

# APPENDIX 3E

## NEWS RELEASE GUIDELINES

Consider the problems and concerns raised by the following hypothetical news releases:

### Natural Resource Company

“The Company has recently optioned a large and exciting gold property near the “XXX” gold discovery area. In describing the property, the Company’s independent consultant has said: “The favourable location of, and some of the results of prior work done on the property give the Company a worthwhile mineral exploration opportunity....”. The Company proposes to expeditiously conduct a sizeable exploration program on the property as soon as the appropriate financing has been arranged.”

### Non-Resource Company

“Based on discussions with several European countries, the Company anticipates that it will have orders to ship over 200,000 crates of widgets to those European countries over the next two years. These orders, which considerably exceed the Company’s forecasts for the first year, represent a projected profit to the Company in excess of \$1,000,000 over the next five year period.”

### Guidelines

Timely disclosure news releases are intended to provide, to both existing shareholders and potential investors, factual information on which a reasoned investment decision can be made. **The examples do not provide sufficient detail and are misleading because material information is omitted.** The following guidelines should be observed when preparing a news release:

1. **State specific facts.** A news release should convey specific and accurate facts about the matter in question.

In the natural resource company example, many questions are unanswered, including: When did the Company acquire the property? What is the size of the property being acquired? What makes the property a “gold” property? Where precisely is the property? When does the Company propose to commence its exploration program?

Avoid relative or subjective terms such as “large”, “exciting”, “favourable”, etc. In addition, the date of the option agreement should be stated and the size of the property should be given in terms of the actual number of claims involved and the acreage covered by the claims. Its location, both in terms of distance and general compass direction from the discovery area, should also be specified. The phrase “gold property” should be avoided (unless unequivocal geological evidence, such as proven reserves, has been established by an independent and qualified consultant) and a much more specific time frame for the commencement of the Issuer’s exploration program should be set out.

In the non-natural resource company example, the following questions should be addressed: What government departments were involved? Which European countries? How many countries does the word “several” refer to? What were the Company’s sales forecasts for the first year? What exactly makes the Company anticipate that it will have orders to ship over 200,000 crates of widgets over the next two years? Is the projected profit of \$1,000,000 gross profits or net profits and can it be reasonably supported?

2. **State all the facts.** A news release should state all the material information about the matter being described.

In the natural resource company example, it is apparent that prior work was done on the property, but the general nature and results of that work are not stated. The cost of the acquisition by the Company is not stated, the proposed type of funding is not specified and the general character of the proposed exploration program is not detailed. These matters are collectively of considerable importance to investors and, depending on what the facts are, may well be determinative of an investment decision. The should be specified in the news release.

The quote from the Company’s consultant suggests that an independent consultant has rendered an expert opinion on the property and has recommended its acquisition to the Company. When quoting from reports, you should name the author and give the date of the report. Also, do not quote a consultant’s report out of context or omit relevant passages in that report which may be crucial to the overall description of the property or an accurate understanding of its geological setting.

In the non-resource company example, the news release suggests that the Company has orders to ship widgets. However, there are substantial differences between expressions of interest, orders and binding contracts and the news release should state which of these the Company has. An order may or may not be revocable by the customer until a particular time and this should be clarified. The news release is probably misleading about the Company’s future performance since it is unclear whether or not the Company has actually received any orders for the delivery of the widgets.

Failure to state material information necessary to make a statement not misleading is just as serious as stating a false material fact.

3. **Make a balanced presentation of the facts.** A news release must be balanced, neither over-emphasizing favourable news nor under-emphasizing unfavourable news. This means that all available facts must be reported, and the news release should give a fair presentation of those facts.

In the natural resource company example, it is clear that “some” of the prior results were favourable, but the context suggests that the balance of those results were not favourable. Those latter results have not been stated and have, by implication, been under-emphasized. Good or bad, all material information must be disclosed.

Similarly, the tone of the disclosure suggests that there is a positive relationship between the location of the property being acquired and the chance of a discovery being made on the Company’s property. While the future may bear out that relationship, unless there is unequivocal geological evidence, a news release should generally not imply such a conclusion.

In the non-resource company example, the Company should disclose what its sales have been to date and its manufacturing capability. If it has no sales and has no idea of its cost of sales or gross profit, then net profit cannot be estimated. Further, a statement that orders are anticipated based on discussions, with no binding agreements or arrangements, is premature issuance of news.

Issuers often avoid disclosing unfavourable matters and try to divert attention to favourable matters. However, the Issuer must make full disclosure to enable the investing public to base their investment decisions on all the available information, whether good or bad. The requirement to make a balanced presentation is not limited to specific releases but applies to disclosure generally. For example, if the Company in the natural resource company example has decided not to proceed with the exploration of another of its properties, or has decided to postpone that exploration, it must disclose that fact. More importantly, if it made that decision before it acquired the new property, it must not delay public disclosure of that decision until it reaches an acquisition agreement on the new property. If it is material to announce the acquisition of a new property, then (except in very rare cases) the abandonment of that same property is also material because of its impact on the potential future earnings of the Issuer involved.

4. **Projections and forecasts.** The Issuer must disclose that a forecast has been prepared using assumptions (all of which are supportable and reflect the Issuer’s planned courses of action for the period covered) as to the *most probable* set of economic conditions. A projection includes one or more hypotheses - specify what they are and that they are assumptions which are consistent with the purpose of the information but are not necessarily the most probable in management’s judgement. Any future-oriented financial information should be clearly labelled as either a forecast or a projection (or any successor national instrument).

In the non-resource company example, it is not clear whether the projected profit of \$1,000,000 is a forecast or a projection. It appears to be an estimate that cannot be relied upon and, therefore, should not be presented in a news release.

Projections and forecasts must be prepared in accordance with the Canadian Institute of Chartered Accountants Handbook and National Policy No. 48.

The time period covered by the projection or forecast should not extend beyond the time for which the information can be reasonably estimated. This depends on factors such as the needs of the users, the ability to make appropriate assumptions, the nature of the industry and the operating cycle of the Company. In the case of a Tier 2 Issuer, a reasonably foreseeable period would be one year.