

Headnote

Multilateral Instrument 11-102 *Passport System* and National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions* – National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*, s. 9.1 - An issuer wants relief from the requirement that financial statements required by securities legislation to be audited must be accompanied by an auditor's report that expresses an unmodified opinion - The issuer's auditor is unable to provide an unmodified opinion due to a limitation on the scope of the audit; the issuer sold its software system that recorded a portion of its purchase and sale transactions; the software system was subsequently changed by the purchaser; because of changes made to the software system by the purchaser, the auditor is unable to obtain sufficient and appropriate audit evidence on which to base the opinion in respect of a portion of the issuer's revenue and cost of sales; the scope limitation will not recur; the auditor's report will be unmodified except for the qualification related to the scope limitation

Applicable Legislative Provisions

National Instrument 52-107, s. 9.1 Acceptable Accounting Principles and Auditing Standards

July 10, 2020

In the Matter of
the Securities Legislation of
British Columbia and Ontario
(the Jurisdictions)

and

In the Matter of
the Process for Exemptive Relief Applications in Multiple Jurisdictions

and

In the Matter of
Netcoins Holdings Inc.
(the Filer)

Decision

Background

- ¶ 1 The securities regulatory authority or regulator in each of the Jurisdictions (the Decision Maker) has received an application from the Filer for a decision under the securities legislation of the

Jurisdictions (the Legislation) that the requirement that financial statements that are required by securities legislation to be audited be accompanied by an auditor's report that expresses an unmodified opinion does not apply to the annual consolidated financial statements of the Filer for the year ended December 31, 2019 (the Exemption Sought).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a dual application):

- (a) the British Columbia Securities Commission is the principal regulator for this application,
- (b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (MI 11-102) is intended to be relied upon in Alberta, and
- (c) the decision is the decision of the principal regulator and evidences the decision of the securities regulatory authority or regulator in Ontario.

Interpretation

- ¶ 2 Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

Representations

- ¶ 3 This decision is based on the following facts represented by the Filer:
1. the Filer was incorporated on February 20, 1987 under the *Business Corporations Act* (Ontario) under the name "GAR Limited"; on August 29, 2018, it changed its name to "Netcoins Holdings Inc." following the acquisition of Netcoins Inc. on March 8, 2018 (the Netcoins Acquisition); its head office is located in Vancouver, British Columbia; on August 31, 2018, the Filer continued from the *Business Corporations Act* (Ontario) to the *Business Corporations Act* (British Columbia);
 2. the Filer is a reporting issuer under the securities legislation of British Columbia, Ontario and Alberta;
 3. the common shares of the Filer are listed and posted for trading on the Canadian Securities Exchange (the CSE) under the trading symbol "NETC";
 4. the Filer is not in default of securities legislation in any jurisdiction of Canada, other than its obligation to file audited financial statements and management's discussion and analysis for the year ended December 31, 2019 as required under National Instrument 51-102 *Continuous Disclosure Obligations* and the related certificates as required under National Instrument 52-109 *Certificate of Disclosure in Issuer's Annual and Interim Filings*;
 5. the Filer was in the business of developing software to make purchase and sale of cryptocurrency easily accessible to the mass consumer and investor through brokerage services; following the completion of the Transaction (defined below), the Filer is currently a holding company with assets comprised primarily of cash;

