

# First IFRS Interim Financial Report and the 2010 Corporate Finance Disclosure Report



# Presenters

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# Agenda

- Requirements for filing first interim financial statements using IFRS
  - Securities requirements
  - Accounting and auditing standards
- Summary of 2010 Corporate Finance Disclosure Report
  - Overview of the CD Program
  - MD&A Disclosure & Financial Statement Issues
  - Other Reporting Requirements
  - Offering Documents
  - Commonly Filed Securities Documents
  - Priorities in the Coming Year
  - 2010 CSA Initiatives

# Accounting and Auditing Standards

- Meaning of Canadian GAAP
- Meaning of Canadian GAAS

# Securities Requirements

- Structure of NI 52-107 *Acceptable Accounting Principles and Auditing Standards*
  - Parts 3 and 4
- Structure of other IFRS impacted instruments
  - Consolidated versions

# Underlying Requirements

- Most securities regulations are unchanged
- Interim financial statements
- MD&A
- Certifications
- Other CD filings under NI 51-102

# Securities Regulations that have Changed

- Terminology
- Filing deadlines and deferrals
- Statement of compliance
- Requirements surrounding acquisitions of private companies
- Requirements for SEC registrants
- Use of same core subject matter exemption
- Guidance on use of mixed GAAP
- Non-GAAP financial measures

# Terminology

- Consistency with terms used in IFRS

# Filing Deadline and Deferrals

- Filing deadline
  - 30 day extension for first interim IFRS filing after transition
- One year IFRS deferrals
  - Investment funds
  - Rate regulated entities

# Statement of Compliance

- Interim financial reports
  - IAS 34
- Annual financial statements
  - IFRS

# Acquisitions of Private Companies

- Use of Accounting Standards for Private Entities (ASPE)
  - Restrictions on use
    - Equity accounting and consolidation
    - No previous statements prepared using another acceptable set of accounting principles
  - Different reconciliation requirements for venture and non-venture reporting issuers
  - Pro forma financial statements

# SEC Issuers

- Elimination of reconciliation to Canadian GAAP for SEC Issuers for 2 years after transitioning to US GAAP
  - Consistent with SEC approach
- Acceptable GAAS for SEC Issuers
  - PCAOB GAAS

# Same Core Subject Matter

- Historically
  - Used rarely
  - CSA staff did not always agree with use
  - Most often used to justify US GAAP in situations where this would not otherwise be allowed

## Use of Mixed GAAP

- Mixed GAAP is not permitted in a single set of financial statements
- Two options are included in section 2.8 of 52-107 CP
  - Both options result in two separate sets of financial statement
  - Example will be discussed later in the session

# Non-GAAP Financial Measures

- IFRS more permissive
- Non-GAAP Financial Measures
  - Same disclosures as in the past
- GAAP Financial Measures
  - Minimum required line item
  - Additional GAAP measure

# IFRS 1 First-time Adoption of IFRS

- Purpose of this IFRS
- Definitions
  - Date of transition to IFRS
  - First IFRS financial statements
  - First IFRS reporting period
- Opening statement of financial position
- Exceptions to retrospective application
- Reconciliations

# IAS 1 Presentation of Financial Statements

- “This Standard prescribes the basis for presentation of general purpose financial statements to ensure comparability both with the entity’s financial statements of previous periods and with the financial statements of other entities. It sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.”

# IAS 34 Interim Financial Reporting

- “The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period.”

## Other Standards

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IAS 16 Property, Plant and Equipment
- IAS 36 Impairment
- IFRS 3 Business Combinations
- IAS 17 Leases
- Joint Arrangements

# Issues Discussed by the IFRS Discussion Group

- Purpose
- Topics:
  - Accounting for participation sharing agreements
  - Discount rate used in ARO calculations
  - Cash flow per share
  - Meaning of “presented”
  - Going concern
  - Implications of current/non-current debt classification
- [http://www.acsbcanada.org/international-activities/ifrs/item30\\_753.aspx](http://www.acsbcanada.org/international-activities/ifrs/item30_753.aspx)



