

*Note: [14 May 2013] – The following is a consolidation of NI 52-107. It incorporates the amendments to this document that came into effect on May 14, 2013. This consolidation is provided for your convenience and should not be relied on as authoritative.*

**National Instrument 52-107**  
***Acceptable Accounting Principles and Auditing Standards***

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**National Instrument 52-107**  
***Acceptable Accounting Principles and Auditing Standards***

**PART 1: DEFINITIONS AND INTERPRETATION**

**1.1 Definitions** — In this Instrument:

“accounting principles” means a body of principles relating to accounting that are generally accepted in a jurisdiction of Canada or a foreign jurisdiction and includes, without limitation, IFRS, Canadian GAAP and U.S. GAAP;

“acquisition statements” means financial statements of an acquired business or a business to be acquired, or an operating statement for an oil and gas property that is an acquired business or a business to be acquired, that are

- (a) required to be filed under National Instrument 51-102 *Continuous Disclosure Obligations*,
- (b) included in a prospectus pursuant to Item 35 of Form 41-101F1 *Information Required in a Prospectus*,
- (c) required to be included in a prospectus under National Instrument 44-101 *Short Form Prospectus Distributions*, or
- (d) except in Ontario, included in an offering memorandum required under National Instrument 45-106 *Prospectus and Registration Exemptions*;

“auditing standards” means a body of standards relating to auditing that are generally accepted in a jurisdiction of Canada or a foreign jurisdiction and includes, without limitation, Canadian GAAS, International Standards on Auditing, U.S. AICPA GAAS and U.S. PCAOB GAAS;

“business acquisition report” means a completed Form 51-102F4 *Business Acquisition Report*;

“convertible security” means a security of an issuer that is convertible into, or carries the right of the holder to acquire, or of the issuer to cause the acquisition of, a security of the same issuer;

“credit support issuer” means an issuer of securities for which a credit supporter has provided a guarantee or alternative credit support;

“credit supporter” means a person or company that provides a guarantee or alternative credit support for any of the payments to be made by an issuer of securities as stipulated in the terms of the securities or in an agreement governing rights of, or granting rights to, holders of the securities;

“designated foreign issuer” means a foreign issuer

- (a) that does not have a class of securities registered under section 12 of the 1934 Act and is not required to file reports under section 15(d) of the 1934 Act,
- (b) that is subject to foreign disclosure requirements in a designated foreign jurisdiction, and
- (c) for which the total number of equity securities beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the issuer, calculated in accordance with sections 1.2 and 1.3;

“designated foreign jurisdiction” means Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, the Netherlands, New Zealand, Singapore, South Africa, Spain, Sweden, Switzerland or the United Kingdom of Great Britain and Northern Ireland;

“exchangeable security” means a security of an issuer that is exchangeable for, or carries the right of the holder to acquire, or of the issuer to cause the acquisition of, a security of another issuer;

“exchange-traded security” means a security that is listed on a recognized exchange or is quoted on a recognized quotation and trade reporting system or is listed on an exchange or quoted on a quotation and trade reporting system that is recognized for the purposes of National Instrument 21-101 *Marketplace Operation* and National Instrument 23-101 *Trading Rules*;

“executive officer” means, for an issuer, an individual who is

- (a) a chair, vice-chair or president;
- (b) a vice-president in charge of a principal business unit, division or function including sales, finance or production; or
- (c) performing a policy-making function in respect of the issuer;

“financial statements” includes interim financial reports;

“foreign disclosure requirements” means the requirements to which a foreign issuer is subject concerning disclosure made to the public, to securityholders of the issuer or to a foreign regulatory authority

- (a) relating to the foreign issuer and the trading in its securities, and
- (b) that is made publicly available in the foreign jurisdiction under
  - (i) the securities laws of the foreign jurisdiction in which the principal trading market of the foreign issuer is located, or

- (ii) the rules of the marketplace that is the principal trading market of the foreign issuer;

“foreign issuer” means an issuer that is incorporated or organized under the laws of a foreign jurisdiction, unless

- (a) outstanding voting securities of the issuer carrying more than 50% of the votes for the election of directors are beneficially owned by residents of Canada, and
- (b) any of the following apply:
  - (i) the majority of the executive officers or directors of the issuer are residents of Canada;
  - (ii) more than 50% of the consolidated assets of the issuer are located in Canada; or
  - (iii) the business of the issuer is administered principally in Canada;

“foreign registrant” means a registrant that is incorporated or organized under the laws of a foreign jurisdiction, unless

- (a) outstanding voting securities of the registrant carrying more than 50% of the votes for the election of directors are beneficially owned by residents of Canada, and
- (b) any of the following apply:
  - (i) the majority of the executive officers or directors of the registrant are residents of Canada;
  - (ii) more than 50% of the consolidated assets of the registrant are located in Canada; or
  - (iii) the business of the registrant is administered principally in Canada;

“foreign regulatory authority” means a securities commission, exchange or other securities market regulatory authority in a designated foreign jurisdiction;

“IAS 27” means International Accounting Standard 27 *Consolidated and Separate Financial Statements*, as amended from time to time;

“IAS 34” means International Accounting Standard 34 *Interim Financial Reporting*, as amended from time to time;

“inter-dealer bond broker” means a person or company that is approved by the Investment Industry Regulatory Organization of Canada under its Rule No. 36 *Inter-Dealer Bond Brokerage Systems*, as amended, and is subject to its Rule No. 36 and its

Rule 2100 *Inter-Dealer Bond Brokerage Systems*, as amended from time to time;

“IPO venture issuer” has the same meaning as in section 1.1 of National Instrument 41-101 *General Prospectus Requirements*;

“issuer’s GAAP” means the accounting principles used to prepare an issuer’s financial statements, as permitted by this Instrument;

“marketplace” means

- (a) an exchange,
- (b) a quotation and trade reporting system,
- (c) a person or company not included in paragraph (a) or (b) that
  - (i) constitutes, maintains or provides a market or facility for bringing together buyers and sellers of securities,
  - (ii) brings together the orders for securities of multiple buyers and sellers, and
  - (iii) uses established, non-discretionary methods under which the orders interact with each other, and the buyers and sellers entering the orders agree to the terms of a trade, or
- (d) a dealer that executes a trade of an exchange-traded security outside of a marketplace,

but does not include an inter-dealer bond broker;

“multiple convertible security” means a security of an issuer that is convertible into, or exchangeable for, or carries the right of the holder to acquire, or of the issuer to cause the acquisition of, a convertible security, an exchangeable security or another multiple convertible security;

“predecessor statements” mean the financial statements referred to in paragraph 32.1(1)(a) of Form 41-101F1 *Information Required in a Prospectus*;

“primary business statements” mean the financial statements referred to in paragraph 32.1(1)(b) of Form 41-101F1 *Information Required in a Prospectus*;

“principal trading market” means the published market on which the largest trading volume in the equity securities of the issuer occurred during the issuer’s most recently completed financial year that ended before the date the determination is being made;

“published market” means, for a class of securities, a marketplace on which the securities have traded that discloses, regularly in a publication of general and regular paid circulation or in a form that is broadly distributed by electronic means, the prices at which those securities have traded;

“recognized exchange” means

- (a) in Ontario, an exchange recognized by the securities regulatory authority to carry on business as a stock exchange,
- (b) in Québec, a person or company authorized by the securities regulatory authority to carry on business as an exchange, and
- (c) in every other jurisdiction of Canada, an exchange recognized by the securities regulatory authority as an exchange, self-regulatory organization or self-regulatory body;

“recognized quotation and trade reporting system” means

- (a) in every jurisdiction of Canada other than British Columbia, a quotation and trade reporting system recognized by the securities regulatory authority under securities legislation to carry on business as a quotation and trade reporting system, and
- (b) in British Columbia, a quotation and trade reporting system recognized by the securities regulatory authority under securities legislation as a quotation and trade reporting system or as an exchange;

“SEC issuer” means an issuer that

- (a) has a class of securities registered under section 12 of the 1934 Act or is required to file reports under section 15(d) of the 1934 Act, and
- (b) is not registered or required to be registered as an investment company under the *Investment Company Act of 1940* of the United States of America, as amended from time to time;

“SEC foreign issuer” means a foreign issuer that is also an SEC issuer;

“underlying security” means a security issued or transferred, or to be issued or transferred, in accordance with the terms of a convertible security, an exchangeable security or a multiple convertible security;

“U.S. GAAP” means generally accepted accounting principles in the United States of America that the SEC has identified as having substantial authoritative support, as supplemented by Regulation S-X under the 1934 Act, as amended from time to time;

“U.S. AICPA GAAS” means auditing standards of the American Institute of Certified Public Accountants, as amended from time to time;

“U.S. PCAOB GAAS” means auditing standards of the Public Company Accounting Oversight Board (United States of America), as amended from time to time;

“venture issuer”,

- (a) in the case of acquisition statements required by National Instrument 51-102 *Continuous Disclosure Obligations*, has the same meaning as in subsection 1.1(1) of that Instrument, and
- (b) in the case of acquisition statements referred to in paragraph (b), (c) or (d) of the definition of “acquisition statements”, has the same meaning as in section 1.1 of National Instrument 41-101 *General Prospectus Requirements*.

