

**Companion Policy
to National Instrument 52-107
Acceptable Accounting Principles,
Auditing Standards and Reporting Currency**

PART ONE GENERAL

1.1 Introduction and Purpose – This companion policy provides information about how the provincial and territorial securities regulatory authorities interpret National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* (the Instrument). The Instrument does not apply to investment funds. The Instrument sets out the accounting principles and auditing standards that must be used by

- (a) registrants required to deliver financial statements to a provincial or territorial securities regulatory authority.
- (b) issuers required to file financial statements or any operating statement for an oil and gas property under National Instrument 51-102 and National Instrument 71-102,
- (c) issuers required to include financial statements or any operating statement for an oil and gas property in a prospectus or take-over bid circular, or
- (d) issuers required to deliver financial information that is filed under NI 51-102 or that is included in a prospectus or a take-over bid circular filed, or included in a document that is filed, with the securities regulatory authority that is
 - (i) derived from a credit support issuer's consolidated financial statements, or
 - (ii) summarized financial information as to the assets, liabilities and results of operations of a business relating to an acquisition that is, or will be, an investment accounted for by the issuer using the equity method.

Any other financial statement filed by a reporting issuer with a provincial or territorial securities regulatory authority must also be prepared in accordance with this Instrument.

1.2 Multijurisdictional Disclosure System – National Instrument 71-101 *The Multijurisdictional Disclosure System* (NI 71-101) permits certain U.S. incorporated issuers to satisfy Canadian disclosure filing obligations, including

financial statements, by using disclosure documents prepared in accordance with U.S. federal securities laws. The Instrument does not replace or alter NI 71-101. There are instances in which NI 71-101 and the Instrument offer similar relief to a reporting issuer. There are other instances in which the relief differs. If both NI 71-101 and the Instrument are available to a reporting issuer, the issuer should consider both instruments. It may choose to rely on the less onerous instrument in a given situation.

1.3 Calculation of Voting Securities Owned by Residents of Canada – The definition of “foreign issuer” is based upon the definition of foreign private issuer in Rule 405 of the 1933 Act and Rule 3b-4 of the 1934 Act. For the purposes of the definition of “foreign issuer”, in determining the outstanding voting securities that are directly or indirectly owned by residents of Canada, an issuer should

- (a) use reasonable efforts to identify securities held by a broker, dealer, bank, trust company or nominee or any of them for the accounts of customers resident in Canada,
- (b) count securities beneficially owned by residents of Canada as reported on reports of beneficial ownership, including insider reports and early warning reports, and
- (c) assume that a customer is a resident of the jurisdiction or foreign jurisdiction in which the nominee has its principal place of business if, after reasonable inquiry, information regarding the jurisdiction or foreign jurisdiction of residence of the customer is unavailable.

This method of calculation differs from that of NI 71-101 which only requires a calculation based on the address of record. Some SEC foreign issuers may therefore qualify for exemptive relief under NI 71-101 but not under this Instrument.

1.4 Exemptions Evidenced by the Issuance of a Receipt – Section 9.2 of the Instrument states that an exemption from any of the requirements of the Instrument pertaining to financial statements or auditor’s reports included in a prospectus may be evidenced by the issuance of a receipt for that prospectus. Issuers should not assume that the relief evidenced by the receipt will also apply to financial statements or auditors’ reports filed in satisfaction of continuous disclosure obligations or included in any other filing.

1.5 Filed or Delivered – Financial statements that are filed in a jurisdiction will be made available for public inspection in that jurisdiction, subject to the provisions of securities legislation in the local jurisdiction regarding confidentiality of filed material. Material that is delivered to a regulator, but not filed, is not required under securities legislation to be made available for public inspection. However,

the regulator may choose to make such material available for inspection by the public.

- 1.6 Other Legal Requirements** – Issuers and auditors should refer to National Instrument 52-108 *Auditor Oversight* for requirements relating to auditor oversight by the Canadian Public Accountability Board. In addition, issuers and registrants are reminded that they and their auditors may be subject to requirements under the laws and professional standards of a jurisdiction that address matters similar to those addressed by the Instrument, and which may impose additional or more onerous requirements. For example, applicable corporate law may prescribe the GAAP or GAAS required for financial statements. Similarly, applicable federal, provincial or state law may impose licensing requirements on an auditor practising public accounting in certain jurisdictions.

