October 31, 2011

To:

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Alberta Securities Commission
Saskatchewan Financial Services Commission
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Nova Scotia Securities Commission
New Brunswick Securities Commission
Prince Edward Island Securities Office
Office of the Superintendent of Securities, Government of Newfoundland and Labrador
Department of Community Services, Government of Yukon
Office of the Superintendent of Securities, Government of the Northwest Territories
Legal Registries Division, Department of Justice, Government of Nunavut

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Proposed National Instrument 51-103 – Ongoing Governance and Disclosure Requirements for Venture Issuers

We appreciate the opportunity to comment on proposed National Instrument 51-103 - *Ongoing Governance and Disclosure Requirements for Venture Issuers* . We broadly support the intent and goals of the proposals to streamline and tailor disclosures for junior issuers and make the disclosure requirements for those issuer more suitable and manageable based on their stage of development.

However, we believe that certain of the proposals may not enhance informed investor decision-making. In addition, we believe that there are a number of issues that need to be addressed before these proposals are finalized.

We believe it is important that the scope of the amendments be very carefully considered. The proposed definition would include any issuer with listed equity securities on the TSX venture exchange or similar exchanges in certain designated markets. Using the type of listing as the sole criteria for the simplification proposals may result in companies with significant market capitalization or significant operating and development activities providing less frequent disclosure despite significant investor interests in these companies. At October 26, 2011, there were eight venture issuers with market capitalization over $500M and 25 venture issuers with market capitalization of between $250M and $500M.

In light of the objectives of the proposed amendment, we believe that the scope of the amendments should take into account the nature and size of the issuer.

We have responded to your questions in more detail below.

Mid-year financial reporting

1. Do you support the proposal to replace the requirement to file three and nine month interim financial reports (and associated MD&A) with a prescribed framework for voluntary three and nine month financial reporting?
a) If you support this proposal, why? What are the benefits?
b) If you do not support this proposal, why not? What are your concerns?

Our view is that half-year reporting may be appropriate for junior issuers that are inactive or in the early stages of development. A threshold based on market capitalization, revenue or other measures, such as development expenditures , reflective of the investor activity and/or the nature and size of the issuer, would provide relief to smaller companies establishing their operations.

In *The Conceptual Framework for Financial Reporting 2010* (the "Framework"), issued by the International Accounting Standard Board, the Board noted that financial statements provide information to investors and creditors in making their investment decisions and assessing the effectiveness and efficiency of a company's management. The IASB also identified two key characteristics of useful information – relevance and reliability. This objective is consistent with qualitative characteristics of financial reporting that are considered to enhance the usefulness of this information and include reliability, relevance, comparability, verifiability, timeliness and understandability. These characteristics are referred to in the Framework.

While material change reports may convey some of the information used to make the assessments, most material change reports, including those by senior issuers, do not report the financial effects of transactions and events. While smaller companies may report new sales contracts and orders, they often do not outline the timing of and the margins on those revenues. Interim financial reports supplement material change reports by providing the financial effects of material changes in a business.

We believe that interim financial reports that are prepared on a quarterly basis complement the timely disclosures required by material change reports. While the material change report discloses the material change, the interim financial report provides the framework for disclosure of the financial impact of such changes.

When making investment decisions among various alternatives, it is often more useful to compare information about an entity with similar information of other entities or to compare information about the same entity over time. We believe comparability among venture issuers may be reduced if some entities report half-yearly and other reports quarterly.

