MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis ["MD&A"] on IIROC's operations and financial position are presented for the fiscal year ended March 31, 2021, with comparatives for the previous year ended March 31, 2020. The MD&A should be read in conjunction with the Financial Statements for the year ended March 31, 2021.

IIROC is a cost-recovery, not-for-profit national organization that recovers its operating expenses for each of its key areas of regulation. There are fee models that prescribe the method of cost recovery for each key regulatory area and for the Debt Information Processor ["Debt IP"] activity. The primary source of revenue is through fees for dealer regulation, equity market regulation, debt market regulation and Debt IP activities which are collected through the application of their respective fee models.

Dealer regulation secondary sources of revenue include underwriting levies, which represent a stipulated percentage share of the value of certain public equity and debt underwritings in Canada, and registration fees based on arrangements with provincial securities authorities. In addition, within equity market regulation, IIROC separately recovers expenses for administering timely disclosure services for the TSX, TSXV, CSE and NEO exchanges.

Certain statements in this MD&A are forward-looking and are therefore subject to risks and uncertainties. The financial performance or events forecast in these statements may differ materially from actual financial performance or events. IIROC has based these forward-looking statements on its current views of future events and financial performance. Any assumptions, although reasonable in judgement at the time of publication, are not guarantees or predictions of future performance.

KEY CHANGES IN SENIOR MANAGEMENT

During the year, Jennifer Armstrong joined IIROC and was appointed General Counsel and Corporate Secretary effective March 1, 2021, succeeding Doug Harris, who left the Organization at the end of November, 2020. Elsa Renzella, who is Senior Vice-President, Enforcement, Registration and Enterprise Risk was acting head of that area in the intervening period. Effective April 1, 2021, Richard Korble was appointed Vice-President, Western Canada, succeeding Warren Funt, who retired as of March 31, 2021. Also effective April 1, 2021, Laura McNeil was appointed Chief Financial Officer. Subsequent to March 31, 2021, Lucy Becker, Vice-President, Public Affairs and Member Education Services, left the Organization. Sean Hamilton, Director of Public Affairs and Member Education Services, has assumed her duties, reporting to Jennifer Armstrong.

COVID-19

The arrival of the first wave of the COVID-19 pandemic signaled a potentially challenging year ahead, full of uncertainty for the Canadian economy. In anticipation of potentially significant negative impacts that the pandemic could have had on Canadians, IIROC took a number of measures to provide relief to dealer members so that they could continue to serve Canadians during these challenging times. Such measures included holding fees flat to FY 2020 for all fee models, granting exemptive relief in a number of areas relating to hardships dealer members experienced related to the pandemic, and offering temporary financial relief for small and medium-sized dealer members through deferral of dealer regulation fee payments. IIROC was able to deliver these relief measures while continuing to fulfill its mandate in an efficient manner through rigorous cost control, and prioritization of initiatives to support key regulatory activities. In particular, as employee compensation is the Organization's most significant expense, Management made the decision to hold salaries flat to the previous fiscal year.

The pandemic impacted many areas which had a direct or indirect impact on many of IIROC's financial measures, including:

- Underwriting levies revenue increased by 54%, driven by a significant increase in provincial debt issuances;
- Registration revenue decreased by 13%, mainly due to the closing of test centres in early FY 2021;
- Certain elements within salaries and benefits costs were impacted by the pandemic: fewer vacation days taken by employees due to travel and other restrictions resulted in higher vacation expenses, lower employee health benefit claims were due to service restrictions;
- There were significant reductions in other expenses such as travel, office costs, conferences and training due to suspension of all business travel and office closures;
- Hearing panel costs and member education projects funded from the Externally Restricted Fund were lower as hearings and training events were held remotely;
- There were additional technology and other costs incurred to support work-from-home arrangements, such as supply costs for peripherals and remote meeting application improvements.

MANAGEMENT DISCUSSION AND ANALYSIS (IN THOUSANDS OF DOLLARS)

SUMMARY FINANCIAL INFORMATION

UNRESTRICTED FUND

	FY 2021 $	FY 2020 $	Variance $	Variance %
REVENUE				
Dealer regulation				
Membership fees	**52,044**	52,416	(372)	(1%)
Underwriting levies	**12,602**	8,206	4,396	54%
Registration fees	**1,604**	1,844	(240)	(13%)
Entrance fees	**185**	155	30	19%
	66,435	62,621	3,814	6%
Market regulation				
Equity regulation	**25,510**	25,510	(0)	(0%)
Debt regulation	**2,242**	2,242	(0)	(0%)
Timely disclosure	**2,935**	3,007	(72)	(2%)
Marketplace revenue	**190**	190	0	0%
	30,877	30,949	(72)	(0%)
Debt Information Processor [“Debt IP”]	**1,633**	1,634	(1)	(0%)
Other revenue				
Investment revenue including interest	**2,606**	1,679	927	55%
Recoveries of enforcement costs	**243**	239	4	2%
Miscellaneous	**121**	108	13	12%
	2,970	2,026	944	47%
Total Unrestricted Fund revenue	**101,915**	97,230	4,685	5%
EXPENSES				
Dealer regulation operating expenses	**65,561**	68,146	(2,585)	(4%)
Market equity regulation operating expenses	**28,837**	29,681	(844)	(3%)
Market debt regulation operating expenses	**2,244**	2,454	(210)	(9%)
Debt IP operating expenses	**1,708**	1,697	11	1%
Total Unrestricted Fund operating expenses	**98,350**	101,978	(3,628)	(4%)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FOR THE YEAR	**3,565**	(4,748)	8,313	(175%)

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current year.

