CONTINUOUS DISCLOSURE REVIEW PROGRAM

2005 REPORT

ON THE REVIEW OF FINANCIAL STATEMENTS, MD&A AND OTHER MATERIALS

March 2006

Alberta Securities Commission

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EXECUTIVE OVERVIEW

General

This report marks the fifteenth year that Staff is commenting on the quality of financial reporting disseminated to the public by Alberta headquartered public enterprises. These enterprises, commonly referred to in securities legislation as reporting issuers ("RIs"), are subject to regulatory oversight by the Alberta Securities Commission ("ASC"). The observations and comments in this report are based on the review of documents filed with the ASC between January 1 and December 31, 2005 by a sample of RIs.

From a total of about 800 RIs, Staff selected 172 RIs for either a full review of all of their filed materials or an issue-oriented review of a particular filed document or issue. As a result of these reviews, we concluded that the financial and other reporting by Alberta RIs continues to be generally informative, reliable, transparent, and in compliance with standards set out in securities legislation. Although Staff observed minor deficiencies in many of the financial statements and other materials reviewed, these deficiencies did not detract significantly from their overall acceptability. We encourage all RIs to strive for continuous improvement in the quality of their reporting in order to better inform investors.

SUMMARIZED OBSERVATIONS

Quality of Financial Statements

Allocation of purchase price in a business combination

Staff asked RIs, whose financial statements indicated a business combination had taken place in the period under review, about the process they followed in identifying all acquired assets and liabilities in the purchased business and how fair values were allocated among individual assets and liabilities when allocating the purchase price. Some RIs said they had retained professionals to assist in the identification and valuation of the acquired assets and liabilities while others indicated they used internal resources. Staff was satisfied that all the sampled RIs used an acceptable approach to identify acquired assets and liabilities and employed reasonable methods to estimate their fair values.

Impairment testing of intangibles and goodwill

Staff enquired of some RIs about the process followed in assessing impairment of intangibles and goodwill and, if applicable, the approach used in measuring same. Staff was satisfied that all of the subject RIs followed an approach in monitoring possible impairment of intangibles and goodwill, and where a detailed calculation had been made, staff was satisfied that the method was acceptable. However, Staff would like RIs to improve disclosure surrounding the approach to assessing possible impairment of intangibles and goodwill and, if a detailed calculation is required, to disclose in reasonable detail how this performed.

Related party transactions

Transactions involving related parties seem to cause recurring measurement and disclosure issues for some RIs. The measurement issue often relates to situations where one business, controlled by an identifiable group, issues consideration (such as cash, shares or a combination of cash and shares) to acquire a business controlled by this same identifiable group. The determination as to whether this type of transaction should be measured in the financial statements of the business initiating the transaction at the exchange amount is dependent on two factors outlined in CICA HB 3840. From Staff's perspective, a substantive change in the ownership interests is the key determinant as to whether the transaction should be recorded at the exchange amount. If exchange amount is not appropriate in the circumstances then carrying amount must be used.

Staff noted deficiencies in the disclosure of the relationship between two or more related parties, and in some cases, the terms of the transaction were not adequately explained. Another recurring deficiency is inadequate disclosure about what the exchange amount represents (i.e., fair value or another value basis supported by independent evidence such as an appraisal report).

Staff encourages RIs and their advisors to enhance all aspects of disclosure of related party transactions and take extra care when a transaction involves a determination as to whether the accounting should be measured at exchange amount or carrying amount.

Earnings per share

When basic and diluted earnings per share calculations are performed, CICA HB 3500 requires certain disclosure of items that affect the net income figure used in the calculation if this figure differs from net income as shown on the statement of earnings. These disclosures were not made by all RIs. Any corresponding adjustment to the number of shares used in the calculation should also be described.

Non-GAAP financial measures

These measures are being used more frequently by all RIs and where they once were contained in MD&A documents and press releases, they are now seen in the financial statements themselves. Staff noted disclosures of items such as cash flows and EBITDA (earnings before interest, taxes, depreciation, depletion and amortization) often did not comply with CSA Staff Notice 52-306 on non-GAAP measures. We also noted that a number of RIs computed an EBITDA amount that included adjustments other than interest, taxes, depreciation, depletion and amortization; thereby creating a measure that deviated from the more standardized and generally known meaning of EBITDA. Some RIs did not reconcile their non-GAAP measures to the most directly comparable GAAP measures and explanations about how the measures were determined were omitted. Without clear and consistent disclosure around an RI's non-GAAP measures, investors can easily be confused by the measure or its relevance.

