

**NATIONAL POLICY STATEMENTS No. 48  
FUTURE-ORIENTED FINANCIAL INFORMATION**

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## **APPENDIX A**

### **PART 1 PURPOSE**

The purpose of this policy statement is to specify the manner in which FOFI in General Purpose Documents shall be prepared, disclosed, dated, subsequently compared with actual results and updated where applicable, and to specify the involvement of independent public accountants, referred to as auditors in this policy statement, with all such documents.

The decision whether to publish FOFI and the responsibility for published FOFI rests with the issuer. Issuers who choose to publish FOFI shall comply with this policy statement. Factors to be considered in making their decision include the issuer's history of operations and experience in preparing such information, including the degree of variance between previously prepared FOFI and the actual results that were attained before the forecasted periods. However, the securities regulatory authorities recognize that such history and experience may not always be available. Section 4.1 sets out the requirements that apply in such a circumstance.

### **PART 2 DEFINITIONS**

"CICA Handbook" means the Handbook of the Canadian Institute of Chartered Accountants;

"FOFI" means future-oriented financial information which is information about prospective results of operations, financial position or changes in financial position, based on assumptions about future economic conditions and courses of action. Future-oriented financial information is presented as either a forecast or a projection;

"Forecast" means FOFI prepared using assumptions all of which reflect the entity's planned courses of action for the period covered given management's judgement as to the most probable set of economic conditions;

"General Purpose Documents" means prospectuses, preliminary prospectuses, certain offering memoranda as set out in Appendix A, rights offering circulars, documents delivered or filed with the securities regulatory authorities under or with the continuous disclosure, proxy and proxy solicitation, take-over bid and issuer bid requirements of Securities Legislation and Securities Requirements and documents incorporated by reference into, or that amend the foregoing;

"Hypotheses" means assumptions that assume a set of economic conditions or courses of action that are consistent with the issuer's intended course of action and represent plausible circumstances;

"Projection" means FOFI prepared using assumptions that reflect the entity's planned courses of action for the period covered given management's judgement as to the most probable set of economic conditions, together with one or more Hypotheses;

"Securities Legislation" means the statutes concerning the regulation of securities markets and trading in securities, and the regulations in respect of these statutes; and

"Securities Requirements" means the blanket rulings and orders made under the Securities Legislation and the policy statements and written interpretations issued by the securities regulatory authorities.

## **PART 3      APPLICATION**

### *3.1      Scope*

- (1) Inclusion of FOFI for offerings where the proceeds are to be used to acquire as yet undetermined or unidentified assets is not permitted.
- (2) This policy statement does not apply to discounted future cash flow data provided by resource issuers to the extent such data complies with the requirements of National Policy Statements No. 2-A and No. 2-B where the data is extracted from an engineering or geologist's report and specific reference is made to such report. This policy statement also does not apply to financial information pertaining to the future provided in management's discussion and analysis disclosure that is required under the Securities Legislation and

Securities Requirements - that information does not take the form of a Forecast or Projection as those terms are used in this policy statement.

- (3) Offerings for which the minimum acquisition cost as defined in the Securities Legislation and Securities Requirements is at least \$500,000 are exempt from the requirements of this policy statement.

### *3.2 Preparation*

- (1) FOFI shall be prepared in accordance with the recommendations of the CICA Handbook and the additional requirements of this policy statement.
- (2) When FOFI is included for an issuer that is proposed to be acquired, it shall be prepared by the issuer to be acquired.
- (3) In the case of real estate or oil and gas filings, it may be appropriate to include cash flow information in FOFI in addition to the minimum disclosures otherwise required by the CICA Handbook for FOFI.

### *3.3 Materiality*

For purposes of the application of this policy statement, materiality should be determined in the context of the overall financial position of the issuer taking into account both quantitative and qualitative factors. Materiality is a matter of judgement in the particular circumstances and should generally be determined in relation to the significance of an item to investors, analysts and other users of financial information. An item is considered material to an issuer if it is probable that its omission from the financial information would influence or change a decision. Measures of materiality would generally include gross revenues, expenses, net income, shareholders' equity and total assets. While this concept of materiality is broader than the definition of "material change" contained in the Securities Legislation and Securities Requirements, it is consistent with the financial reporting notion of materiality contained in the CICA Handbook.