MANAGEMENT DISCUSSION AND ANALYSIS (IN THOUSANDS OF DOLLARS)

EXTERNALLY RESTRICTED FUND

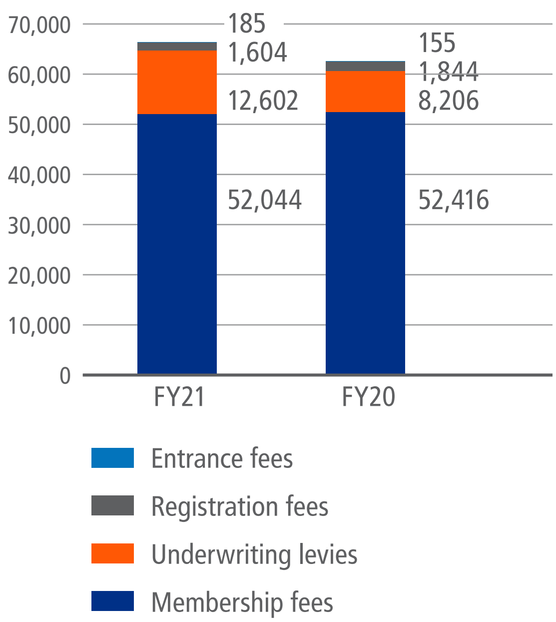
	FY 2021 $	FY 2020 $	Variance $	Variance %
REVENUE				
Entrance fees	**82**	249	(167)	(67%)
Disciplinary fines and other fines	**1,912**	7,083	(5,171)	(73%)
Investment revenue including interest	**105**	273	(168)	(62%)
Total Externally Restricted Fund revenue	**2,099**	7,605	(5,506)	(72%)
EXTERNALLY RESTRICTED FUND EXPENSES				
Hearing panel expenses	**993**	1,245	(252)	(20%)
Amortization, impairment and disposals [excluding surveillance system hardware]	**690**	793	(103)	(13%)
Surveillance system hardware [amortization and interest]	**211**	111	100	90%
Member education	**137**	416	(279)	(67%)
Canadian Foundation for Advancement of Investor Rights ["FAIR"]	**125**	–	125	NA
Osgoode Hall Law School Investor Protection Clinic	**75**	–	75	NA
University of Toronto Law School Investor Protection Clinic	**75**	–	75	NA
Cybersecurity Tabletop Test	**66**	–	66	NA
Complainant Research	**49**	–	49	NA
Website implementation	**31**	–	31	NA
MEDAC [Mouvement d'education et de defense des actionnaires]	**25**	–	25	NA
Plain Language Rulebook Implementation	**14**	75	(61)	(81%)
Cybersecurity consultants	**5**	237	(232)	(98%)
Client Identifier Implementation	**–**	19	(19)	(100%)
Total Externally Restricted Fund expenses	**2,496**	2,896	(400)	(14%)
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	**(397)**	4,709	(5,106)	(108%)

REVENUE (UNRESTRICTED FUND)

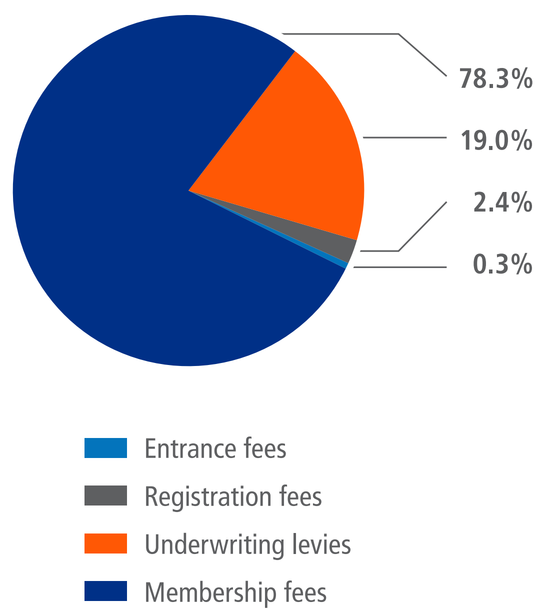
Unrestricted Fund revenue for the period amounted to $101,915, $4,685 [5%] higher than FY 2020 of $97,230.

Fees from dealer regulation, equity market regulation, debt market regulation, and Debt IP fee models are the primary sources of revenue. Fees collected from these four fee models at an aggregate of $81,429 represent approximately 80% of total IIROC revenue [84% in

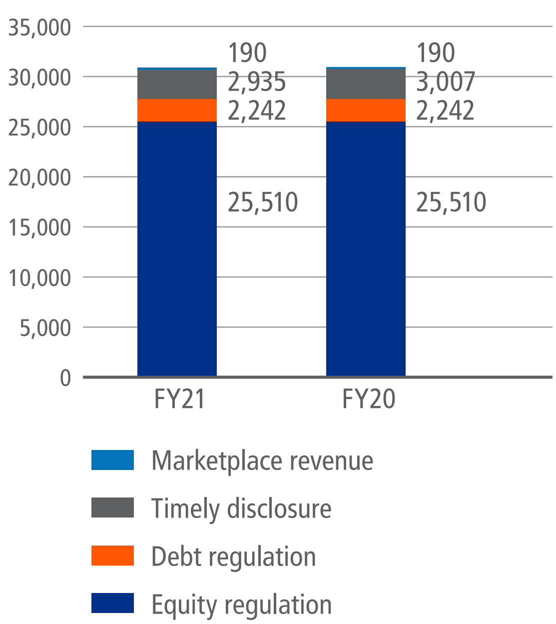
Dealer Regulation Revenue ($)



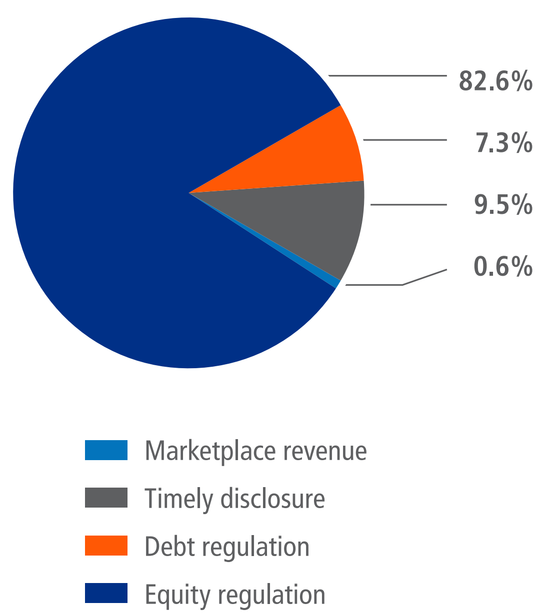
Dealer Regulation Revenue (%)



Market Regulation Revenue ($)



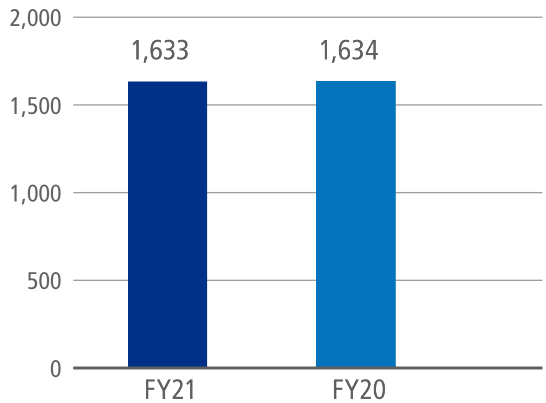
Market Regulation Revenue (%)



REVENUE (UNRESTRICTED FUND)

(CONTINUED)

Debt Information Processor Revenue ($)



FY 2020]. Fees are approved by the Board, based on projected operating expenses, and reduced by any related secondary sources of revenue. Fees are also assessed to take into account the reasonableness of proposed fees in total as well as for each category.