Stock-based compensation

Staff conducted an issue-oriented review of the accounting followed for stock-based compensation by some income funds and royalty trusts. Staff is of the view that all stock-based compensation accounting should follow the fair value method as outlined in CICA HB 3870. If an RI does not have in-house expertise to use option-pricing models or to create a customized option-pricing model to arrive at fair value, then an expert can be retained to assist in the estimate of fair value. If an RI with the support of an expert on option-pricing models believes that it is not possible to calculate a fair value because of the specific terms of a compensation plan, then the RI should arrange to discuss the matter with Staff and obtain Staff's position on the particular issue.

Private placements

Some RIs made private placements of equity before their initial public offering. In those instances, GAAP requires that shares issued be measured at fair value and any excess of fair value over the issue price be recorded as compensation expense. It is unclear if issue price in these cases was simply assumed to be fair value by some RIs or if a rigorous determination of fair value was undertaken by them to ensure appropriate accounting was used.

Quality of MD&A

Staff noted two general areas of weakness in MD&A: (1) non-compliance in providing required information and discussion; and, (2) discussion of issues that would best be described as superficial or lacking depth. While each of these deficiencies should be addressed, it will be more challenging for RIs to reduce superficial discussions. Staff is of the view that boilerplate and irrelevant information in MD&A is of no use to investors and may in fact be confusing. Staff expects any MD&A to reflect meaningful, complete and transparent discussions about an RI's operations and future prospects.

In the 2005 review the two most common specific deficiencies were: the lack of discussion about an RI's performance over the most recent eight quarterly interim financial reporting periods; and, the lack of discussion on trends and possible seasonality issues that may have affected the operations and their possible effects on future operations. There were several RIs in the development stage or with major development projects that did not discuss milestones achieved on the projects, anticipated future expenditures and sources of capital available to complete the projects.

Information Circulars relating to Plans of Arrangement

As part of a plan of arrangement, there is often a private placement of equity securities. Staff noted instances where disclosure around determination of net asset values, the reasons for the placement, the participants in the placement and the hold periods were quite limited and should have been expanded. Often outstanding stock options have conversion features that are given limited disclosure for investors and also should have been expanded.

INTRODUCTION

This is the fifteenth year that Staff is commenting on the quality of financial reporting that Alberta based reporting issuers disseminate to the investing public. For this report, Staff reviewed a sample of filings made with us between January 1, 2005 and December 31, 2005. Staff selected its sample from a population of approximately 800 Alberta headquartered RIs and conducted either an issue-oriented or a full review of documents filed by each RI chosen in the sample.

An issue-oriented review is in-depth and focused. A particular industry or issue is chosen for scrutiny. In 2005, one of the key areas chosen by Staff for issue-oriented review was certain disclosures and accounting by income trusts. A full review is broader than an issue-oriented review and covers most information filed by an RI. In these reviews, Staff focuses on annual and interim financial statements and Management's Discussion and Analysis (MD&A), Business Acquisition Reports, Annual Information Forms (AIF), Annual Reports, Information Circulars, press releases and material change reports, technical disclosures and reports (e.g., oil and gas reserves reports) and RIs' websites. A separate report is prepared annually on the findings of Staff regarding RIs' compliance with the requirements of National Instrument 51-101 *Standards Of Disclosure for Oil and Gas Activities* - see the ASC website (www.albertasecurities.com) for the most recent report.

If an RI's financial statements or MD&A contained a material deficiency, Staff requested that the RI restate and re-file the financial statements or MD&A as soon as practicable, but no later than the timeline for the next required filing of its financial statements.

If an RI's financial statements or MD&A contained an observed immaterial deficiency, Staff asked the RI to address the deficiency prospectively in its next required filing.

Sample Characteristics

The findings of this report are based on a full review of 68 RIs and issue-oriented views of 95 RIs out of a total of approximately 800 Alberta-headquartered RIs. RIs selected for review were listed on either the TSX or TSX Venture Exchanges and were audited by firms registered with the Canadian Public Accountability Board.