# Key Messages from the Corporate Finance Disclosure Report

- Mandate to protect investors and the integrity of Alberta's capital market
- RI disclosure will remain as one of our key priorities
  - Balanced disclosure
  - Entity specific disclosure
  - Full, true and plain disclosure of all material facts

# Overview of CD Program

- Corporate Finance Disclosure Report
  - ASC website ([www.albertasecurities.com](http://www.albertasecurities.com)) News & Publications - Publications
- ASC CD Review Program
  - ASC regulates a diverse market comprised of 793 reporting issuers
- CD review types
  - Full
  - Issue-oriented

# Overview of CD Program

- Sample selection process
  - Filing of Notice of Intention under NI 44-101 *Short Form Prospectus Distributions* triggers full review
  - Risk based criteria considered
  - Random sample
- Review approach
  - Focus on identifying and resolving material issues
  - Looking for unbalanced, promotional & misleading disclosure

# CD Review Results

Type of Review	Year ended November 30, 2010	Year ended November 30, 2009
Full	159	127
Issue-oriented	104	99
TOTAL	263	226

# CD Review Results

Outcomes	Year ended November 30, 2010		Year ended November 30, 2009	
	Count	Percentage	Count	Percentage
Refiling requested	40	14%	56	20%
Prospective change requested	172	59%	173	61%
Placed in default	4	1%	11	4%
Referred to Enforcement	2	1%	4	1%
No action required	73	25%	39	14%
Total outcomes	291		283	

# MD&A Requirements

- Form 51-102F1
- Through the eyes of management
- Balanced discussion
- Full, true and plain disclosure

# MD&A Requirements

- Financial condition is a broad concept
- Selected form requirements:
  - Results of operations (1.3 & 1.5)
  - Critical accounting estimates (1.12)
  - Liquidity analysis (1.6)
  - Off-balance sheet arrangements (1.8)

# Our MD&A Observations

- Results of operations
  - Provide information about the quality and potential variability of an RI's:
    - Earnings
    - Cash flow
    - Financial condition
  - Key performance indicators may assist users in understanding the RI's business as well as benchmarking it against others within the same industry

# Our MD&A Observations

- Critical accounting estimates
  - important where the impact of the estimates is material
  - Example of an element of critical accounting estimates disclosure that met our criteria:
    - Impairment testing: The price estimates are a source of measurement uncertainty in the Entity's impairment test since there can be no assurance as to what price will be achieved. If the forecast prices applied to the impairment test were to reduce by \$0.10 per Mcf below the assumed price of \$3.91 per Mcf, the excess of recoverable amount over the carrying value would be reduced by approximately \$0.5 million for each \$0.10 diminution of actual price realised.

# Our MD&A Observations

- Liquidity
  - Specific areas where improvement is needed:
    - Ability to generate sufficient amounts of cash and cash equivalents
    - Material trends or expected fluctuations in liquidity
    - Working capital deficiency
    - Defaults or arrears
    - Contractual obligations table for non-venture issuers

## Our MD&A Observations

- Liquidity disclosure example:
  - *Entity A will require additional funding by the end of the third quarter of fiscal 2010. At December 31, 2009 the Entity held cash and cash equivalents of \$0.5 million and had current liabilities, including the related party loans, of \$1 million. Based on current budgeted expenditures of approximately \$0.2 million to \$0.7 million per month the Entity will require additional funding by the end of the third quarter of fiscal 2010. The Entity has historically relied upon private placement, public equity financings and loans to satisfy its capital requirements and will likely continue to depend upon these sources to finance its activities. There can be no assurances that the Entity will be successful in raising the desired level of financing on acceptable terms.*

# Our MD&A Observations

- Liquidity disclosure example (continued):
  - Staff comments:
    - While the disclosure states that the RI will monitor capital requirements, improvements could be made by:
      - Providing more information to clarify the specific amount, timing and nature of the capital requirements; and
      - Discussing the impact of cash flows from operating activities on funding requirements.