Dealer regulation membership fees decreased by $372 or 1% to $52,044 compared with $52,416 in FY 2020. FY 2021 dealer fees were held flat to FY 2020. Note however that FY 2020 was favourably impacted by prior year corrections reported to IIROC by certain dealers. Equity market regulation fees, debt market regulation fees, and Debt IP fees were flat to FY 2020, at $25,510, $2,242, and $1,633 respectively.

On a year-over-year basis, the combined revenue from secondary sources increased by $4,114 [31%] to $17,516 from $13,402.

Underwriting levies, a significant secondary source of dealer regulation revenue, increased by $4,396 [54%] to $12,602 in FY 2021 from $8,206 in FY 2020 mainly due to a significant increase in the volume of debt issues, particularly from provinces.

Revenue from registration fees, the other significant secondary source of revenue, decreased by $240 [13%] to $1,604 in FY 2021 primarily due to lower registration activity volume particularly in the beginning of FY 2021 as a result of the closing of testing centres stemming from COVID impacts.

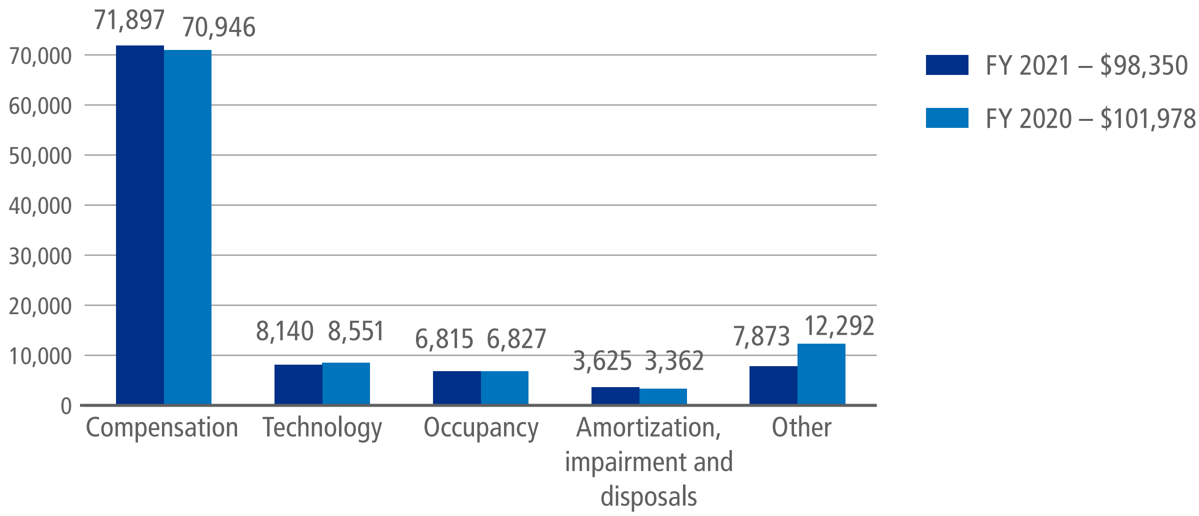
A significant secondary revenue source for market regulation is timely disclosure fees from the TSX, TSXV, CSE and NEO exchanges for administering their timely disclosure policies on a cost-recovery basis. Fees totaled $2,935 in FY 2021, a decrease of $72 or 2% from FY 2020 of $3,007.

Other revenue increased by $944 to $2,970 [47%] mainly due to higher investment revenue, including revenue on non-registered Supplemental Executive Retirement Plan ["SERP"] and Post-Retirement Benefits Plan ["PRB"], which are earmarked investments.

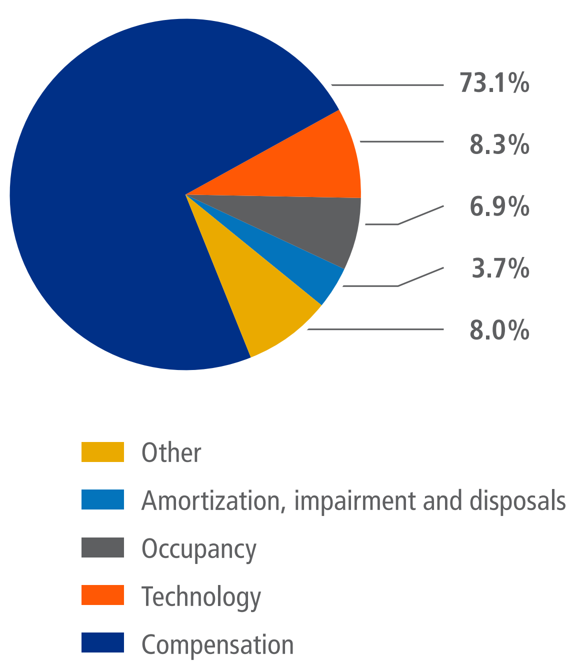
EXPENSES (UNRESTRICTED FUND)

IIROC's total operating expenses were $98,350 in FY 2021, a decrease of $3,628 or 4% from $101,978 in FY 2020. IIROC's operating expenses consist of five main categories.

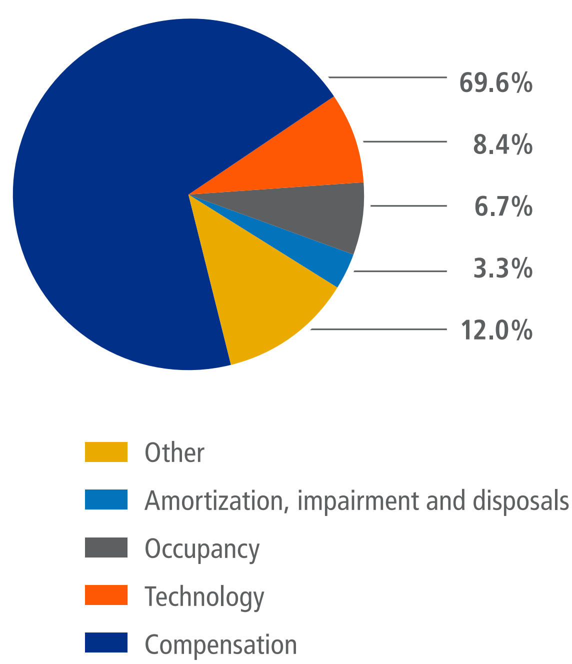
Total Operating Expenses ($)



