either subsection 4(3) or section 5 of the Regulation.

Section 6 – Disclosure of segment measures

A financial reporting framework used in the preparation of the issuer's financial statements may permit disclosure of a broad category of segment measures, but does not always specify how such measures should be calculated.

Disclosure in the notes to the financial statements of financial measures reported to the chief operating decision maker about an issuer's reportable segments may be determined on a basis that differs from the amounts presented and calculated in the issuer's primary financial statements. When disclosed outside the financial statements, to the extent a total of segment measures is not also disclosed as a line item in the primary financial statements, the accompanying disclosures required by section 6 of the Regulation allow a reader to understand how the measure is calculated and how it relates to the primary financial statements. This would apply in situations where an issuer presents an overall total, or a total for some, but not all, of the segments.

For example, a chief operating decision-maker may review segment-adjusted EBITDA for each of its reportable segments. In preparing financial statements in accordance with the selected financial reporting framework, an issuer is required to reconcile the total of the reportable segment amounts to the corresponding measure for the issuer in total, in this case “entity adjusted EBITDA”. Since the “entity adjusted EBITDA” amount is not disclosed in the primary financial statements, an issuer is required to comply with section 6 of the Regulation.

If an issuer discloses financial information about a segment outside the financial statements that is not disclosed in the issuer’s financial statements and that is not a disaggregation of a line item presented in accordance with the selected financial reporting framework, then that segment information meets the definition of a non-GAAP financial measure and is subject to the requirements in section 3 of the Regulation.

Section 7 – Disclosure of capital management measures

Disclosure of information that enables users of the financial statements to evaluate an issuer’s objectives, policies and processes for managing capital may be required by the financial reporting framework used in the preparation of the issuer’s financial statements.

How an issuer manages its capital is issuer-specific and the financial reporting framework used to prepare the issuer’s financial statements might not prescribe a specific calculation. The accompanying disclosure required by section 7 of the Regulation allows a reader to understand how an issuer calculates these measures and how they relate to measures presented in the primary financial statements.

Subparagraph 7(2)(b)(i) of the Regulation requires disclosure of how the capital management measure is calculated. For example, if the capital management measure was calculated in accordance with an agreement, a description of the agreement (e.g. the measure was calculated in accordance with lending agreements) together with details of the calculations would satisfy the requirement.

In situations where the capital management measure is an aggregation of individual line items presented on the primary financial statements, the requirements of subparagraph 7(2)(b)(iv) of the Regulation can be met by detailing how the measure has been calculated, as required by subparagraph 7(2)(b)(i) of the Regulation.

If the capital management measure was calculated using one or more non-GAAP financial measures, the issuer must comply with section 3 of the Regulation, in respect of each non-GAAP financial measure used.