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 reference) (the “Regulation”) sets out specific disclosure requirements for non-GAAP financial measures, non-GAAP ratios, and other financial measures, which are capital management measures, supplementary financial measures, and total of segments measures, as defined in the Regulation (together the “specified financial measures”). The purpose of this Policy Statement (the “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.

Interpretation of “filed” and “delivered” or “submitted”

The Regulation uses the terms “filed” and “submitted”. This Policy Statement also uses the term “delivered”. Material that is filed in a jurisdiction will be made available to the public in that jurisdiction, subject to the provisions of securities legislation in the local jurisdiction. Material that is delivered to a regulator, except in Québec, or securities regulatory authority, or submitted to a recognized exchange, but not filed, is not generally required under securities legislation to be made available to the public.

Document

A document is any written communication, including a communication prepared and transmitted in electronic form, e.g. a website, but does not include a transcript of an oral statement.

Specified Financial Measures Presented by an Issuer and Financial Statements of an Entity

An issuer may present a specified financial measure that is derived from its financial statements or the financial statements of another entity. The following are examples of financial statements of an entity, other than the issuer’s financial statements, that a specified financial measure may be derived from:

- Financial statements filed by or included in a document filed by an issuer, for example, financial statements of a reverse takeover acquirer, financial statements of an acquired business;

- Financial statements that are required to be filed with or delivered to a regulator, except in Québec, or a securities regulatory authority, or made reasonably available to each holder of a security acquired, as required by a provision of *Regulation 45-106 respecting Prospectus Exemptions* (chapter V-1.1, r. 21) (“Regulation 45-106”);

- Financial statements of a subsidiary, joint venture or associate for which summarized financial information is presented in the notes to the financial statements of the issuer;

- Financial statements of an investment entity’s investments, where supplemental financial information is included in the financial statements or the management’s discussion & analysis (the “MD&A”) of the investment entity; and

- Financial statements of an entity with which the issuer completed a transaction, included in a filing statement or a listing document.

Financial Measures

The Regulation applies when a specified financial measure is presented in a document. If the financial measure is only identified by label without a corresponding numerical amount or measure, a specified financial measure has not been disclosed and, thus, the disclosure requirements within the Regulation do not apply.

For clarity, the Regulation does not apply to qualitative disclosure of targets, benchmarks or covenants that are not accompanied by a financial numerical amount or measure.

Financial Reporting Framework, Accounting Principles, and Accounting Policies

In Canada, there are different financial reporting frameworks for different types of Canadian entities. Generally Accepted Accounting Principles ("GAAP") is a common term used to refer to a financial reporting framework which are the accounting principles that are generally accepted in a jurisdiction. *Regulation 52-107 respecting Accounting and Auditing Principles* (chapter V-1.1, r. 25) prescribes, among other things, acceptable accounting principles, such as International Financial Reporting Standards ("IFRS").

The application of accounting principles often requires specific accounting policies. Accounting policies encompass all accounting policies applied in preparing and presenting financial statements, not just those which are presented in the notes to the financial statements.

Misleading

Compliance with the Regulation does not relieve an issuer from other obligations under securities legislation. Specifically, an issuer may not present a specified financial measure in a way that would be misleading.

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", "adjusted funds from operations", "earnings before non-recurring items" and measures presented on a constant-currency basis. Many of these terms lack standard meanings and issuers across a spectrum of industries may use the same term to refer to different compositions.

The following are examples of measures that are not captured by the definition:

- Amounts that do not depict historical or future "financial performance", "financial position" or "cash flow", which relate to elements of the primary financial statements as defined in the Regulation, such as share price, market capitalization, or credit rating.

- Financial information that does not have the effect of providing a financial measure that is different from a financial measure presented in the primary financial statements, such as the addition or subtraction of an identical line item, subtotal or total originating from multiple periods of primary financial statements. For example, rolling 12-month results or fourth quarter revenue calculated by subtracting year-to-date third quarter revenue from the annual revenue presented in primary financial statements.