## **1.2 Determination of Canadian Shareholders for Calculation of Designated Foreign Issuer and Foreign Issuer —**

- (1) For the purposes of paragraph (c) of the definition of “designated foreign issuer” in section 1.1 and for the purposes of paragraphs 3.9(1)(c) and 4.9(c), a reference to equity securities beneficially owned by residents of Canada includes
  - (a) any underlying securities that are equity securities of the foreign issuer, and
  - (b) the equity securities of the foreign issuer represented by an American depositary receipt or an American depositary share issued by a depositary holding equity securities of the foreign issuer.
- (2) For the purposes of paragraph (a) of the definition of “foreign issuer” in section 1.1, securities represented by American depositary receipts or American depositary shares issued by a depositary holding voting securities of the foreign issuer must be included as outstanding in determining both the number of votes attached to securities beneficially owned by residents of Canada and the number of votes attached to all of the issuer’s outstanding voting securities.

## **1.3 Timing for Calculation of Designated Foreign Issuer, Foreign Issuer and Foreign Registrant —** For the purposes of paragraph (c) of the definition of “designated foreign issuer” in section 1.1, paragraph (a) of the definition of “foreign issuer” in section 1.1, and paragraph (a) of the definition of “foreign registrant” in section 1.1, the calculation is made

- (a) if the issuer has not completed one financial year, on the earlier of
  - (i) the date that is 90 days before the date of its prospectus, and



- (ii) the date that it became a reporting issuer; and
- (b) for all other issuers and for registrants, on the first day of the most recent financial year or interim period for which financial performance is presented in the financial statements or interim financial information filed or delivered or included in a prospectus.

#### **1.4 Interpretation —**

- (1) For the purposes of this Instrument, a reference to “prospectus” includes a preliminary prospectus, a prospectus, an amendment to a preliminary prospectus and an amendment to a prospectus.
- (2) For the purposes of this Instrument, a reference to information being “included in” another document means information reproduced in the document or incorporated into the document by reference.

### **PART 2: APPLICATION**

#### **2.1 Application —**

- (1) This Instrument does not apply to investment funds.
- (2) This Instrument applies to
  - (a) all financial statements and interim financial information delivered by registrants to the securities regulatory authority or regulator under National Instrument 31-103 *Registration Requirements and Exemptions*,
  - (b) all financial statements filed, or included in a document that is filed, by an issuer under National Instrument 51-102 *Continuous Disclosure Obligations* or National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*,
  - (c) all financial statements included in
    - (i) a prospectus, a take-over bid circular or any other document that is filed by or in connection with an issuer, or
    - (ii) except in Ontario, an offering memorandum required to be delivered by an issuer under National Instrument 45-106 *Prospectus and Registration Exemptions*,

- (d) any acquisition statements, predecessor statements, or primary business statements, that are an operating statement for an oil and gas property that is an acquired business or a business to be acquired, that is
  - (i) filed by an issuer under National Instrument 51-102 *Continuous Disclosure Obligations*,
  - (ii) included in a prospectus, take-over bid circular or any other document that is filed by or in connection with an issuer, or
  - (iii) except in Ontario, included in an offering memorandum required to be delivered by an issuer under National Instrument 45-106 *Prospectus and Registration Exemptions*,
- (e) any other financial statements filed, or included in a document that is filed, by a reporting issuer,
- (f) summary financial information for a credit supporter or credit support issuer that is
  - (i) filed under National Instrument 51-102 *Continuous Disclosure Obligations*,
  - (ii) included in a prospectus, take-over bid circular or any other document that is filed by or in connection with an issuer, or
  - (iii) except in Ontario, included in an offering memorandum required to be delivered by an issuer under National Instrument 45-106 *Prospectus and Registration Exemptions*,
- (g) summarized financial information of an acquired business or business to be acquired that is, or will be, an investment accounted for by the issuer using the equity method, that is
  - (i) filed by an issuer under National Instrument 51-102 *Continuous Disclosure Obligations*,
  - (ii) included in a prospectus, take-over bid circular or any other document that is filed by or in connection with an issuer, or
  - (iii) except in Ontario, included in an offering memorandum required to be delivered by an issuer under National Instrument 45-106 *Prospectus and Registration Exemptions*, and
- (h) *pro forma* financial statements
  - (i) filed, or included in a document that is filed, by an issuer under

National Instrument 51-102 *Continuous Disclosure Obligations* or National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers*,

- (ii) included in a prospectus, take-over bid circular or any other document that is filed by or in connection with an issuer, or
- (iii) otherwise filed, or included in a document that is filed, by a reporting issuer.

**PART 3:  
RULES APPLYING TO FINANCIAL YEARS BEGINNING ON OR AFTER  
JANUARY 1, 2011**

**3.1 Definitions and Application —**

- (1) In this Part:

“publicly accountable enterprise” means a publicly accountable enterprise as defined in the Handbook;

“private enterprise” means a private enterprise as defined in the Handbook.

- (2) This Part applies to financial statements, financial information, operating statements and *pro forma* financial statements for periods relating to financial years beginning on or after January 1, 2011.

**3.2 Acceptable Accounting Principles – General Requirements —**

- (1) Financial statements referred to in paragraphs 2.1(2)(b), (c) and (e), other than acquisition statements, must
- (a) be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, and
  - (b) disclose
    - (i) in the case of annual financial statements, an unreserved statement of compliance with IFRS, and
    - (ii) in the case of an interim financial report, an unreserved statement of compliance with IAS 34.

- (2) Despite subsection (1), in the case of an interim financial report that is not required under securities legislation to provide comparative interim financial information,
- (a) the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes must be prepared in accordance with IAS 34 other than the requirement in IAS 34 to include comparative financial information; and
  - (b) the interim financial report must disclose that
    - (i) it does not comply with IAS 34 because it does not include comparative interim financial information, and
    - (ii) the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes have been prepared in accordance with IAS 34 other than the requirement in IAS 34 to include comparative financial information.
- (3) Financial statements and interim financial information referred to in paragraph 2.1(2)(a) must
- (a) be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27, and
  - (b) in the case of annual financial statements,
    - (i) include the following statement:

These financial statements are prepared in accordance with the financial reporting framework specified in [*insert “paragraph 3.2(3)(a)”, “subsection 3.2(4)” or “section 3.15” as applicable*] of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.
    - and
    - (ii) describe the financial reporting framework used to prepare the financial statements.

- (4) Despite paragraph (3)(a), financial statements and interim financial information referred to in paragraph 2.1(2)(a) for periods relating to a financial year beginning in 2011 may be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, except that
- (a) any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27,
  - (b) comparative information relating to the preceding financial year must be excluded, and
  - (c) the first day of the financial year to which the financial statements or interim financial information relates must be used as the date of transition to the financial reporting framework.
- (5) Financial statements must be prepared in accordance with the same accounting principles for all periods presented in the financial statements.
- (6) Financial information referred to in paragraphs 2.1(2)(f) and (g) must
- (a) present the line items for summary financial information or summarized financial information required by National Instrument 45-106 *Prospectus and Registration Exemptions* or National Instrument 51-102 *Continuous Disclosure Obligations*, as the case may be, and
  - (b) in the case of summarized financial information of an acquired business or business to be acquired that is, or will be, an investment accounted for by the issuer using the equity method,
    - (i) be prepared using accounting policies that
      - (A) are permitted by one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP or Canadian GAAP applicable to private enterprises, and
      - (B) would apply to the information if the information were presented as part of a complete set of financial statements,
    - (ii) include the following statement:

This information is prepared in accordance with the financial reporting framework specified in subsection 3.2(6) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for summarized financial information of a business accounted for using the equity method.

and

- (iii) describe the accounting policies used to prepare the information.

### **3.3 Acceptable Auditing Standards – General Requirements —**

- (1) Financial statements, other than acquisition statements, that are required by securities legislation to be audited must
  - (a) be audited in accordance with Canadian GAAS and be accompanied by an auditor's report that
    - (i) expresses an unmodified opinion,
    - (ii) identifies all financial periods presented for which the auditor has issued an auditor's report,
    - (iii) is in the form specified by Canadian GAAS for an audit of financial statements prepared in accordance with a fair presentation framework, and
    - (iv) refers to IFRS as the applicable fair presentation framework if the financial statements are prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, and
  - (b) if the issuer or registrant has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by a predecessor auditor, be accompanied by the predecessor auditor's reports on the comparative periods.
- (2) Paragraph (1)(b) does not apply to financial statements referred to in paragraphs 2.1(2)(a) and (b) if the auditor's report described in paragraph (1)(a) refers to the predecessor auditor's reports on the comparative periods.

**3.4 Acceptable Auditors —** An auditor's report filed by an issuer or delivered by a registrant must be prepared and signed by a person or company that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

### **3.5 Presentation and Functional Currencies —**

- (1) The presentation currency must be prominently displayed in financial statements.
- (2) Financial statements must disclose the functional currency if it is different than the presentation currency.

### **3.6 Credit Supporters —**

- (1) Unless subsection 3.2(1) applies, if a credit support issuer files, or includes in a prospectus, financial statements of a credit supporter, the credit supporter's financial statements must
  - (a) be prepared in accordance with the accounting principles and audited in accordance with the auditing standards that would apply under this Instrument if the credit supporter were to file financial statements referred to in paragraph 2.1(2)(b), and
  - (b) identify the accounting principles used to prepare the financial statements.
- (2) If a credit support issuer files, or includes in a prospectus, summary financial information for the credit supporter or credit support issuer,
  - (a) the summary financial information must, in addition to satisfying other requirements in this Instrument
    - (i) prominently display the presentation currency, and
    - (ii) disclose the functional currency if it is different from the presentation currency, and
  - (b) the amounts presented in the summary financial information must be derived from financial statements of the credit supporter or credit support issuer that, if required by securities legislation to be audited, are audited in accordance with the auditing standards that would apply under this Instrument if the credit supporter or credit support issuer, as the case may be, were to file financial statements referred to in paragraph 2.1(2)(b).