Total Operating Expenses FY 2021 (%)



Total Operating Expenses FY 2020 (%)



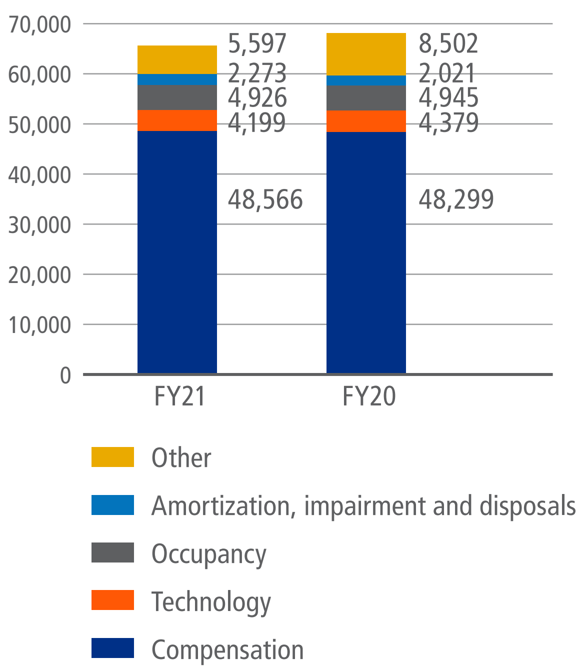
EXPENSES (UNRESTRICTED FUND)

(CONTINUED)

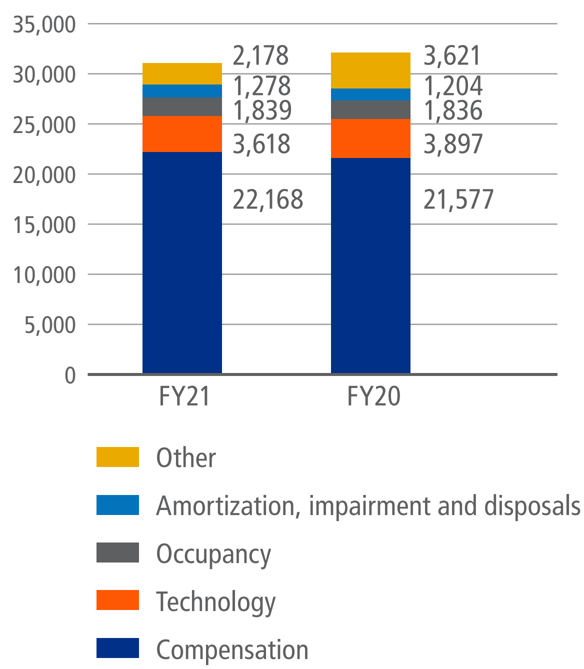
Compensation represents the largest expense category at 73.1% of operating expenses in FY 2021 [69.6% in FY 2020]. The largest decrease in FY 2021 was in other expenses category which decreased by $4,419 [3.6%] mainly driven by lower project costs primarily in consulting services as IIROC completed the transitioning of IT infrastructure and information security operations to a new consolidated service provider, utilizing an integrated and secure hybrid-cloud platform. In addition, travel, office costs, conferences and training costs were lower due to the pandemic related suspension of all business travel and office closures.

Direct business unit expenses are separately captured for each of the four fee models with indirect expenses being allocated using a cost allocation model based on either direct business unit expenses or business unit headcount as appropriate.

Dealer Regulation Operating Expenses ($)



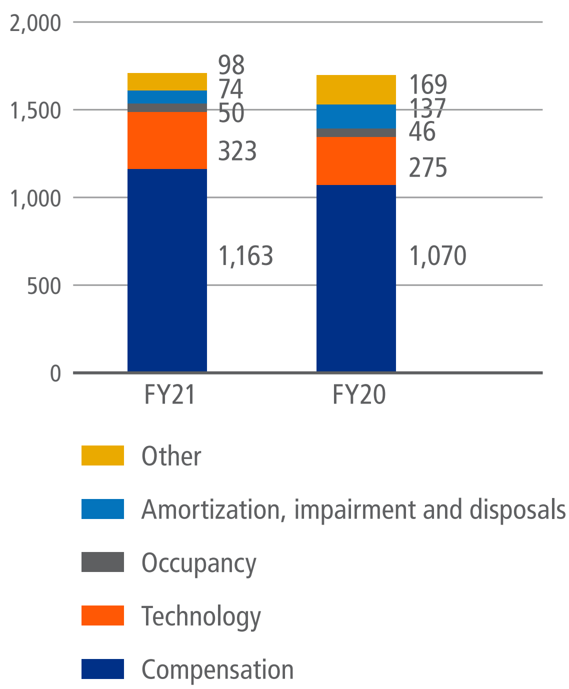
Market Regulation Operating Expenses ($)



EXPENSES (UNRESTRICTED FUND)

(CONTINUED)

Debt Information Processor Operating Expenses ($)



Dealer regulation expenses decreased by $2,585 [4%] to $65,561. Market regulation expenses decreased by $1,054 [3%] to $31,081, of which equity market regulation decreased by $844 and debt market regulation expenses decreased by $210. The decrease in both dealer regulation and market regulation was primarily due to lower technology and other expenses such as consulting services as the Organization completed the transitioning of IT infrastructure and information security operations to a new consolidated service provider, utilizing an integrated and secure hybrid-cloud platform. Other expenses such as travel also decreased significantly from FY 2020 due to suspension of all business travel as a result of the pandemic. The decrease in those costs was partially offset by higher compensation expenses. Higher compensation expenses were due to higher payouts for performance in an exceptional year and higher vacation expense offset by a greater proportion of salaries capitalized for technology projects and lower costs of employee benefits including pension and group insurance.

Debt IP expenses remained flat at $1,708 in FY 2021 ($1,697 in FY 2020).

UNRESTRICTED FUND

There was an excess of revenues over expenses of $3,565 in FY 2021, compared with a deficiency of $4,748 in FY 2020. The deficiency in FY 2020 reflected planned non-recurring investments in infrastructure, and the excess in FY 2021 reflected higher underwriting levies, investment income, and lower expenses as a result of the pandemic.

UNRESTRICTED FUND (CONTINUED)

The excess of revenues over expenses for FY 2021 of $3,565 and a net remeasurement loss of $2,510 for the pension plans and the post-retirement benefit plan increased the Unrestricted Fund balance from $57,892 to $58,947.