Component Information

When an issuer presents a financial statement line item in a more granular way outside the financial statements, it may be a component of a line item for which the component has been calculated in accordance with the accounting policies used to prepare the line item presented in the financial statements. Such a measure would not be a non-GAAP financial measure. However, in such a situation, the issuer should consider whether such a measure meets the definition of a supplementary financial measure.

For example, an issuer may disclose sales per square foot on a periodic basis to depict its financial performance. When the sales figure, included in sales per square foot, is extracted directly from the primary financial statements or is a component of such line item (where the component is calculated in accordance with the issuer's accounting policies used to prepare the line item presented in the financial statements), the "sales per square foot" measure would not meet the definition of a non-GAAP ratio but would meet the definition of a supplementary financial measure. However, if the sales figure is adjusted in any way, the "sales per square foot" measure in this example would meet the definition of a non-GAAP ratio.

Conversely, when the measure is not calculated in accordance with the issuer's accounting policies, such measure would meet the definition of a non-GAAP financial measure. For example, if the sales figure in "sales per square foot" is sales presented on a constant-dollar basis, this constant-dollar sales figure meets the definition of a non-GAAP financial measure since it excludes amounts (i.e. the effect of foreign exchange differences) that are included in the most comparable measure presented in the primary financial statements (i.e. sales). As a result, the "constant dollar sales per square foot" measure in this example would meet the definition of a non-GAAP ratio.

Combinations of Line Items

A financial measure calculated by combining financial information that originates from different line items from the primary financial statements would meet the definition of a non-GAAP financial measure if the measure depicts financial performance, financial position or cash flow, unless that resulting measure is separately presented in the notes to the financial statements.

Non-GAAP Financial Measures that are Forward-looking Information

Forward-looking information for which there is an equivalent historical financial measure presented in the financial statements does not meet the definition of a non-GAAP financial measure. Therefore, section 7 of the Regulation does not apply to such measures as future capital management measures and future total of segments measures. Issuers are reminded that such forward-looking information 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) ("Regulation 51-102").

For example, if revenue is presented on a forward-looking basis using the accounting policies applied by the issuer in its latest set of financial statements (i.e. revenue as presented in the primary financial statements adjusted only for assumptions about future economic conditions and courses of action), it is not a non-GAAP financial measure. Conversely, if an issuer discloses EBITDA on forward-looking basis, and does not present or disclose this financial measure in the financial statements, it does meet the definition of a non-GAAP financial measure.

Non-Financial Information

For clarity, the definition of a non-GAAP financial measure does not include non-financial information such as the following:

- 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 the issuer's 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 if the titles comply with the accounting policies used in the preparation of the financial statements. For example, an issuer may use the title of "balance sheet" instead of "statement of financial position".

Section 1 - Definition of a supplementary financial measure

Component Information

An issuer that operates in the retail industry may disclose financial results for "same-store sales" each reporting period. Where same-store sales, a component of overall sales, is calculated in accordance with the accounting policies used to prepare the sales line item presented in the primary financial statements, it would not meet the definition of a non-GAAP financial measure. However, since in this example "same-store sales" is used by the issuer to report sales performance from period to period, it would meet the definition of a supplementary financial measure.

For clarity, if an issuer discloses a financial measure that is a component of a financial statement line item to 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 if the measure is not intended to be disclosed on a periodic basis. For example, if an issuer experienced an unexpected increase in administrative expenses, it may analyze the reasons for changes in administrative expenses by, among other things, disclosing information about its insurance expense, a component of overall administrative expenses. In this example, insurance expense would not meet the definition of a supplementary financial measure where the insurance expense was calculated in accordance with the accounting policies used to prepare the administrative expenses line item presented in the primary financial statements.