PART TWO ACCEPTABLE ACCOUNTING PRINCIPLES

- 2.1 Acceptable Accounting Principles for Foreign Issuers** – Appendix A contains a chart outlining the accounting principles permitted for annual and interim financial statements of foreign issuers.
- 2.2 Canadian GAAP Applicable to Public Enterprises** - National Instrument 14-101 *Definitions* defines Canadian GAAP as generally accepted accounting principles determined with reference to the Handbook. The Handbook has differing requirements for public enterprises and non-publicly accountable enterprises. The Instrument generally requires issuers and registrants to use Canadian GAAP applicable to public enterprises. The following are some of the significant differences in the provisions of Canadian GAAP applicable to public enterprises compared to those applicable to non-publicly accountable enterprises:
- (a) financial statements for public enterprises cannot be prepared using the differential reporting options as set out in the Handbook;
 - (b) transition provisions applicable to enterprises other than public enterprises are not available; and
 - (c) financial statements must include any additional disclosure requirements applicable to public enterprises.
- 2.3 GAAP Reconciliations** – The Instrument specifies that where a reconciliation to Canadian GAAP applicable to public enterprises or a reconciliation to the issuer's GAAP is required, the reconciliation must quantify the effect of material differences between that GAAP and the accounting principles used that relate to recognition, measurement and presentation in the subject financial statements.

While the differences affecting net income must be presented in a tabular format, differences relating to other aspects of the financial statements may be presented in either a tabular reconciliation or some other form of reconciliation.

2.4 Financial Statements After an SEC Issuer Changes From Canadian GAAP to U.S. GAAP –

- (1) An SEC issuer may change from Canadian GAAP to U.S. GAAP any time during a year. If, after filing financial statements prepared in accordance Canadian GAAP for one or more interim periods during a year, the issuer decides to adopt U.S. GAAP, the issuer may be required to restate and re-file the interim financial statements for the current year previously filed. An SEC issuer that changes from Canadian GAAP to U.S. GAAP during a year should consult National Instrument 51-102 to determine which financial statements should be restated and re-filed in satisfaction of its continuous disclosure obligations. Similarly, issuers planning to file a prospectus should refer to the prospectus instrument under which the prospectus will be prepared and filed to determine the financial statements that it may be required to restate and re-file.
- (2) Appendix B includes examples of formats for presenting comparative financial information required by paragraph 4.1(1)(b) of the Instrument for both annual and interim financial statements after an SEC issuer changes from Canadian GAAP to U.S. GAAP.

2.5 Acquisition Statements

The Instrument provides that issuers may file acquisition statements prepared in accordance with Canadian GAAP as applicable to public enterprises. This means that the financial statements of a private enterprise may need to be modified to adjust for the items discussed in section 2.2 of this policy.

Subsection 6.1(4) of the Instrument requires acquisition statements to be reconciled to the issuer's GAAP. In addition, if an issuer is required to reconcile its financial statements to Canadian GAAP, subsection 6.1(5) of the Instrument requires acquisition financial statements either be prepared in accordance with, or reconciled to, Canadian GAAP applicable to public enterprises. If an SEC issuer has prepared and filed both Canadian GAAP and U.S. GAAP financial statements for its most recently completed interim and annual period, and the issuer can provide acquisition statements prepared in accordance with U.S. GAAP, the issuer may apply for an exemption from the requirement to file acquisition statements prepared in accordance with, or reconciled to, Canadian GAAP applicable to public enterprises. An issuer granted this relief would be required to prepare the pro forma financial statements based on the issuer's U.S. GAAP financial statements and the U.S. GAAP acquisition statements and include a

reconciliation of the pro forma financial statements to Canadian GAAP. If the issuer is granted this relief in the context of a prospectus, the issuer's U.S. GAAP financial statements must be included in the prospectus.

2.6 Acceptable Accounting Principles for Financial Information

If an issuer or registrant is required to file other financial information, such as selected financial data or a statement of capital calculations, staff expects that information to be prepared on a basis that is consistent with the principles applied in the financial statements.

PART THREE ACCEPTABLE ACCOUNTING PRINCIPLES AND AUDITING STANDARDS

3.1 Acceptable Accounting Principles – Subsection 3.1(3) of the Instrument requires that the notes to the financial statements identify the accounting principles used to prepare the financial statements. We believe that disclosing financial information to the marketplace in a news release without disclosing the accounting principles used to prepare the financial information is inconsistent with this requirement.

3.2 Accounting Principles that Cover Substantially the Same Core Subject Matter as Canadian GAAP - Paragraphs 5.1(e) and 8.1(d) of the Instrument indicate that foreign issuers may prepare their financial statements using accounting principles that cover substantially the same core subject matter as Canadian GAAP. We believe U.S. GAAP meets this criteria. The accounting principles of other jurisdictions may also meet this criteria if the principles are based on a fundamental conceptual framework and the jurisdiction has an established methodology for ensuring that the principles are updated regularly to keep pace with international developments in accounting.