### **3.7 Acceptable Accounting Principles for SEC Issuers —**

- (1) Despite subsection 3.2(1), an SEC issuer's financial statements referred to in paragraphs 2.1(2)(b), (c) and (e) and financial information referred to in paragraphs 2.1(2)(f) and (g) that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, may be prepared in accordance with U.S. GAAP.
- (2) The notes to the financial statements referred to in subsection (1) must identify the accounting principles used to prepare the financial statements.

### **3.8 Acceptable Auditing Standards for SEC Issuers —**

- (1) Despite subsection 3.3(1), an SEC issuer's financial statements referred to in paragraphs 2.1(2)(b), (c) and (e) and financial information referred to in

paragraphs 2.1(2)(f) and (g) that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, and that are required by securities legislation to be audited, may be audited in accordance with U.S. PCAOB GAAS if the financial statements are accompanied by

- (a) an auditor's report prepared in accordance with U.S. PCAOB GAAS that
    - (i) expresses an unqualified opinion,
    - (ii) identifies all financial periods presented for which the auditor has issued an auditor's report, and
    - (iii) identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements, and
  - (b) the predecessor auditor's reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor.
- (2) Paragraph (1)(b) does not apply to financial statements referred to in paragraph 2.1(2)(b) if the auditor's report described in paragraph (1)(a) refers to the predecessor auditor's reports on the comparative periods.

### **3.9 Acceptable Accounting Principles for Foreign Issuers —**

- (1) Despite subsection 3.2(1), a foreign issuer's financial statements referred to in paragraphs 2.1(2)(b), (c) and (e) that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, may be prepared in accordance with
- (a) IFRS,
  - (b) U.S. GAAP, if the issuer is an SEC foreign issuer,
  - (c) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if
    - (i) the issuer is an SEC foreign issuer,
    - (ii) on the last day of the most recently completed financial year the total number of equity securities of the issuer beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the issuer, and
    - (iii) the financial statements include any reconciliation to U.S. GAAP required by the SEC, or



- (d) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer.
- (2) The notes to the financial statements must identify the accounting principles used to prepare the financial statements.

### **3.10 Acceptable Auditing Standards for Foreign Issuers —**

- (1) Despite subsection 3.3(1), a foreign issuer's financial statements referred to in paragraphs 2.1(2)(b), (c) and (e) that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, that are required by securities legislation to be audited may be audited in accordance with
  - (a) International Standards on Auditing if the financial statements are accompanied by
    - (i) an auditor's report that
      - (A) expresses an unmodified opinion,
      - (B) identifies all financial periods presented for which the auditor has issued the auditor's report,
      - (C) identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements, and
      - (D) is prepared in accordance with the same auditing standards used to conduct the audit, and
    - (ii) the predecessor auditor's reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor,
  - (b) U.S. PCAOB GAAS if the financial statements are accompanied by
    - (i) an auditor's report that
      - (A) expresses an unqualified opinion,
      - (B) identifies all financial periods presented for which the auditor has issued the auditor's report,
      - (C) identifies the auditing standards used to conduct the audit

and the accounting principles used to prepare the financial statements, and

- (D) is prepared in accordance with the same auditing standards used to conduct the audit, and
  - (ii) the predecessor auditor's reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor, or
- (c) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject if
  - (i) the issuer is a designated foreign issuer,
  - (ii) the financial statements are accompanied by an auditor's report prepared in accordance with the same auditing standards used to conduct the audit, and
  - (iii) the auditor's report identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements.
- (2) Subparagraph (1)(a)(ii) or (b)(ii) does not apply to financial statements referred to in paragraph 2.1(2)(b) if the auditor's report described in subparagraph (1)(a)(i) or (b)(i), as the case may be, refers to the predecessor auditor's reports on the comparative periods.

### **3.11 Acceptable Accounting Principles for Acquisition Statements —**

- (1) Acquisition statements must be prepared in accordance with one of the following accounting principles:
  - (a) Canadian GAAP applicable to publicly accountable enterprises;
  - (b) IFRS;
  - (c) U.S. GAAP;
  - (d) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if
    - (i) the issuer or the acquired business or business to be acquired is an SEC foreign issuer,
    - (ii) on the last day of the most recently completed financial year the

- total number of equity securities of the SEC foreign issuer beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the SEC foreign issuer, and
- (iii) the financial statements include any reconciliation to U.S. GAAP required by the SEC;
- (e) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer or the acquired business or business to be acquired is subject, if
- (i) the issuer or business is a designated foreign issuer, and
  - (ii) in the case where the issuer's GAAP differs from the accounting principles used to prepare the acquisition statements, for the most recently completed financial year and interim period presented, the notes to the acquisition statements:
    - (A) describe the material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation, and
    - (B) quantify the effect of each difference referred to in clause (A) and include a tabular reconciliation between profit or loss reported in the acquisition statements and profit or loss computed in accordance with the issuer's GAAP;
- (f) Canadian GAAP applicable to private enterprises if
- (i) the acquisition statements consolidate any subsidiaries and account for significantly influenced investees and joint ventures using the equity method,
  - (ii) financial statements for the acquired business or business to be acquired were not previously prepared in accordance with one of the accounting principles specified in paragraphs (a) to (e) for the periods presented in the acquisition statements,

- (iii) the acquisition statements are accompanied by a notice stating:

These financial statements are prepared in accordance with Canadian GAAP applicable to private enterprises, which are Canadian accounting standards for private enterprises in Part II of the Handbook.

The recognition, measurement and disclosure requirements of Canadian GAAP applicable to private enterprises differ from those of Canadian GAAP applicable to publicly accountable enterprises, which are International Financial Reporting Standards incorporated into the Handbook.

The *pro forma* financial statements included in the document include adjustments relating to the [*insert “acquired business” or “business to be acquired” as applicable*] and present *pro forma* information prepared using principles that are consistent with the accounting principles used by the issuer.

and

- (iv) in the case of acquisition statements included in a document filed by an issuer that is not a venture issuer, and is not an IPO venture issuer, for all financial years and the most recently completed interim period presented, the notes to the acquisition statements
- (A) describe the material differences between the issuer’s GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation,
  - (B) quantify the effect of each difference referred to in clause (A), and include a tabular reconciliation between profit or loss reported in the acquisition statements and profit or loss computed in accordance with the issuer’s GAAP, and
  - (C) for each difference referred to in clause (A) that relates to measurement, disclose and discuss the material inputs or assumptions underlying the measurement of the relevant amount computed in accordance with the issuer’s GAAP, consistent with the disclosure requirements of the issuer’s GAAP.
- (2) Acquisition statements must be prepared in accordance with the same accounting principles for all periods presented.

- (3) Acquisition statements to which paragraph (1)(a) applies must disclose
- (a) in the case of annual financial statements, an unreserved statement of compliance with IFRS, and
  - (b) in the case of interim financial reports, an unreserved statement of compliance with IAS 34.
- (4) Unless paragraph (1)(a) applies, the notes to the acquisition statements must identify the accounting principles used to prepare the acquisition statements.
- (5) Despite subsections (1) and (2), if acquisition statements are an operating statement for an oil and gas property that is an acquired business or business to be acquired
- (a) the operating statement must include at least the following line items:
    - (i) gross sales;
    - (ii) royalties;
    - (iii) production costs;
    - (iv) operating income;
  - (b) the line items in the operating statement must be prepared using accounting policies that
    - (i) are permitted by one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP or Canadian GAAP applicable to private enterprises, and
    - (ii) would apply to those line items if those line items were presented as part of a complete set of financial statements, and
  - (c) the operating statement must
    - (i) include the following statement:

This operating statement is prepared in accordance with the financial reporting framework specified in subsection 3.11(5) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for an operating statement.

and

- (ii) describe the accounting policies used to prepare the operating statement.

(6) [REPEALED]

### 3.12 Acceptable Auditing Standards for Acquisition Statements —

- (1) Acquisition statements that are required by securities legislation to be audited must be accompanied by an auditor's report and audited in accordance with one of the following auditing standards:
  - (a) Canadian GAAS;
  - (b) International Standards on Auditing;
  - (c) U.S. PCAOB GAAS;
  - (d) U.S. AICPA GAAS, if the acquired business or business to be acquired is not an SEC issuer;
  - (e) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer.
- (2) The auditor's report must,
  - (a) if paragraph (1)(a) or (b) applies, express an unmodified opinion,
  - (b) if paragraph (1)(c) or (d) applies, express an unqualified opinion,
  - (c) unless paragraph (1)(e) applies, identify all financial periods presented for which the auditor's report applies,
  - (d) identify the auditing standards used to conduct the audit,
  - (e) identify the accounting principles used or, if subsection 3.11(5) applies, the financial reporting framework used, to prepare the acquisition statements, unless the auditor's report accompanies acquisition statements prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises and audited in accordance with Canadian GAAS, and
  - (f) if paragraph (1) (a) or (b) applies and subsection 3.11(5) does not,
    - (i) be in the form specified by the standards referred to in paragraph (1)(a) or (b), as applicable, for an audit of financial statements

prepared in accordance with a fair presentation framework, and

- (ii) refer to IFRS as the applicable fair presentation framework if the financial statements are prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises.
- (3) Despite paragraphs (2)(a) and (b), an auditor's report that accompanies acquisition statements may express a qualification of opinion relating to inventory if
- (a) the issuer includes in the business acquisition report, prospectus or other document containing the acquisition statements, a statement of financial position for the acquired business or business to be acquired that is for a date that is subsequent to the date to which the qualification relates, and
  - (b) the statement of financial position referred to in paragraph (a) is accompanied by an auditor's report that does not express a qualification of opinion relating to closing inventory.