Periodic Basis

An element of the definition of a supplementary financial measure is that it is disclosed or is intended to be disclosed on a periodic basis. A measure will not be precluded from being considered a supplementary financial measure the first time it is disclosed if the measure is intended to be disclosed on an ongoing basis (e.g., in future quarterly and/or annual disclosures).

Financial Ratios

A financial ratio that is not a non-GAAP ratio would typically meet the definition of supplementary financial measure because such ratio is often disclosed on a periodic basis to depict historical or future financial performance, financial position or cash flow.

Financial ratios contain at least one financial component (either the numerator or the denominator).

Examples include, but are not limited to the following ratios:

- liquidity ratios such as the current ratio;
- solvency ratios such as the debt-to-equity ratio;
- profitability ratios such as the return on equity ratio or revenue per user; and
- activity ratios such as the inventory turnover ratio.

Section 2 – Application to reporting issuers

Websites and Social Media

The Regulation applies to a reporting issuer in respect of its disclosure, on a website and social media, of a specified financial measure.

A reporting issuer should not disclose a specified financial measure using social media, if it is unable to include all the relevant disclosure.

If a reporting issuer uses social media to provide links to publications (e.g., analyst reports), such publications are within the scope of the Regulation.

Statement of Executive Compensation

For clarity, the Regulation applies to Form 51-102F6 *Statement of Executive Compensation* ("Form 51-102F6"). Form 51-102F6 requires, among other things, an issuer that discloses performance goals or similar conditions that are non-GAAP financial measures, to explain how the issuer calculates these performance goals or similar conditions.

In the context of Form 51-102F6, if a financial measure is identified (e.g., adjusted net income) and the calculation is described (e.g., net income adjusted for foreign exchange gains or losses) but no financial amount is presented (i.e., no dollar amount), it would not be within the scope of the Regulation because a financial measure has not been presented – only identified and described.

If a non-GAAP financial measure amount or other specified financial measure amount that is in scope of the Regulation is disclosed in Form 51-102F6 (e.g., adjusted net income of $X), part 2 of the Regulation applies.

Section 3 – Application to issuers that are not reporting issuers

The Regulation applies to an issuer that is not a reporting issuer in respect of its disclosure of a specified financial measure in a document if the document is filed with a regulator, except in Québec, or a securities regulatory authority in connection with a distribution made in reliance on the offering memorandum exemption under Regulation 45-106. The following are examples of document that are within the scope of the Regulation:

- the offering memorandum filed; and
- the offering memorandum marketing materials filed with a regulator, except in Québec, or a securities regulatory authority.

Subparagraphs 4(c)(i) and (ii) – Mineral projects

The Regulation does not apply to disclosure required under *Regulation 43-101 respecting Standards of Disclosure for Mineral Projects* (chapter V-1.1, r. 15) ("Regulation 43-101") related to an issuer's material mineral project. For example, item 22 of Form 43-101F1 *Technical Report* requires an issuer to disclose an economic analysis that includes certain financial measures. Item 5.4 of Form 51-102F2 *Annual Information Form* requires an issuer to disclose certain measures such as capital and operating costs, and annual cash flow, net present value, internal rate of return, and payback period disclosed in an economic analysis.

The Regulation does not apply to these measures because they are specifically required to be disclosed under Regulation 43-101. However, if an issuer discloses a financial measure that is not specifically required to be disclosed under Regulation 43-101, for example, EBITDA, it may be considered a non-GAAP financial measure or other specified financial measure and, thus, is within the scope of the Regulation.

Subparagraph 4(c)(iii) – Oil and gas metrics

The Regulation does not apply to disclosure required under *Regulation 51-101 respecting Standards of Disclosure for Oil and Gas Activities* (chapter V-1.1, r. 23) ("Regulation 51-101"). However, disclosures of oil and gas metrics that are made under section 5.14 of Regulation 51-101 are subject to the requirements of the Regulation because such disclosure is made on a voluntary basis.