In evaluating a jurisdiction's accounting principles, the issuer or registrant should consider whether, at a minimum, the core standards as identified by the International Organization of Securities Commissions at its May 2000 conference are addressed. These core standards include: presentation of financial statements; inventories; depreciation accounting; cash flow statements; net profit or loss for the period, fundamental errors and changes in accounting policies; events after the balance sheet date; construction contracts; income taxes; segment reporting; property, plant and equipment; leases; revenue; accounting for government grants and disclosure of government assistance; the effects of changes in foreign exchange rates; business combinations; borrowing costs; related party disclosures; consolidated financial statements and accounting for investments in subsidiaries; accounting for investments in associates; financial reporting in hyperinflationary economies, financial reporting of interests in joint ventures; financial instruments: disclosure and presentation; earnings per share; interim financial reporting;

discontinuing operations; impairment of assets; provisions, contingent liabilities and contingent assets; intangible assets; and financial instruments: recognition and measurement. We may request the issuer or registrant provide a rationale for asserting that the accounting principles of the jurisdiction cover substantially the same core subject matter as Canadian GAAP.

- 3.3 Summary of Acceptable Auditing Standards** – Appendix C contains a chart outlining the auditing standards permitted for the audit of financial statements of foreign issuers.

PART FOUR AUDITORS AND THEIR REPORTS

- 4.1 Auditor’s Expertise** – The securities legislation in most jurisdictions prohibits a regulator or securities regulatory authority from issuing a receipt for a prospectus if it appears to the regulator or securities regulatory authority that a person or company who has prepared any part of the prospectus or is named as having prepared or certified a report used in connection with a prospectus is not acceptable.

- 4.2 Canadian Auditors for Canadian GAAP and GAAS Financial Statements** – A Canadian auditor is a person or company that is authorized to sign an auditor’s report by the laws, and that meets the professional standards, of a jurisdiction of Canada. We would normally expect issuers and registrants incorporated or organized under the laws of Canada or a jurisdiction of Canada, and any other issuer or registrant that is not a foreign issuer nor a foreign registrant, to engage a Canadian auditor to audit the issuer’s or registrant’s financial statements if those statements are prepared in accordance with Canadian GAAP and will be audited in accordance with Canadian GAAS unless a valid business reason exists to use a non-Canadian auditor. A valid business reason would include a situation where the principal operations of the company and the essential books and records required for the audit are located outside of Canada.

Non-Canadian auditors auditing financial statements in accordance with Canadian GAAS and prepared by the issuer or registrant in accordance with Canadian GAAP are expected to consult or involve an auditor familiar with Canadian GAAS and Canadian GAAP as applicable to public enterprises.

- 4.3 Reservations in an Auditor’s Report** –

- (1) The Instrument generally prohibits an auditor’s report from containing a reservation, qualification of opinion, or other similar communication that would constitute a reservation under Canadian GAAS.

- (2) Part 9 of the Instrument permits the regulator or securities regulatory authority to grant exemptive relief from the Instrument, including the requirement that an auditor's report not contain a reservation, qualification of opinion or other similar communication that would constitute a reservation under Canadian GAAS. However, we believe that such exemptive relief should not be granted if the reservation, qualification of opinion or other similar communication is
- (a) due to a departure from accounting principles permitted by the Instrument, or
 - (b) due to a limitation in the scope of the auditor's examination that
 - (i) results in the auditor being unable to form an opinion on the financial statements as a whole,
 - (ii) is imposed or could reasonably be eliminated by management, or
 - (iii) could reasonably be expected to be recurring.

4.4 Auditors' Knowledge of an Issuer's Accounting Principles and Auditing Standards – A foreign issuer or foreign registrant may have its financial statements prepared and audited in accordance with accounting principles and auditing standards, respectively, that do not correspond to the home jurisdiction of its auditor. In these situations, we may request, during a review of the issuer's prospectus, continuous disclosure records or other filings, or a registrant's filings, a letter from the foreign auditor describing its expertise in the accounting principles used to prepare the issuer's or registrant's financial statements and the auditing standards applied. A similar request may be made if the issuer or registrant has reconciled its financial statements to a set of accounting principles that are different from those of the auditor's home jurisdiction.

