



January 2003
IN THIS UPDATE:

	<i>page</i>
How we select companies for review	2
What can I expect if my company is reviewed?	2
Helping you understand the rules	3
What happens if your company doesn't comply?	4

**THE CONTINUOUS DISCLOSURE REVIEW PROGRAM:
INCREASING PUBLIC CONFIDENCE IN OUR MARKETS**

Continuous Disclosure Updates are written to help you meet your continuous disclosure reporting obligations. This issue of *CD Update* will give you an overview of our Continuous Disclosure Review (CDR) Program, explain how we select companies for review and explain how we conduct our reviews. This *Update* also discusses what happens if your company does not comply with our disclosure rules.

The Commission is committed to making sure investors receive accurate, complete and timely information from public companies. This allows investors to make informed investment decisions and contributes to public confidence in our securities market.

For example, we require companies in the development stage to provide investors with a detailed breakdown of operating and capital expenditures in their financial statements or supporting schedules. This information gives investors a better understanding of how funds have been spent and, in particular, how the companies they invest in manage discretionary expenditures.

Similarly, regardless of their size, companies filing our quarterly and annual report forms are required to provide investors with meaningful management discussion and analysis (MD&A) disclosure. Financial statements show investors **how** funds were spent; MD&A explains **why** funds were spent in a particular manner. MD&A provides investors with important information on how companies are being managed.

We introduced the Continuous Disclosure Review (CDR) Program in 1998 to make sure investors are provided with reliable and meaningful information by the companies in which they invest.

The CDR Program combines education with appropriate action to promote a culture of compliance with our disclosure rules. Education forms a major component of our work. We help companies improve the quality of their disclosure through the guidance we provide to them in our comment letters and by publishing guides such as *CD Update*.





Example

If we see that a company hasn't conducted any meaningful exploration work on a mining property for the past two or three years, we'll ask the company why it hasn't written the property down for accounting purposes in accordance with Generally Accepted Accounting Principles. We'll ask the company to provide evidence (which may include a current technical report) to support the property's carrying value. If the company simply replies that it intends to work on the property when markets improve, we'll ask it to write the property down.

HOW WE SELECT COMPANIES FOR REVIEW

There are about 1,800 public companies based in BC. At one end of the spectrum there are large companies actively traded and followed by analysts. At the other end are inactive companies with few assets, no business activity and little securities trading activity. Most of the companies we review fall somewhere in between.

To ensure our resources are used efficiently, the majority of companies we review are selected using a risk-based approach. This approach considers the potential harm that would be caused to investors and the market in the event a company failed to provide accurate, complete and timely disclosure about its affairs.

In selecting companies for review we consider a number of factors including:

- trading volumes, market capitalization, changes in share price
- recent announcements and company activities
- the track record of the company and its management
- whether the company has completed an initial public offering within the past two years

We also select a limited number of companies on a random basis. This ensures all BC-based companies are potential candidates for a continuous disclosure review.

WHAT CAN I EXPECT IF MY COMPANY IS REVIEWED?

To maximize the educational value of the CDR program, the majority of our reviews are comprehensive in nature. However, from time-to-time, we select specific issues for review. For example, we recently participated in the CSA's review of executive compensation reporting. A common standard is applied to all our reviews and the process is closely supervised to make sure all companies are treated fairly and consistently.

Our reviews are not "audits". We don't confirm the accuracy or completeness of a company's disclosure record. In some situations we may ask a company to provide evidence to support the accuracy of its disclosure but generally, we rely on management to deal with us in good faith. Our review procedures consist primarily of analysis and enquiry. We don't try to second-guess a company's business decisions, but we do exercise professional skepticism when we conduct our reviews.


We look for material disclosure deficiencies and questionable transactions that may reflect on the reliability and accuracy of a company's disclosure record.



A comprehensive CD review normally involves the review of a company's entire disclosure record covering a 12 to 15 month period. We review disclosure to see if it is accurate, complete and timely and prepared in accordance with the rules. For example, we review:

- quarterly and annual reports (including interim and annual financial statements and MD&A)
- annual information forms
- press releases

- material change reports
- company websites and chat rooms
- other sources of information such as technical reports prepared by mining companies

In several cases, we have identified inconsistencies between these various sources of information that results in the company's disclosure record being materially incomplete or misleading. As a result, companies have been asked to amend and restate their interim or annual financial statements, quarterly reports, technical disclosure, material change reports and other disclosure documents. 

HELPING YOU UNDERSTAND THE RULES

Education forms a major part of the CDR Program. Experience has shown us that most companies want to comply with their disclosure obligations. However, many companies simply don't appreciate the nature and extent of disclosure they're required to provide under our rules. To help you gain a better understanding of your disclosure obligations, we provide guidance such as:

Comment Letters

We send comprehensive comment letters to the companies we review identifying areas where they may not be complying with the disclosure rules or, alternatively, areas where they can improve their existing disclosure. Our letters refer to supporting legislation and accounting requirements and are intended to give companies a better understanding of the regulatory requirements.