# Our MD&A Observations

- What are you telling ASC staff in response letters?
- What have you disclosed elsewhere?
  - Website
  - Analyst calls
  - President's message

# Recurring Comment Areas

- Liquidity needs, commitments & obligations, sources
- Non-entity specific disclosures
- Cash to meet operating and capital needs
- Asset impairment testing

# Recurring Comment Areas

- Analysis of material financing agreements
- Unbalanced disclosure
- Use of non-GAAP measures
- Related party transactions

# Our Financial Statement Observations

- Many staff comments driven by economic climate in 2009/2010
- Common areas of deficiency:
  - Going concern
  - Capital disclosures
  - Stock-based compensation

# Our Financial Statement Observations

- Going Concern
  - Indicators are present however no going concern disclosure in the financial statements
  - Going concern disclosures should provide users with a complete picture of the RI's current financial situation
  - Disclosures should be made in a timely manner
  - IFRS note: CICA HB 1400 is converged with IAS 1

# Our Financial Statement Observations

- Capital disclosures
  - Boilerplate
  - Limited or inaccurate disclosure of summary quantitative data about what the RI manages as capital
  - Insufficient disclosure of debt covenants
  - IFRS note: CICA HB 1535 is converged with the capital disclosures-related requirements in IAS 1

# Our Financial Statement Observations

- Stock-Based Compensation:
  - Forfeitures accounting policy note
    - IFRS note: IFRS 2 requires the estimation of forfeitures at grant date
  - Non-employee stock-based transactions
    - IFRS Note: IFRS 2 requires that the fair value be based on goods and services received

# Our Other Reporting Requirements Observations

- Recurring deficiencies
  - Cease trade orders and bankruptcy disclosures
  - Corporate governance disclosure and audit committee information
  - Statement of executive compensation
  - Certification of disclosure in an RIs' annual and interim filings

# Our Other Reporting Requirements Observations

- Cease trade orders and bankruptcy disclosures
  - Section 7 of Form 51-102F5 and section 10 of Form 51-102F2 set out the requirements
  - Disclosure deficiencies noted where this information was known to the RI but not disclosed

# Our Other Reporting Requirements Observations

- Corporate governance disclosure and audit committee information
  - Corporate governance and audit committee disclosures required by NI 58-101 and NI 52-110 respectively
    - Disclosure required to be included in the Circular
    - Where a Circular is not required to be sent out
      - Non-venture issuers must include this disclosure in their AIF
      - Venture issuers must include this information in their AIF or annual MD&A

# Our Other Reporting Requirements Observations

- Statement of executive compensation
  - Required disclosures set out in Form 51-102F6
  - Provide disclosure within 140 days after the RI's most recently completed financial year
    - Disclosure required to be included in the Circular
    - Where a Circular is not required to be sent out
      - Non-venture issuers must include this disclosure in their AIF
      - Venture issuers must include this information in their AIF or the Form 51-102F6 disclosures are filed as a separate document

# Our Other Reporting Requirements Observations

- Certification of disclosure in Issuers' annual and interim filings
- Recurring deficiencies:
  - Material weakness in the annual MD&A; ICFR conclusions inconsistent
  - Amendments to the prescribed wording of the certificates
  - Conclusions about the effectiveness of ICFR and DC&P unclear or not included

# Offering Documents

- Overview of the review and clearance of offering documents where Alberta is the principal regulator

Type of filing	Year ended November 30, 2010	Year ended November 30, 2009	Change
IPO	32	5	27
Long Form Prospectus	5	8	(3)
Short Form Prospectus	189	149	40
Rights Offering Circulars	5	12	(7)
CPC Prospectus	15	11	4
Total	246	185	61

# Offering Documents

- Common areas of deficiency
  - IPO venture issuer
  - financial statement disclosure in a long form prospectus
  - pro forma financial statements
  - updating of financial statement disclosure

# Offering Documents

- IPO Venture Issuer
  - Definition found in section 1.1 of NI 41-101-“IPO venture issuer”
  - Intent is to harmonize prospectus disclosures for issuers that will meet the definition of a venture issuer under NI 51-102 upon completion of their IPO

# Offering Documents

- Issuers that meet the definition of an IPO venture issuer should consider:
  - Financial statement periods
  - Significant acquisitions

# Offering Documents

- Financial Statement Disclosure in a Long Form Prospectus
  - Consider historic financial statements for the issuer's transactions
  - Financial statements under section 32 of Form 41-101F1 are interpreted to include those of the issuer as well as:
    - the predecessor entity
    - the primary business
    - the restated combined financial statements
  - Section 35 of Form 41-101F1 applies only to significant acquisitions that do not fall within the scope of section 32

# Offering Documents

- **Illustration of financial statement disclosure for a primary business**

## FACTS:

- the issuer was formed in 2008
- the issuer is engaged in the oil and gas industry with annual gross revenues of about \$2 million and total assets of \$10 million
- on April 1, 2010, the issuer acquired all the outstanding securities of Company X for aggregate cash consideration of \$25 million
- Company X is also engaged in the oil and gas industry
- both issuer and Company X have December 31 year-ends
- IPO is filed on May 15, 2010
- issuer declared itself an IPO venture issuer

# Offering Documents

- **Illustration of financial statement disclosure for a primary business (continued)**

What Financial statements are required to be included in the prospectus?:

– **Financial statements of issuer required:**

- Audited financial statements for the years ended December 31, 2008 and 2009
- Unaudited interim financial statements for the three months ended March 31, 2010 and March 31, 2009

# Offering Documents

- **Illustration of financial statement disclosure for a primary business (continued)**
- **Financial statements of Company X required:**
  - Reasonable investor would consider Company X as the issuer's primary business
  - Section 35 of Form 41-101F1 would not apply
  - Company X would be considered the "issuer" under section 32 of Form 41-101F1
    - Audited annual financial statements consisting of:
      - An income statement, a statement of retained earnings, and a cash flow statements for December 31, 2007, 2008 and 2009
      - Balance sheets, at December 31, 2008 and 2009
    - Unaudited interim financial statements for the three months ended March 31, 2010 and 2009

# Offering Documents

- **Illustration of financial statement disclosure for a primary business (continued)**
  - **Pro forma financial statements:**
    - A pro forma balance sheet as at March 31, 2010
    - A pro forma income statement of the issuer for each of the following periods:
      - » December 31, 2009
      - » March 31, 2010

# Offering Documents

- Pro Forma Financial Statements
  - Consider including pro forma financial statements, when:
    - The issuer has acquired multiple businesses over the relevant period
    - The issuer has an active business and has acquired another business that will constitute its primary business going forward

- Pro Forma Financial Statements (continued)
  - Acquisition of multiple businesses - inclusion of one set of pro forma financial statements is allowed, provided that it:
    - Reflects the results of each acquisition
    - Is prepared as if each acquisition had occurred at the beginning of the most recently completed financial year

# Offering Documents

- Updating Financial Statement Disclosure
  - Prospectus must not contain outdated information
  - For instance:
    - More recent financial statements

# Offering Documents

- IFRS Considerations
  - Mixed GAAP financial statements
  - 30 day extension for the first interim financial report
  - Interim financial statements in the year of adopting IFRS
  - Acquisition statements

# Offering Documents

- Mixed GAAP Financial Statements example
  - Illustration of an issuer filing a prospectus that includes financial statements for periods relating to financial years beginning on or after January 1, 2011
    - The issuer has a year-end of December 31. The IPO is filed on April 1, 2012
    - The prospectus would include audited annual financial statements for the years ended December 31, 2011 and 2010 and 2009

# Offering Documents

- Mixed GAAP Financial Statements example (continued)
  - The December 31, 2010 and 2011 financial statements would be prepared using IFRS. The following options are available for the second set:
    - Option 1:
      - » One set that presents December 31, 2010 and 2009 using Current Canadian GAAP applicable to public enterprises
    - Option 2:
      - » One set that presents December 31, 2009 and 2008 using Current Canadian GAAP applicable to public enterprises
      - » Note: Option 2 results in the issuer providing four years of audited financial statements rather than the required three years

# Offering Documents

- Interim financial statements in the year of adopting IFRS
  - Long form prospectus filed in the year of adopting IFRS that includes a comparative interim financial report and the issuer was not an RI in at least one jurisdiction immediately before filing the prospectus :
    - An opening IFRS statement of financial position at the date of transition to IFRS
    - IFRS 1 disclosures

