



***Prospectus Due Diligence
Failures - Round 2
BCSC Strategy 1.3***

***Robert Holland, P.Geo.
Chief Mining Advisor
Corporate Finance***

Agenda

- History and Background
- BCSC Strategy 1.3
- Prospectus Review Study
- Grading and Scoring Criteria
- Discussion of Results
- Applying Results to Key Indicators
- Conclusions
- Questions





History and Background

History and Background

- Spring 2006 – initial assessment of short form prospectus filings
 - Technical review of 20 prospectuses
 - Five case studies with material deficiencies
 - Non-compliant disclaimers of responsibility
 - Missing or deficient certificates and consents
 - Obviously deficient technical reports
 - Technical reports don't support prospectus
 - Unsupported use of proceeds



History and Background

Initial results raised staff concerns about:

- Serious mistakes or deficiencies in the filing documents
- Issuers apparently relying on staff to review documents and catch mistakes
- The pre-filing due diligence role of agents and professional advisors
- The amount of staff time needed to review prospectus filings





BCSC Strategy 1.3

BCSC Strategy 1.3

- Part of BCSC Service Plan 2007 – 2010
- Developed in response to apparent due diligence failures
- Relates to mining technical disclosure in prospectuses
- Focuses on material deficiencies that do not require specific mining technical expertise
- Considers the role of directors, professional advisors, and underwriters



Strategy 1.3 - Purpose

Enforce mining disclosure standards in prospectuses

- Encouraging issuers to:
 - Apply appropriate due diligence
 - Use skilled preparation
 - Take responsibility for compliance
- Discouraging issuers from:
 - Relying on BCSC to catch deficiencies
 - Deliberately filing non-compliant material
- Holding directors, professional advisors, and underwriters accountable



Strategy 1.3 - Compliance Tools

- Reject non-compliant applications
- Fast track offerings for filers with a good compliance history
- Use industry education to increase awareness
- Focus compliance resources on problem filers
- Take enforcement action against:
 - blatantly deficient disclosure and filings
 - repeat offenders



Strategy 1.3

Implementation Plan

- Identify areas of potential risk and failure
- Estimate compliance levels
- Identify risky filers
- Reject poor filings
- Communicate and Educate key players about:
 - Common deficiencies
 - Our review procedures
 - Our expectations of each market participant





Prospectus Review Study

Prospectus Review Study

- Complete study of recent mining prospectus filings
 - Assess compliance and quality
 - Focus on obvious deficiencies not requiring technical expertise
 - Identify potential key indicators of quality
 - Analyze results in context of key indicators



Key Indicators

- Filing counsel
- Agent or underwriter
- Agent/underwriters counsel
- Qualified person
- Auditor
- Issuer groups/Management Affiliation
- Offering type and size
- Exchange listing
- Property Stage



Summary of Database

- Effective date of November 29, 2007
- Includes prospectuses
 - receipted after March 31, 2006
 - filed before October 31, 2007
 - 54 short-forms – 93 technical reports
 - 82 IPOs – 102 technical reports
- Includes 15 IPO filings still in progress
- Excludes three rights offerings and one outlier short-form



Summary of Database

- 54 Short Forms
 - 50 receipted, 4 withdrawn (2 re-filed)
 - Median offering \$53M, range \$1.5M - \$2.5B
 - Median time 15 days, range 5 - 49 days
- 82 IPOs
 - 59 receipted, 15 open, 8 withdrawn (5 re-filed)
 - Median offering \$1.4M, range \$0 - \$25M
 - Median time 73 days, range 15 – 299 days





Grading and Scoring Criteria

Grading Criteria

- The technical report is the basic unit of measure
 - Supports technical disclosure
- Considered:
 - 31 grading factors
 - Grouped into ten grading categories for scoring
 - 1 to 6 factors per category
 - Grouped by four document types
- Scores based on grading categories



Grading and Scoring

- Each technical report assessed based on the 31 grading factors
- Each category assigned score of 1 or 0
 - Must pass all grading factors for each category to score 1
- Total report score out of 10
- Considered up to 3 technical reports per file
- Average the technical report scores for file score



Grading Categories

Technical reports

1. Report authors
2. Basic format
3. Compliance with Form 43-101F1
4. Disclosure compliance with NI 43-101

Certificates of Qualified Person

5. Compliance with basic format



Grading Categories

Consent of Qualified Persons

6. Compliance with basic format

Preliminary prospectus & AIF

7. Use of proceeds
8. All technical reports filed
9. Consistency with technical reports
10. Relevant management mining expertise



Grading Factors Technical Report

1. Report authors
 - Are qualified persons
 - Responsible for all sections of the report
 - Current site visit
 - Independent if required
2. Basic format
 - Signed, dated, addressed to issuer
 - Basic information and required headings
 - Information on all areas of property



Grading Factors Technical Report

3. Compliance with Form

- Is current
- legible maps and figures
- data verification
- Recommendations and breakdown of costs
- Economics and engineering for reserves
- Item 25 for Development/Production



Grading Factors Technical Report

4. Compliance with NI 43-101 Disclosure
 - Required cautionary language
 - Required details for mineral resources and mineral reserves
 - No inappropriate disclaimers of responsibility or reliance



Grading Factors

Certificates and Consents

5. Certificate of Qualified Person
 - Signed, dated, and filed for each QP
 - All statements required by s.8.1(2)
6. Consents of Qualified Person
 - Signed, dated, and filed for each QP
 - Consents to filing and use of report
 - Certifies has read prospectus or AIF



Grading Factors Prospectus/AIF

7. Use of proceeds
 - Consistent with recommendations and costs
 - No large amounts of unallocated working capital
8. Technical reports filed
 - Current report for all material properties
 - Prospectus/AIF refers to supporting report