Subparagraph 4(d)(ii) – Pro forma financial statements

The Regulation does not apply to pro-forma financial statements included in a filing required under securities legislation, such as pro-forma financial statements required to be included in a business acquisition report under Regulation 51-102.

The Regulation does apply to pro-forma financial statements included in a filing made on a voluntary basis (i.e., it is not explicitly required under securities legislation).

Paragraph 4(e) – Financial measures required under law or by an SRO

Financial measures that are required to be disclosed by a law or SRO of which the issuer is a member and which composition is determined in compliance with the law or the requirement of the SRO are not subject to the Regulation. This includes financial measures disclosed in accordance with prescribed requirements under applicable securities legislation. For example, disclosure of earnings coverage ratios prescribed by item 9 of Form 41-101F1 *Information Required in a Prospectus* are not subject to the Regulation.

While disclosure of a financial measure in order to comply with other securities legislation is not subject to the requirements of the Regulation, the disclosure is subject to the provisions of that legislation. Voluntary disclosure that is permitted but is not required by other securities legislation is subject to the requirements of the Regulation.

The Regulation also does not apply to a financial measure that is disclosed in accordance with the laws of a jurisdiction of Canada, or jurisdiction outside Canada, including governments, governmental authorities and SROs. This exclusion is, however, only applicable in situations where a financial measure is required to be disclosed and the law specifically specifies its composition; for example, a government payment calculated and disclosed in accordance with the *Extractive Sector Transparency Measures Act* (S.C. 2014, c. 39, s. 376).

If an issuer discloses a financial measure that is prepared in accordance with voluntary guidance published by a government, governmental authority or SRO that is applicable to the issuer then the financial measure is subject to the requirements of the Regulation.

Section 5 – Incorporation by reference

The Regulation allows an issuer to incorporate by reference certain required disclosure, if the reference is to the issuer's MD&A. For clarity, the MD&A must be filed on SEDAR before it can be incorporated by reference under the Regulation. For example, if an issuer is filing an annual information form that includes non-GAAP financial measure information and the issuer is incorporating certain information in the MD&A by reference to satisfy the disclosure requirements of the Regulation, that MD&A would have to be filed on SEDAR prior to filing the annual information form.

Paragraph 5(2)(b) requires the identification of the specific location of the required information in the MD&A. Issuers would not satisfy this requirement with a general hyperlink to the relevant MD&A. To comply with the requirement the issuer would need to hyperlink or identify (e.g., identify the specific section) where the required information is specifically located within the MD&A.

Section 6 – Non-GAAP financial measures that are historical information

Paragraph 6(a) – Labelling non-GAAP financial measures that are historical information

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.

For example, the following are not in compliance with the labelling requirement in paragraph 6(a) of the Regulation:

- Labels that are the same as, or confusingly similar to, those normally used under the accounting policies used to prepare the financial statements. 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 that purport to represent "results from operating activities" or a similar title but 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 (e.g., guaranteed profit or protected returns); and

- Labels that may 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 that is historical information 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 6(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 accounting policies used in the preparation of the financial statements.

Paragraph 6(c) – Prominence of a non-GAAP financial measure that is historical information

Determining the relative prominence of a non-GAAP financial measure is a matter of judgment, considering the overall disclosure and the facts and circumstances in which the disclosure is made.

The presentation of a non-GAAP financial measure should not in any way confuse or obscure the presentation of financial measures presented in accordance with the accounting policies used in the preparation of the financial statements.

The following are examples that would cause a non-GAAP financial measure to be more prominent than the most comparable measure presented in the financial statements:

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

- Omitting the most comparable measure from a news 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, underlined, italicized, or larger font) that emphasizes the non-GAAP financial measure over the most comparable measure;

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

- Providing tabular or graphical disclosure of non-GAAP financial measures without presenting an equally prominent tabular or graphical disclosure of the most comparable measures or without including the most 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 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 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 presented with "no more prominence in the document than that of the most comparable financial measure" presented in the primary financial statements. If the most comparable measure is presented with "equal or greater prominence" than the non-GAAP financial measure, the requirement under paragraph 6(c) of the Regulation has been met.