APPENDIX A
Accounting Principles Permitted for Annual and Interim Financial Statements
of Foreign Issuers¹

Accounting Principles:	Foreign Issuers ²		
	SEC Foreign Issuers ^{2,3}	Designated Foreign Issuers ^{2,3}	Other Foreign Issuers ³
Canadian GAAP	✓ s. 3.1(1)	✓ s. 3.1(1)	✓ s. 3.1(1)
U.S. GAAP	✓ No reconciliation required s. 5.1(a)	✓ Reconciliation to Canadian GAAP may be required ⁴ s. 5.1(d) or 5.1(e)	✓ Reconciliation to Canadian GAAP required s. 5.1(e)
International Financial Reporting Standards	✓ No reconciliation required s. 5.1(b)	✓ No reconciliation required s. 5.1(b)	✓ No reconciliation required s. 5.1(b)
Foreign accounting principles used in an SEC filing	✓ Only if ≤ 10% Canadian shareholders Reconciliation to U.S. GAAP required for annual financial statements s. 5.1(c)		
Accounting principles accepted in the Designated Foreign Jurisdiction		✓ No reconciliation required s. 5.1(d)	
Accounting principles that cover substantially the same core subject matter as Canadian GAAP	✓ Reconciliation to Canadian GAAP required s. 5.1(e)	✓ Reconciliation to Canadian GAAP required s. 5.1(e)	✓ Reconciliation to Canadian GAAP required s. 5.1(e)

Notes

- 1 This chart should be read in conjunction with National Instruments 52-107, 51-102 and 71-102 and Companion Policy 71-102CP. The chart does not relate to financial statements other than those of reporting issuers.
- 2 These terms are defined in the Instrument.
- 3 The corresponding section references in the Instrument appear in the bottom right-hand corner of each cell.
- 4 A Canadian GAAP reconciliation would not be required if the designated foreign jurisdiction accepts financial statements prepared in accordance with U.S. GAAP.

Appendix B

Presentation of Comparatives after an SEC Issuer Changes from Canadian GAAP to U.S. GAAP

The following are examples of formats for presenting comparative financial information required by paragraph 4.1(1)(b) of the Instrument for both annual and interim financial statements after an SEC issuer changes from using Canadian GAAP to U.S. GAAP. The examples do not address the reconciliation requirements in paragraph 4.1(1)(a).

1. Annual Financial Statements

Option 1 – All comparatives presented on the face of the financial statements

(a) Balance Sheet, Statements of Income and Cash Flow

<u>Most Recent Year</u> (U.S. GAAP)	Prior Year Comparative <u>Restated</u> (U.S. GAAP)	Prior Year Comparative as <u>Previously Reported</u> (Canadian GAAP)
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Financial statement line items

(b) Notes to the Annual Financial Statements

- explanation of material differences between Canadian GAAP and U.S. GAAP relating to recognition, measurement and presentation
- quantification of the differences relating to recognition, measurement and presentation

Option 2 – Comparative figures as previously reported in Canadian GAAP presented in a note to the annual financial statements

(a) Balance Sheet, Statements of Income and Cash Flow

<u>Most Recent Year</u> (U.S. GAAP)	Prior Year Comparative <u>Restated</u> (U.S. GAAP)
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Financial statement line items

(b) Notes to the Annual Financial Statements

(i) Balance Sheet, Statements of Income and Cash Flow

Prior Year Comparative as <u>Previously Reported</u> (Canadian GAAP)
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Financial statement line items

(ii) Supporting Reconciliation Information

- explanation of material differences between Canadian GAAP and U.S. GAAP relating to recognition, measurement and presentation, for the prior year comparatives
- quantification of the differences relating to recognition, measurement and presentation

2. Interim Financial Statements

Option 1 – All comparative figures presented on the face of the interim financial statements

(a) Balance Sheet

<u>Most Recent Interim Period</u> (U.S. GAAP)	Prior Year Comparative <u>Restated</u> (U.S. GAAP)	Prior Year Comparative as <u>Previously Reported</u> (Canadian GAAP)
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Financial statement line items

(b) Statements of Income and Cash Flow

Most Recent Interim Period <u>(3 months)</u> (U.S. GAAP)	Comparative Interim Period (3 months) <u>Restated</u> (U.S. GAAP)	Comparative Interim Period (3 months) as Previously <u>Reported</u> (Canadian GAAP)	Most Recent Year-to-Date Interim Period <u>Restated</u> (U.S. GAAP)	Comparative Year-to-Date Interim Period <u>Restated</u> (U.S. GAAP)	Comparative Year-to-Date Interim Period as Previously <u>Reported</u> (Canadian GAAP)
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Financial statement line items

(c) Notes to the Interim Financial Statements

- explanation of material differences between Canadian GAAP and U.S. GAAP for the comparative interim periods (most recent three months and year-to-date) relating to recognition, measurement and presentation, for the prior period comparatives
- quantification of the differences relating to recognition, measurement and presentation