## **PART 4 REQUIREMENTS OF GENERAL APPLICATION<sup>1</sup>**

### *4.1 Forecasts and Projections*

- (1) FOFI included in General Purpose Documents shall be in the form of a Forecast, subject

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<sup>1</sup> Issuers are advised to review the Securities Legislation and Securities Requirements in each jurisdiction in order to determine the requirements for pre-filing of FOFI. For example, Quebec requires pre-filing for non-reporting issuers and reporting issuers distributing securities by prospectus for the first time.

to subsection (2).

- (2) Notwithstanding subsection (1), Projections may be included in General Purpose Documents for issuers engaged in a business with less than 24 months of relevant operating history. In certain limited circumstances, issuers engaged in a business with more than two years of operating history may be permitted to provide FOFI in the form of a Projection.

For example, the issuer and its auditors may not have access to the prior operating history because the property to be acquired is privately owned prior to acquisition and the records are not available to the new owners. In such circumstances, it is acceptable to the securities regulatory authorities to treat a business as start up although it may have an operating history of more than two years. Another example is where there is a substantial change in the use of the property such as an upgrade from an economy hotel to a luxury hotel. In such cases the operating history may not be relevant to the new usage.

- (3) A Forecast or Projection may be included but not both.

#### *4.2 Period to be Covered by FOFI*

The period covered by FOFI shall not extend beyond the point in time for which such information can be reasonably estimated (normally the end of the next financial year i.e., a maximum of 24 months). In certain circumstances the period covered by FOFI may extend beyond the following financial year when there is reasonable assurance as to the operations in the FOFI period. The guidelines in this policy statement for determining an extended FOFI period apply equally to Forecasts and Projections.

Examples of issuers in a position to prepare extended FOFI include existing real estate projects for which FOFI could be prepared up to the date of the mortgage renewal and issuers engaged in long term contracts for which FOFI could be prepared up to the expiry date of such contracts, provided that all revenues and expenses can be reasonably estimated during the extended FOFI period.

#### *4.3 Restrictions*

- (1) FOFI is information about future operating results of the enterprise. As such it is not expected that FOFI can be provided with respect to capital appreciation or sale of a real estate property in the future. However, information can be included which shows the potential impact of capital appreciation or sale of a real estate property in the future provided that it is presented in the format of a sensitivity analysis which reflects the effects of an equal range of capital appreciation and depreciation percentages. For example, in the case of a real estate property, a range of projected percentages from an appreciation of 6% to a depreciation of 6% could be provided. However, due to the significant uncertainties involved, the maximum projected increase presented should be no greater

than the historically experienced appreciation rate for a period of time comparable to the length of time of the sensitivity analysis. The maximum increase presented should be lower if the historic rate showed significant volatility or if there is reason to believe the historic rate may not be sustainable in the future.

- (2) The effective date of the underlying assumptions shall not precede by more than 120 days the date of filing or delivery of the document in which FOFI is included. In the case of prospectuses, this requirement applies to both the preliminary and the final documents.
- (3) Where FOFI includes actual results of the issuer for part of the FOFI period, these results should be separately disclosed.

#### *4.4 Distribution and Delivery*

- (1) Issuers and distributing firms are reminded that during the course of a distribution of securities to which this policy statement applies, any FOFI disseminated must only be that which is set out in the prospectus or offering memoranda set out in Appendix A. In those rare circumstances where an extract of FOFI is disseminated, the extract or summary must be reasonable and balanced and shall have a cautionary note in bold face stating that the FOFI presented is not complete and that complete FOFI is included in the General Purpose Document.
- (2) Where FOFI is incorporated by reference in General Purpose Documents, a copy of FOFI shall be provided with the General Purpose Document. This requirement also applies to updated FOFI.