Quantitative results

(a) Eight RIs corrected previously filed information as a consequence of Staff's full reviews. When the most recent annual financial statements of seven of the RIs were filed with the ASC, the comparative figures were identified as having been restated and appropriate disclosure was contained in the corresponding notes to the statements. The other RI amended an annual MD&A filing.

(b) Five RIs subject to issue-oriented reviews restated prior years' annual financial statements and four RIs were asked to disclose in their next annual financial statement notes to the effect that prior years' amounts were not restated with respect to an accounting change because the amounts involved were not material. Another RI amended its annual MD&A filing.

Accounting and Disclosure Issues and Deficiencies

Stock-based compensation

In the 2004 version of this report, Staff commented that several royalty trusts were not following the "fair value" method of accounting for unit-based compensation; instead they followed an intrinsic value method at the date options were granted, re-measuring the options under the intrinsic value method at each future balance sheet date when financial statements were issued, until all options were settled. Intrinsic value is the difference between the fair value of a security at a point in time--usually a trading price of a security listed on a stock exchange, compared to the exercise price of the granted option at that same point in time.

While a typical stock-based compensation plan of a royalty trust is complex due to the plan's characteristics, Staff believes that a reasonable estimate of fair value of options granted to employees at the date-of-grant can be determined through the use of an option-pricing model. If an enterprise does not have the in-house ability to utilize an option-pricing model, then an expert in option-pricing models should be retained to assist the enterprise in complying with GAAP.

In 2005, Staff carried out an issue-oriented review of stock-based compensation in a number of trusts that were using the intrinsic value method. One common theme among the trusts was the strong belief that, because a royalty trust makes monthly cash distributions often representing 70% to 100% of cash flows from operating activities, a closed end option-pricing model such as the Black Scholes Merton model is not appropriate for use in calculating fair value. They also stated that the typical stock-based compensation plan of a royalty trust is complex and requires forecasting many items that are used as inputs in an option-pricing model. Additionally, difficult assumptions must be made for those trust plans that require a downward adjustment of the exercise price based on distributed cash exceeding a predetermined threshold.

Staff believes that guidance in CICA HB 3870 allows sufficient leeway in making reasonable assumptions that management of any enterprise, including trusts, should feel comfortable in determining inputs necessary to utilize an option-pricing model (e.g. the Black Scholes Merton model or a lattice model) without resorting to hindsight.

Staff asked all the subject RIs to determine if the difference between the compensation expense in the prior year using a fair value method was materially different from the compensation expense that had been reported using the intrinsic value method re-measured through settlement. Where the difference was material, Staff required that the prior years financial statements be restated. For those RIs that had immaterial differences in prior years, Staff required that note disclosure indicate that the adoption of the fair value method was effective January 1, 2003 without restatement of prior financial statements because the effect was immaterial.

Allocation of the purchase price in a business combination

Staff reviewed a number of RIs' financial statements that reflected a business combination had taken place. The RIs involved in these acquisitions were asked how the purchase price was allocated to individual assets and liabilities of the acquired business and whether an independent professional had been retained to assist in identifying acquired assets and liabilities and then valuing them. The majority of acquirers indicated they had retained the services of professionals, who provided valuation services in estimating the fair values of acquired assets and liabilities. Although neither securities regulation nor GAAP mandates that RIs retain the services of independent professional valuators to assist in a purchase price allocation, Staff believes that in many circumstances it may be beneficial to do so. To improve the quality of financial reporting in this area, Staff recommends that allocation of the purchase price following a business combination be described more fully in the acquirer's financial statements.

Measuring impairment of intangible assets and goodwill

Staff asked a number of RIs about their process for reviewing and testing possible impairment of intangible assets and goodwill. Each RI satisfied Staff that it monitored the intangible assets and goodwill to determine if a detailed impairment test calculation was necessary. Where a detailed calculation had been performed, the RI demonstrated that it had been done correctly. To improve financial reporting, Staff encourages more informative disclosure about the process followed by an RI to assess initial impairment and, if a detailed impairment calculation is required, a comprehensive description of how it is conducted.

