

## POLICY 4

### **CORPORATE GOVERNANCE, SECURITY HOLDER APPROVALS AND MISCELLANEOUS PROVISIONS**

#### **4.1 Introduction**

- (1) Boards should be structured and their proceedings conducted in a way to encourage, reinforce, and demonstrate the Board's role as an independent and informed monitor of the conduct of the corporation's affairs and the performance of its management. Board structure and practice will, over time, significantly affect the extent to which a Board is likely to exercise its powers and discharge its obligations in a manner that effectively advances corporate objectives.
- (2) No single governance structure fits all publicly-held corporations, and there is considerable diversity of organizational styles. Each Listed Issuer should develop a governance structure that is appropriate to its nature and circumstances.

#### **4.2 Corporate Governance**

- (1) The Board of every Listed Issuer is responsible for, among other things, the following matters:
  - (a) strategic planning;
  - (b) principal business risks and risk management;
  - (c) appointing, training and monitoring senior management;
  - (d) executive compensation;
  - (e) succession planning;
  - (f) communications policy; and
  - (g) internal control and management information systems.
- (2) Canadian corporate law generally prescribes requirements related to the number or percentage of Outside Directors. Both Outside Directors and Unrelated Directors can bring a fresh perspective to issuers in addition to acting as an independent discipline on management. The Exchange considers that a requirement to have a specified number or percentage of Outside Directors or a specified number or percentage of Unrelated Directors may not be suitable for all Listed Issuers.

Smaller corporations frequently do not have the resources or the ability to attract talented individuals to serve as Outside Directors or Unrelated Directors. It may also be more important for small issuers to have on their Board individuals who have a prior familiarity with the issuer's business rather than those who can bring an independent perspective or discipline. For this reason the Exchange does not prescribe requirements dealing with Outside Directors or Unrelated Directors; however Listed Issuers must comply with applicable law. However, Listed Issuers are

encouraged to examine the appropriateness of including either or both Outside Directors or Unrelated Directors, on their Boards.

- (3) Every Listed Issuer, as an integral element of the process for appointing new directors, should provide an orientation and education program or manual for new recruits to the Board.
- (4) Every Board should examine its size and undertake where appropriate, to reduce or increase the number of directors to a number which facilitates more effective decision-making.
- (5) The Board, together with the senior management, such as the chief executive officer or president, should develop written position descriptions for the Board chair, chairs of the Board's committees and for each member of senior management, involving the definition of the limits to management's responsibilities. In addition, the Board should approve or develop the corporate objectives which the senior management is responsible for achieving. The Board and the Board committees should have written charters that have been approved by the Board.
- (6) Canadian corporate law generally prescribes a minimum number or percentage of directors sitting on the audit committee of the Board that must be Outside Directors.
- (7) National Instrument 52-110 *Audit Committees* ("NI 52-110") establishes audit committee standards. Companion Policy to NI 52-110 ("52-110CP") provides additional guidelines to Listed Issuers.
  - (a) Part 2 of 52-110CP provides that the roles of an audit committee include:
    - (i) helping directors meet their responsibilities;
    - (ii) providing better communication between directors and external auditors;
    - (iii) enhancing the external auditor's independence;
    - (iv) increasing the credibility and objectivity of financial reports; and
    - (v) strengthening the role of the directors by facilitating in-depth discussions between directors, management and external auditors.
  - (b) NI 52-110 requires that the audit committee also be responsible for managing, on behalf of the shareholders, the relationship between the issuer and the external auditors. In particular, it provides that an audit committee must have responsibility for:
    - (i) overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or related work; and
    - (ii) recommending to the board of directors the nomination and compensation of the external auditors.
- (8) Boards of Listed Issuers should adapt the responsibilities of their audit committees to their particular circumstances. No published set of practices can substitute for the active commitment to high standards by every party having responsibility for the corporate disclosure system.