In assessing the reasonability of the Unrestricted Fund balance, the Organization notes that the balance provides for liquidity requirements as per internal guidelines, protection against potentially significant adverse moves in the funding position and solvency requirements for pension plans, and non-registered SERP, PRB, and Supplemental Income ["SIP"] plans. In addition, IIROC set aside reasonable amounts for a portion of the Canadian Investor Protection Fund ["CIPF"] loan guarantee and for other contingencies.

EXTERNALLY RESTRICTED FUND

Revenues for the Externally Restricted Fund come from fines collected by IIROC and payments made under settlement agreements entered into with IIROC, as determined by IIROC Hearing Panels, interest earned on invested fund balances, and certain entrance fees.

The use of monies from the Fund is restricted by IIROC's Recognition Orders. All expenses, other than hearing panel-related expenses, must both be eligible for such use and approved by IIROC's Corporate Governance Committee ["CGC"]. According to the Recognition Orders, this fund is to be used for any of the following:

i) Expenditures for the development of systems or other non-recurring capital expenditures to address emerging regulatory issues arising from changing market conditions, and which are directly related to investor protection and capital markets integrity;

ii) Education of market participants and the public about or research into investing, financial matters, or the operation of regulation of securities markets;

iii) Donations to non-profit, tax-exempt organizations for investor protection and education; and,

iv) Costs associated with the administration of IIROC's hearing panels.

On April 1, 2021, the CSA amended the Recognition Order criteria, including the addition of a new category being for such other purposes as may be approved by the CSA.

Total revenues for the year amounted to $2,099, compared with $7,605 for FY 2020, a decrease of $5,506 [72%]. This is due to a number of more significant fines levied by Hearing Panels in FY 2020.

Total expenses decreased by $400 [14%] to $2,496. The decrease was primarily due to lower hearing panel expenses as hearings were being held remotely in FY 2021; similarly, member education expenses were also lower as training events and conferences were held remotely. These decreases were partially offset by funding for the Canadian Foundation for Advancement of Investor Rights, Osgoode Hall Law School Investor Protection Clinic, University of Toronto Law School Investor Protection Clinic, and other projects approved by the CGC.

The resulting deficiency of revenues versus expenses for the year was $397, compared to an excess of $4,709 in the previous year.

The CGC, as noted above, is responsible for approving expenditures in compliance with the Recognition Orders. Any items approved by the CGC are commitments of the funds until the amounts are actually spent. IIROC therefore tracks not just the accounting balances but also the uncommitted funds that are actually available. The uncommitted funds are required by internal policy to fund three years' worth of hearing panel-related expenses, and they may be earmarked for external and internal purposes.

EXTERNALLY RESTRICTED FUND

(CONTINUED)

At the end of FY 2021, Externally Restricted Fund balance was $19,721. Committed funds were $5,706. Remaining uncommitted funds after accounting for three years' worth of hearing panel expenses, amount to approximately $8,000. These remaining amounts have been earmarked for both external and internal purposes.

LIQUIDITY AND CAPITAL RESOURCES

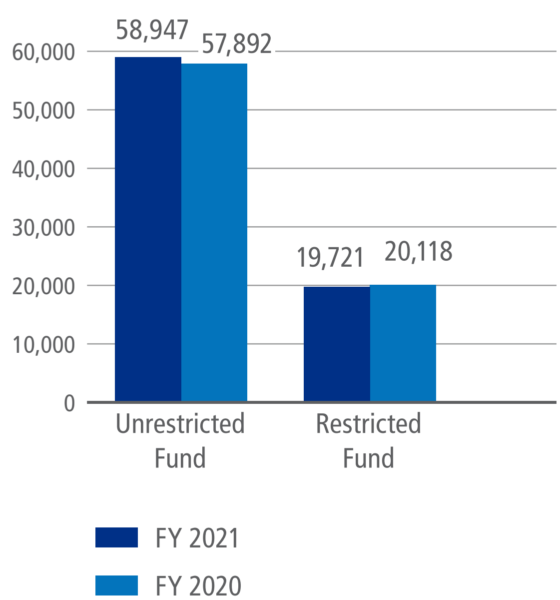
At the end of FY 2021, IIROC held total combined fund balances in the Unrestricted and Externally Restricted Fund of $78,668, up $658 from the FY 2020 balance of $78,010. The increase in fund balances arose from an excess of revenues over expenses of $3,168 [excess of $3,565 in Unrestricted Fund, partially offset by deficit of $397 in Externally Restricted Fund], and the net remeasurement loss for the pension plans and post-retirement benefit plan of $2,510.

During the year, the Organization increased its capital assets by $4,166 [$1,812 in FY 2020]. The increase arose primarily from net capital leases addition [$957], IIROC website [$855], system enhancements to enable implementation of the client identifier requirements [$737], and other assets (mostly technology applications) [$1,617].

IIROC has an internal liquidity guideline for the Unrestricted Fund of a minimum of three months' of operating expenses. Based on FY 2022 expected operating expenses of $101,026, the Fund holds more than the minimum required by the guideline of $25,256.

IIROC holds investments of $67,028 in high quality liquid short-term marketable securities such as government-issued treasury bills, debt instruments of financial institutions with remaining maturities of greater than three months, and mutual funds.

Fund Balances at Year End ($)



COMMITMENTS

As at March 31, 2021, IIROC has in place basic minimum aggregate annual rental commitments of $13,365 [FY 2020 – $16,807], excluding GST/HST and shared operating expenses under long-term operating leases, with varying expiry dates to February 28, 2029. These rental commitments also require IIROC to pay its share of operating expenses, which fluctuate from year to year. In addition, there are minimum aggregate executory costs for capital leases of $1,215 [FY 2020 – $1,591] pertaining to costs related to the operation of the leased capital assets.

CAPITAL LEASES

The Organization has entered into a number of arrangements through an outsourced service model which embeds the use of dedicated capital assets for the majority of useful lives. The key capital assets are:

- IT network, storage, and security hardware;
- Market surveillance hardware;
- End-user computer equipment including laptops and desktops; and
- Copiers.