## **PART 5 ADDITIONAL REQUIREMENTS APPLICABLE TO PROJECTIONS**

### *5.1 Disclosure*

- (1) The purpose of the Projection is to be disclosed.
- (2) A cautionary note shall appear in bold face in the lead paragraph under Projections stating that the Projection is based on Hypotheses and that there is a significant risk that actual results will vary, perhaps materially, from the results projected.

### *5.2 Hypotheses*

- (1) Hypotheses used in preparing Projections shall be consistent with the purpose of the Projection. When many Hypotheses are used a Projection becomes less reliable and

therefore is more likely to be challenged by the securities regulatory authorities. However, the use of multiple Projections (i.e., using different assumptions) is permitted provided that it results in an unbiased presentation and provided that no one Projection is significantly more likely to occur than any other.

- (2) The notes accompanying the Projections must disclose that the Hypotheses assume a set of economic conditions or courses of action that are consistent with the issuer's intended course of action and represent plausible circumstances. These requirements apply to each set of Hypotheses used in preparing multiple Projections.

## **PART 6      COMPARISON WITH ACTUAL RESULTS**

### *6.1      Review and Comparison*

- (1) FOFI and updated FOFI included in a General Purpose Document shall be reviewed each time the issuer is required to file historical financial statements with the securities regulatory authorities under the continuous disclosure requirements of the Securities Legislation and Securities Requirements to identify material changes resulting from events that have occurred since it was issued. FOFI covering an annual period shall be compared with actual annual audited results for the same period and FOFI covering an interim period shall be compared with actual interim results for the same period. FOFI included in offering memoranda set out in Appendix A is not required to be reviewed and compared with actual results, however, issuers are encouraged to do so.<sup>2</sup>
- (2) The comparison shall address each material individual item, including assumptions, which were included in the FOFI or updated FOFI. If the results of the comparison identify material difference between actual results and FOFI or updated FOFI, such material differences shall be disclosed. For example, where the actual dollar amount of sales approximates the amount forecasted but the sales mix or sales volume differs from what was expected, it is necessary to explain this fact.

If there are no material differences, issuers shall disclose that a comparison has been made and no material differences were identified.

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<sup>2</sup> Issuers should note that the securities regulatory authorities in Québec require that FOFI included in an offering memorandum be compared with actual results.

## 6.2 *Disclosure*

The results of the comparison in section 6.1 shall accompany the annual or interim financial statements required to be filed under the continuous disclosure requirements of the Securities Legislation and Securities Requirements immediately following the end of the FOFI period and does not necessarily form part of the financial statements. For purposes of this policy statement, FOFI period means each financial year or part thereof for which FOFI is prepared.

## **PART 7      UPDATING FOFI**

### 7.1 *Reporting*

- (1) When a change occurs in the events or in the assumptions used to prepare FOFI that has a material effect on such FOFI, such a change shall be reported in a manner identical to that followed when a material change occurs as defined under the Securities Legislation and Securities Requirements.
- (2) If there are no changes in the events or in the assumptions used to prepare FOFI that have a material effect on FOFI, this fact shall be disclosed in documents accompanying the issuer's annual or interim financial statements required to be filed under the continuous disclosure requirements of the Securities Legislation and Securities Requirements immediately following the end of the FOFI period.

### 7.2 *When to Update*

FOFI shall be updated when a change occurs in the events or in the assumptions used to prepare FOFI that has a material effect on such FOFI. When FOFI is required to be updated, previously issued FOFI shall be withdrawn.

### 7.3 *Disclosure*

- (1) If updated FOFI is required to be provided, it shall be accompanied by explanations of changes, disclosure of the dates of FOFI and of updated FOFI, and disclosure of the fact that changes have occurred which require FOFI to be updated.

- (2) Updated FOFI shall accompany the issuer's annual or interim financial statements required to be filed under the continuous disclosure requirements of the Securities Legislation and Securities Requirements immediately following the occurrence of the change in the events or assumptions used to prepare FOFI that has a material effect on FOFI, and does not necessarily form part of the financial statements.

## **PART 8 WITHDRAWAL OF FOFI**

### *8.1 Approval*

The securities regulatory authorities must approve withdrawals of FOFI when the withdrawn FOFI is not replaced by updated FOFI. Approval will only be granted in those situations where the occurrence of an event makes it impossible for the issuer to prepare reliable updated FOFI.