- (9) The Exchange strongly encourages Boards of Listed Issuers to select Independent Directors as members of audit committees, to limit membership to such directors whenever possible and that the chair of the audit committee should be an Independent Director.
- (10) For reasons similar to those expressed in paragraph 4.2(2), the Exchange does not consider that it is appropriate to prescribe a higher threshold for Listed Issuers than that prescribed by corporate law or NI 52-110. However, the Exchange endorses the recommendations and guidelines of 52-110CP. Listed Issuers should consider that placing a greater number or higher percentage of Outside Directors or Unrelated Directors on the audit committee may function as an effective protection of shareholder interests.
- (11) The Board should implement a system which enables an individual director to engage an outside adviser at the expense of the Listed Issuer in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the Board.
- (12) Although the Exchange does not prescribe corporate governance requirements, investors will expect that all Listed Issuers are subject to the requirements that generally apply to Canadian corporations unless informed otherwise. Therefore, non-corporate Listed Issuers and Listed Issuers incorporated in jurisdictions outside of Canada must state in their Listing Statement the nature and extent to which their governing law or constating documents differ materially from Canadian law with respect to the aspects of corporate governance described in this Policy.
- (13) At each annual meeting of shareholders, the Board must:
- (a) present the audited annual financial statements to the shareholders for review;
  - (b) permit the shareholders entitled to do so to vote on the appointment of an auditor; and
  - (c) permit the shareholders entitled to do so to vote on the election of directors.
- (14) Each director of an NV Issuer must be individually elected by a majority (at least 50% +1 vote) of the votes cast with respect to their election other than at contested meetings ("Majority Voting Requirement"). An NV Issuer must adopt a majority voting policy (a "MV Policy"), unless it otherwise satisfies the Majority Voting Requirement in a manner acceptable to the Exchange, for example, by applicable statutes, articles, by-laws or other similar instruments.

The MV Policy must provide that:

- (a) any director must immediately tender their resignation to the Board if they are not elected by at least a majority of the votes cast with respect to their election;
- (b) the Board shall determine whether or not to accept the resignation within 90 days after the date of the relevant meeting and the Board shall accept the resignation absent exceptional circumstances;
- (c) the resignation will be effective when accepted by the Board;
- (d) a director who tenders a resignation pursuant to the MV Policy will not participate in any meeting of the Board or any sub-committee of the Board at

which the resignation is considered; and

(e) the NV Issuer shall promptly issue a news release with the Board's decision. If the Board determines not to accept a resignation, the news release must fully state the reasons for that decision.

- (15) If a Listed Issuer adopts a MV Policy to satisfy the Majority Voting Requirement, it must be described fully in materials sent to security holders in connection with a meeting at which directors are being elected and it must be made available on the Listed Issuer's website.
- (16) NV Issuers that are majority controlled are exempted from the Majority Voting Requirement. NV Issuers with more than one class of listed voting securities may only rely on this exemption with respect to the majority-controlled class or classes of securities that vote together for the election of directors. An NV Issuer relying on this exemption must disclose, on an annual basis in its materials sent to holders of listed securities in connection with a meeting at which directors are being elected, its reliance on this exemption and its reasons for not adopting majority voting.

### **4.3 Directors and Officers**

- (1) The identity, history and experience of management, including officers and directors, is important information concerning a Listed Issuer.
- (2) Every officer and director of a Listed Issuer is required to complete a PIF upon their appointment or election as an officer or director of a Listed Issuer.
- (3) The Exchange may collect personal information about the current or proposed directors and officers of a Listed Issuer as the Exchange may require and, notwithstanding the qualification for Listing of its securities, a Listed Issuer may not appoint, and must remove or cause the resignation of, any director or officer which the Exchange determines is not suitable for the purpose of acting as a director or officer of a Listed Issuer, failing which the Exchange may immediately Disqualify the Listed Issuer's securities.
- (4) Where a Listed Issuer has a Significant Connection to Alberta, the Exchange may refuse to accept any director, officer or insider, or revoke, amend or impose conditions in connection with acceptance of any such application until such time as the Listed Issuer has complied with a direction from Exchange or the Exchange requirement to make application to the Alberta Securities Commission and to become a reporting issuer in Alberta.
- (5) Management
  - (a) A Listed Issuer must have:
    - (i) a chief executive officer ("CEO");
    - (ii) a chief financial officer ("CFO"); and
    - (iii) a corporate secretary
  - (b) The CFO must be financially literate, as defined in NI 52-110, and have experience or knowledge of Canadian corporate governance laws and

reporting requirements.

- (c) The CEO or CFO may also act as corporate secretary. No individual, except in unusual and temporary circumstances, may act as both CEO and CFO of a Listed Issuer.
- (6) Collectively, a Listed Issuer's directors, officers and management must have adequate reporting issuer experience (including experience with and knowledge of Canadian corporate governance laws and reporting requirements), and experience and expertise relevant to the Listed Issuer's industry and the languages, customs and laws relevant to the Listed Issuer's operations in each of the jurisdictions in which the Listed Issuer operates.
- (7) **Duties of Officers and Directors**
  - (a) Officers and directors of a Listed Issuer are responsible for ensuring that Listed Issuer complies with applicable Exchange Requirements, corporate and securities laws.
  - (b) Each officer and director must act honestly and in good faith in the best interests of the Listed Issuer.
  - (c) Officers and directors must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
- (8) Further to 2A.1(2) Pursuit of Objectives and Milestones, a history of involvement with Listed Issuers that fail to pursue the business objectives disclosed in the Listing disclosure documents may lead the Exchange to object to a person acting as an officer or director of a Listed Issuer.