CONTINGENCIES

IIROC has an agreement with CIPF, which protects clients who suffer financial loss due to the insolvency of an IIROC-registered dealer. In order to meet potential financial obligations, CIPF has the following resources in place: [i] a contingency fund balance of $544,008 on hand as at December 31, 2020 [2019 – $513,561]; [ii] lines of credit provided by two Canadian chartered banks totaling $125,000 as at December 31, 2020 [2019 – $125,000]; and [iii] insurance in the amount of $160,000 as at December 31, 2020 [2019 – $160,000] in the annual aggregate in respect of losses to be paid by CIPF in excess of $200,000 [2019 – $200,000] in the event of member insolvency, and a second layer of insurance in the amount of $280,000 as at December 31, 2020 [2019 – $280,000] in respect of losses to be paid in excess of $360,000 [2019 – $360,000] in the event of member insolvency. IIROC has provided a $125,000 [2020 – $125,000] guarantee on CIPF bank lines of credit. At March 31, 2021, CIPF has not drawn on these lines of credit. Any amount drawn on the IIROC guarantee would be eligible to be assessed to dealer firms.

Following the accidental loss in FY 2013 of a portable device that contained personal information relating to clients of a number of dealers, IIROC undertook a number of measures to notify potentially affected dealers and potentially affected clients, and to provide potentially affected clients with ongoing support services. On April 30, 2013, the Organization was served with a motion for authorization to institute a class action and to obtain the status of representative in the Superior Court of Quebec. The petitioner's class action motion on behalf of persons in Canada whose personal information was lost by the Organization sought $1, plus interest, on behalf of each class member, in relation to damages for stress, inconvenience and measures rendered necessary as a result of the loss of personal information by the Organization.

The motion for authorization of the class action was dismissed in August 2014. The petitioner appealed and the appeal was dismissed on November 6, 2015. A new motion for authorization was filed on November 16, 2015 on behalf of a new petitioner. The new motion was filed by the same counsel as in the original motion for authorization, and was based mainly on the same alleged facts and grounds as the previous motion, but in addition alleged that the petitioner had been the victim of identity theft. The motion for authorization was granted in October 2017. Damages sought were $1 in compensatory and $0.5 in punitive damages per class member plus other damages and legal costs. The case proceeded to trial in December 2020. In March 2021, the Superior Court of Quebec dismissed the class action against IIROC in its entirety and awarded

CONTINGENCIES (CONTINUED)

IIROC costs against the petitioner. In April 2021, the petitioner appealed the judgment to the Quebec Court of Appeal. IIROC is vigorously defending against this action.

The total costs of the incident incurred by IIROC to date, including legal fees for responding to the two motions for authorization, are $5,532 of which $2 was incurred in fiscal 2021 (2020 – $nil as directly paid by the insurer). It is not possible to estimate potential damages if any, resulting from this incident.

USE OF ESTIMATES

Management reviews the carrying amounts of items in the financial statements at each fiscal year-end date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require the use of management's judgement in arriving at a best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. These estimates are reviewed periodically and adjustments are made to the statement of operations as appropriate in the year they become known.

Items subject to significant management estimates include:

a) Accruals – accruals are made for expenditures incurred but invoices not yet processed as of March 31, 2021. To be eligible for an accrual, IIROC must have received the goods or services as of March 31, 2021. For work-in-progress projects, the accrued amount is determined based on the percentage of completion of the projects.

b) Allowances for doubtful accounts – estimates are determined based on the dealers' financial viability. The allowance for doubtful accounts as at March 31, 2021 was $6 [FY 2020 – $nil].

c) Eligibility of expenditures for capitalization – eligibility is determined based on accounting rules. IIROC does not capitalize consumables nor individual assets falling below their capitalization threshold in accordance with their capitalization guideline.

d) Date of substantial completion of technology projects to begin amortization – this is the date at the commencement of the fiscal quarter following when an asset is considered substantially complete and available for use.

e) Useful lives of capital assets – amortization of office furniture and equipment is generally over five years; computer equipment, software and technology projects hardware are over three to five years. Leasehold improvements are amortized over the shorter of their useful life and the term of the respective leases.

f) Minimum lease payments – minimum lease payments are estimated based on terms of lease contracts.

g) Lease discount rate – IIROC management determines an appropriate discount rate to apply in calculating the present value of lease payments for capital leases. A reasonable basis was determined to be the Organization's proxy rate for incremental borrowing. Considerations were given to IIROC's credit risk, the weighted average life of the leases, and comparable yield curves.

h) Valuation of employee future benefits asset/liability – IIROC management, in consultation with actuaries Willis Towers Watson, estimates the future earnings, discount rates and future salary increases or a prescribed range thereof for the purpose of the benefit asset/liability calculation which is carried out by the actuaries.

RISK

IIROC utilizes a three lines of defense approach for risk management: business units and support functions are the first line; the Enterprise Risk Management ["ERM"] department is the second line; and Internal Audit is the third line. Oversight of risk management is provided by IIROC's Risk Committee ["RC"], comprising senior executives of IIROC, and is further overseen by the Finance, Audit and Risk ["FAR"] Committee of the Board, as set out in their respective Charters.

IIROC has established a Risk Management Policy that sets out the framework for the identification and management of risks. IIROC's risk management framework includes an annual self-assessment that combines a top-down and bottom-up evaluation of risks facing organizational units [both business units and support functions] as well as the Organization as a whole, including both current and emerging risks. The results of the self-assessments are reviewed and discussed with the RC, the FAR Committee, and the Board. Throughout the year, the Vice President, Enterprise Risk and Project Management, provides a formal update on risks and risk management activities at RC and FAR Committee meetings.

The Internal Audit function is governed by an Internal Audit Charter, approved by IIROC's Board of Directors. KPMG LLP is IIROC's outsourced Internal Auditor. The Internal Auditor reports to the FAR Committee and provides a minimum of four updates per year. IIROC works closely with its Internal Auditor and the CSA to develop an annual risk-based Internal Audit plan. The audits performed pursuant to the plan independently assess the adequacy and operating effectiveness of IIROC's internal controls.

Litigation Risk

In fiscal 2021, IIROC was successful in its defense to the litigation disclosed in Note 11 to the Financial Statements, which is under appeal. From time to time, IIROC may face claims by employees, the public and other third parties arising from the ordinary course and conduct of its business.

IIROC mitigates the risk of such claims by implementing appropriate controls and policy and procedural safeguards, and by defending against any and all claims which in its judgement are without merit. IIROC continually reviews and enhances, as appropriate, its insurance coverage against various risks with a view to having sufficient coverage against potential losses, for existing and emerging risks whenever possible.

Cybersecurity

IIROC works closely with Service Providers to monitor threats/vulnerabilities, maintain processes, and expeditiously apply security updates. IIROC oversees and builds upon cybersecurity measures to further protect the IT environment and data in response to the evolving threat landscape. Industry information security practices are leveraged and adjustments made to align with IIROC's risk profile.