# Offering Documents

- Interim financial statements in the year of adopting IFRS
  - If the interim period is the second or third interim period and the issuer was not an RI in at least one jurisdiction immediately before filing the prospectus, provide:
    - An opening IFRS statement of financial position at the date of transition to IFRS
    - IFRS 1 disclosures
  - Option to either:
    - Include the information in the second or third interim financial report or
    - Include the first interim period

# Offering Documents

- Acquisition statements
  - Acquisitions within the scope of section 32 of Form 41-101F1
    - Not permitted to present the acquisition statements using Canadian GAAP applicable to private enterprises
  - Acquisitions pursuant to section 35 of Form 41-101F1
    - Section 3.11 of NI 52-107 permits acquisition statements included in a prospectus to be prepared in accordance with Canadian GAAP applicable to private enterprises

# Commonly Filed Securities Documents

- Common disclosure deficiencies in other commonly filed securities documents:
  - Material change report in respect to restructuring arrangements
  - Filing a news release for refiled or restated CD documents
  - Financial statements of the reverse takeover acquirer for periods before a reverse takeover
  - Reverse takeover transactions and resulting change of year-end
  - Revocation of cease trade order application
  - Filing material contracts

# Commonly Filed Securities Documents

- Material change report (MCR)
  - Common deficiencies:
    - Failure to file
    - Failure to include the required disclosure
- MCR filed as soon as practicable, or within 10 days of the date on which the material change occurs

# Commonly Filed Securities Documents

- Material change report (continued)
- Restructuring transaction
  - Specific requirements in section 5.2 of Form 51-102F3 and section 14.2 of Form 51-102F5
  - Prospectus level disclosure required
  - Prospectus form applicable to the issuer

# Commonly Filed Securities Documents

- Press releases for restatement/re-filings

## Timeliness

- 11.5 of NI 51-102 requires immediate disclosure when issuer decides to restate/re-file for material deficiency
  - Applies to all CD documents – not just f/s
  - Prompt, without delay therefore not at the time of the refiling

# Commonly Filed Securities Documents

- Press releases for restatement/re-filings

## Content

- Press release must disclose nature and substance of change
- Issuers should disclose (see 51-102CP(11.2)):
  - Facts underlying the changes
  - General impact of changes on previously filed info
  - Steps before re-filing if documents not filed immediately

# Commonly Filed Securities Documents

- Change in Corporate Structure/Change in Year-End notices (4.8 & 4.9 of NI 51-102) - common issues
  - Not filed
  - Filed late
  - Inadequate description of transaction
  - Inappropriate filing periods chosen

# Applications for Revocation of Cease Trade Orders

- National Policy 12-202 sets out the process
  - Outstanding disclosures are filed before applying
  - ASC staff review the CD filings
  - The length of review depends on the length of CTO
  - Issuer should ensure timely responses to ASC comments

# Commonly Filed Securities Documents

- Material contracts
  - Failure to file material contracts
  - Failure to comply with redaction and omission rules

# New Filing Requirements

- Form 51-101F4 (the Notice)
  - Notice is to announce oil and gas - NI 51-101 filings
  - Applicable to issuers providing annual NI 51-101 disclosure in the AIF
  - SEDAR category “Notice of filing of Form 51-101F1 information (Form 51-101F4)”
- Insider Reports-NI 55-104
  - Now must be filed within 5 business days

# Priorities in the Coming Year

- IFRS Focus
  - IFRS 1 disclosures
  - Disclosure of IFRS accounting policies
- CD Reviews
  - Compliance with GAAP
  - Timely and factually balanced disclosure
- Prospectus Filings
  - Compliance with legislative requirements
  - Full, true and plain disclosure of all material facts
- Disclosure Generally
  - Monitoring interconnected events and issues
  - Monitoring of news releases for consistency with other CD records

# 2010 CSA Initiatives

## CSA staff notices published in recent months

CSA Staff Notice 41-305 *Share Structure Issues - Initial Public Offerings*

CSA Staff Notice 51-333 *Environmental Reporting Guidance*

CSA Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures and Additional GAAP Measures* and CSA Notice on Amendments to National Policy 41-201 *Income Trusts and Other Indirect Offerings*

CSA Staff Notice 52-326 *IFRS Transition Disclosure Review*

CSA Staff Notice 52-327 *Certification Compliance Review*



## Contact Information

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**Questions?**