Comparability may be affected by the requirement under IAS 34 for companies to consider certain information only at the end of a reporting period. For example, impairment assessments are required at the end of a reporting period and may result in differences in the timing and amount of impairment charges for entities with different reporting frequencies. While International Financial Reporting Standards ("IFRS") permit reversal of impairment charges in subsequent periods, the criteria for reversal of impairments are often restrictive. Further, impairment charges for certain assets such as goodwill and investments in equity securities may not be reversed. To illustrate, assume two entities with the same December 31 financial year-end hold the same investment in an equity security for which the current quoted market price is significantly below its cost as at March 31, 2011, but as at June 30, 2011, the quoted market value has increased and is now back to the original cost. Under IFRS, an entity that reports quarterly would recognize an impairment charge in its first quarter profit and loss; however, it would not be able to recognize the recovery in profit and loss in the second quarter. As a result, this entity's profit and loss for both the first quarter and the second quarter year-to-date would be reduced. On the other hand, an entity that reports on a half-yearly basis would not recognize any impairment charge in its half-yearly profit and loss. Similar issues may arise with other period end assessments such as hedge effectiveness.

The process of management preparing an interim financial report often involves verifying the information that is used, for example, counting inventory on hand; checking inputs to models, formulae or other techniques used to measure assets and liabilities of the entity; and recalculating the results. This process helps ensure that investors are receiving material information that has been appropriately identified and evaluated by management.

Certain issuers with substantial foreign operations only receive information from their foreign operations at reporting dates and without the requirement to prepare quarterly information the issuer may not receive timely information regarding the performance of these foreign operations.

The financial reporting standards provide a framework for classifying, characterizing and presenting information in a fashion that is commonly understood by users who have a reasonable knowledge of business and economic activities.

Timeliness of information for decision-making often is also important to investors. Older information is not as useful and less frequent reporting may make it more difficult to identify and assess trends on a timely basis. The reduction of the frequency of reporting periods may result in transactions and events affecting operating results, the financial condition or liquidity of the issuer not being identified on a timely basis.

For the reasons noted above, we believe quarterly reporting should continue for some entities. However, as discussed in the introduction to our letter, there may be some entities that are based on market capitalization, revenues or other appropriate measures for which less frequent reporting may be supportable because their level of activities and development is not as significant to investors.

Prospectus considerations

Sections 7110, *Auditor Involvement with Offering Documents of Public and Private Entities*, and 7115, *Auditor Involvement with Offering Documents of Public and Private Entities – Current Legislative and Regulatory Requirements,* of the CICA Handbook contain certain procedures that an auditor must complete prior to issuing a consent to the use of his or her auditor's report in an offering document and provide for certain communications to securities regulatory authorities. These procedures require the auditor to determine whether events occurring subsequent to the date of the auditor's report included or incorporated by reference in a prospectus have been appropriately reflected in the financial statements or elsewhere in the prospectus. Introduction of half-year reporting may require auditors to apply more extensive procedures, particularly if management controls and procedures to identify subsequent events are not adequate and management internal financial information is not prepared in accordance with IFRS.

We believe that this change may increase the risk of unreported subsequent events. We also believe that the costs of these procedures may reduce the benefits of discontinuing quarterly reporting. In addition, the directors of venture issuer companies may need to complete more extensive due-diligence before approving a prospectus.

Underwriters generally want to obtain comfort from a company's auditors on changes in assets, liabilities, revenues, and earnings subsequent to the most recent financial statements included or incorporated by reference in a prospectus. The auditor is only able to provide comfort on such subsequent changes when internal financial information and accounting records are prepared on the same basis as the audited financial statements. This could impact the timing and cost of capital raising activities when financial statements become stale-dated.

If venture issuers are permitted to report half-yearly, we recommend that the proposals be clarified to allow an issuer filing a prospectus to file an optional interim financial report solely for the purposes of the offering and not as a continuous reporting obligation. We believe that where there are significant subsequent events which have occurred after the annual or mid-year reporting date, the best way to communicate those events may be through more current interim financial statements.

