

EXHIBIT 1

Example of an inadequate report to the BOD

ABC Management Inc. (ABC)

Annual Compliance Report to the Board of Directors

Introduction

ABC is a registered investment fund manager (**IFM**), portfolio manager (**PM**) and an exempt market dealer (**EMD**) in Ontario and Quebec. The following is the annual report from the chief compliance officer (**CCO**) of ABC regarding the adequacy of compliance for ABC for calendar year 2014.

1. Status and effectiveness of internal controls
 - During 2014 we identified a NAV error in four of our funds. We have rectified the error.
 - There were no instances of non-compliance by any employee of ABC to report
2. Monitoring and assessing compliance
 - We Care Compliance consultants conducted a mock compliance review. Deficiencies were identified.
 - BCP has been tested
3. Financial status and regulatory filings
 - ABC was required to pay a filing penalty of \$1000
4. Complaints and litigation
 - There were no client complaints or litigation involving ABC.

Summary

ABC is able to adequately manage the risks associated with its business in accordance with prudent business practices.

Dated this 25th day of November, 2015

John Smith, CCO

Example of an adequate report to the BOD:

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Annual Compliance Report to the Board of Directors

Introduction

ABC is a registered investment fund manager (**IFM**), portfolio manager (**PM**) and an exempt market dealer (**EMD**) in Ontario and Quebec. The following is the annual report from the chief compliance officer (**CCO**) of ABC regarding the adequacy of compliance for ABC for calendar year 2014.

1. Status and effectiveness of internal controls

- ABC continues to assess its internal control structure to ensure that it is adequate. The following internal controls were tested in 2014:
 - Unitholder transaction accounting: During Q2, we assessed internal control processes over key business activities for unitholder transaction accounting. The focus was to assess whether controls are operating effectively and in accordance with securities laws and ABC's policies and procedures (**P&P**) manual. The review period covered was January 1, 2014 to June 30, 2014. Conclusion: the overall design and effectiveness of the internal controls and P&Ps is satisfactory.
 - Expense allocation: During Q3, we assessed internal control processes over allocating expenses to each fund. The focus of the audit was to assess whether the process of allocating the expenses is operating effectively and in accordance with securities laws and ABC's P&P manual. The review period covered was March 1, 2014 to September 30, 2014. Conclusion: the allocation process is working effectively and is in accordance with securities laws and ABC's P&P manual.
- We noted the following items related to internal controls:
 - A NAV error was identified in four funds during the year end audit which resulted in an understatement of the NAV. One of the holdings, XYZ Co., was priced at an incorrect value from October 21, 2014 to December 31, 2014 and was material in each fund (ABC Advantage Fund, ABC Multi-Strategy Fund, ABC Growth Fund, and ABC Diversified Fund). The incorrect value was due to an input error of the security's cusip number. The valuation of the Funds was corrected and the price was updated on ABC's website and other external price sources. ABC compensated unitholders who traded units of each Fund during the period. The total amount reimbursed to the affected unitholders was \$135,468.
 - A new P&P is being created to prevent this error from reoccurring. The policy will ensure that the fund accounting team will verify prices on a daily basis to another pricing source to ensure that the primary source is still accurate and no errors have occurred in the input process.
- There were no instances of non-compliance by any employee of ABC to report.

2. Monitoring and assessing compliance

- We Care Compliance consultants conducted a mock compliance review. A report was provided at the end of review (January 31, 2015). We Care Compliance consultants identified some deficiencies made several recommendations of improvement:
 - P&P should address the area of know your product (**KYP**)
 - Implement AML training
 - Enhance existing KYC forms to include more suitability-related questions
- Compliance staff are currently in the process of updating the P&P manual to address the area of KYP and will be submitted to senior management for approval by the end of the second quarter. Staff have completed the enhancement of all KYC forms and have submitted them for review and approval.
- Registered with OBSI effective August 1, 2014 and sent notice to clients with Q4 statements
- BCP has been tested, no issues were identified in the test run

3. Resources

The compliance regime at ABC consists of the following:

- Jane Doe is the ultimate designated person (**UDP**) and John Smith is the CCO
- ABC has engaged We Care Compliance consultants to assist with ongoing compliance guidance
- We are in the process of recruiting a compliance manager to assist John in his role as CCO and to be a back-up CCO

4. Training

- Annual employee meeting was held in November. Staff were reminded of the personal trading rules and were referred to the Code of Conduct. 100% staff signed off on Code of Conduct as of December 31, 2014.
- “Use of Social Media” training is scheduled for April 2015
- Cyber security training to be schedule in third quarter of 2015

5. Policies and procedures

ABC has implemented a comprehensive P&P in order to fulfill its obligations to comply with securities legislation and its fiduciary duty to its clients. The P&P has been revised as of September 10, 2014.

6. Financial status and regulatory filings

ABC continues to have excess working capital. The financial institution bond and other related insurance coverage continues to be adequate and is monitored on a regular basis to ensure it continues to be adequate. All quarterly and annual filings to the OSC were completed on a timely basis with the following exception:

- The OSC charged a late filing penalty of \$1,000 for an NRD submission. The late submission was to report the outside business activities of one of our portfolio managers.
- Compliance will be reminding staff on a quarterly basis of their obligations to report outside business activities.

7. Complaints and litigation

There were no client complaints or litigation involving ABC.

8. Regulatory developments

- OSC Annual Summary Report for Dealers, Advisers and Investment Fund Managers was released in September 2014
- Cybersecurity: consider risk, best practices and training for all

9. Initiatives for 2015

The following are compliance-related initiatives and projects for 2015:

- CRM phase II
- Documentation of BCP testing
- Enhanced cyber security protocols
- Hiring a compliance manager
- AML training to be completed by the end of the third quarter

Summary

ABC has implemented policies and procedures that establish a system of controls and supervision reasonably sufficient to provide reasonable assurance that ABC complies with applicable legislation and obligations. ABC is able to adequately manage the risks associated with its business in accordance with prudent business practices.

Dated this 25th day of February, 2015

John Smith, CCO

Directors' approval of compliance report

The directors of ABC hereby accept the 2014 annual CCO report to the board of directors.

Dated this 25th day of February, 2015

Jane Doe

Frank Smart