APPENDIX A

FINANCIAL STATEMENT DEFICIENCIES

We provided examples of deficient disclosure and presentation contrasted against more robust, entity-specific disclosure and presentation. The most notable financial statement deficiencies concerned requirements for first-time adoption of IFRS (IFRS 1, *First-time adoption of International Financial Reporting Standards* (IFRS 1)), presentation of financial statements (IAS 1, *Presentation of financial statements* (IAS 1)), business combinations (IFRS 3, *Business combinations* (IFRS 3)) and flow-through shares.

1. First-time adoption of International Financial Reporting Standards

In the first annual report and each interim financial report in the period covered by its first financial statements prepared in accordance with IFRS, issuers are required to apply IFRS 1. In accordance with IFRS 1, issuers must provide reconciliations and explain the effect of identified differences or changes in accounting policies resulting from the transition from their pre-changeover GAAP to IFRS.

a. Reconciliations

Some issuers omitted to provide all required reconciliations.

b. Explanations of material adjustments

Many issuers did not provide explanations for all material adjustments (including cash flows), or did not sufficiently explain the nature of the adjustment.

c. Accounting policies

We noted that some issuers did not change all their accounting policies to comply with IFRS, or that no reconciling items were identified for changes in accounting policies. Issuers must present coherent and complete information in their financial statements.

We also noted that some issuers provided boilerplate and nonspecific accounting policy disclosure. Users are faced with new accounting standards and in certain cases there may be accounting policy choices. Issuers must ensure they provide clear and entity-specific accounting policy disclosure.

For information about the disclosure of accounting policies used in the interim and annual MD&As in the changeover year to IFRS, see CSA Staff Notice 52-328 – *Disclosures about Accounting Policies in the Year of Changeover to International Financial Reporting Standards (IFRS).*

2. Classification of a liability as current

Liability classification under IFRS differs from pre-changeover Canadian GAAP. In accordance with paragraph 69 of IAS 1, an issuer shall classify a liability as current only when it expects to settle the liability in its normal operating cycle; it holds the liability primarily for the purpose of trading; or the liability is due to be settled within twelve months after the reporting period or it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Some issuers were required to reclassify debt that was classified as non-current under pre-

changeover Canadian GAAP to current under IFRS. However, when a refinancing or rolling over of the obligation is not at the discretion of the issuer (for example, when there is no arrangement for refinancing at the reporting date), many issuers incorrectly classified the obligation as non-current.

Example of incorrect classification (Long-term debt classified as non-current instead of current)

Consolidated Statements of Financial Position filed on March 19, 2012

IFRS line items	December 31 2011	December 31 2010	January 1 2010
Assets	25,561	24,372	25,269
Liabilities			
Current liabilities:			
Trade and other payables	3,772	11,908	4,046
Current portion of long-term debt	1,515	838	1,390
	5,287	12,746	5,436
Long-term debt (note 10)	8,302	326	9,060
Shareholders' Equity	11,972	11,300	10,773
	25,561	24,372	25,269

Note 10:
As at December 31, 2011, the Company did not meet a financial ratio on the long-term debt. In February 2012, a waiver was obtained allowing the Company to not meet this financial ratio for more than twelve months. Therefore, no reclassification has been made.

Example of entity-specific classification

Consolidated Statements of Financial Position filed on March 19, 2012

IFRS line items	December 31 2011	December 31 2010	January 1 2010
Assets	25,561	24,372	25,269
Liabilities			
Current liabilities:			
Trade and other payables	3,772	11,908	4,046
Current portion of long-term debt	9,817	838	1,390
	13,589	12,746	5,436
Long-term debt (note 10)	-	326	9,060
Shareholders' Equity	11,972	11,300	10,773
	25,561	24,372	25,269

Note 10:
As at December 31, 2011, the Company did not meet a financial ratio on the long-term debt. In February 2012, a waiver was obtained allowing the Company to not meet this

financial ratio for more than twelve months. Thus, in accordance with IAS 1, the Company has reclassified an amount of $8,302 of long-term debt to current liabilities as the waiver was not obtained before the reporting date.

3. Business combinations

The adoption of IFRS 3 introduced a number of changes in accounting for business combinations. This has impacted the amount of goodwill recognized, the results in the period that an acquisition occurs and subsequent periods. Also, there are significant disclosure requirements concerning business acquisitions in annual financial statements and interim financial reports. In particular, we noted that some issuers have omitted the following required information:

- the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period (paragraph B64 (q) (i));
- the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period (paragraph B64 (q) (ii));
- for a business combination done after the end of the reporting period but before the financial statements are authorized for issue, the information required by paragraph B64 of IFRS 3 unless the initial accounting for the business combination is incomplete at the time the financial statements are authorized for issue (paragraph B66);
- the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree (paragraph B64 (d));
- a qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors (paragraph B64 (e));
- for each contingent liability recognized, the information required in paragraphs 85 and 86 of IAS 37 (paragraph B64 (j));
- in a bargain purchase, a description of the reasons why the transaction resulted in a gain (paragraph B64 (n) (ii)); and
- for acquired receivables, the gross contractual amounts receivable and the best estimate at the acquisition date of the contractual cash flows not expected to be collected.

Furthermore, we have noted that some issuers have not disclosed the required information separately for each significant business combination or did not aggregate the required information for individually immaterial business combinations that are material collectively.

Example of deficient disclosure

On February 28, 2011, the Company acquired ABC Ltd. for an amount of $1.6 million which was funded from cash generated from the Company's operations. The acquisition has been accounted for using the purchase method with operating results included in the Company's earnings from the date of acquisition. The purchase price allocation is as follows:

Accounts receivable	578
Inventories	483
Prepaid expenses	27
Property, plant and equipment	620
Goodwill	250
Accounts payable and accrued liabilities	(328)
Net assets acquired	**1,630**
Consideration	
Cash	1,239
Contingent consideration and distributions	500
Balance of sale receivable	(109)
	1,630

Example of entity-specific disclosure

On February 28, 2011, the Company acquired 100% of the shares and voting interests in ABC Ltd., a leading manufacturer and erector of structural steel products operating across Canada, for an amount of $1.6 million using cash generated from the Company's operations. The acquisition costs related to this transaction amounted to $152,070 and have been accounted as such in the consolidated statement of earnings in 2011 under "General and Administrative expenses". The acquisition has been accounted for using the acquisition method with operating results included in the Company's earnings from the date of acquisition. The purchase price allocation is as follows:

At fair value	(in 000's)
Accounts receivable	578
Inventories	483
Prepaid expenses	27
Property, plant and equipment	620
Goodwill	250
Accounts payable and accrued liabilities	(328)
Net assets acquired	**1,630**
Consideration	
Cash	1,239
Contingent consideration	500
Balance of sale receivable	(109)
	1,630

The acquisition of ABC Ltd. is consistent with the Company's acquisition strategy of identifying strategic opportunities within its existing core business segment and acquiring well-established companies with complementary strengths to achieve meaningful synergies. The synergies are expected to consist primarily of cost savings relating to raw materials and reduction of overhead expenses, and represent the goodwill. Goodwill from this business combination is not expected to be deductible for tax purposes.

Since the acquisition, the acquired company has contributed a total of $200,341 to the Company's sales of goods and $3,546 to earnings. Management estimates that, if the acquisition had occurred on January 1, 2011, additional sales of goods would have been $40,743 and additional operating earnings would have been $785 from January 1, 2011 to February 28, 2011.

The gross contractual amount of accounts receivable amounts to $600,058. At the acquisition date, the best estimate of contractual cash flows that is not expected be recovered is $22,111. An initial amount of $50,000 was withheld as a provision for adjustments, of which $25,000 was paid on September 1, 2011 and $25,000 on February 2, 2012.

At the acquisition date, the amount recognized as contingent consideration represent the fair value which was the discounted maximum amount indicated in the purchase agreement based on ABC's financial projections (see note 4 for disclosure on business acquisition significant estimates and the range of estimated amounts).

4. Flow-through shares

IFRS do not specifically address the accounting for flow-through shares or the related tax consequences arising from such transactions. Pre-changeover Canadian GAAP, however, addressed the accounting for flow-through shares in Section 3465, *Income taxes* and EIC-146, *Flow-through shares*, that cannot anymore be used. We have noted that many issuers have not identified any IFRS transition impact in their reconciliations from pre-changeover Canadian GAAP to IFRS. We expected that issuers would have made some changes in their flow-through shares accounting policy.

Example of deficient disclosure

Flow-through shares:

Proceeds received upon the issue of common shares that transfer the exploratory expense deductions to investors are credited to the share capital and the related exploration costs are charged to deferred exploration costs. The estimated tax benefits transferred to shareholders are recorded as a future income tax liability at the time of filing of the renouncement documents with the tax authorities with a corresponding reduction in share capital.

Example of entity-specific disclosure

Flow-through shares[1]:

Issuance of flow-through shares represents in substance an issue of common shares and the sale of right to tax deductions to the investors when the flow-through shares are issued. The sale of the right to tax deductions is deferred and presented as other liabilities in the statement of financial position. The proceeds received from flow-through placements are allocated between share capital and any warrants issued and liability using the residual method which means that the shares are valued at the fair value of existing shares at the time of issuance and the residual proceeds are allocated between warrants and other liability. The liability component recorded initially on the issuance of shares is reversed on renouncement of the right to the tax deductions to the investors and when admissible expenses are incurred and recognized in profit or loss as a reduction of deferred income tax expense and a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of admissible expenditures capitalized as an asset and its tax basis.

[1] The entity-specific disclosure for flow-through shares is not the only allowable treatment.