In the request for comment document, it was noted that Hong Kong allows mid-year reporting. Our understanding is that Hong Kong mandates quarterly reporting for the Growth Enterprise Market of the Hong Kong Stock Exchange ("the GEM exchange"). The GEM exchange is an exchange primarily intended for junior issuers. Further, Hong Kong is expected to move to a quarterly reporting regime for its main board listed entities. The responses to Hong Kong's request for views on making quarterly reporting mandatory are available on the Hong Kong Stock Exchange website {http://www.hkex.com.hk/eng/newsconsul/mktconsul/responses/periodic_fin.htm} and may be of use to the Commissions in considering whether mandatory quarterly reporting should be discontinued.

2. If we choose not to eliminate mandatory quarterly financial reporting, are the other elements of the Proposed Instrument significant enough to justify changing the venture issuer regulatory regime?

Yes, we believe that the simplification and streamlining of reporting requirements through the introduction of an "annual report" would be helpful to issuers and investors.

3. If you do not support the proposal to replace the requirement to file three and nine month interim financial reports and associated MD&A with a prescribed framework for voluntary three and nine month financial reporting, do you think it is necessary for venture issuers to file full financial statements and MD&A for their first and third quarters?
a) If you think full financial statements are necessary, why do you think so? Specifically, how do you use this information?
b) If you do not think that full financial statements are necessary, is there something other than full financial statements that could provide you with the information that is necessary or relevant for your purposes? Please specify what financial or other information would suffice and explain why.
c) Does the information noted in (b) vary for issuers based on industry, size or whether the issuer generates revenues? If so, please explain.

Size of venture issuers varies widely as does the timing of graduation to the main TSX. We find that larger venture issuers typically behave more like main board listed companies. Accordingly, it may be appropriate to have a threshold for the simplification proposals (particularly mid-year financial reporting) based on market capitalization or some other appropriate threshold that takes into account the nature and size of the company.

Another possibility might be to define the ability to report mid-yearly on the basis of usefulness of financial reporting information. There are certain venture issuers that are purely exploration stage companies in the extractive industry without significant revenues or operations. The nature of activities being undertaken and the results of exploration are more important for these issuers than GAAP based financial statements. However, there are venture issuers engaged in an active business and exposed to market fluctuations for which interim information may be relevant. Therefore, it may be appropriate to consider a threshold for the simplification proposals by reference to the nature of a venture issuer's operations.

4. If venture issuers were not required to file first and third quarter financial statements, would this deter you from investing in all venture issuers? Why or why not?

We do not have any comments to provide on this aspect.

5. If you currently invest in issuers in jurisdictions that prescribe semi-annual reporting, please explain why you are comfortable doing so, particularly if you oppose the elimination of mandatory first and third quarter financial statements.

We do not have any comments to provide on this aspect.

6. Would it be less burdensome, or would there be significant time savings, to prepare some subset of quarterly financial reporting, or would the work required to prepare alternative quarterly financial reporting be as onerous as preparing interim financial statements?

We believe that any accounting process used to generate information for public dissemination requires additional procedures such as the period close-off procedures, compilation of the information and putting it into a reliable, relevant and understandable format. This may be less onerous in cases where a company elects to account for certain items on a cash or simplified basis rather than using the protocols required under generally accepted accounting principles ("GAAP"). We believe that the trade-off will be that information may not be as relevant, reliable and comparable as that produced under GAAP. Further, significant events such as impairments or restructuring may not be reflected in the same time periods as they would be under GAAP.

In order to issue a consent, an auditor is required to audit or review "financial statements" included in a prospectus. A subset of financial information would not constitute a "financial statement". Therefore, procedures auditors would perform would be limited to those considering whether such information is inconsistent with information contained in the latest financial statements or knowledge gained during performing subsequent events procedures. Under the current CICA Assurance Handbook, the auditor would not (unless subject to a separate engagement) provide any level of positive or negative assurance on this type of reporting.