### *8.2 Disclosure*

When FOFI is withdrawn, the reasons for the withdrawal shall be clearly disclosed in the manner set out in subsection 7.1(1).

## **PART 9 AUDITORS' INVOLVEMENT**

### *9.1 Auditors' Report*

FOFI included in a preliminary prospectus, prospectus, rights offering circular, offering memorandum set out in Appendix A, information memorandum, takeover bid circular, directors' circular or issuer bid circular or other materials disseminated in connection with a takeover bid or an issuer bid shall be accompanied by the auditors' report thereon, which shall not contain any reservations of opinion. The update required under Part 7 needs not be accompanied by the auditors' report thereon, however, issuers are encouraged to obtain auditors' reports that shall accompany such a document.

### *9.2 Engagement Standards*

The standards for such an engagement are found in the CICA Auditing Guideline entitled "Examination of

a Financial Forecast or Projection Included in a Prospectus or Other Public Offering Document".

### 9.3 *Comfort and Consent Letters*

- (1) Where the auditors' report on FOFI included in a preliminary prospectus is not signed there shall be filed, at the time the preliminary prospectus is filed, a letter addressed to the securities regulatory authorities and signed by the auditors in which such statement shall be made with respect to the examination of FOFI as may be appropriate in the circumstances and acceptable to the securities regulatory authorities.
- (2) Auditors' consent letters shall also contain specific reference to FOFI included in the final prospectus. This may be done by adding a statement to the effect that the auditors also consent to the inclusion of their audit report dated \_\_\_\_\_ on the (Forecast) (Projection) of (issuer), dated \_\_\_\_\_ consisting of (briefly describe FOFI \_\_\_\_\_ being presented). No other amendment to the usual form of consent is required.

## **PART 10 TAKE-OVER BID**

Where in the context of a take-over bid it is not practicable to provide an auditors' report on FOFI, the securities regulatory authorities will consent instead to the inclusion of a statement signed by the chief financial officer of the company to which it relates that FOFI was prepared in accordance with the recommendations of the CICA Handbook and the requirements of this policy statement.

## **PART 11 EFFECTIVE DATE**

### *11.1 Effective Date*

This policy statement is effective for FOFI filed or delivered on or after January 1, 1993.

**NATIONAL POLICY STATEMENT No. 48**  
**APPENDIX A**  
**OFFERING MEMORANDA SUBJECT TO FOFI**

Offering memoranda subject to this policy statement are those provided in connection with a distribution of a security under the legislative provisions noted below:

**JURISDICTION**

**SECURITIES LEGISLATION REFERENCE**

ALBERTA

Subclause 107(1)(d), (107)(1)(p) and (107)(1)(q) of the *Alberta Securities Act*, S.A. 1981, c. s-6.1, as amended.

BRITISH COLUMBIA

Section 55(2)(4) of the *Securities Act*, S.B.C. 1985, c.83, as amended (where a person advertises in connection with the distribution), or sections 117(a), 117(b) or 117(i) of the *Securities Regulation*, B.C. Reg 270/86.

MANITOBA

Clause 91(b) of the *Securities Regulation*, M.R. 491/88R.

NEWFOUNDLAND

Subclauses 73(1)(d), 73(1)(p) or 54(3)(p) of the *Securities Act*, S. Nfld. 1990, c. 48.

NOVA SCOTIA

Subclauses 77(1)(d), 77(1)(p), 77(1)(w) or 77(1)(ag) of the *Securities Act*, R.S.N.S. 1989, c.418 as amended, or clause 127(p) of the *Securities Regulations*.

ONTARIO

Subclauses 72(1)(d) or 72(1)(p) of the *Securities Act*, R.S.O. 1990, c. S-5 (the "Act") or clause 14(g) of the *Regulation* made under the Act, R.R.O. 1980, Reg. 910, as amended.

QUEBEC

Sections 47,48 and 52 of the *Québec Securities Act*, R.S.Q., c. V-1.1, as amended.