Revenue Risk

About 80% of IIROC's revenue comes from dealer membership fees, equity and debt market regulation fees and Debt IP fees. Failure of a significant number of firms or a relatively large firm would have a critical impact on IIROC's financial operations. Prudent operating cost management and ongoing monitoring of the financial adequacy of firms helps to mitigate this risk. Additional risk arises from possible reductions in market activity that could adversely affect underwriting levies and from possible adverse changes in provincial registration-related revenues.

Registered Pension, SERP And PRB Risk

Registered pension risk refers to the risk that the Organization's financial position could be adversely impacted because of the impact on the Organization's two registered plans of possible reductions in the

RISK (CONTINUED)

future market value of the plan investments and/or increases in the pension liability if interest rates were to fall below current levels. These risks are mitigated by maintaining sufficient funding levels and by holding a diversified set of investments, which are managed by professional investment managers operating under specified mandates and tolerances. IIROC also carefully monitors and manages funding levels and makes contributions required by law and, in addition, makes special contributions to maintain desired funding levels. Similar risks and funding considerations apply to the unregistered plans including assets earmarked for SERP and PRB, although funding levels for these plans are not dictated by law. IIROC monitors and manages funding levels for all unregistered plans for which it makes predetermined and special contributions to achieve desired funding levels.

Financial Instruments Risk

IIROC's main financial instrument risk exposure is detailed as follows:

Credit Risk

The Organization has determined that the primary financial assets with credit risk exposure are accounts receivable since failure of any of these parties to fulfill their obligations could result in financial losses for the Organization. The risk is mitigated by the distribution of receivables over the entire membership, with the most significant amounts exposed to highly rated bank-owned dealers. Marketable securities also expose the Organization to credit risk, which IIROC limits by investing in high-quality short-term securities. Mutual fund investments also indirectly expose the Organization to credit risk. The risk is mitigated by the diversified holdings in mutual funds. The entity is also exposed to concentration risk in that all of its cash is held with financial institutions and the balances held are in excess of Canadian Deposit Insurance Corporation ["CDIC"] limits.

Liquidity Risk

IIROC's liquidity risk represents the risk that the Organization could encounter difficulty in meeting obligations associated with its financial liabilities. IIROC is exposed to liquidity risk with respect to its accounts payable. The Organization mitigates its liquidity risk by preparing and monitoring forecasts of cash flows from operations, anticipating investing and financing activities and holding assets that can be readily converted into cash, and maintaining a minimum of three months of budgeted operating expense as required by IIROC's internal liquidity guideline.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. IIROC minimizes its exposure to market risk through its policy of investing a portion of its investments in Government of Canada treasury bills, bankers' acceptances and promissory notes. Market risk is comprised of currency risk, interest rate risk and other price risk. In addition, adverse or volatile capital market conditions both in the primary market and secondary markets could have an impact on IIROC's ability to collect underwriting levies.

Currency Risk

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. The functional currency of IIROC is the Canadian dollar. IIROC invests a portion of its investment portfolio in mutual funds that invest in foreign equities. IIROC mitigates its currency risk exposure by limiting the extent of foreign currency exposure.

Interest Rate Risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. Fixed rate financial instruments are subject to fair value risk and floating rate financial

RISK (CONTINUED)

instruments are subject to cash flow risk. The Organization is exposed to interest rate risk with respect to cash and cash equivalents and interest bearing investments. Fluctuations in market rates of interest on cash and cash equivalents, short-term investments and guaranteed investment certificates do not have a significant impact on IIROC's results of operations. The objective of IIROC with respect to interest-bearing investments is to ensure the security of principal amounts invested, provide for a high degree of liquidity, and achieve a satisfactory investment return.

Other Price Risk

Other price risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate because of changes in market prices [other than those arising from currency risk or interest rate risk], whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all similar instruments traded in the market. IIROC is exposed to other price risk because of its investment in mutual funds.

COVID-19

The COVID-19 pandemic caused significant economic disruption and slow down, including greater volatility in the financial markets although these adverse impacts seem to be abating. IIROC may still be subject to greater operational, credit, liquidity, and market risk.

RESILIENCY

IIROC has a robust resiliency program to ensure critical and core regulatory and support services can continue to function in the event of a disruption. This program includes crisis management protocols, playbooks, business continuity plans ["BCPs"] and IT Disaster Recovery protocols. IIROC has processes in place to update and strengthen the program as needed and to periodically test the functioning of various aspects of the program.

Throughout the COVID-19 pandemic, IIROC has deployed a Crisis Management Team to lead and oversee all aspects of its response including the provision and maintenance of full remote working. As the pandemic is expected to subside over the summer months and into the fall, plans are being put in place to ensure a properly timed and controlled return to physical offices. IIROC expects to implement a significantly higher degree of remote working than existed before the pandemic.

OUTLOOK

The significant transformation underway across the industry continues, driven by the changing needs and expectations of Canadians and the ways in which technological advances allow them to be met. Many of these changes have been accelerated by the COVID-19 pandemic, providing both challenges and opportunities for investors and those who serve them.

IIROC's strategic priorities and supporting budget for FY 2022 reflect its ongoing commitment to investor protection and market integrity, while operating in an efficient, cost-effective and sustainable manner.

Examples of priorities for next year include:

- Advancing various initiatives and commitments related to investor protection, including:
  - moving forward with the plan to establish an Expert Investor Issues Panel, which began earlier this year by publishing a Request for Comments on panel composition, selection process, term limits and governance;
  - exploring ways to return to investors disgorged funds collected from an advisor or firm disciplined by IIROC;
  - improving the experience of complainants based on survey feedback;

OUTLOOK (CONTINUED)

- examining the point at which service levels and access to trading at Order-Execution-Only dealers become an explicit investor protection issue;
- continuing to work with the CSA in support of a safe harbour rule and developing additional tools to help dealers protect vulnerable investors; and
- continuing to seek additional authority to strengthen the enforcement toolkit to ensure that investors in every Canadian province and territory have a consistent level of investor protection regardless of where they live.

