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March 6, 2009

Headnote

Multilateral Instrument 11-102 *Passport System* and National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions* – National Instrument 52-107, s. 9.1 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* - A reporting issuer wants to early adopt IFRS for purposes of preparing its financial statements - The issuer is already preparing its financial statements in accordance with IFRS-IASB to comply with the requirements of a foreign jurisdiction or foreign regulator; the issuer has assessed the readiness of its staff, board, audit committee, auditors and investors; the issuer has provided detailed disclosure regarding its early adoption of IFRS in its most recently filed MD&A; the issuer will provide disclosure equivalent to that required in IFRS 1 in its financial statements filed with the CSA for the first financial year it relies on this relief

Applicable British Columbia Provisions

National Instrument 52-107, s. 9.1

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
SouthGobi Energy Resources Ltd.
(the Filer)

Decision

Background

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

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the securities legislation of the Jurisdictions (the Legislation) exempting the Filer from the requirement in section 3.1 of National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* (NI 52-107) that financial statements be prepared in accordance with Canadian GAAP (the Exemption Sought), in order that the Filer may prepare its financial statements for periods beginning on or after January 1, 2009 in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IFRS-IASB).

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 Manitoba (the Passport Jurisdictions); and
- (c) the decision is the decision of the principal regulator and evidences the decision of the securities regulatory authority or regulator in the Province of 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 is a corporation continued under the *Business Corporations Act* (British Columbia); the head office of the Filer is located at World Trade Centre, 999 Canada Place, Suite 654, Vancouver, BC V6C 3E1;
 - 2. the Filer is a reporting issuer or equivalent in each of the Jurisdictions and Passport Jurisdictions; the Filer is not in default of its reporting issuer obligations under the Legislation or the securities legislation of the Passport Jurisdictions;
 - 3. the Filer's common shares are listed on the TSX Venture Exchange under the symbol "SGQ" and the Filer has recently filed application documents to obtain a listing on an Asian stock exchange (Asian Stock Exchange);

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4. the Filer is a mining company focused on coal mining with operations in Mongolia and Indonesia;
5. the Filer and its subsidiaries are subject to a diverse set of financial reporting requirements; the Filer prepares its financial statements in accordance with Canadian GAAP; the Filer's Mongolia subsidiaries prepare their statutory financial statements in accordance with IFRS and the Filer's Indonesian subsidiaries prepare their statutory financial statements in accordance with Indonesian generally accepted accounting standards;
6. in connection with the application process for a listing on the Asian Stock Exchange, the Filer was required to prepare financial statements for the years ending December 31, 2005, 2006 and 2007, and the interim period ended March 31, 2008 in accordance with IFRS-IASB and will be required to prepare all of its future financial statements in accordance with IFRS-IASB when the Filer becomes listed on the Asian Stock Exchange;
7. the Filer's listing application documents contain the Filer's "first IFRS financial statements" under IFRS 1 *First Time Adoption of International Financial Reporting Standards* (IFRS 1); these statements contain an explicit and unreserved statement of compliance with IFRS-IASB;
8. the Canadian Accounting Standards Board has confirmed that publicly accountable enterprises will be required to prepare their financial statements in accordance with IFRS-IASB for financial statements relating to fiscal years beginning on or after January 1, 2011;
9. NI 52-107 sets out acceptable accounting principles for financial reporting under the Legislation by domestic issuers, foreign issuers, registrants and other market participants; under NI 52-107, a domestic issuer must use Canadian GAAP with the exception that an SEC registrant may use US GAAP; under NI 52-107, only foreign issuers may use IFRS-IASB;
10. in CSA Staff Notice 52-321 *Early Adoption of International Financial Reporting Standards, Use of US GAAP and Reference to IFRS-IASB*, staff of the Canadian Securities Administrators recognized that some issuers may wish to prepare their financial statements in accordance with IFRS-IASB for periods beginning prior to January 1, 2011 and indicated that staff were prepared to recommend exemptive relief on a case by case basis to permit a domestic issuer to do so, despite section 3.1 of NI 52-107;