#### **4.4 Guidance for Listed Issuers with Principal Business Operations or Operating Assets in Emerging Markets**

A primary focus of the initial and continued Listing requirements of the Exchange is appropriate level of disclosure. While relevant to all Listed Issuers, the guidance contained in this section is primarily intended for EMIs.

##### **(1) Areas of Concern**

A Listed Issuer with a governance structure that is appropriate to its circumstances should have identified and addressed the areas of concern listed in the OSC EMI Guide. Listed Issuers are encouraged to review the OSC EMI Guide and assess their approach to specific risks and tailor both their governance practices and disclosure to address the OSC EMI Guide areas of concern that are pertinent to them.

###### **(a) Business and operating environment**

A Listed Issuer is required by securities law to describe its business and operations. Additionally, the Listing Statement must include, among other things, disclosure about the Listed Issuer's principal markets, competitive conditions in the principal markets and geographic areas in which it operates, and economic dependence on significant contracts.

**(b) Language and cultural differences**

In considering its responsibilities as described in s. 4.2(1), an EMI's Board should include members that have appropriate experience in each market in which the Listed Issuer conducts business. This will enable the Board to identify specific risks associated with each market so its governance oversight responsibilities will be met. It is noted that reliance on local management may not be appropriate without the provision for additional input from independent sources.

**(c) Corporate structure**

A corporate structure that addresses differing political, legal and cultural realities may be complex and difficult for investors to understand. The complexity of a corporate structure also creates additional risks associated with effective decision making and accurate reporting across the organization.

Disclosure about a Listed Issuer's corporate structure should:

- (i) be clear and understandable;
- (ii) explain why the structure is necessary; and
- (iii) describe the risks associated with the structure and how those risks are managed.

Policy 2 – Qualifications for Listing specifically disqualifies special purpose entities and variable interest entities.

**(d) Related parties**

Disclosure requirements for related party transactions are prescribed in both accounting standards and securities law. Business, cultural and legal differences may result in increased risks, especially in cases where the interests of the controlling shareholders do not necessarily align with the interests or expectations of the minority shareholders. The Board should have appropriate policies and procedures for the evaluation of related party transactions.

**(e) Risk management and disclosure**

Risk disclosure is an important element of investor protection, and the Board should ensure that adequate disclosure is provided of the specific risks of operating in each market in which the Issuer operates. The Listing Statement requires full risk disclosure, as well as reasonable detail and a discussion of any trend, commitment, event or uncertainty that is both presently known and reasonably expected to have a material effect on the Issuer's business, financial condition, or results of operations.

**(f) Internal controls**

Appropriate internal controls will provide checks and balances to reduce the risks of inaccurate financial reporting. If there are concerns about the effectiveness of internal controls, or if material weaknesses have been identified, audit committee members should apply greater scrutiny in their

reviews. It is also advisable for Listed Issuers to disclose known material weaknesses in their risk disclosure if the weakness creates a risk for the company. Disclosure should be adequate for investors to assess the nature and implications of those weaknesses.

**(g) Use of and reliance on experts**

Industry professionals in emerging markets are not necessarily subject to rules of conduct equivalent to those in Canada. The Board should evaluate an expert's credentials and knowledge in the context of what would be acceptable in Canada. If an expert is retained to perform a service or function that could expose the listed company to a disruption in operations or significant liability, the Board should determine whether the level of diligence exercised by the expert is adequate. As part of the oversight role, the Board should ensure adequate disclosure of an expert's interests in the Listed Issuer.

**(h) Oversight of the external auditor**

The external auditor's competence, experience and qualifications in the foreign market should be considered by the audit committee. The audit committee should also evaluate the external auditor's approach in the areas that present risks specific to the Listed Issuer.

**(2) The Role of the Exchange**

The Exchange considers the guidance in this section to be consistent with existing disclosure requirements for all Listed Issuers. Each Listed Issuer is encouraged to closely adhere to the principles set out in the OSC EMI Guide to assist them in meeting their disclosure obligations under securities law and Exchange Requirements.