The purpose of Form 51-102F6 is to provide information about executive compensation within the context of the overall stewardship and governance of the issuer, in contrast to disclosure explaining an issuer's financial performance, financial position, or cash flow. Therefore, for purposes of Form 51-102F6 only, a reference to the specific location where disclosures are made in the MD&A as required by section 5 of the Regulation would provide sufficient prominence of the most comparable GAAP measure.

Paragraph 6(d) – Comparative information

Impracticable

Understandably, it is impracticable for an issuer to provide the comparative disclosure required by paragraph 6(d) of the Regulation when the current period is the first period of operations and no comparative period exists. We do not consider the cost or the time involved in preparing the comparative information to be sufficient rationale for an issuer to assert that it is impracticable to present such information.

Changes in Accounting Standards

We would not consider adoption of a new accounting standard, which would include adoption of amendments to current accounting standards, or a change in accounting policy, a basis for not presenting comparative period disclosure, as the composition of the non-GAAP financial measure should continue to be the same.

Adoption of new accounting standards, or changes in accounting policy, may modify measurement and recognition of transactions which will have an impact on line items, subtotals and totals over different financial periods. However, the composition of the non-GAAP financial measure itself should not change. For example, an issuer discloses EBITDA as its non-GAAP financial measure. In the current year it adopts a new accounting standard which modifies the classification of certain expenditures from administrative expense to interest expense. While the resulting EBITDA measure will no longer include those transactions, EBITDA will continue to have the same composition, as it will be comprised of earnings before interest, taxes, depreciation and amortization. Therefore, the issuer would not be subject to subparagraph 6(e)(vi).

The accounting policies used to prepare an entity's financial statements would determine whether comparative information is restated with adoption of a new accounting standard or change in accounting policy. For example, we expect comparative non-GAAP financial measures to be restated when a new accounting standard or policy is applied retrospectively to each prior reporting period presented. Conversely, if a new accounting standard is applied prospectively or retrospectively without restatement of a prior reporting period presented, the non-GAAP financial measures would also not be restated. In such circumstances, the issuer communicates that the comparative non-GAAP financial measures are presented under the previous accounting policies used to prepare the entity's financial statements.

In both cases, the composition of the non-GAAP financial measure has not changed, and disclosure under subparagraph 6(e)(vi) would not be required.

Paragraph 6(e) – Proximity to the first instance

The information required by paragraph 6(e) 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 appears in the document and then reference a separate section within the same document that contains the disclosure required under subparagraphs 6(e)(ii), (iii), (iv), (v) and (vi) of the Regulation.

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, the "first instance" disclosure requirements are satisfied by clearly identifying the financial measure as being a non-GAAP financial measure on each webpage where the financial measure appears and providing a website hyperlink to where the disclosures required by subparagraphs 6(e)(ii), (iii), (iv), (v) and (vi) are found (e.g., on another section of the website) with minimal to no scrolling or navigation.

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

If there is a discrete document within a larger document (e.g., a pull-out glossy page in an annual report), both will be treated as separate documents.

Subparagraph 6(e)(i) – Identification of a non-GAAP financial measure

Non-GAAP financial measures do not have standardized meanings under the financial reporting framework used to prepare the financial statements of entity to which the measure relates. Therefore, it is important that non-GAAP financial measures are appropriately identified. 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.

An issuer may satisfy the subparagraph 6(e)(i) identification requirement by inserting a footnote to the non-GAAP financial measure with a statement or language similar to the following: "This is a non-GAAP financial measure. Refer to the Non-GAAP Financial Measures section of this document for more information on each non-GAAP financial measure".