Related party transactions

Measurement and disclosure of related party transactions in financial statements and MD&A continues to be an area of concern. We have noted deficiencies in this area in each of the last five years' reports.

RIs that enter into related party transactions must provide complete and transparent information about the transactions, in compliance with CICA HB Section 3840. Providing more rather than less information on such transactions is the best approach in dealing with today's more demanding corporate governance requirements.

Staff observed that some RIs provided a detailed discussion of related party transactions in their MD&A. This is excellent for MD&A disclosures and adds to the overall quality of financial reporting. However, MD&A disclosure is a supplement to, not a substitute for, financial statement disclosure. Related party transaction disclosure must also meet the requirements under GAAP for financial statement disclosure and measurement.

In this year's review, Staff observed a number of RIs with related party transactions deficiencies pertaining either to measurement and/or disclosure. Our summary of these issues follows:

In some cases, the description of related party transactions was incomplete or vague. Some RIs stated that a particular transaction was recorded at "exchange amount" but did not disclose what the exchange amount represented. CICA HB 3840.52 states "Disclosure of the basis used to measure related party transactions (i.e., carrying amount or exchange amount) assists in evaluating the effect of related party transactions on the reporting enterprise. In the case of transactions not in the normal course of operations, information concerning the basis for determining the exchange amount (for example, cost plus, negotiated value, resale value or market value) is desirable." In a few financial statements, the note stated that the exchange amount had been negotiated. Staff would expect some additional disclosure about the negotiation and whether any benchmarks were referred to in the negotiations (e.g., publicly available pricing information for the item in the transaction). In several instances, the note disclosure was silent as to whether the transaction was recorded at exchange amount or carrying amount. A few RIs did not disclose the relationship between the related parties. We also noted instances where RIs incorrectly used purchase accounting pursuant to CICA HB 1581 for a "business combination" transaction among related parties, recording the transaction at carrying amount. Such related party transactions should follow "continuity of interests" accounting and reflect the combined historical operations as though the companies had been combined from inception.

Staff believes that reference only to "exchange amount" when a related party transaction is disclosed is deficient for accounting and financial reporting purposes. Staff encourages a more robust description of the transaction and, where appropriate, a reference to fair value or estimated fair value when the term "exchange amount" is used. Alternatively, the disclosure may state that fair value cannot be determined, but if that comment is made, there should be an explanation of what the exchange amount actually represents.

Private placements

Many private companies issue securities by means of a private placement to their officers, directors, employees and other insiders. Subsequently, the companies go public via an initial public offering of their shares and the initial offering price and/or the initial trading price of the shares is substantially higher than the price used in the private placement. While there can be any number of valid reasons why the price would be higher, issuers should ensure that the price does not indicate that the value used for accounting for the private placement is incorrect. CICA HB 3870 requires that the shares issued be measured and recognized based on their fair value. If the fair value of the shares issued in the private placement exceeds the actual issue price, the difference should be accounted for as compensation.

RIs and their advisers are referred to the AICPA Audit and Accounting Practice Aid, "Valuation of Privately Held Company Equity Securities Issued as Compensation" as a useful discussion of the factors that may explain the difference between the value of the private placements prior to an initial public offering and the actual public offering price. Additionally, the AICPA Practice Aid also offers some general guidance respecting the determination of fair value in situations where there is no publicly traded market for the company's securities.

Earnings per share

CICA HB 3500.65 outlines required disclosure when earnings per share information is presented in financial statements. This paragraph states:

"In addition to disclosures required by paragraphs 3500.56 and 3500.58, an enterprise should disclose the following, for each period for which an income statement is presented:

(a) The adjustments to income before discontinued operations and extraordinary items for returns on senior equity instruments in arriving at income available to common shareholders in computing basic earnings per share.

(b) A reconciliation of the numerators and the denominators of the basic and diluted per share computations for income before discontinued operations and extraordinary items. The reconciliation should include the individual income and share amount effect of each class of securities that affects earnings per share.

(c) Securities (including those issuable pursuant to contingent share agreements) that could potentially dilute basic earnings per share in the future but that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the period(s) presented."

Although all three of the disclosure requirements in the above noted sub-paragraphs were observed as being absent in a few of the RIs' financial statements, the most common deficiency was the information required by paragraph (b).

The information required by this paragraph does not involve judgement, but is simply data supporting an EPS calculation. Staff encourages all RIs and their financial advisors to fully provide the information required by CICA HB 3500.65.

Statement of retained earnings

We noted several income and royalty trust issuers who did not include a statement of retained earnings as a part of their financial statement package. Instead, the equity section of the balance sheet included separate disclosure of the cumulative amounts of earnings and distributions of the trust. As result, there is no disclosure of the amount of retained earnings. CICA HB 1000.04, 1400.10, 1751.10 and 3251.05 all require issuers to present a separate statement of retained earnings as a part of their basic financial statement package.

Non-GAAP financial measures

Disclosure of non-GAAP financial measures by a number of RIs did not comply with guidance issued by Staff in CSA Staff Notice 52-306. This Notice was published in November 2003, which means RIs and their advisors have had sufficient time to study and implement the Notice in a proper manner. However, the results of this year's review continued to reflect deficiencies. Staff is aware that non-GAAP financial measures are becoming more prevalent in filings and are being used as benchmarks against which an RI's performance is measured. Securities regulatory authorities permit the use of these measures provided there is adequate disclosure about these measures and discussion on how each differs from the most appropriate GAAP benchmark. The Notice encourages full and clear disclosure that enables investors to understand and make their own informed decisions about the particular measures disclosed by the RI.

The importance of improving the disclosure in this area cannot be overstated. Our view is set out in the Notice as follows:

"Financial statements prepared in accordance with GAAP provide investors with a clearly defined basis for financial analysis and comparison among issuers…It is important, however, that non-GAAP financial measures not be presented in a way that confuses or obscures GAAP measures…RIs should consider whether the separate presentation of non-GAAP financial measures provides added benefit to readers. Selective editing of financial information may be misleading if it results in the omission of material information. Staff expects RIs to define clearly any non-GAAP financial measure and to explain its relevance to ensure it does not mislead investors. RIs presenting non-GAAP financial measures should present those measures on a consistent basis from period to period. In staff's view, it is not appropriate to present non-GAAP financial measures in the GAAP financial statements."

Staff encourages RIs' management and their advisors to read the entire Notice before preparing and reviewing each interim and annual filing of financial statements and corresponding MD&A to better understand the requirements when non-GAAP financial measures are used in these and other documents.

In this year's review the following deficiencies were noted:

(1) Misleading use of a subtotal labelled either "Cash Flow From Operations" or "Cash Flow" in the statement of cash flows when the amount this subtotal represented was before any adjustment for the changes in non-cash working capital items. This subtotal should be described as "Funds Flow From Operations" (not "Cash Flow From Operations"), "Cash Flow From Operations Before Changes in Non-cash Working Capital" or there should no description for this subtotal. In one situation, the cash flow from operations subtotal was before deduction for development costs and site restoration. There is no requirement under Canadian GAAP to include such a subtotal on the statement.

(2) Incorrect use of a subtotal on the statement of earnings, which did not include all the appropriate items expected for a subtotal with this type of description e.g., "operating income", "earnings from operations", "earnings before credit losses and other income/expenses", "net financial income" and "income before non-cash items".

(3) Several of the terms referred to in point (2) were also used in MD&A.

(4) No reconciliation was prepared to show the differences between the non-GAAP measure and the most directly comparable GAAP measure. In addition, a number of RI trusts began their reconciliation of distributable cash with net income rather than cash flow from operating activities. Staff expects such issuers to explain their view that distributable cash is an operating performance measure, as opposed to a cash flow measure. We noted several instances where such an explanation was not provided.

(5) A number of RI trusts' reconciliations to distributable cash included items that were discretionary in nature without any explanation. Staff expects a discussion of such reconciling items, which, in some cases, may include a discussion of how the discretionary amounts were determined. In addition, RIs are reminded that CICA Handbook 1540.55 requires enterprises making cash distributions in accordance with a contractual agreement to disclose in the notes to the financial statements the terms and conditions that apply to the determination of the cash distribution and the actual determination of the cash distribution (clearly identifying discretionary amounts and the retention of cash). RIs should note this requirement refers to the actual cash distribution and not to distributable cash.