- Supporting the industry's transformation to more effectively and efficiently serve Canadians by:
  - continuing to work with the CSA in ensuring that crypto asset trading platforms subject to regulation are fully integrated in the Canadian regulatory system;
  - modernizing IIROC's rules and approach to regulation;
  - leveraging data and analytics to provide opportunities to create efficiencies internally and support policy development, including completing a "Failed Trade Study" of settlement processes in Canadian equities to benchmark and assess the current short selling regime; and
  - helping firms build operational resilience through the effective management of cybersecurity and technology risks.
- leveraging learnings to manage implications related to the pandemic
- supporting the CSA in their review of the self-regulatory framework and preparing for potential next steps
- adopting Client Focused Reform rule amendments in accordance with the extended CSA timelines
- progressing derivatives rule reform to introduce greater consistency between derivatives and securities rule requirements
- completing the implementation of the client identifier requirements
- developing competency profiles for Directors, Executives, Ultimate Designated Persons, Chief Compliance Officers and Chief Financial Officers
- continuing to evolve HR, workplace and remote working strategies, incorporating Equity, Diversity, Inclusion and Anti-Racism initiatives, and learnings from the pandemic.

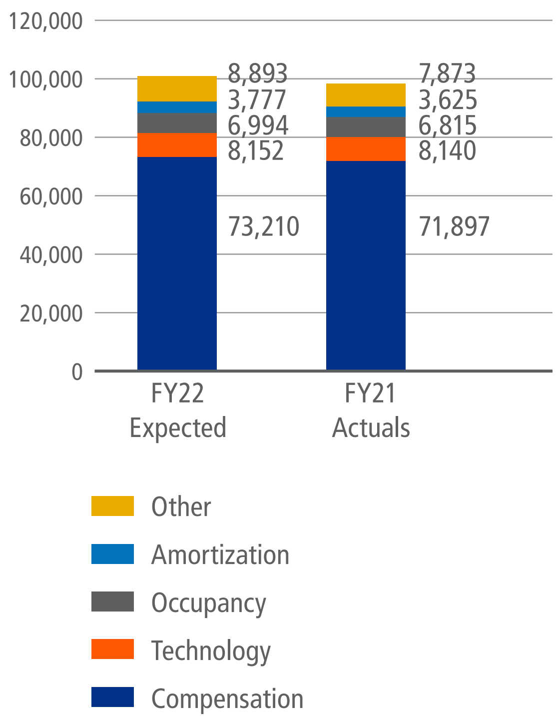
These priorities support the seven key strategies that enable IIROC to deliver effectively on its mandate and Mission and Vision, as outlined in the three-year Strategic Plan published in June 2019:

- Deliver Value for Canadians and the Financial System
- Support Industry Transformation
- Leverage Data and Analytics
- Help Firms with Compliance
- Strengthen Enforcement
- Drive Efficiency and Operational Effectiveness
- Attract, Retain and Enable Skilled People

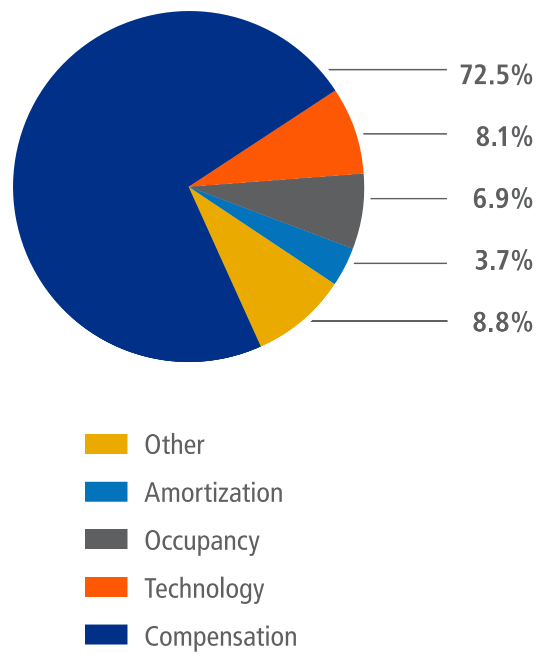
Total operating expenses for the coming year are expected to increase to $101,026 in FY 2022 from $98,350 in FY 2021, an increase of $2,676 [2.7%]. The increase in expenses reflects salary increases for merit in FY 2022, which were held flat in FY 2021, and the partial reversal in FY 2022 of expense savings in FY 2021 due to COVID-19 closures and impacts.

OUTLOOK (CONTINUED)

FY 2022 Planned Operating Expenses ($)



FY 2022 Planned Operating Expenses (%)



For underwriting levies, FY 2021 actuals of $12,602 were higher than the past five-year average of approximately $9,558. Actual volume of issues are impacted by market conditions, and COVID-19, despite having caused significant uncertainty in the market, has resulted in higher volume of issues, especially debt based, in FY 2021 and IIROC expects that trend to continue into FY 2022. FY 2022 underwriting levies are currently estimated to be $10,800.

The overall fees for continuing activities will increase by 3.66% in FY 2022. This follows a year in which IIROC held fees flat and took a number of other measures to support the industry given the uncertain impact of the pandemic. The FY 2022 fee increase reflects IIROC's continued work on strategic initiatives and general cost increases necessary to maintain its ability to effectively discharge its regulatory mandate in a rapidly evolving environment. Specifically, Dealer Regulation fees will increase by 3.50%, Equity Market Regulation fees will increase by 4.34%, Debt Market Regulation fees will increase by 2.50% and Debt IP fees will remain flat. There are no fee increases for non-continuing activities, i.e., new activities, for FY 2022.

OUTLOOK (CONTINUED)

The four-year compound annual growth rate ["CAGR"] of total fees is 1.9%, which is substantially less than industry revenue CAGR of approximately 7.4%, and industry profitability CAGR of approximately 13.9%[1] over the same period. IIROC's total fees as a percentage of industry revenue have been falling steadily from 0.34% in FY 2018 to 0.27% in FY 2022, despite decreases in interest rates that have negatively impacted industry gross revenue. Fees as a percentage of industry profitability also continue to trend significantly lower, and are now at roughly 2/3rds of FY 2018 level.

In FY 2020, the CSA announced its decision to expand IIROC's role as the Information Processor ["IP"] for government debt securities, in addition to its current role as IP for corporate debt securities. Implementation is taking place in two phases. Phase 1, effective August 31, 2020, has involved publishing the post-trade information for government debt securities by dealers that are currently subject to IIROC's transaction reporting rules and banks that are already reporting their corporate and government debt securities to IIROC. Phase 2, which was effective on May 31, 2021, requires banks and any other non-IIROC dealers that do not currently report any corporate or government debt transactions to IIROC to begin reporting to IIROC as of this date.

[1] Industry revenue and profitability are based on IIROC-compiled data (IIROC monthly financial report statistics). Industry revenue and profitability for FY 2022 are assumed to be the same as FY 2021 (due to data availability).