Grading Factors Prospectus/AIF

9. Consistency with technical report
 - Cautionary language
 - Property description
 - Mineral resources and reserves
 - Economic analysis and production forecasts
 - Interpretation, conclusions, recommendations
10. Other
 - Relevant management mining expertise





Discussion of Results

Caution about Results

- High score does not necessarily mean a good quality technical report or prospectus filing
 - Only suggests appropriate due diligence
- Individual scores not statistically significant:
 - Low numbers for each indicator
 - Large number of other variables in play
- Useful in identifying patterns and areas of weakness and potential poor performers



Arbitrary Rating of File Scores

Low	High	Rating
9.0	10.0	Good
8.0	8.9	Acceptable
7.0	7.9	Below Expectations
6.0	6.9	Poor
4.0	5.9	Very Poor



Summary of File Scores

- 54 Short Forms - Average file score 8.2
 - 33 files (61%) scored 8.0 or better
 - 10 files (19%) scored less than 7.0
 - Lowest score 4.0 (2)
- 82 IPOs - Average file score 7.5
 - 40 files (49%) scored 8.0 or better
 - 21 files (26%) scored less than 7.0
 - Lowest score 4.0 (2)



Summary of Report Results

Category	Short Form	IPO
1. Report Authors	78%	86%
2. Basic Report Format	90%	72%
3. Compliance with Form	71%	56%
4. Compliance with NI 43-101	69%	61%
5. Certificate of Qualified Person	87%	63%
6. Consent of Qualified Person	71%	68%
7. Use of Proceeds	72%	78%
8. Technical Reports Filed	92%	94%
9. Consist with Technical Report	90%	87%
10. Relevant Mining Expertise	100%	93%
Average Report Score	8.2	7.6



Short Form Prospectus Technical Report Problem Areas

- Doesn't support use of proceeds (25%)
- No recommendations or cost breakdown (24%)
- Disclaimers (20%)
- Un-filed or unsigned consents (17%)
- Non-compliance resources or reserves (14%)
- Not certifying has read disclosure (13%)
- QP not taking responsibility (13%)
- Non-compliant certificates (11%)



IPO Prospectus

Technical Report Problem Areas

- Disclaimers (25%)
- Incomplete certificates (25%)
- Maps & figures missing or illegible (21%)
- Not in required form (19%)
- Missing or unsigned consents (17%)
- Non-compliance resources or reserves (17%)
- Report not current (16%)



IPO Prospectus

Technical Report Problem Areas

- No Data Verification (15%)
- Doesn't support Use of Proceeds (14%)
- Certificates missing or unsigned (14%)
- QP not consenting to filing or use of report (13%)
- QP not certifying has read disclosure (11%)
- No recommendations or cost breakdown (11%)





BCSC

Applying Results to Key Indicators

Processing Time Vs Score

Short Form			IPO		
Days	No.	Avg	Days*	No.	Avg
< 10	12	8.7	< 40	10	8.7
10 – 14	15	7.9	40 – 59	15	8.3
15 – 19	10	8.1	60 – 79	12	7.3
20 – 29	10	7.4	80 – 109	13	7.0
> 30	7	7.6	> 110	17	7.0

* excludes open files



Application to Professional Advisors

- Individual law firms, mining consultants, qualified persons, underwriters, and auditors assessed by:
 - Average scores and processing times
 - Common deficiencies
 - Frequency of individual grading factor deficiencies
- Individual results may be useful guideline for assessing future filings



Professional Advisors

Aggregated summary of individual professional advisor scores

Advisor	No.	Avg Score		
		Low	Median	High
Filing Counsel	23	6.5	7.9	9.7
Agent	21	6.5	7.8	9.2
Agent Counsel	16	5.7	8.0	8.6
Mining Consultant	16	5.7	8.3	9.5
Individual QP	14	5.0	7.1	9.5
Auditors	17	6.3	7.5	9.7



Exchange Listing

No significant differences in the average Short Form scores or times between TSX and TSX-V

IPO Prospectuses

Exchange	No. IPOs	Median Days	Range Days	Avg Score	Avg Offering (MM)
TSX	5	49	45 – 75	8.3	\$19.07
TSX-V	60	73	15 – 297	8.1	\$2.43
CNQ	15	147	41 – 408	6.9	\$0.43



Offering Size

No significant differences in the average Short Form scores or times based on offering size

IPO Prospectuses

Offering Size (MM)	IPOs	Median Days	Range Days	Avg Score
\$5.00 plus	14	63	36 – 141	7.4
\$2.00 – 4.99	17	65	15 – 299	8.0
\$1.00 – 1.99	19	83	29 – 260	6.8
\$0.50 – 0.99	18	91	29 – 297	7.4
\$0 – 0.49	14	141	27 – 408	7.0



Property Development Stage

Property Stage	Short Form	Avg Score	IPO	Avg Score	Avg Both
Production	22	8.8	0	-	8.8
Development	25	8.0	0	-	8.0
Advanced	23	8.2	1	8.0	8.2
Resource	16	7.9	9	7.9	7.9
Drill	7	9.1	30	8.2	8.4
Early	0	-	62	7.2	7.2





Conclusions

Conclusions

- No firms or individuals stand out as responsible for non-compliance
- But some firms and individuals appear to be doing better than others
- Apparent low performers will be monitored and may be contacted to discuss concerns
- Small IPOs and CNQ listings more problematic
- Overall results indicate room to improve in certain areas



Conclusions

- Better due diligence should pick up errors before filing
- Improvements in filing quality should lead to quicker turnarounds and receipts
- Consistently poor filers will receive greater scrutiny and longer review times.
- Substandard files may be rejected without a full review