6. the Filer's auditor is MNP LLP (the Auditor);
7. the Filer entered into a share purchase agreement with BIG Blockchain Group Inc. (BIG), and BIG's wholly-owned subsidiary, 1208810 B.C. Ltd. (the Purchaser), dated May 24, 2019, as amended June 5, 2019 (the Share Purchase Agreement) evidencing the Filer's intention to sell the shares of Netcoins Inc., NTC Holdings Corp., and NTC Holdings USA Corp. (collectively, the Netcoins Subsidiaries) to the Purchaser, in exchange for the purchase price of \$3,000,000 payable to the Filer in common shares in the capital of BIG (the BIG Shares) at an issue price of \$0.08 per BIG Share, for an aggregate issuance of 37,500,000 BIG Shares (the Transaction);
8. Netcoins Inc. owns a proprietary software, designed in-house, which allows resellers and customers to buy, sell and trade cryptocurrency via its HTML5 based app (the Software);
9. the Netcoins Subsidiaries were acquired by the Filer pursuant to the Netcoins Acquisition and constituted all or substantially all of the assets of the Filer; the Netcoins Subsidiaries are engaged in the development and marketing of software that enables efficient purchasing of cryptocurrencies, and in the purchase and sale of cryptocurrencies to customers;
10. on July 24, 2019, the Filer obtained shareholder approval for the Transaction; on August 1, 2019, the Filer closed the Transaction and received the BIG Shares; on August 26, 2019, the Filer distributed the BIG Shares to the shareholders of Filer;
11. the Transaction was not a related party transaction as defined under Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions*;
12. because the Transaction was not a significant acquisition for the Purchaser, the parties were not required to prepare carve-out financial statements in respect of the Netcoins Subsidiaries;
13. section 3.1(1)(a)(i) of NI 52-107 provides that financial statements, other than acquisition statements, that are required by securities legislation to be audited must be accompanied by an auditor's report that expresses an unmodified opinion;
14. the Auditor has advised the Filer that it is unable to perform an audit in compliance with Canadian Audit Standards (CAS) 315 *Identifying and Assessing the Risks of Material Misstatement* and CAS 500 *Audit Evidence*; specifically, the Auditor is unable to obtain sufficient and appropriate audit evidence over the completeness of \$14 million of the \$43.35 million of revenue and \$13.5 million of \$43.016 million cost of sales due to its inability to test:
 - (a) the design and implementation of certain identified key controls in the revenue process (CAS 315, par. 26), and
 - (b) the completeness of the revenue and related cost of sales from transactions recorded within the Software (CAS 500, par. 9);

15. the remaining \$29.3 million revenue and related \$29.5 million cost of sales are not subject to the scope limitation as the Filer used an independent third party platform to facilitate large dollar value transactions; the Auditor was able to receive an activity log directly from the third party platform and reconcile all cryptocurrencies that flowed through the third party platform to the Filer's revenue records with no exception;
16. although the Filer arranged with the Purchaser to allow the Auditor access to the Software, the Purchaser had made several changes to the Software following completion of the Transaction, which prevented the Auditor from performing the required testing;
17. as a result of the inability to perform the required audit procedures explained in paragraphs 14(a) and 14(b) above, the Auditor will be required to modify its opinion in respect of the financial statements of the Filer for the year ended December 31, 2019, as follows:

"Qualified Opinion"

We have audited the consolidated financial statements of Netcoins Holdings Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and other comprehensive loss, changes of shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Qualified Opinion

We could not obtain audit evidence with respect to the design and implementation of identified controls to determine the completeness of \$13,776,521 of the \$43,379,204 of revenue and \$13,616,293 of the \$43,035,168 related cost of sales. This impacts the results of operations and cash flows; we were unable to determine whether adjustments to revenue, cost of sales, deferred tax expense, net loss and retained earnings, net loss for the year and cash used in operations might be necessary.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion."

18. the Auditor has confirmed that a qualified audit opinion is appropriate in the context of CAS 705 *Modifications to the Opinion in the Independent Auditor's Report*; although the Auditor cannot test or quantify possible unrecorded transactions, in the Auditor's view, it has reduced the risk of misstatement of revenue and cost of sales with its substantive procedures to an acceptable level and can obtain sufficient and appropriate audit evidence of the occurrence and accuracy of the reported revenue and cost of sales; as a result, the Auditor concludes that the possible effects on the financial statements of undetected misstatements are not pervasive; and

19. except for the Exemption Sought, the financial statements will comply with NI 52-107.

Decision

¶ 4 Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Makers under the Legislation is that the Exemption Sought is granted provided that the only modification in the Auditor's report accompanying the Filer's annual financial statements for the year ended December 31, 2019 relates to a limitation in scope for the inability to audit the completeness of revenues and cost of sales for the year ending December 31, 2019.

John Hinze
Director, Corporate Finance
British Columbia Securities Commission