Furthermore, if a "subset" of information was presented that did not constitute a financial "statement" as contemplated by IAS 34, any impairments recognized within that information that would not normally be eligible for reversal (e.g. impairments on goodwill or equity instruments) would be eligible for reversal prior to reporting the next financial statements because IFRIC 10 has been interpreted only to apply to interim information prepared with an unreserved statement of compliance with IAS 34. For example, an entity recognising an impairment of goodwill in the first quarter "information", would be eligible to reverse that impairment in its half year report, since the first quarter "information" did not unreservedly comply with IAS 34.

Finally, we would like to point out that IAS 34 already permits the preparation of "condensed financial statements". Condensed financial statements would include, at a minimum, the headings and subtotals from annual financial statements.

In our experience, entities rarely adopt this approach when applying IAS 34 and often go beyond the minimum disclosure requirements in that standard. The fact that more than minimum disclosures are being provided in interim periods may indicate that there is perceived value in preparing statements with additional disclosure over and above the minimum requirements.

Other financial statement requirements

7. The Proposed Instrument eliminates the requirement to file business acquisition reports (BARs) for significant acquisitions. Instead, it requires venture issuers to provide financial statements of an acquired business if the value of the consideration transferred equals 100% or more of the market capitalization of the venture issuer. Is 100% the correct threshold?
a. If you think that 100% is the correct threshold, explain why.

b. If you do not think that 100% is the correct threshold, explain why. Should the threshold be lower? Please provide your views on an alternative threshold, with supporting reasons.
c. Should financial statements be required at all for these transactions?

We believe that business acquisition reports filed subsequent to an acquisition are helpful to some investors and analysts in developing their own predicative models for future performance when transactions are sufficiently large to affect future performance and financial condition. Financial statement requirements for recently completed or probable acquisitions within a prospectus or information circular are based on BAR thresholds. We believe, information about recently completed acquisitions or probable acquisitions may be of particular relevance to investors who are deciding whether to purchase securities, especially when those securities are being offered in an IPO. Furthermore, such information is relevant to shareholders asked to vote on an acquisition or restructuring. Accordingly, it would be appropriate to consider a lower threshold for determining what constitutes a “major acquisition” where an issuer is filing a prospectus or information circular.

In order for an auditor to issue a consent for a prospectus, CICA 7110 states that an auditor must be satisfied that subsequent event disclosures have been made in the prospectus. For a recently completed “major” acquisition, this might necessitate the disclosure of information about the acquisition as contemplated by IAS 10.22(a). A major acquisition is not defined under the standards, but would likely be considered to be something at less than 100% significance. Therefore, even if the Commissions remove such requirements, disclosure may still be required under the auditing standards for an auditor’s involvement with a prospectus.

8. The Proposed Instrument does not include a pro forma financial statement requirement for acquisitions that are 100% significant. Do pro forma financial statements provide useful information about acquisitions that is not provided elsewhere in the venture issuer's disclosure?
a. If you are of the opinion that pro forma financial statements do provide useful information, specifically, what information do they provide and how do you make use of that information?

The standards for business acquisitions set out in IFRS 3, *Business Combinations*, now requires the disclosure of pro-forma revenue and profit and loss as if the acquisition date for acquisitions completed during the period had been the beginning of the annual reporting period (unless it is impracticable to provide such information). The IASB added this disclosure as they believed it would be useful to investors and we understand that it was requested by investors.

Given that pro-forma information will be included in the financial statements for acquisitions one might argue the disclosure of pro-forma information in the financial statements would reduce the need to file business acquisition reports.

However, the disclosure requirements in financial statements are somewhat less than in a BAR. In fact, the FASB recently amended its standards to require information about the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings (ASU 2010-29 Topic 805).

IFRS 3R was not similarly amended, so the transparency of pro-forma adjustments to such information in IFRS is reduced when compared to what would be filed in a business acquisition report. We believe this makes the argument for raising the significance threshold to 100% less clear.