### **3.13 Financial Information for Acquisitions Accounted for by the Issuer Using the Equity Method —**

- (1) If an issuer files, or includes in a prospectus, summarized financial information of an acquired business or business to be acquired that is, or will be, an investment accounted for by the issuer using the equity method, the financial information must
- (a) meet the requirements in subsections 3.11(1), (2) and (4) if the term "acquisition statements" in those subsections is read as "summarized financial information", and
  - (b) disclose the presentation currency for the financial information, and disclose the functional currency if it is different than the presentation currency.
- (2) If the financial information referred to in subsection (1) is required by securities legislation to be audited or derived from audited financial statements, the financial information must
- (a) either
    - (i) meet the requirements in section 3.12 if the term "acquisition statements" in that section is read as "summarized financial information", or
    - (ii) be derived from financial statements that meet the requirements in section 3.12 if the term "acquisition statements" in that section is

read as “financial statements from which is derived summarized financial information”, and

- (b) be audited, or derived from financial statements that are audited, by a person or company that is authorized to sign an auditor’s report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

### **3.14 Acceptable Accounting Policies for *Pro Forma* Financial Statements —**

- (1) An issuer’s *pro forma* financial statements must be prepared using accounting policies that
  - (a) are permitted by the issuer’s GAAP, and
  - (b) would apply to the information presented in the *pro forma* financial statements if that information were included in the issuer’s financial statements for the same period as that of the *pro forma* financial statements.
- (2) Despite subsection (1), if an issuer’s financial statements include, or are accompanied by, a reconciliation to U.S. GAAP, the issuer’s *pro forma* financial statements for the same period as the issuer’s financial statements may be prepared using accounting policies that
  - (a) are permitted by U.S. GAAP, and
  - (b) would apply to the information presented in the *pro forma* financial statements if that information were included in the reconciliation.
- (3) Despite subsection (1), if the accounting principles used to prepare an issuer’s most recent annual financial statements differ from the accounting principles used to prepare the issuer’s interim financial report for a subsequent period, the issuer may prepare a *pro forma* income statement for the same period as that of its most recent annual financial statements using accounting policies that
  - (a) are permitted by the accounting principles that were used to prepare the issuer’s interim financial report, and
  - (b) would apply to the information presented in the *pro forma* income statement if that information were included in the issuer’s interim financial report.

### **3.15 Acceptable Accounting Principles for Foreign Registrants —** Despite paragraph 3.2 (3)(a), financial statements and interim financial information delivered by a foreign registrant may be prepared in accordance with



- (a) IFRS, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27,
- (b) U.S. GAAP, except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27, or
- (c) accounting principles that meet the disclosure requirements of a foreign regulatory authority to which the registrant is subject, if it is a foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction.

### **3.16 Acceptable Auditing Standards for Foreign Registrants —**

- (1) Despite subsection 3.3(1), financial statements referred to in paragraph 2.1(2)(a) that are delivered by a foreign registrant and required by securities legislation to be audited may be audited in accordance with
  - (a) International Standards on Auditing if the financial statements are accompanied by
    - (i) an auditor's report that
      - (A) expresses an unmodified opinion,
      - (B) identifies all financial periods presented for which the auditor has issued the auditor's report,
      - (C) identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements, and
      - (D) is prepared in accordance with the same auditing standards used to conduct the audit, and
    - (ii) the predecessor auditor's reports on the comparative periods, if the foreign registrant has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor,
  - (b) U.S. PCAOB GAAS or U.S. AICPA GAAS if the financial statements are accompanied by
    - (i) an auditor's report that
      - (A) expresses an unqualified opinion,

- (B) identifies all financial periods presented for which the auditor has issued the auditor's report,
  - (C) identifies the auditing standards used to conduct the audit and the accounting principles used to prepare the financial statements, and
  - (D) is prepared in accordance with the same auditing standards used to conduct the audit, and
- (ii) the predecessor auditor's reports on the comparative periods, if the foreign registrant has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor, or
- (c) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the registrant is subject if
    - (i) it is a foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction,
    - (ii) the financial statements are accompanied by an auditor's report prepared in accordance with the same auditing standards used to conduct the audit, and
    - (iii) the auditor's report identifies the accounting principles used to prepare the financial statements.
- (2) Subparagraph (1)(a)(ii) or (b)(ii) does not apply if the auditor's report described in subparagraph (1)(a)(i) or (b)(i), as the case may be, refers to the predecessor auditor's reports on the comparative periods.

**3.17 Acceptable Accounting Principles for Predecessor Statements or Primary Business Statements that are an Operating Statement** — If predecessor statements or primary business statements are an operating statement for an oil and gas property,

- (a) the operating statement must include at least the following line items:
  - (i) gross sales;
  - (ii) royalties;
  - (iii) production costs;
  - (iv) operating income;

- (b) the line items in the operating statement must be prepared using accounting policies that
  - (i) are permitted by one of:
    - (A) Canadian GAAP applicable to publicly accountable enterprises;
    - (B) U.S. GAAP if the issuer is an SEC issuer or an SEC foreign issuer;
    - (C) IFRS if the issuer is a foreign issuer, and
  - (ii) would apply to those line items if those line items were presented as part of a complete set of financial statements, and
- (c) the operating statement must
  - (i) include the following statement:

This operating statement is prepared in accordance with the financial reporting framework specified in section 3.17 of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for an operating statement.

and
  - (ii) describe the accounting policies used to prepare the operating statement.

**3.18 Acceptable Auditing Standards for Predecessor Statements or Primary Business Statements that are an Operating Statement —**

- (1) If predecessor statements or primary business statements are an operating statement for an oil and gas property that are required by securities legislation to be audited, the operating statement must be accompanied by an auditor's report and audited in accordance with one of the following auditing standards:
  - (a) Canadian GAAS;
  - (b) U.S. PCAOB GAAS if the issuer is an SEC issuer or an SEC foreign issuer;
  - (c) International Standards on Auditing if the issuer is a foreign issuer.
- (2) The auditor's report must,
  - (a) if paragraph 1(a) or (c) applies, express an unmodified opinion,
  - (b) if paragraph 1(b) applies, express an unqualified opinion,

- (c) identify all financial periods presented for which the auditor's report applies,
- (d) identify the auditing standards used to conduct the audit, and
- (e) identify the financial reporting framework used to prepare the operating statement.

**PART 4:**  
**RULES APPLYING TO FINANCIAL YEARS BEGINNING BEFORE JANUARY 1, 2011**

**4.1 Definitions and Application —**

- (1) In this Part:

“Canadian GAAP - Part V” means generally accepted accounting principles determined with reference to Part V of the Handbook applicable to public enterprises;

“public enterprise” means a public enterprise as defined in Part V of the Handbook.

- (2) This Part applies to financial statements, financial information, operating statements and *pro forma* financial statements for periods relating to financial years beginning before January 1, 2011.

**4.2 Acceptable Accounting Principles – General Requirements —**

- (1) Financial statements, other than financial statements delivered by registrants and acquisition statements, must be prepared in accordance with Canadian GAAP – Part V.
- (2) Financial statements and interim financial information delivered by a registrant to the securities regulatory authority, must be prepared in accordance with Canadian GAAP – Part V except that the financial statements and interim financial information must be prepared on a non-consolidated basis.
- (3) Financial statements must be prepared in accordance with the same accounting principles for all periods presented in the financial statements.
- (4) The notes to the financial statements must identify the accounting principles used to prepare the financial statements.

**4.3 Acceptable Auditing Standards – General Requirements —** Financial statements,

other than acquisition statements, that are required by securities legislation to be audited must be audited in accordance with Canadian GAAS and be accompanied by an auditor's report that

- (a) expresses an unmodified opinion,
- (b) identifies all financial periods presented for which the auditor has issued an auditor's report,
- (c) refers to the predecessor auditor's reports on the comparative periods, if the issuer or registrant has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor, and
- (d) identifies the accounting principles used to prepare the financial statements.

**4.4 Acceptable Auditors** — An auditor's report filed by an issuer or delivered by a registrant must be prepared and signed by a person or company that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

**4.5 Measurement and Reporting Currencies** —

- (1) The reporting currency must be disclosed on the face page of the financial statements or in the notes to the financial statements unless the financial statements are prepared in accordance with Canadian GAAP – Part V and the reporting currency is the Canadian dollar.
- (2) The notes to the financial statements must disclose the measurement currency if it is different than the reporting currency.

**4.6 Credit Supporters** —

- (1) Unless subsection 4.2(1) applies, if a credit support issuer files, or includes in a prospectus, financial statements of a credit supporter, the credit supporter's financial statements must
  - (a) be prepared in accordance with the accounting principles and audited in accordance with the auditing standards that apply under this Instrument if the credit supporter were to file financial statements referred to in paragraph 2.1(2)(b),
  - (b) identify the accounting principles used to prepare the financial statements, and
  - (c) disclose the reporting currency for the financial statements, and disclose the measurement currency if it is different than the reporting currency.

- (2) If a credit support issuer files, or includes in a prospectus, summary financial information for the credit supporter or credit support issuer,
  - (a) the summary financial information must
    - (i) be prepared in accordance with the accounting principles that this Instrument requires to be used in preparing financial statements if the credit supporter or credit support issuer, as the case may be, were to file financial statements referred to in paragraph 2.1(2)(b),
    - (ii) identify the accounting principles used to prepare the summary financial information, and
    - (iii) disclose the reporting currency for the financial information, and disclose the measurement currency if it is different than the reporting currency, and
  - (b) the amounts presented in the summary financial information must be derived from financial statements of the credit supporter or credit support issuer that, if required by securities legislation to be audited, are audited in accordance with the auditing standards that apply under this Instrument if the credit supporter or credit support issuer, as the case may be, were to file financial statements referred to in paragraph 2.1(2)(b).

#### **4.7 Acceptable Accounting Principles for SEC Issuers —**

- (1) Despite subsections 4.2(1) and (3), financial statements of an SEC issuer that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, may be prepared in accordance with U.S. GAAP provided that, if the SEC issuer previously filed or included in a prospectus financial statements prepared in accordance with Canadian GAAP – Part V, the SEC issuer complies with the following:
  - (a) the notes to the first two sets of the issuer’s annual financial statements after the change from Canadian GAAP – Part V to U.S. GAAP and the notes to the issuer’s interim financial statements for interim periods during those two years
    - (i) explain the material differences between Canadian GAAP – Part V and U.S. GAAP that relate to recognition, measurement and presentation,
    - (ii) quantify the effect of material differences between Canadian GAAP – Part V and U.S. GAAP that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the financial statements and net

income computed in accordance with Canadian GAAP – Part V, and

- (iii) provide disclosure consistent with disclosure requirements of Canadian GAAP – Part V to the extent not already reflected in the financial statements;
- (b) financial information for any comparative periods that were previously reported in accordance with Canadian GAAP – Part V are presented
    - (i) as previously reported in accordance with Canadian GAAP – Part V,
    - (ii) as restated and presented in accordance with U.S. GAAP, and
    - (iii) supported by an accompanying note that
      - (A) explains the material differences between Canadian GAAP – Part V and U.S. GAAP that relate to recognition, measurement and presentation, and
      - (B) quantifies the effect of material differences between Canadian GAAP – Part V and U.S. GAAP that relate to recognition, measurement and presentation, including a tabular reconciliation between net income as previously reported in the financial statements in accordance with Canadian GAAP – Part V and net income as restated and presented in accordance with U.S. GAAP, and
  - (c) if the SEC issuer has filed financial statements prepared in accordance with Canadian GAAP – Part V for one or more interim periods of the current year, those interim financial statements are restated in accordance with U.S. GAAP and comply with paragraphs (a) and (b).
- (2) The comparative information specified in subparagraph (1)(b)(i) may be presented on the face of the balance sheet and statements of income and cash flow or in the note to the financial statements required by subparagraph (1)(b)(iii).

**4.8 Acceptable Auditing Standards for SEC Issuers** — Despite section 4.3, financial statements of an SEC issuer that are filed with or delivered to the securities regulatory authority or regulator, other than acquisition statements, and that are required by securities legislation to be audited, may be audited in accordance with U.S. PCAOB GAAS if the financial statements are accompanied by an auditor’s report prepared in accordance with U.S. PCAOB GAAS that

- (a) expresses an unqualified opinion,

- (b) identifies all financial periods presented for which the auditor has issued an auditor's report,
- (c) refers to the predecessor auditor's reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor, and
- (d) identifies the accounting principles used to prepare the financial statements.

**4.9 Acceptable Accounting Principles for Foreign Issuers** — Despite subsection 4.2(1), financial statements of a foreign issuer that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, may be prepared in accordance with one of the following accounting principles:

- (a) U.S. GAAP, if the issuer is an SEC foreign issuer;
- (b) IFRS;
- (c) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if
  - (i) the issuer is an SEC foreign issuer,
  - (ii) on the last day of the most recently completed financial year the total number of equity securities of the issuer beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the issuer, and
  - (iii) the financial statements include any reconciliation to U.S. GAAP required by the SEC;
- (d) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer;
- (e) accounting principles that cover substantially the same core subject matter as Canadian GAAP – Part V, including recognition and measurement principles and disclosure requirements, if the notes to the financial statements
  - (i) explain the material differences between Canadian GAAP – Part V and the accounting principles used that relate to recognition, measurement and presentation,
  - (ii) quantify the effect of material differences between Canadian GAAP – Part V and the accounting principles used that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the issuer's financial statements and net income



computed in accordance with Canadian GAAP – Part V, and

- (iii) provide disclosure consistent with Canadian GAAP – Part V requirements to the extent not already reflected in the financial statements.

**4.10 Acceptable Auditing Standards for Foreign Issuers** — Despite section 4.3, financial statements of a foreign issuer that are filed with or delivered to a securities regulatory authority or regulator, other than acquisition statements, that are required by securities legislation to be audited may, if the financial statements are accompanied by an auditor’s report prepared in accordance with the same auditing standards used to conduct the audit and the auditor’s report identifies the accounting principles used to prepare the financial statements, be audited in accordance with

- (a) U.S. PCAOB GAAS, if the auditor’s report
  - (i) expresses an unqualified opinion,
  - (ii) identifies all financial periods presented for which the auditor has issued an auditor’s report, and
  - (iii) refers to the predecessor auditor’s reports on the comparative periods, if the issuer has changed its auditor and one or more of the comparative periods presented in the financial statements were audited by the predecessor auditor,
- (b) International Standards on Auditing, if the auditor’s report is accompanied by a statement by the auditor that
  - (i) describes any material differences in the form and content of the auditor’s report as compared to an auditor’s report prepared in accordance with Canadian GAAS, and
  - (ii) indicates that an auditor’s report prepared in accordance with Canadian GAAS would express an unmodified opinion, or
- (c) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer.

**4.11 Acceptable Accounting Principles for Acquisition Statements** —

- (1) Acquisition statements must be prepared in accordance with one of the following accounting principles:
  - (a) Canadian GAAP – Part V;
  - (b) U.S. GAAP;

- (c) IFRS;
  - (d) accounting principles that meet the disclosure requirements for foreign private issuers, as that term is defined for the purposes of the 1934 Act, if
    - (i) the issuer or the acquired business or business to be acquired is an SEC foreign issuer,
    - (ii) on the last day of the most recently completed financial year the total number of equity securities of the SEC foreign issuer beneficially owned by residents of Canada does not exceed 10%, on a fully-diluted basis, of the total number of equity securities of the SEC foreign issuer, and
    - (iii) the financial statements include any reconciliation to U.S. GAAP required by the SEC;
  - (e) accounting principles that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer or the acquired business or business to be acquired is subject, if the issuer or business is a designated foreign issuer;
  - (f) accounting principles that cover substantially the same core subject matter as Canadian GAAP – Part V, including recognition and measurement principles and disclosure requirements.
- (2) Acquisition statements must be prepared in accordance with the same accounting principles for all periods presented.
  - (3) The notes to the acquisition statements must identify the accounting principles used to prepare the acquisition statements.
  - (4) If acquisition statements are prepared using accounting principles that are different from the issuer's GAAP, the acquisition statements for the most recently completed financial year and interim period that are required to be filed must be reconciled to the issuer's GAAP and the notes to the acquisition statements must
    - (a) explain the material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement, and presentation,
    - (b) quantify the effect of material differences between the issuer's GAAP and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the acquisition statements and net income computed in accordance with the issuer's GAAP, and

- (c) provide disclosure consistent with the issuer's GAAP to the extent not already reflected in the acquisition statements.
- (5) Despite subsections (1) and (4), if the issuer is required to reconcile its financial statements to Canadian GAAP – Part V, the acquisition statements for the most recently completed financial year and interim period that are required to be filed must be
- (a) prepared in accordance with Canadian GAAP – Part V, or
  - (b) reconciled to Canadian GAAP – Part V and the notes to the acquisition statements must
    - (i) explain the material differences between Canadian GAAP – Part V and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement, and presentation,
    - (ii) quantify the effect of material differences between Canadian GAAP – Part V and the accounting principles used to prepare the acquisition statements that relate to recognition, measurement and presentation, including a tabular reconciliation between net income reported in the acquisition statements and net income computed in accordance with Canadian GAAP – Part V, and
    - (iii) provide disclosure consistent with disclosure requirements of Canadian GAAP – Part V to the extent not already reflected in the acquisition statements.

#### **4.12 Acceptable Auditing Standards for Acquisition Statements —**

- (1) Acquisition statements that are required by securities legislation to be audited must be audited in accordance with one of the following auditing standards:
  - (a) Canadian GAAS;
  - (b) U.S. PCAOB GAAS;
  - (c) U.S. AICPA GAAS, if the acquired business or business to be acquired is not an SEC issuer.
- (2) Despite subsection (1), acquisition statements filed by or included in a prospectus of a foreign issuer may be audited in accordance with
  - (a) International Standards on Auditing, if the auditor's report is accompanied by a statement by the auditor that

- (i) describes any material differences in the form and content of the auditor's report as compared to an auditor's report prepared in accordance with Canadian GAAS, and
    - (ii) indicates that an auditor's report prepared in accordance with Canadian GAAS would express an unmodified opinion, or
  - (b) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the issuer is subject, if the issuer is a designated foreign issuer.
- (3) Acquisition statements must be accompanied by an auditor's report prepared in accordance with the same auditing standards used to conduct the audit and the auditor's report must identify the accounting principles used to prepare the acquisition statements.
  - (4) If acquisition statements are audited in accordance with paragraph (1)(a), the auditor's report must express an unmodified opinion.
  - (5) If acquisition statements are audited in accordance with paragraph (1)(b) or (c), the auditor's report must express an unqualified opinion.
  - (6) Despite paragraph (2)(a) and subsections (4) and (5) an auditor's report that accompanies acquisition statements may express a qualification of opinion relating to inventory if
    - (a) the issuer includes in the business acquisition report, prospectus or other document containing the acquisition statements, a balance sheet for the acquired business or business to be acquired that is for a date that is subsequent to the date to which the qualification relates, and
    - (b) the balance sheet referred to in paragraph (a) is accompanied by an auditor's report that does not express a qualification of opinion relating to closing inventory.

#### **4.13 Financial Information for Acquisitions Accounted for by the Issuer Using the Equity Method —**

- (1) If an issuer files, or includes in a prospectus, summarized financial information as to the assets, liabilities and results of operations of an acquired business or business to be acquired that is, or will be, an investment accounted for by the issuer using the equity method, the financial information must
  - (a) meet the requirements in section 4.11 if the term "acquisition statements" in that section is read as "summarized financial information", and

- (b) disclose the reporting currency for the financial information, and disclose the measurement currency if it is different than the reporting currency.
- (2) If the financial information referred to in subsection (1) is for any completed financial year, the financial information must
- (a) either
    - (i) meet the requirements in section 4.12 if the term “acquisition statements” in that section is read as “summarized financial information”, or
    - (ii) be derived from financial statements that meet the requirements in section 4.12 if the term “acquisition statements” in that section is read as “financial statements from which is derived summarized financial information”, and
  - (b) be audited, or derived from financial statements that are audited, by a person or company that is authorized to sign an auditor’s report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

#### **4.14 Acceptable Accounting Principles for *Pro Forma* Financial Statements —**

- (1) *Pro forma* financial statements must be prepared in accordance with the issuer’s GAAP.
- (2) Despite subsection (1), if an issuer’s financial statements have been reconciled to Canadian GAAP – Part V under subsection 4.7(1) or paragraph 4.9(e), the issuer’s *pro forma* financial statements must be prepared in accordance with, or reconciled to, Canadian GAAP – Part V.
- (3) Despite subsection (1), if an issuer’s financial statements have been prepared in accordance with the accounting principles referred to in paragraph 4.9(c) and those financial statements are reconciled to U.S. GAAP, the *pro forma* financial statements may be prepared in accordance with, or reconciled to, U.S. GAAP.

#### **4.15 Acceptable Accounting Principles for Foreign Registrants —**

- (1) Despite subsection 4.2(2), and subject to subsection (2), financial statements delivered by a foreign registrant may be prepared in accordance with one of the following accounting principles:
  - (a) U.S. GAAP;
  - (b) IFRS;

- (c) accounting principles that meet the disclosure requirements of a foreign regulatory authority to which the registrant is subject, if it is a foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction;
  - (d) accounting principles that cover substantially the same core subject matter as Canadian GAAP – Part V, including recognition and measurement principles and disclosure requirements, if the notes to the financial statements, interim balance sheets, or interim income statements
    - (i) explain the material differences between Canadian GAAP – Part V and the accounting principles used that relate to recognition, measurement and presentation,
    - (ii) quantify the effect of material differences between Canadian GAAP – Part V and the accounting principles used that relate to recognition, measurement, and presentation, and
    - (iii) provide disclosure consistent with disclosure requirements of Canadian GAAP – Part V to the extent not already reflected in the financial statements, interim balance sheets or interim income statements.
- (2) Financial statements, interim balance sheets, and interim income statements delivered by a foreign registrant prepared in accordance with accounting principles specified in paragraph (1)(a), (b) or (d) must be prepared on a non-consolidated basis.

**4.16 Acceptable Auditing Standards for Foreign Registrants** — Despite section 4.3, financial statements delivered by a foreign registrant that are required by securities legislation to be audited may, if the financial statements are accompanied by an auditor's report prepared in accordance with the same auditing standards used to conduct the audit and the auditor's report identifies the accounting principles used to prepare the financial statements, be audited in accordance with

- (a) U.S. PCAOB GAAS or U.S. AICPA GAAS if the auditor's report expresses an unqualified opinion,
- (b) International Standards on Auditing, if the auditor's report is accompanied by a statement by the auditor that
  - (i) describes any material differences in the form and content of the auditor's report as compared to an auditor's report prepared in accordance with Canadian GAAS, and
  - (ii) indicates that an auditor's report prepared in accordance with Canadian

GAAS would express an unmodified opinion, or

- (c) auditing standards that meet the foreign disclosure requirements of the designated foreign jurisdiction to which the registrant is subject, if it is a foreign registrant incorporated or organized under the laws of that designated foreign jurisdiction.

## **PART 5: EXEMPTIONS**

### **5.1 Exemptions —**

- (1) The regulator or securities regulatory authority may grant an exemption from this Instrument, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.
- (2) Despite subsection (1), in Ontario, only the regulator may grant an exemption.
- (3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of National Instrument 14-101 *Definitions* opposite the name of the local jurisdiction.

### **5.2 Certain Exemptions Evidenced by Receipt —**

- (1) Subject to subsections (2) and (3), without limiting the manner in which an exemption may be evidenced, an exemption from this Instrument as it pertains to financial statements or auditor's reports included in a prospectus, may be evidenced by the issuance of a receipt for the prospectus or an amendment to the prospectus.
- (2) A person or company must not rely on a receipt as evidence of an exemption unless the person or company
  - (a) sent to the regulator or securities regulatory authority, on or before the date the preliminary prospectus or the amendment to the preliminary prospectus or prospectus was filed, a letter or memorandum describing the matters relating to the exemption application, and indicating why consideration should be given to the granting of the exemption, or
  - (b) sent to the regulator or securities regulatory authority the letter or memorandum referred to in paragraph (a) after the date of the preliminary prospectus or the amendment to the preliminary prospectus or prospectus has been filed and receives a written acknowledgement from the securities regulatory authority or regulator that issuance of the receipt is evidence that the exemption is granted.
- (3) A person or company must not rely on a receipt as evidence of an exemption if the regulator or securities regulatory authority has before, or concurrently with, the issuance of the receipt for the prospectus, sent notice to the person or

company that the issuance of a receipt does not evidence the granting of the exemption.

- (4) For the purpose of this section, a reference to a prospectus does not include a preliminary prospectus.

**5.3 Financial Years ending between December 21 and 31, 2010** — Despite subsections 3.1(2) and 4.1(2), Part 3 may be applied by an issuer or registrant to all financial statements, financial information, operating statements and *pro forma* financial statements for periods relating to a financial year that begins before January 1, 2011 if the immediately preceding financial year ends no earlier than December 21, 2010.

**5.4 Rate-Regulated Activities** —

- (1) Despite subsections 3.1(2) and 4.1(2),
- (a) Part 3 may be applied by a qualifying entity to all financial statements, financial information, operating statements and *pro forma* financial statements as if the expression “January 1, 2011” in subsection 3.1(2) were read as “January 1, 2012”, and
  - (b) if the qualifying entity relies on paragraph (a) in respect of a period, Part 4 must be applied as if the expression “January 1, 2011” in subsection 4.1(2) were read as “January 1, 2012”.
- (2) For the purposes of subsection (1), a “qualifying entity” means a person or company that
- (a) has activities subject to rate regulation, as defined in Part V of the Handbook, and
  - (b) is permitted under Canadian GAAP to apply Part V of the Handbook.

## **PART 6: REPEAL, TRANSITION AND EFFECTIVE DATE**

**6.1 Repeal** — National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, which came into force on March 30, 2004, is repealed.

**6.2 Effective Date** — This Instrument comes into force on January 1, 2011.

**6.3 Existing Exemptions** — A person or company that has obtained an exemption from National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, in whole or in part, is exempt from any substantially similar provision of this Instrument to the same extent and on the same conditions, if any, as contained in the exemption, unless the regulator or securities regulatory authority has revoked that exemption.

*[as amended on May 14, 2013]*



*Note: [14 May 2013] – The following is a consolidation of 52-107CP. It incorporates the changes to this document that came into effect on May 14, 2013. This consolidation is provided for your convenience and should not be relied on as authoritative.*

**Companion Policy 52-107CP**  
***Acceptable Accounting Principles and Auditing Standards***

**PART I: INTRODUCTION AND DEFINITIONS**

**1.1 Introduction and Purpose** — This Companion Policy provides information about how the securities regulatory authorities interpret or apply National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (the Instrument). The Instrument is linked closely with the application of other national instruments, including National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102) and National Instrument 71-102 *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* (NI 71-102). These and other national instruments also contain a number of references to International Financial Reporting Standards (IFRS) and the requirements in the Handbook of the Canadian Institute of Chartered Accountants (the Handbook). Full definitions of IFRS and the Handbook are provided in National Instrument 14-101 *Definitions*.

The Instrument does not apply to investment funds. National Instrument 81-106 *Investment Fund Continuous Disclosure* applies to investment funds.

**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 beneficially 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 in 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 the Instrument.

**1.4 Exemptions Evidenced by the Issuance of a Receipt** — Section 5.2 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 accounting principles or auditing standards 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 2: APPLICATION - ACCOUNTING PRINCIPLES**

**2.1 Application of Part 3** — Part 3 of the Instrument generally applies to periods relating to financial years beginning on or after January 1, 2011. Part 3 refers to Canadian GAAP applicable to publicly accountable enterprises, which is IFRS incorporated into the Handbook, contained in Part I of the Handbook.

**2.2 Application of Part 4** — Part 4 of the Instrument generally applies to periods relating to financial years beginning before January 1, 2011. Part 4 refers to Canadian GAAP-Part V, which is generally accepted accounting principles determined with reference to Part V of the Handbook applicable to public enterprises. These are the pre-changeover accounting standards for public companies. Part V of the Handbook has differing requirements for public enterprises and non-public enterprises. The following are some of the significant differences in Canadian GAAP applicable to public enterprises compared to those applicable to non-public enterprises:

- (a) financial statements for public enterprises cannot be prepared using the differential reporting options as set out in Part V of 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 IFRS in English and French** — The Handbook provides IFRS in English and French. Both versions have equal status and effect under Canadian GAAP. Issuers, auditors, and other market participants may use either version to comply with the requirements in the Instrument.

**2.4 Reference to accounting principles** — Section 3.2 of the Instrument requires certain financial statements to be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises. This section includes requirements for an unreserved statement of compliance with IFRS in annual financial statements, and an unreserved statement of compliance with International Accounting Standard 34 *Interim Financial Reporting* in interim financial reports. These provisions distinguish between the basis of preparation and disclosure requirements.

There are two options for referring to accounting principles in the applicable financial statements and, in the case of annual financial statements, accompanying auditor's reports referred to in section 3.3 of the Instrument:

(a) refer only to IFRS in the notes to the financial statements and in the auditor's report, or

(b) refer to both IFRS and Canadian GAAP in the notes to the financial statements and in the auditor's report.

**2.5 IFRS as adopted by the IASB** — The definition of IFRS in National Instrument 14-101 *Definitions* refers to standards and interpretations adopted by the International Accounting Standards Board. The definition does not extend to national accounting standards that are modified or adapted from IFRS, sometimes referred to as a "jurisdictional" version of IFRS.

**2.6 Presentation and functional currencies** — If financial statements comply with requirements contained in IFRS in International Accounting Standard 1 *Presentation of Financial Statements* and International Accounting Standard 21 *The Effects of Changes in Foreign Exchange Rates* relating to the disclosure of presentation currency and functional currency, then they will comply with section 3.5 of the Instrument.

**2.7 Registrants' financial statements and interim financial information** — Subsections 3.2(3) and (4) and paragraphs 3.15(a) and (b) of the Instrument mandate accounting for any investments in subsidiaries, jointly controlled entities and associates as specified for separate financial statements in International Accounting Standard 27 *Consolidated and Separate Financial Statements* (IAS 27). Separate financial statements are sometimes referred to as non-consolidated financial statements. These requirements apply regardless of whether a registrant

meets the criteria set out in IAS 27 for not presenting consolidated financial statements. Paragraph 3.2(3)(b) also requires a registrant's annual financial statements to describe the financial reporting framework used to prepare the financial statements. The description should refer to the requirement to account for any investments in subsidiaries, jointly controlled entities and associates as specified for separate financial statements in IAS 27, even if the registrant does not have these types of investments. In addition, if annual financial statements for a year beginning in 2011 are prepared using the financial reporting framework permitted by subsection 3.2(4), the description of the framework should explain the lack of comparatives and the date of transition, as specified in paragraphs 3.2(4)(b) and (c).

The financial reporting frameworks prescribed by subsections 3.2(3) and (4) are Canadian GAAP applicable to publicly accountable enterprises with specified differences. Although these frameworks differ in specified ways from IFRS, the exceptions and exemptions included as Appendices in IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1) would be relevant for determining an opening statement of financial position at the date of transition to the financial reporting framework prescribed in subsection 3.2(3) or (4).

Subparagraph 3.3(1)(a)(iii) requires an auditor's report in the form specified by Canadian GAAS for an audit of financial statements prepared in accordance with a fair presentation framework. The financial reporting frameworks prescribed by subsections 3.2(3) and (4) are fair presentation frameworks.

Subsection 3.2(4) of the Instrument allows a registrant to file financial statements and interim financial information for periods relating to a financial year beginning in 2011 that exclude comparative information relating to the preceding year and to use a date of transition to the financial reporting framework that is the first day of the financial year beginning in 2011. When such a registrant prepares the comparative information for financial statements and interim financial information for periods relating to a financial year beginning in 2012, the registrant should consider whether it must adjust the comparative information in order to comply with subsection 3.2(3). Adjustments may be necessary if a registrant changes one or more accounting policies for its year beginning in 2012 compared to its year beginning in 2011.

**2.8 Use of different accounting principles** — Subsection 3.2(5) of the Instrument requires financial statements to be prepared in accordance with the same accounting principles for all periods presented in the financial statements.

An issuer that is required to file, or include in a document that is filed, financial statements for three years can, except in the situation discussed in section 2.9 of this Companion Policy, choose to present two sets of financial statements. For example, if the earliest of the three financial years relates to a financial year beginning before January 1, 2010, the issuer should provide one set of financial statements that presents information for the most recent two years using the accounting principles in Part 3 of the Instrument and one set of financial statements that either:

- (a) presents information for a third and fourth year using the accounting principles in Part 4, or

- (b) presents information for a second and third year using the accounting principles in Part 4.

Note that under option (a), a fourth year not otherwise required would be included to satisfy the requirement in the issuer's GAAP for comparative financial statements. Under option (b), information for a second year would be presented in both sets of financial statements. This second year would be included in the most recent set of financial statements using accounting principles in Part 3 of the Instrument and also in the earliest set of financial statements using accounting principles in Part 4 of the Instrument.

If the accounting principles used for the earliest of the three financial years and the most recent two years differ, but both are acceptable in Part 3 of the Instrument, presentation of information for the earliest year would be similar to the example described above.

**2.9 Date of transition to IFRS if financial statements include a transition year of less than nine months** – Subsection 4.8(6) of NI 51-102 states that if a transition year is less than nine months in length, the reporting issuer must include comparative financial information for the transition year and old financial year in its financial statements for its new financial year. Similarly, subsection 32.2(4) in Form 41-101F1 states that if an issuer changed its financial year end during any of the financial years referred to in section 32.2 and the transition year is less than nine months, the transition year is deemed not to be a financial year for purposes of the requirement to provide financial statements for a specified number of financial years in section 32.2.

If an issuer's first set of annual financial statements with an unreserved statement of compliance with IFRS includes comparatives for both a transition year of less than nine months and the old financial year, the date of transition to IFRS should be the first day of the old financial year. Since subsection 3.2(5) of the Instrument requires financial statements to be prepared in accordance with the same accounting principles for all periods presented in the financial statements, a date of transition to IFRS using the first day of the transition year would not be appropriate.

**2.10 Acceptable Accounting Principles** — Readers are likely to assume that financial information disclosed in a news release is prepared on a basis consistent with the accounting principles used to prepare the issuer's most recently filed financial statements. To avoid misleading readers, an issuer should alert readers if financial information in a news release is prepared using accounting principles that differ from those used to prepare an issuer's most recently filed financial statements or includes non-GAAP financial measures discussed in CSA Staff Notice 52-306 *Non-GAAP Financial Measures*.

**2.11 Financial statements for a reverse takeover or capital pool company acquisition** – Subsection 8.1(2) of NI 51-102 states that Part 8 of that rule does not apply to a transaction that is a reverse takeover. Similarly, subsection 35.1(1) in Form 41-101F1 indicates that item 35 of that Form does not apply to a completed or proposed transaction that was or will be accounted for as a reverse takeover. Therefore, if a document includes financial statements for a reverse takeover acquirer, as defined in NI 51-102, for a period prior to completion of the reverse

takeover, section 3.11 of the Instrument does not apply to the financial statements. Such financial statements must comply with section 3.2, 3.7, 3.9, 4.2, 4.7 or 4.9 of the Instrument as applicable.

Paragraph 32.1(b) of Form 41-101F1 indicates that financial statements of an issuer required under Item 32 of that Form include the financial statements of a business acquired or business proposed to be acquired by the issuer if a reasonable investor would regard the primary business of the issuer upon completion of the acquisition to be the acquired business or business proposed to be acquired. Consistent with this provision, if a capital pool company acquires or proposes to acquire a business, regardless of whether or not the transaction will be accounted for as a reverse takeover, financial statements for the acquired business or business proposed to be acquired must comply with section 3.2, 3.7, 3.9, 4.2, 4.7 or 4.9 of the Instrument as applicable.

**2.12 Acquisition statements prepared using Canadian GAAP applicable to private enterprises** – Paragraph 3.11(1)(f) of the Instrument permits acquisition statements to be prepared using Canadian GAAP applicable to private enterprises, which is Canadian accounting standards for private enterprises in Part II of the Handbook.

**2.13 Conditions for acquisition statements prepared using Canadian GAAP applicable to private enterprises** — Paragraph 3.11(1)(f) of the Instrument specifies certain conditions for the use of Canadian GAAP applicable to private enterprises. One of these conditions, in subparagraph 3.11(1)(f)(ii), is that financial statements for the business were not previously prepared in accordance with any of the accounting principles specified in paragraphs 3.11(1)(a) through (e) for the periods presented in the acquisition statements. Paragraph 3.11(1)(a) refers to Canadian GAAP applicable to publicly accountable enterprises, which is IFRS incorporated into the Handbook contained in Part I of the Handbook. The condition in subparagraph 3.11(1)(f)(ii) does not preclude Canadian GAAP - Part V, as defined in section 4.1 of the Instrument.

**2.14 Acquisition statements prepared using Canadian GAAP applicable to private enterprises that include a reconciliation to the issuer's GAAP** – If acquisition statements included in a document filed by an issuer that is not a venture issuer and not an IPO venture issuer are prepared using Canadian GAAP applicable to private enterprises, the reconciliation requirement in subparagraph 3.11(1)(f)(iv) applies.

For each difference presented in the quantified reconciliation that relates to measurement, clause 3.11(1)(f)(iv)(C) requires disclosure and discussion of the material inputs or assumptions underlying the measurement of the relevant amount computed in accordance with the issuer's GAAP, consistent with the disclosure requirements of the issuer's GAAP. If the relevant amount was measured using a valuation technique, disclose the valuation technique, and disclose and discuss the inputs used. If changing one or more of the inputs to reasonably possible alternative assumptions would change the measurement significantly, a discussion of that fact and the effect of the changes on the measurement would facilitate readers' understanding of the measurement.

Clause 3.11(1)(f)(iv)(C) does not require disclosure and discussion of all the disclosure elements identified in the issuer's GAAP that relate to a difference presented in the reconciliation. As well, the clause does not require disclosure of information not required by the issuer's GAAP.

As an example of the disclosure required by clause 3.11(1)(f)(iv)(C), if the issuer's GAAP is IFRS and the relevant amount is share based payments measured using an option pricing model, disclose the option pricing model used and the inputs used in the model (i.e., weighted average share price, exercise price, expected volatility, option life, expected dividends, risk-free interest rate and any other inputs to the model). Also, discuss how expected volatility was determined and how any other features of the option grant (e.g., market condition) were incorporated into the measurement of the relevant amount.

**2.15 Acquisition statements prepared using Canadian GAAP applicable to private enterprises that include a reconciliation to IFRS** – If the reconciliation requirement in subparagraph 3.11(1)(f)(iv) applies, and the issuer's GAAP requires the annual financial statements to include an explicit and unreserved statement of compliance with IFRS, the reconciliation information in annual and interim acquisition statements must address material differences between Canadian GAAP applicable to private enterprises and IFRS that relate to recognition, measurement and presentation.

Consistent with IFRS requirements, for the purpose of preparing the reconciliation information required by subparagraph 3.11(1)(f)(iv), the date of transition to IFRS would be the first day of the earliest period for which comparative information is presented in the annual acquisition statements. For example, if annual acquisition statements present information for the most recently completed financial year and the comparative year, the date of transition to IFRS would be the first day of the comparative year.

Also consistent with IFRS, for the purpose of preparing the reconciliation, IFRS 1 would be applied to determine the opening IFRS statement of financial position at the date of transition to IFRS. The exceptions and exemptions included as Appendices in IFRS 1 would be relevant for determining the entity's statement of financial position at the date of transition to IFRS.

The opening IFRS statement of financial position is the starting point for identifying material differences from Canadian GAAP applicable to private enterprises. Although an opening IFRS statement of financial position must be prepared in order to prepare the information required by subparagraph 3.11(1)(f)(iv), that subparagraph does not require disclosure of the opening IFRS statement of financial position. Similarly, that subparagraph does not require disclosure of differences relating to equity as at the date of transition to IFRS.

As discussed in section 2.14 of this Companion Policy, clause 3.11(1)(f)(iv)(C) does not require disclosure and discussion of all the disclosure elements identified in the issuer's GAAP that relate to a difference presented in the reconciliation. Therefore, it would be inappropriate to include an explicit and unreserved statement of compliance with IFRS in acquisition statements that include reconciliation information for material differences between Canadian GAAP applicable to private enterprises and IFRS.

**2.16 Acquisition statements prepared using Canadian GAAP applicable to private enterprises that do not include a reconciliation to the issuer's GAAP** – If acquisition statements included in a document filed by a venture issuer or IPO venture issuer are prepared using Canadian GAAP applicable to private enterprises, the reconciliation requirements in

subparagraph 3.11(1)(f)(iv) do not apply. However, subsection 3.14(1) requires *pro forma* financial statements to be prepared using accounting policies that are permitted by the issuer's GAAP and would apply to the information presented in the *pro forma* financial statements if that information were included in the issuer's financial statements for the same time. Companion Policy 51-102CP *Continuous Disclosure Obligations* provides further guidance on preparation of *pro forma* financial statements in this circumstance.

**2.17 Acquisition statements, predecessor statements, or primary business statements that are an operating statement** – In the case of acquisition statements that are an operating statement, subsection 3.11(5) requires the line items in the operating statement to be prepared in accordance with accounting policies that comply with the accounting policies permitted by one of Canadian GAAP applicable to publicly accountable enterprises, IFRS, U.S. GAAP, or Canadian GAAP applicable to private enterprises. In the case of predecessor statements or primary business statements that are an operating statement, section 3.17 requires the line items in the operating statement to be prepared in accordance with accounting policies that comply with the accounting policies permitted by one of: Canadian GAAP applicable to publicly accountable enterprises, U.S. GAAP if the issuer is an SEC issuer or SEC foreign issuer, or IFRS if the issuer is a foreign issuer. For the purpose of preparing an operating statement, the exceptions and exemptions included as Appendices in IFRS 1 would be relevant for determining the opening statement of financial position at the date of transition to IFRS.

**2.18 Acquisition statements, predecessor statements, or primary business statements that are carve-out financial statements** – Acquisition statements, predecessor statements or primary business statements may be based on information from the financial records of another entity whose operations included the acquired business, the business to be acquired, the predecessor entity or primary business. In some cases, there are no separate financial records for the business. Such financial statements, which are commonly referred to as carve-out financial statements, should generally include:

- (a) all assets and liabilities directly attributable to the business;
- (b) all revenue and expenses directly attributable to the business;
- (c) if there are expenses for the business that are common expenses shared with the other entity, a portion of those expenses allocated on a reasonable basis to the business;
- (d) income and capital taxes calculated as if the business had been a separate legal entity and had filed a separate tax return for the period presented; and
- (e) a description of the method of allocation for each significant line item presented in financial statements.

**2.19 Preparation of *pro forma* financial statements when there is a change in accounting principles** – Subsection 3.14(1) requires *pro forma* financial statements to be prepared using accounting policies that are permitted by the issuer's GAAP and would apply to the information



presented in the *pro forma* financial statements if that information were included in the issuer's financial statement for the same period as that of the *pro forma* financial statements. If the accounting principles used to prepare an issuer's most recent annual financial statements differ from the accounting principles used to prepare the issuer's interim financial report for a subsequent period, subsection 3.14(3) provides an issuer the option of preparing its annual *pro forma* income statement using accounting policies that are permitted by the accounting principles used to prepare the interim financial report and would apply to the information presented in the *pro forma* income statement if that information were included in the interim financial report. In this case, the annual *pro forma* income statement should include adjustments to the amounts reported in the issuer's most recent statement of comprehensive income in order to restate the amounts on the basis of the accounting principles used to prepare the issuer's interim financial report. The *pro forma* income statement should present such adjustments separate from other adjustments relating to significant acquisitions.

If an issuer does not use the option provided by subsection 3.14(3), in order to avoid confusion, it would be appropriate to present the issuer's annual and interim *pro forma* financial statements as separate sets of *pro forma* financial statements.

**2.20 Reconciliation requirements for an SEC issuer** – If financial statements of an SEC issuer, other than acquisition statements, filed with or delivered to a securities regulatory authority or regulator are

- (a) for a financial year beginning before January 1, 2011,
- (b) prepared in accordance with U.S. GAAP, and
- (c) the SEC issuer previously filed or included in a prospectus financial statements prepared in accordance with Canadian GAAP – Part V,

then subsection 4.7(1) applies. Subsection 4.7(1) requires the notes of the first two sets of the SEC issuer's annual financial statements, and interim financial report during those first two years, to provide reconciling information between Canadian GAAP – Part V and U.S. GAAP that complies with subparagraphs 4.7(1)(a)(i) to (iii).

If an SEC issuer's second set of annual financial statements after a change in accounting principles is for a financial year beginning after January 1, 2011, the reconciliation requirements in subsection 4.7(1) no longer apply. Financial statements for a financial year beginning after January 1, 2011 are required to be prepared in accordance with Part 3 of the Instrument, which does not include any reconciliation requirements when an SEC issuer changes its accounting principles.

### **PART 3: APPLICATION - AUDITING STANDARDS**

**3.1 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.

**3.2 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 applicable to publicly accountable enterprises 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.

**3.3 Auditor Oversight** — In addition to the requirements in sections 3.4 and 4.4 of the Instrument, National Instrument 52-108 *Auditor Oversight* also contains certain requirements related to auditors and auditor reports.

**3.4 Modification of opinion** — Part 5 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 express an unmodified opinion. A modification of opinion includes a qualification of opinion, an adverse opinion, and a disclaimer of opinion. However, staff will generally recommend that relief not be granted if the modification 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.

**3.5 Identification of the financial reporting framework used to prepare an operating statement** — Paragraphs 3.12(2)(e) and 3.18(2)(e) require an auditor's report to identify the financial reporting framework used to prepare an operating statement as addressed in subsection 3.11(5) and section 3.17. To comply with this requirement, the auditor's report may identify the applicable requirement in the Instrument, and refer the reader's attention to the note in the operating statement that describes the financial reporting framework.