Subparagraph 6(e)(iv) – 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 term "useful" should be considered in the context of what a person making an investment decision would consider useful.

A statement made to satisfy the requirement of subparagraph 6(d)(iv) of the Regulation should

- be clear and understandable,

- be specific to the non-GAAP financial measure used, the issuer, the nature of the business and the industry (i.e., not boilerplate), and

- specifically explain how the non-GAAP financial measure is assessed and applied to decisions made by management and explain the reasons why the non-GAAP financial measure is useful to an investor.

Issuers should avoid making inappropriate or potentially misleading statements about the usefulness of a measure. The Regulation does not explicitly prohibit certain adjustments. However, if adjustments are not consistent with the usefulness explanation provided to address subparagraph 6(e)(iv) of the Regulation, 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 comparable measure but omits negative components (e.g., presenting a non-GAAP financial measure that excludes unrealized losses on financial instruments but not unrealized gains), or

- excludes operating expenses necessary to operate an issuer's business from an operating performance measure.

Subparagraph 6(e)(v) – Reconciliation of a non-GAAP financial measure

Subparagraph 6(e)(v) of the Regulation requires a quantitative reconciliation between the non-GAAP financial measure and the most comparable financial measure presented in the primary financial statements. An issuer may satisfy this requirement by providing a reconciliation in a clearly understandable way, such as a table. For purposes of presenting the reconciliation, an issuer may begin with the non-GAAP financial measure or the most comparable financial measure presented in the primary financial statements, provided the reconciliation is presented in a comprehensible and consistent manner.

Most Comparable Measure

The Regulation does not define the "most comparable financial measure" and therefore the issuer needs to apply judgment in determining the most 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 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 comparable measure is, consideration can be given to the nature, number and materiality of the reconciling items.

Reconciling Items

The reconciliation must be quantitative, separately itemizing and explaining each significant reconciling item.

Source of Reconciling Items

Where a reconciling item is taken directly from the entity's financial statements, it should be named such that an investor is able to identify the item in those financial statements, and no further explanation of that reconciling item is required.

Where a reconciling item is not extracted directly from the entity's financial statements, but is, for example, a component of a line item in the entity's primary financial statements or originates from outside the primary financial statements, disclosure must be provided to satisfy subparagraph 6(e)(v) of the Regulation. Such disclosure should identify the financial statement line item that is the source of the reconciling item, if not obvious, and explain how the amount is calculated, including a discussion of any significant judgments or estimates management has made in developing the reconciling items used in the reconciliation.

Entity-Specific Inputs

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

Level of Detail

The level of detail expected in the reconciliation depends on the nature and complexity of the reconciling items. The adjustments made from the most comparable financial measure should be consistent with the explanation required by subparagraph 6(e)(iv) 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 if it is not obvious.

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 that comprise the category.

Gross Basis

Issuers should consider significant reconciling items on a gross basis. For example, an issuer is expected to separately itemize positive and negative adjustments unless netting is permitted under the accounting policies used in the preparation of the financial statements.

Tax

Reconciling items are commonly presented on a pre-tax basis to ensure that investors understand the gross amount of each reconciling item. If an issuer chooses to present reconciling items on a post-tax basis then the tax effect for each reconciling item should also be disclosed.

Comparatives

For comparative non-GAAP financial measures presented for a previous period, a reconciliation to the corresponding most comparable measure is required for that previous period.

Presentation in the Form of a Primary Financial Statement

An issuer may present adjusted financial information outside the entity’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 accounting policies used to prepare the entity’s financial statements. In this case, the adjusted financial information would contain non-GAAP financial measures. Specifically, this would arise if an issuer presents such financial measures in a form that is similar to the following financial statements:

- 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 comparable GAAP financial measures in a separate column would not satisfy paragraph 6(e)(v) of the Regulation. However, this information may be presented in the form of a reconciliation of the non-GAAP financial measure to the most comparable financial measure if such presentation shows in separate columns each of the most 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 entity’s financial performance, financial position or cash flows with greater prominence than financial measures presented in the primary financial statements, this would not be considered to be in compliance with the requirement in paragraph 6(c) of the Regulation.