9. The proposed long form prospectus form for venture issuers provides the subset of "junior issuers" with an exemption that allows them to provide only one year of audited financial statements together with unaudited comparative year financial information in their IPO prospectus. This is consistent with current requirements for junior issuers under Form NI 41-101F1. Should this exemption be expanded to apply to all venture issuers?
a. If you think the exemption should be expanded, explain why.
b. If you do not think that the exemption should be expanded, explain why.

It may be appropriate to expand the exemption in a limited way for venture issuers without significant revenues (i.e. exploration stage companies). We believe that for operating companies the historical financial information is relevant to investors.

It should be noted that CICA auditor consent requirements would require the comparative information in such documents to be subject to review by the auditor because to issue a consent financial statements within an offering document need to be subject review by the auditor.

Governance requirements and executive compensation disclosure

10. The Proposed Instrument requires an audit committee to be composed of at least three directors, a majority of whom are not executive officers or employees of the venture issuer or an affiliated entity of the venture issuer. Should control persons be added to this list, similar to section 21(b) of Policy 3.1 of the TSX Venture Exchange Corporate Finance Manual?
a. If you think that control persons should be added, explain why.
b. If you do not think that control persons should to be added, explain why.

We do not have any comments to provide on this aspect.

11. The Proposed Instrument requires that director and executive officer compensation as well as corporate governance disclosure be provided in a venture issuer's annual report instead of in its information circular. The information circular directs investors to the issuer's annual report for this information. We are attempting to reduce duplication for venture issuers, but want to balance that goal with ensuring that investors have adequate information available for decision making purposes, namely when they make their decision to elect directors.
a. Should venture issuers be required to duplicate director and executive officer compensation disclosure in the document that shareholders have on hand when they vote for directors, the information circular?
i. If you think that executive compensation and corporate governance disclosure should be provided in both the annual report and the information circular, explain why.
ii. If you do not think that it is necessary to provide executive compensation and corporate governance disclosure in both the annual report and in the information circular, explain why.

We do not have any comments to provide on this aspect.

12. In the Proposed Instrument, we have replaced the requirement to disclose the grant date fair value of stock options or other securities-based compensation in the executive compensation disclosure with a requirement to disclose other details about stock options, including amounts earned on exercise. We made this change as a result of feedback received regarding the relevance and reliability of the grant date fair value of stock options for venture issuers. Does specific disclosure of the grant date fair value and the accounting fair value of stock options or other securities-based compensation provide useful information for venture issuers? If so, please explain.

Section 31 of 51-103F1 provides an IFRS compliance exception which indicates that a venture issuer is exempt from certain requirements should they provide key management compensation disclosure required by IFRS. Specifically, the proposal states as a condition:

> *the compensation disclosure required by Canadian GAAP applicable to publicly accountable enterprises for "key management personnel" (as defined in Canadian GAAP applicable to publicly accountable enterprises) separately for each director and named executive officer*

A named executive officer is defined to include individuals who are not executive officers, but are among the three top paid individuals earning over $150,000. Such individuals may not meet the definition of "key management personnel" under IFRS if they do not have the authority and responsibility for planning, directing and controlling the activities of the entity. For example, a venture issuer may give a significant bonus to a reserve engineer during a year and this individual may be amongst the highest compensated individuals. However, that engineer may not meet the definition of key management personnel for purposes of IFRS if he does not have the authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, we would suggest that this provision be drafted to exempt issuers who have complied with IAS 24.

General disclosure requirements

13. The Proposed Instrument would permit a capital pool company (CPC) to satisfy certain of its annual report disclosure obligations by referring to disclosure previously provided in its initial public offering prospectus. Should CPC's be exempted from further aspects of the annual or mid-year report requirements? If so, which requirements?

We do not have any comments to provide on this aspect.

Should you have any questions regarding our comments, please do not hesitate to contact Michael Walke, Chief Accountant and leader of National Accounting Consulting Services (416) 815-5011 or Scott Bandura Partner, National Accounting Consulting Services at (403) 509-6659.

Yours very truly,

PricewaterhouseCoopers LLP

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