Option 2 - Comparative figures as previously reported in Canadian GAAP presented in a note to the interim financial statements

(a) Balance Sheet

<u>Most Recent Interim Period</u> (U.S. GAAP)	Prior Year Comparative <u>Restated</u> (U.S. GAAP)
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Financial statement line items

(b) Statements of Income and Cash Flow

<u>Most Recent Interim Period (3 months)</u> (U.S. GAAP)	Comparative Interim Period (3 months) <u>Restated</u> (U.S. GAAP)	Most Recent Year-to-Date <u>Interim Period</u> (U.S. GAAP)	Comparative Year-to-Date Interim <u>Period Restated</u> (U.S. GAAP)
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Financial statement line items

(c) Notes to the Interim Financial Statements

(i) Balance Sheet Comparatives

Prior Year Comparative as
Previously Reported
(Canadian GAAP)

Financial statement line items

(ii) Statements of Income and Cash Flow Comparatives

Comparative Interim Period (3 months) as <u>Previously Reported</u> (Canadian GAAP)	Comparative Year-to-Date Interim Period as <u>Previously Reported</u> (Canadian GAAP)
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Financial statement line items

(iii) Supporting Reconciliation Information

- explanation of material differences between Canadian GAAP and U.S. GAAP for the comparative interim periods (most recent three months and year-to-date)
- quantification of the differences relating to recognition, measurement and presentation

Option 3 - Comparative figures as previously reported in Canadian GAAP presented in a note to the interim financial statements and integrated with reconciliation information

(a) Balance Sheet

<u>Most Recent Interim Period</u> (U.S. GAAP)	Prior Year Comparative <u>Restated</u> (U.S. GAAP)
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Financial statement line items

(b) Statements of Income and Cash Flow

<u>Most Recent Interim Period (3 months)</u> (U.S. GAAP)	Comparative Interim Period <u>(3 months) Restated</u> (U.S. GAAP)	Most Recent Year-to-Date Interim <u>Period</u> (U.S. GAAP)	Comparative Year-to-Date Interim <u>Period Restated</u> (U.S. GAAP)
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Financial statement line items

(c) Note to the Interim Financial Statements

(i) Balance Sheet Comparatives and Quantification of Differences

Prior Year Comparatives as <u>Previously Reported</u> (Canadian GAAP)	Reconciling <u>Adjustments</u>	Prior Year Comparative <u>Restated</u> (U.S. GAAP)
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Financial statement line items

(ii) Statements of Income and Cash Flow Comparatives and Quantification of Differences

Comparative Interim Period (3 months) as <u>Previously Reported</u> (Canadian GAAP)	Reconciling <u>Adjustments</u>	Comparative Interim Period (3 months) <u>Restated</u> (U.S. GAAP)	Comparative Year-to-Date Interim Period as <u>Previously Reported</u> (Canadian GAAP)	Reconciling <u>Adjustments</u>	Comparative Year-to-Date Interim Period <u>Restated</u> (U.S. GAAP)
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Financial statement line items

(iii) Supporting Reconciliation Information

- explanation of material differences between Canadian GAAP and U.S. GAAP relating to recognition, measurement and presentation which are quantified in the “Reconciling Adjustments” columns above.

APPENDIX C
Auditing Standards Permitted for the Audit of Financial Statements of Foreign Issuers¹

Auditing Standards:	Foreign Issuers ²		
	SEC Foreign Issuers ^{2,3}	Designated Foreign Issuers ^{2,3}	Other Foreign Issuers ³
Canadian GAAS	✓ s. 3.2	✓ s. 3.2	✓ s. 3.2
U.S. GAAS	✓ s. 5.2(a)	✓ s. 5.2(a)	✓ s. 5.2(a)
International Standards on Auditing	✓ ⁴ s. 5.2(b)	✓ ⁴ s. 5.2(b)	✓ ⁴ s. 5.2(b)
Auditing Standards Accepted in the Designated Foreign Jurisdiction ⁵		✓ s. 5.2(c)	

Notes

- 1 This chart should be read in conjunction with National Instruments 52-107, 51-102 and 71-102 and Companion Policy 71-102CP. The chart does not relate to financial statements other than those of reporting issuers.
- 2 These terms are defined in the Instrument.
- 3 The corresponding section references in the Instrument appear in the bottom right-hand corner of each cell.
- 4 The audit report must be accompanied by a statement disclosing any material differences in the form and content of the audit report compared to a Canadian GAAS audit report.
- 5 The auditing standards must meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject.