

**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 sets out the accounting principles and auditing standards that must be used by

- (a) issuers required to file financial statements under National Instrument 51-102 and National Instrument 71-102,
- (b) issuers required to include financial statements in a prospectus, or
- (c) registrants required to deliver financial statements to a provincial or territorial securities regulatory authority.

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 except for financial statements prepared by issuers that are investment funds.

1.2 Multijurisdictional Disclosure System – National Instrument 71-101 *The Multijurisdictional Disclosure System* (NI 71-101) permits certain US 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 “eligible 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 “eligible 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 determine 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.

PART TWO ACCEPTABLE ACCOUNTING PRINCIPLES

- 2.1 Acceptable Accounting Principles for Eligible Foreign Issuers** – Appendix A contains a chart outlining the accounting principles permitted for annual and interim financial statements of eligible foreign issuers.
- 2.2 Canadian GAAP Applicable to Public Enterprises** - The Instrument defines Canadian GAAP as generally accepted accounting principles for public enterprises, as determined with reference to the Handbook. 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, the issuer’s GAAP or the registrant’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 impacting 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 US GAAP –

- (1) An SEC issuer may change from Canadian GAAP to US 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 US 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 US 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 will be required to restate and re-file.
- (2) Appendix B includes examples of the format for presenting comparatives for both annual and interim financial statements after an SEC issuer changes from Canadian GAAP to US GAAP.

PART THREE AUDITING STANDARDS

3.1 Summary of Acceptable Auditing Standards – Appendix C contains a chart outlining the auditing standards permitted for eligible 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** – Subsection 3.3(2) of the Instrument requires 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 an eligible foreign issuer nor an eligible 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.
- 4.3 Reservations in an Auditor's Report** –
- (1) The Instrument generally prohibits an auditor's report from containing a reservation, qualification, 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 or other similar communication that would constitute a reservation under Canadian GAAS. However, staff of the Canadian Securities Administrators (the CSA) believe that such exemptive relief will not be granted where the reservation, qualification 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, CSA staff 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 in situations where 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 Eligible Foreign Issuers¹

Accounting Principles:	Eligible Foreign Issuers ²		
	SEC Foreign Issuers ^{2,3}	Designated Foreign Issuers ^{2,3}	Other Eligible Foreign Issuers ³
Canadian GAAP	✓ s. 3.1(1)	✓ s. 3.1(1)	✓ s. 3.1(1)
US GAAP	✓ No reconciliation required s. 5.1(a)	✓ Reconciliation to Canadian GAAP may be required ⁴ s. 5.1(d)	✓ 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 US 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	<p style="text-align: center;">✓</p> <p style="text-align: center;">Reconciliation to Canadian GAAP required</p> <p style="text-align: right;">s. 5.1(e)</p>	<p style="text-align: center;">✓</p> <p style="text-align: center;">Reconciliation to Canadian GAAP required</p> <p style="text-align: right;">s. 5.1(e)</p>	<p style="text-align: center;">✓</p> <p style="text-align: center;">Reconciliation to Canadian GAAP required</p> <p style="text-align: right;">s. 5.1(e)</p>
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Notes

- 1 This decision chart provides general guidance and should be read in conjunction with National Instruments 52-107, 51-102 and 71-102 and Companion Policy 71-102CP. The decision 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 US GAAP. See the second last row of this chart.

Appendix B – Presentation of Comparatives after an SEC Issuer Changes from Canadian GAAP to US GAAP

The following are examples of the format for presenting comparative financial information for both annual and interim financial statements after an SEC issuer changes from using Canadian GAAP to US GAAP.

1. Annual Financial Statements

(a) Option 1 – All Comparatives Presented on the Face of the Financial Statements

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

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

(ii) Notes to the Annual Financial Statements

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

(b) Option 2 – Comparative Figures as Previously Reported in Canadian GAAP Presented in a Note to the Annual Financial Statements

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

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

(ii) Notes to the Annual Financial Statements

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

2. Interim Financial Statements

(a) Option 1 - All Comparative Figures Presented on the Face of the Interim Financial Statements and Note Disclosure of Reconciliation Information

(i) Balance Sheet

<u>Current Interim Period</u> (US GAAP)	Prior Year Comparative <u>Restated</u> (US GAAP)	Prior Year Comparative as <u>Previously Reported</u> (Canadian GAAP)
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Financial statement line items

(ii) Statements of Income and Cash Flow

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

(iii) Notes to the Interim Financial Statements

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

(b) Option 2 - Comparative Figures as Previously Reported in Canadian GAAP Presented in a Schedule or a Note to the Interim Financial Statements and Note Disclosure of Reconciliation Information

(i) Balance Sheet

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

(ii) Statements of Income and Cash Flows

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

(iii) Schedule or Note to the Interim Financial Statements

(A) Balance Sheet Comparatives

Prior Year Comparative as
Previously Reported
(Canadian GAAP)

Financial statement line items

(B) 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

(C) Supporting Reconciliation Information

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

(c) Option 3 - Comparative Figures as Previously Reported in Canadian GAAP Presented in a Schedule or a Note to the Interim Financial Statements and Integrated with Reconciliation Information

(i) Balance Sheet

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

(ii) Statements of Income and Cash Flow

Current Interim Period (3 months) (US GAAP)	Comparative Interim Period (3 months) Restated (US GAAP)	Current Year-to-Date Interim Period (US GAAP)	Comparative Year-to-Date Interim Period Restated (US GAAP)
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Financial statement line items

(iii) Schedule or Note to the Interim Financial Statements - Disclosing the Comparatives as Previously Reported in Canadian GAAP, Reconciling Adjustments, and Comparatives in US GAAP as Restated

(A) Balance Sheet Comparatives and Quantification of Differences

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

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

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

(C) Supporting Reconciliation Information

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

APPENDIX C
Auditing Standards Permitted for Eligible Foreign Issuers

Auditing Standards:	Eligible Foreign Issuers ¹		
	SEC Foreign Issuers ^{1,2}	Designated Foreign Issuers ^{1,2}	Other Eligible Foreign Issuers ²
Canadian GAAS	✓ s. 3.2(1)	✓ s. 3.2(1)	✓ s. 3.2(1)
US GAAS	✓ s. 5.2(1)(a)	✓ s. 5.2(1)(a)	✓ s. 5.2(1)(a)
International Standards on Auditing	✓ ³ s. 5.2(1)(b)	✓ ³ s. 5.2(1)(b)	✓ ³ s. 5.2(1)(b)
Auditing Standards Accepted in the Designated Foreign Jurisdiction ⁴		✓	

Notes

- 1 These terms are defined in the Instrument.
- 2 The corresponding section references in the Instrument appear in the bottom right-hand corner of each cell.
- 3 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. Refer to section 5.2(4) in the Instrument.
- 4 The auditing standards must meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject. Refer to section 5.2(1)(c) in the Instrument.