Subparagraph 6(e)(vi) – Changes in a non-GAAP financial measure

If the comparative non-GAAP measure presented in accordance with paragraph 6(d) of the Regulation is not presented on the same basis as that previously presented, the requirement of subparagraph 6(e)(vi) of the Regulation would apply. This would be the case when the composition 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 comparable measure constitutes a change in composition. A clear explanation of the reason for this change is required under subparagraph 6(e)(vi) of the Regulation.

A change in magnitude of an individual item would not constitute a change in composition. 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 the explanation of the composition under subparagraph 6(e)(iii) 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 6(e)(iv) of the Regulation was consistent for both measures), the requirement of subparagraph 6(e)(vi) of the Regulation would apply.

If the label of a non-GAAP financial measure has changed, while the explanation for the change may be incorporated by reference, we expect that the issuer make it clear in the document that the label has changed in the current period from that disclosed in the prior period.

Section 7 – Non-GAAP financial measures that are forward-looking Information

Paragraph 7(2) – Historical non-GAAP financial measure

An issuer needs to apply judgment in determining the historical non-GAAP financial measure. In applying judgment, it is important for an issuer to consider the context of how the non-GAAP financial measure that is forward-looking information is used. For example, adjusted EBITDA could be the historical non-GAAP financial measure of forward-looking adjusted EBITDA. We remind issuers that the historical non-GAAP financial measure disclosed is subject to the provisions of the Regulation. For example, the Regulation requires a non-GAAP financial measure that is forward-looking to be presented with no more prominence in the document than that of the historical non-GAAP financial measure presented. This means that the non-GAAP financial measure that is forward looking information must be presented with no more prominence than that of the most comparable measure that is presented in the primary financial statements, as required by paragraph 6(b) of the Regulation.

Determining the relevant historical period to satisfy the requirement in subparagraph 7(2)(b) of the Regulation is also a matter of judgment, considering the time period covered by the forward-looking information and the extent to which the business of the issuer is cyclical or seasonal. For example, where an issuer presents forward-looking information for the 3 months ending June 30, 20X2, the relevant period for the 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 March 31, 20X2), 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 June 30, 20X1).

Section 8 – Non-GAAP ratios

Financial ratios may be useful in communicating aspects of an issuer’s financial performance, financial position or cash flow. A ratio where a non-GAAP financial measure is used as one of its components is a non-GAAP ratio and subject to the disclosure requirements of section 8. For clarity, ratios may also meet the definition of forward-looking information. Examples of non-GAAP ratios include “adjusted EBITDA per share”, “free cash flow per ounce”, “funds flow per barrel of oil equivalent”, and the equivalent future measures “forecasted adjusted EBITDA per share”, “forecasted free cash flow per ounce” and “forecasted funds flow per barrel of oil equivalent”.

Ratios that are calculated using exclusively:

- financial measures that are presented in the primary financial statements; or
- operating measures or other measures that are not non-GAAP financial measures

would not meet the definition of a non-GAAP ratio. For example, working-capital ratio would not meet the definition if the ratio is calculated as total current assets divided by total current liabilities as both total current assets and total current liabilities are presented in the primary financial statements. A percentage increase or decrease year over year with respect to a line item presented in the primary financial statements (or a component of such line item) for the purpose of variance analysis would not meet the definition of a non-GAAP ratio.

Subparagraphs 8(b) and 10(b) – Prominence of similar financial measures

The prominence requirements in paragraphs 8(b) and 10(b) of the Regulation for non-GAAP ratios and capital management measures differ from the requirements for non-GAAP financial measures in paragraph 6(c) and the requirements for total of segments measures in paragraph 9(b). However, the principle that the non-GAAP ratios and capital management measures should be presented with no more prominence than that of measures from the primary financial statements remains the same.

