

Proposed Changes to Companion Policy 52-107CP

The following are proposed changes to Companion Policy 52-107CP to National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards*

1. Proposed changes to section 1.1

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), National Instrument 51-103 *Ongoing Governance and Disclosure Requirements for Venture Issuers* (NI 51-103) 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.

2. Proposed changes to section 2.9

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 and subsection 38(4) of NI 51-103 state 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 and Form 41-101F4 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.

3. Proposed changes to section 2.11

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. and subsection 22(5) of NI 51-103 states that section 22 of that rule does not apply to a transaction that is a restructuring transaction. Similarly, subsection 35.1(1) in both Form 41-101F1 and Form 41-101F4 indicates that item 35 of that Form those forms 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, 102~~ and NI 51-103, 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~~ **and paragraph 32.1(1)(b) of Form 41-101F4 indicate** that financial statements of an issuer required under Item 32 of ~~that Form~~ **those forms** 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.

4. Proposed changes to section 2.14

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, a senior unlisted issuer or an IPO senior unlisted** 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.

If acquisition statements are carve-out statements prepared in accordance with Canadian GAAP for private enterprises, as discussed in section 2.18 of this Companion Policy, subparagraph 3.11(6)(d)(iii) requires reconciliation information for ~~non~~ **issuers that are not** venture issuers or

senior unlisted issuers similar to that required by subparagraph 3.11(1)(f)(iv). The above guidance on subparagraph 3.11(1)(f)(iv) also applies to subparagraph 3.11(6)(d)(iii).

5. Proposed changes to section 2.16

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~~, **an IPO venture issuer, a senior unlisted issuer or an IPO senior unlisted** 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.