Guides

We publish guides to help companies comply with the continuous disclosure rules. In April 2000 we published a comprehensive report containing examples of the type of problems we identified during the course of our reviews. In 2001 we published the first in a series of handy reference guides called *Continuous Disclosure Update*. Copies of the April 2000 report and *CD Updates #1, 2 and 3* were mailed to the presidents of all TSX Venture Companies. You can find these guides and other helpful information on the Commission's website (www.bcsc.bc.ca) under "Industry Information".

Workshops

We present workshops on specific disclosure problems we've identified in our reviews. For example, during 2002, we gave two workshops on technical disclosure problems arising from non-compliance with National Instrument 43-101, Standards of Disclosure for Mineral Projects.

Forums and Conferences

We hold forums, including the Commission's annual conference. Recently we met with members of *The Canadian Listed Company Association* to discuss common disclosure problems and related issues.

We are committed to helping companies improve the quality of their continuous disclosure. At the same time, we realize that it can take a lot of time and effort for you to address the issues we raise with your company. Consequently, we focus our reviews on material issues we believe are important to investors.



Example

When a company has recently completed a public offering, we compare the company's actual expenditures (reflected in its financial statements) to those budgeted in the offering document to determine if the company is following the plans it set out in the offering document. If the two differ, we'll see if the company has provided an appropriate explanation to investors in its MD&A. If it hasn't, we'll ask the company to revise its disclosure to provide the required information.



Example

Following our review, one company acknowledged that it no longer intended to conduct further work on its principal exploration property. The company agreed to write down the property by approximately \$14,000,000. This represented almost all of the company's assets. Another company, wrote down its properties by approximately \$21,000,000. Again this represented substantially all of the company's assets. These write-downs provided investors with a more accurate view of the company's economic potential.


WHAT HAPPENS IF YOUR COMPANY DOESN'T COMPLY?

We encourage companies to voluntarily comply with their continuous disclosure reporting obligations. However if a company doesn't comply, there are a variety of actions we can take depending on the severity of the problem. These include:

Correct in Future Filings

If your company's disclosure problems are relatively minor, you will be asked to improve your disclosure in future filings. For example, if you don't identify the company's current directors in your quarterly report (information required by BCF 51-901F), we'll ask you to provide this information in the next quarterly report.

Amend and Re-file

When there are serious disclosure problems, we'll ask you to justify your disclosure or, alternatively, amend and re-file your disclosure materials. Questions concerning the carrying value of your assets, or the omission of a material fact from a press release or quarterly report (for example, creditors have launched a lawsuit against your company), are the types of issues we typically deal with in this category.  (page 3)

Issuers in Default List

Your company may be placed on the Commission's **Issuers in Default List** without further notice if your disclosure problems are serious enough. An example would include a company that discloses that it has "nothing to report" in its MD&A section when its financial statements reflect a significant amount of activity. This has proven to be an effective tool in getting companies to correct their disclosure problems in a timely manner since the list is widely circulated on a weekly basis through various news distribution services.

Cease Trading Order

In extreme cases, a cease trading order may be issued against your company's securities, which will remain in effect until you remedy your disclosure problems. This includes cases where we determine that your company has made a material misrepresentation concerning its affairs – such as filing false or misleading financial statements. These types of offences may also lead us to seek appropriate sanctions against the directors and officers who manage the company.

If we ask your company to amend and re-file its disclosure material, the company must also publish a comprehensive news release notifying the public and indicating the reasons for the amendment. The news release must also discuss any significant changes that have been made.

The following table shows the number of companies we've reviewed since April 1, 2000 and the action we've taken to ensure companies with disclosure deficiencies corrected them.

	12 MONTHS ENDED MARCH 31, 2001	12 MONTHS ENDED MARCH 31, 2002	9 MONTHS ENDING DECEMBER 31, 2002	TOTAL
COMPANIES REVIEWED	110	134	84	328
ACTION TAKEN *				
CORRECT IN FUTURE FILINGS	4	44	46	94
RE-FILE MD&A	36	77	21	134
RE-FILE INTERIM F/S	3	31	7	41
RE-FILE AUDITED F/S	2	6	2	10
DEFAULTING ISSUERS LIST	17	16	7	40
CEASE TRADING	0	9	2	11

* Note: Some companies reviewed have been subject to more than one action.

If you have any questions about this CD Update, suggestions for future CD Update topics, or questions and comments about the BCSC's Continuous Disclosure Review Program, please call Larry Wilkins, CA, Manager, Continuous Disclosure Review at 604.899.6712 (toll free 1.800.373.6393 BC and AB only) or e-mail lwilkins@bcsc.bc.ca.



BRITISH COLUMBIA SECURITIES COMMISSION

PHONE: 604.899.6500

Outside the greater Vancouver area

FAX: 604.899.6506

PHONE: 1.800.373.6393 (BC and Alberta only)

WEBSITE: www.bcsc.bc.ca