Many non-GAAP ratios and capital management measures do not have a most comparable financial measure. As such, issuers should consider the disclosure of the non-GAAP ratio and capital management measure in relation to the overall disclosure of similar financial measures presented in the primary financial statements to which the non-GAAP ratio or the capital management measure relates. For example, the prominence requirement in paragraph 8(b) of the Regulation is not met 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, resulting in a reduction in total profit period over period. In this example, it is assumed that the financial measure of “gross margin” is not presented in the primary financial statements and therefore meets the definition of a non-GAAP financial measure. As another example, an issuer that discloses a capital management measure such as “adjusted debt” will meet the requirement in paragraph 10(b) by giving at least equally prominent disclosure to similar financial measures presented in the primary financial statements such as short-term and long-term debt.

For a non-GAAP ratio or a capital management measure which has a most comparable financial measure presented in the primary financial statements, the guidance on prominence contained in this Policy Statement for paragraph 6(b) or 10(b) should be referred to. For example, the most comparable measure of “adjusted earnings per share” is “earnings per share” and we expect that the discussion of “adjusted earnings per share” should not be more prominent than the discussion of “earnings per share”.

Section 9 – Disclosure of total of segments measures

An entity’s accounting policies used in the preparation of the financial statements may permit disclosure of a broad range of segment measures, but not necessarily specify how such financial measures should be calculated or require that these financial measures comply with the recognition and measurement requirements of the accounting policies used to prepare the financial statements of the entity.

When disclosed outside the financial statements, to the extent a total of segments measures is not also presented as a line item in the primary financial statements, the disclosures made under section 9 of the Regulation should allow a reader to understand how the measure is calculated and how it relates to the primary financial statements.

For example, in the notes to the financial statements, an issuer discloses adjusted EBITDA for each of its reportable segments: segment A, segment B, and segment C. The issuer then sums the adjusted EBITDA for each segment and discloses total “entity-adjusted EBITDA”. “Entity-adjusted EBITDA” is a total of segments measures and is not presented in the primary financial statements. When this financial measure is disclosed in a document other than the financial statements, the issuer must comply with section 9 of the Regulation.

If an issuer discloses a financial measure of a reportable segment and such financial measure is not presented in the financial statements to which the financial measure relates, the issuer should consider whether this financial measure meets the definition of a non-GAAP financial measure.

An SEC issuer may characterize a total of segments measure as a non-GAAP financial measure in compliance with SEC rules on non-GAAP financial measures.

Section 10 – Disclosure of capital management measures

Disclosure of information that enables a person to evaluate an entity's objectives, policies and processes for managing capital may be required by the accounting policies used in the preparation of the financial statements; for example, requirements in IFRS under IAS 1 *Presentation of Financial Statements*.

How an entity manages its capital is entity-specific and the accounting policies used to prepare the financial statements might not prescribe a specific calculation. The accompanying disclosure required by section 10 of the Regulation allows a reader to understand how an entity calculates these measures and how they relate to measures presented in the entity's primary financial statements when these measures are disclosed in documents other than the financial statements.

Subparagraph 10(a)(i) of the Regulation requires a clear explanation of the composition of the capital management measure. 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 a description of the composition, or details of the calculations, would satisfy the requirement.

The level of detail expected in the reconciliation required under subparagraph 10(a)(ii)(B) is a matter of judgment and depends on the nature and complexity of the reconciling items required to provide the necessary context. In situations where the capital management measure is an aggregation of individual line items presented on the primary financial statements, the requirements of subparagraph 10(a)(ii)(B) of the Regulation can be met by detailing quantitatively how the measure has been calculated.

If the capital management measure was calculated using one or more non-GAAP financial measures, the issuer must comply with section 6 of the Regulation, in respect of each non-GAAP financial measure used.