(6) A number of RIs present EBITDA as a supplemental earnings measure stating that the measure assists investors in determining the company's ability to generate cash flow. Staff does not believe such an earnings measure provides any useful cash flow from operations information as it excludes changes in non-cash working capital and cash interest and taxes. RIs must accurately describe the measure and the reasons for presenting it, why it provides useful information to investors and discuss how management actually uses the measure.

(7) We also noted that a number of RIs computed an EBITDA amount that included adjustments other than interest, tax, depreciation and amortization, thereby creating a measure that deviated from the standardized meaning of EBITDA (earnings before interest, taxes, depreciation and amortization). RIs are reminded the term EBITDA or adjusted EBITDA is not an appropriate description of measures that contain adjustments beyond the standard interest, tax, and/or depreciation and amortization. The term used for such measures should sufficiently describe what the measure actually contains.

(8) A number of RI's appear to use EBITDA as the starting point for the distributable cash calculation or exclude working capital changes from the distributable cash calculation without disclosing why this was this was done.

(9) We also noted some RIs did not disclose the details of any financial covenants or other restrictive covenants that may impact their ability to make cash distributions.

With increasing public scrutiny and sensitivity over disclosure of distributable cash, RIs are reminded that any deficiencies noted by Staff in this area may cause delays to the RI's timing of the filing short form prospectuses to the extent that such deficiencies need to be addressed through either updating the continuous disclosure record or expanding the disclosures in the offering document.

Management's Discussion & Analysis

Preparation of high quality, useful interim and annual MD&A is challenging for many RIs but especially for the smaller and mid-size ones. Significant preparation time and thought is needed to ensure the MD&A is an insightful and helpful supplement to the financial statements. MD&A is becoming a key disclosure for investors and warrants the time investment by RIs.

Deficiencies observed in this year's review include:

(1) Some RIs placed a warning similar to the following in their MD&A filings: "The Company assumes no obligation to update or revise forward looking statements to reflect new events or circumstances." This is not acceptable. Staff reminds RIs that Form 51-102F1 Part 1(g) requires enterprises to discuss any forward looking information disclosed in the MD&A for a prior period which, in light of intervening events and without further explanation, may be misleading. The addition of the phrase "except as required by law" to the warning is acceptable to Staff.

(2) Although required, no comparative MD&A was provided.

(3) Several RIs had major developments under way, but did not discuss significant milestones achieved, forecasted capital expenditures on the projects, sources of capital to finance projects and liquidity needs for other parts of the business.

(4) The annual MD&A of a few RIs did not give information derived from the eight most recently completed interim financial statement periods on (a) net sales or total revenues, (b) income or loss before discontinued operations and extraordinary items, in total and on a per-share and diluted per-share basis, and (c) net income or loss, in total and on a per-share and diluted per-share basis, nor did these RIs discuss the factors that caused variations over these periods that may have explained how general trends were developing or how seasonality had affected the business operations.

(5) Several RIs that were trusts did not disclose in their interim and annual MD&A the breakdown between return on and return of capital for distributed cash, as recommended by 3.5.2 (iii) of National Policy 41-201 *Income Trusts and Other Indirect Offerings.*

(6) A few RIs still provide minimal and superficial information in their MD&A. Areas often overlooked or with minimal information include liquidity, capital resources and off-balance sheet arrangements.

We refer all RIs to Part 5 of National Instrument 51-102 *Continuous Disclosure Obligations* ("NI 51-102") and the instructions to related Form 51-102F1 for useful guidance in preparing MD&A. In addition, the Canadian Performance Reporting Board (established by the Canadian Institute of Chartered Accountants) has issued useful in-depth guidance on preparation of and disclosure in MD&A.

INFORMATION CIRCULARS RELATING TO PLANS OF ARRANGEMENT

In recent years, the oil and gas industry has seen a number of trust conversions involving oil and gas issuers transferring their producing and exploration assets to an income trust and exploration company respectively. Since these types of transactions are subject to shareholder approval, Staff would expect that the information circular provide sufficient information to allow the shareholder to make a reasoned judgement concerning the matter. While the following discussion focuses on the oil and gas trust conversions, the disclosure principles discussed below would be applicable to any plans of arrangement for any issuer in any industry if similar asset spin-off transactions take place.