**(3) Application of the Guidance**

**(a) Original Listing**

The Listing Statement includes specific disclosure requirements concerning risk issues and specifically requires any risk factors material to the Listed Issuer that a reasonable investor would consider relevant to an investment in the securities being listed and that are not otherwise described. For Listed Issuers with their principal business operations or operating assets in emerging markets, the OSC EMI Guide areas of concern should be addressed in the context of the guidance provided by OSC Staff.

**(b) Continued Listing**

All Listed Issuers are reminded that the OSC EMI Guide provides an excellent reference for any questions regarding continuous disclosure requirements, including disclosure in CSE filings. Notice of Proposed Issuance of Listed Securities, and Notice of Proposed Transaction, for example, each include questions that relate to one or more of the OSC EMI Guide areas of concern. A change related to any of these areas could be Material Information that requires immediate disclosure by news release.

#### **4.5 Requirements for Issuers with Principal Business Operations or Operating Assets in Emerging Markets**

(1) A Listed Issuer must demonstrate clear title or right to its assets or operations, and the receipt of the relevant licence or permit required to operate. At the time of Listing where applicable, the Listed Issuer must provide a title opinion or appropriate confirmation, and a legal opinion that the Listed Issuer has the required permits, licences or approvals to carry out its operations in each relevant jurisdiction.

##### **(2) Audit Committee**

In addition to the guidance in section 2.7 and requirements of NI 52-110, the majority of the members of a Listed Issuer's audit committee must be financially literate as defined in NI 52-110, subject to a minimum of three financially literate members.

Disclosure in the Listing Statement must include a summary of the steps taken in selecting an external auditor and the procedures in place to ensure the audit committee can effectively evaluate the audit process.

##### **(3) Risk Disclosure and Mitigation**

Disclosure in the Listing Statement must address and adequately explain the risks and the reasonable steps taken, consistent with the OSC EMI Guide, to mitigate these risks.

#### **4.6 Security holder Approvals**

##### **(1) General Requirements**

(a) Any Related Party of a Listed Issuer that has a material interest in a transaction that:

(i) differs from the interests of security holders generally, and

(ii) would Materially Affect Control of the Listed Issuer,

may not vote on any resolution to approve that transaction.

(b) Any Exchange Requirement for securityholder approval may be satisfied by a written resolution signed by security holders of more than 50% of the securities having voting rights.

(c) Listed Issuers relying on s. 4.6(2)(b) will be required to issue a press release at least seven Trading Days in advance of the closing of the transaction, which shall disclose the material terms of the transaction and that the Listed Issuer has relied upon this exemption.

(d) The securityholder approval requirements apply to transactions involving the issuance or potential issuance of listed Non-Voting Securities.

(e) Where a transaction will affect the rights of holders of different classes of securities, the securityholder approval requirements will apply on a class-by-class basis, provided that the Exchange may permit voting together as if a single class or series provided this complies with all applicable corporate and securities law and the issuer's constating documents.

- (f) Where a transaction involves the issuance of Restricted Securities or Super-Voting Securities, the provisions of 2A.3(1) shall apply.
- (g) Materials sent to security holders in connection with a vote for approval must contain information in sufficient detail to allow a security holder to make an informed decision. The Listed Issuer must file a draft of the information circular for Exchange review before it sends the information circular to security holders in respect of a transaction that requires Exchange review or approval.
- (h) In addition to any specific requirement for security holder approval, the Exchange will generally require security holder approval if in the opinion of the Exchange the transaction would Materially Affect Control of the Listed Issuer.
- (i) CSE may, in its discretion, require that security holder approval be given at a meeting at which holders of Restricted Securities are entitled to vote with the holders of any class of securities of the Listed Issuer which otherwise carry greater voting rights, on a basis proportionate to their respective residual equity interests in the Listed Issuer.