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11. subject to obtaining the Exemption Sought, the Filer intends to adopt IFRS-IASB for its financial statements for periods beginning on and after January 1, 2009 with a transition date of January 1, 2005;
12. the Filer believes the adoption of IFRS-IASB will avoid potential confusion for the users of its financial statements because the reporting requirements of all its primary regulators would be satisfied using one accounting standard; additionally, the use of a single accounting standard would eliminate complexity and cost from the Filer's financial statement preparation process;
13. the Filer has implemented a comprehensive IFRS-IASB conversion plan as part of its listing process for the Asian Stock Exchange;
14. the Filer has carefully assessed the readiness of its staff, board of directors, audit committee, auditors, investors and other market participants for the adoption by the Filer of IFRS-IASB for financial periods beginning on and after January 1, 2009 and has concluded that they will be adequately prepared for the Filer's adoption of IFRS-IASB for periods beginning on January 1, 2009;
15. the Filer has considered the implications of adopting IFRS-IASB for financial periods beginning on or after January 1, 2009 on its obligations under securities legislation including, but not limited to, those relating to CEO and CFO certifications, business acquisition reports, offering documents, and previously released material forward looking information, and has concluded that if the Exemption Sought is granted it will continue to be able to fulfill these obligations;
16. the Filer has disclosed relevant information about its conversion to IFRS-IASB as contemplated by CSA Staff Notice 52-320 *Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards* in its management's discussion and analysis for the period ended September 30, 2008 (Q3 MD&A), including:
 - (a) the key elements and timing of its changeover plan;
 - (b) accounting policy and implementation decisions the Filer has made or will have to make;
 - (c) the exemptions available under IFRS 1 that the Filer expects to apply in preparing financial statements in accordance with IFRS-IASB;

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- (d) major differences the Filer has identified between its current accounting policies and those it expects to apply under IFRS-IASB; and
 - (e) the impact of the changeover on the key line items presented in the Filer's interim financial statements for the period ended September 30, 2008;
17. the Filer will update the information set out in its Q3 MD&A in its 2008 annual management's discussion and analysis including, to the extent known, quantitative information regarding the impact of adopting IFRS-IASB on key line items in the Filer's annual financial statements of the year ending December 31, 2008.

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:

- (a) the Filer prepares its annual financial statements for financial periods beginning on or after January 1, 2009 in accordance with IFRS-IASB;
- (b) the Filer prepares its interim financial statements for interim periods beginning on or after January 1, 2009 in accordance with IFRS-IASB, except that if the Filer files interim financial statements prepared in accordance with Canadian GAAP for one or more interim periods for the financial year in which it adopts IFRS-IASB, the Filer will restate and re-file those interim financial statements in accordance with IFRS-IASB upon the Filer's adoption of IFRS-IASB;
- (c) the first annual financial statements referred to in paragraph (a), and the interim financial statements for the first interim period in that first financial year, include the reconciliations and other information specified in paragraphs 6 and 23 through 28 of IFRS 1, including but not limited to:
 - (i) an opening IFRS statement of financial position as at the transition date of January 1, 2005;
 - (ii) a reconciliation of equity as previously reported in accordance with Canadian GAAP to equity in accordance with IFRS as at the transition date of January 1, 2005 and as at each year end since that date;

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- (iii) a reconciliation of total comprehensive income as previously reported in accordance with Canadian GAAP to total comprehensive income in accordance with IFRS for the year ended December 31, 2005 and each subsequent year;
 - (iv) sufficient information to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income for the year ended December 31, 2005 and each subsequent year;
 - (v) material differences between the statements of cash flows as previously reported in accordance with Canadian GAAP and restated IFRS amounts for the year ended December 31, 2005 and each subsequent year;
- (d) the first interim financial statements referred to in paragraph (c) include the disclosure specified in IFRS 1 for interim financial reports.

Martin Eady, CA
Director, Corporate Finance
British Columbia Securities Commission