Initial private placements

As part of the plan of arrangement, the resulting exploration company or income trust may conduct an initial private placement priced at the net asset value of the assets being transferred to them. Therefore, Staff expects that the information circular would contain a detailed reconciliation of how net asset value was determined, detailed disclosure describing the reasons for the initial private placement, who is eligible to participate in the private placement and whether the underlying securities will be subject to a contractual hold period or escrow. With respect to identification of who is eligible to participate in the initial private placement, Staff finds the generic term "service providers" to be insufficiently descriptive. Lastly, the disclosure should also clearly state whether the offering price for the initial private placement is representative of fair value and if it is not representative of fair value, the disclosure should include an explanation.

Conversion of outstanding stock options prior to the closing of the transaction

Prior to the effective time of the arrangement, the outstanding stock options of the issuer typically vest immediately so that option holders can elect to exercise their options and participate in the conversion transaction. Or, where the option holder does not elect to exercise the options prior to the effective time of the arrangement, the options may be converted into unit options of the resulting income trust or stock options of the resulting exploration company or a combination of both. Staff expects that the information circular will provide detailed disclosure of this conversion feature, including information about the conversion formula and any adjustments to the exercise price(s).

Disclosure of voting results

Issuers are also reminded that the results of a vote on plans of arrangement must be published on SEDAR on a timely basis in accordance with section 11.3 of NI 51-102.

TOPICS IN 2004 REPORT COMPARED TO TOPICS IN 2005 REPORT

This year, there appeared to be an improvement over last year in how RIs disclosed income taxes, elements of their statements of cash flows and the manner in which they prepared interim financial statements . The income tax rate reconciliation information and the various balance sheet accounts and tax return data supporting any income tax asset or liability balance in annual financial statements have improved. With respect to the statement of cash flows, Staff did not notice any specific problem that warrants comment this year except as made in the current section of non-GAAP financial measures. Lastly, interim financial statement presentations and related note disclosures show a real improvement from prior years and reflect the efforts by the management of RIs to improve financial reporting for interim statements.

Some of the MD&A points raised in the 2004 report were again mentioned in this Report. Staff is confident that as RIs continue to gain experience in writing MD&A and gain comfort in distinguishing between valid commentary and superfluous data, then MD&A will continue to improve and be of greater benefit to investors. Staff continues to see deficiencies in the accounting for, and disclosure of, related party transactions. RIs and their advisers are encouraged to carefully consider the CICA Handbook requirements to ensure related party transaction accounting and disclosure complies with GAAP.

CONCLUSION

Staff's review in 2005 of a sample of Alberta-headquartered issuers indicated an acceptable level of quality in financial reporting and satisfactory compliance with securities laws. It also pointed out areas that warrant further attention. This Report is intended to assist RIs and their advisors in maintaining and enhancing their disclosure quality in 2006.

Consultations with Reporting Issuers

Management of RIs and their advisors who have questions or difficulties in the preparation of continuous disclosure materials or accounting and auditing issues are welcome to consult ASC staff provided the matter is not already being dealt with by the ASC or another regulator and is not part of a court proceeding. Staff expects that the matter will have been fully researched prior to contacting us.

Feedback on the Reviews

Comments from RIs, public accountants and investors on the continuous disclosure review process are welcome. Staff endeavours to not only improve the process each year, but also to ensure it is relevant to the current business environment.

Contact ASC Personnel

To discuss any aspect of this report, please contact:

Alberta Securities Commission
4th Floor, 300-5th Avenue S.W.
Calgary, Alberta T2P 3C4
(403) 297-6454

Fred Snell, FCA, Chief Accountant (403) 297-6553 or fred.snell@seccom.ab.ca

Tom Graham, CA, Director, Corporate Finance (403) 297-5355 or tom.graham@seccom.ab.ca

Agnes Lau, CA, Associate Director, Corporate Finance (403) 297-8049 or agnes.lau@seccom.ab.ca

Mavis Legg, CA, Manager, Corporate Finance (403) 297-2663 or mavis.legg@seccom.ab.ca

Secondment to Chief Accountant's Office

Any public accounting firm or public enterprise that is interested in having a senior professional accountant obtain valuable experience with the ASC in the areas of financial reporting, including accounting, auditing, and MD&A analysis, and securities legislation should contact the Chief Accountant to discuss details of the secondment program.