(2) **Sale of Securities**

- (a) Subject to subsection 4.6(2)(b), security holders must approve a proposed securities offering (by way of prospectus or by private placement) if:
  - (i) the number of securities issuable in the offering (calculated on a fully diluted basis) is more than
    - 1) 25% of the total number of securities or votes outstanding (calculated on a non-diluted basis) for an NV Issuer, or
    - 2) for a Listed Issuer that is not an NV Issuer, 50% of the total number of securities or votes of the Listed Issuer outstanding (calculated on a non-diluted basis) accompanied by a new Control Person or 100% of the total number of securities or votes outstanding;
  - (ii) the price is lower than the market price less the Maximum Permitted Discount, regardless of the number of shares to be issued;
  - (iii) the number of securities issuable to Related Persons of an NV Issuer in the offering, when added to the number of securities issued to such Related Persons of the NV Issuer in private placements or acquisitions in the preceding twelve months (in each case, calculated on a fully diluted basis), is more than 10% of the total number of securities or votes outstanding (calculated on a non-diluted basis), regardless of the price of the offering, or
  - (iv) the Listed Issuer or the Exchange otherwise determine that the transaction will Materially Affect Control of the Listed Issuer.
- (b) Security holder approval of an offering may not be required if:
  - (i) the Listed Issuer is in serious financial difficulty;
  - (ii) the Listed Issuer has reached an agreement to complete the offering;

- (iii) no Related Person of a Listed Issuer is participating in the offering; and
- (iv) the
  - (1) audit committee, if comprised solely of Independent Directors, or
  - (2) Independent Directors constituting a majority of the Board's Independent Directors in a vote in which only Independent Directors participate,have determined that the offering is in the best interests of the Listed Issuer, is reasonable in the circumstances and that it is not feasible to obtain security holder approval or complete a rights offering to existing security holders on the same terms.
- (c) A Listed Issuer using the exemption in subsection 4.6(2)(b) must issue a news release five days in advance of the security offering stating it will not hold a security holder vote and fully explaining how it qualifies for the exemption.

**(3) Acquisitions and Dispositions**

- (a) Securityholders must approve an acquisition if:
  - (i) a Related Person of an NV Issuer or a group of Related Persons of an NV Issuer has a 10% or greater interest in the assets to be acquired and the total number of securities issuable (calculated on a fully diluted basis) are more than 5% of the total number of securities or votes of the NV Issuer outstanding (calculated on a non-diluted basis); or
  - (ii) for Listed Issuers that are not investment funds, the total number of securities issuable, calculated on a fully diluted basis
    - (1) is more than 25% of the total number of securities or votes of the Listed Issuer outstanding (calculated on a non-diluted basis) for an NV Issuer; or
    - (2) is more than 50% of the total number of securities or votes outstanding (calculated on a non-diluted basis) accompanied by a new Control Person or 100% of the total number of securities or votes outstanding for a Listed Issuer that is not an NV Issuer, or
    - (3) would, as determined by the Listed Issuer or the Exchange, Materially Affect Control of the Listed Issuer.

where,

- (iii) the term "total number of securities issuable" includes securities issuable pursuant to:
  - 1) the acquisition agreement;
  - 2) any Security Based Compensation Arrangement of the target Entity assumed by the Listed Issuer, Awards issued by the Listed Issuer as a replacement for Awards issued by the target Entity, and Security Based Compensation Arrangements created for

employees of the target Entity as a result of the acquisition; and

(3) any concurrent private placement upon which the acquisition is contingent or otherwise linked.

(b) Security holders must approve a disposition of all or substantially all of the assets, business or undertaking of the Listed Issuer.

(c) A Listed Issuer that is an investment fund must comply with applicable securities law requirements.

**(4) Security Based Compensation Arrangements**

Security holders must approve the adoption of, or amendments to, a plan as described in Policy 6, s. 6.5.

**(5) Rights Offering**

(a) Subject to section 4.6(5)(b), security holder approval is required where securities offered by way of rights offering are offered at a price greater than the Maximum Permitted Discount to the market price.

(b) Security holder approval for a rights offering is not required where:

(i) the audit committee, if comprised solely of Independent Directors has, or

(ii) a majority of the Independent Directors in a vote in which only Independent Directors participate have,

determined that the rights offering, including the pricing thereof, is in the best interests of the Listed Issuer, and is reasonable in the circumstances.

(c) A Listed Issuer taking advantage of the exemption in s. 4.6(5)(b) must forthwith issue a news release stating it will not hold a security holder vote and fully explaining how it qualifies for the exemption.

**(6) Shareholder Rights Plan**

Security holders must approve the adoption of or amendments to a plan as described in Policy 6, s. 6.9.

**(7) Related Party Transactions**

Any transaction subject to Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* ("MI 61-101") must comply with any requirements for formal valuations and minority security holder approval.

**(8) Consolidations**

Security holders must approve a consolidation of a listed security if

- (a) the consolidation ratio is greater than 10 to 1; or
- (b) when combined with any other consolidation in the previous 24 months that was not approved by shareholders, the consolidation ratio is greater than 10 to 1.