

# CONTINUOUS DISCLOSURE REVIEW PROGRAM

Activity Report  
October 2005



*Quality Financial Information — A Priority*



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## OVERVIEW

This activity report discusses the quality of financial information presented by public companies whose head office is in Québec. The recommendations and comments in this report result from a review of various continuous disclosure documents filed with the *Autorité des marchés financiers* (“the AMF”), conducted as part of the continuous disclosure review program (the “CDR Program”) for the period between April 1, 2004 and March 31, 2005; in all, 230 public companies that are not investment funds or credit unions were reviewed.

The report is intended primarily for reporting issuers governed by the *Securities Act* (whose head office is in Québec), their auditors as well as their legal advisers. The fundamental objective of our reviews is to monitor compliance by issuers with securities legislation and detect material deficiencies in the information publicly circulated. We are able to conclude, based on the results for the period reviewed, that documents filed with the AMF are generally complete and reliable. Cases of material deficiencies are infrequent. Although we required over 1,200 changes, it should be noted that this is not an indication of problems with all of the financial information published by issuers. Our interventions are also designed as a tool to promote awareness of the various regulatory provisions and accounting standards.

This report outlines the omissions and/or irregularities most often noted for the period under consideration. They relate, in particular, to the following:

- annual and interim MD&As and compliance with the provisions of *Form 51-102F1* Management’s Discussion & Analysis (“Form 51-102F1”); and
- annual and interim financial statements and conformity with recommendations in the CICA Handbook, in particular those relating to stock-based compensation and other stock-based payments as well as business combinations.

We hope issuers will use our report as a guide to provide the public with quality financial information in compliance with the law. However, this report is not an exhaustive analysis of all the securities regulatory provisions with which issuers must comply; consequently issuers should not limit themselves to the subjects discussed in this report.

## 1. THE CONTINUOUS DISCLOSURE REVIEW PROGRAM PROVIDES INFORMATION AND GUIDANCE TOWARD BETTER COMPLIANCE

Since 2003, the AMF has published an annual activity report outlining the results of reviews carried out by accounting analysts. The CDR Program began as an additional measure to protect investors in response to the accounting scandals that rocked North America. Over the years, it has become a permanent core element of the AMF's activities.

The CDR Program is carried out within the framework of the harmonization efforts of the Canadian Securities Administrators ("CSA").<sup>1</sup> These reviews are neither an audit nor an analysis of an issuer's financial situation. They principally aim to ensure that issuers provide quality financial information that complies with the legislation and rules in force. Through this activity report, the AMF aims to foster awareness among issuers regarding the importance of transparency and compliance in matters of continuous disclosure and, thereby, contribute to making the financial market one in which consumers have confidence.

The past two years have seen many changes affecting public companies. There were major changes in accounting standards, in particular the new requirements set out in Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*, of the CICA Handbook and the coming into force of Section 1100, *Generally Accepted Accounting Principles*, of the CICA Handbook. Moreover, in June of 2005, numerous regulatory provisions came into force in Québec, including *Regulation 51-102 respecting Continuous Disclosure Obligations* ("Regulation 51-102"), *Regulation 52-107 respecting Acceptable Accounting Principles, Auditing Standards and Reporting Currency*, *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings*, and *Regulation 52-110 respecting Audit Committees* ("Regulation 52-110").

It should be noted that Regulation 51-102 was in force in the other Canadian jurisdictions during the period covered by this report, such that Québec issuers who are also subject to securities legislation in the other Canadian jurisdictions were required to comply therewith and the review of their continuous disclosure documents was carried out accordingly, in particular as regards the various filing deadlines and the additional requirement of an interim MD&A.

Regulation 51-102 and the other regulations regarding continuous disclosure that came into force in Québec in June of 2005 impose more harmonized and more onerous continuous disclosure obligations on all Canadian issuers. Given the changes in continuous disclosure obligations and improved access to such disclosure, amendments have also been proposed to *Regulation 44-101 respecting Short Form Prospectus Distributions* for the purpose of expanding eligibility to facilitate access to capital by issuers and simplifying the public offering system, without diminishing investor protection.

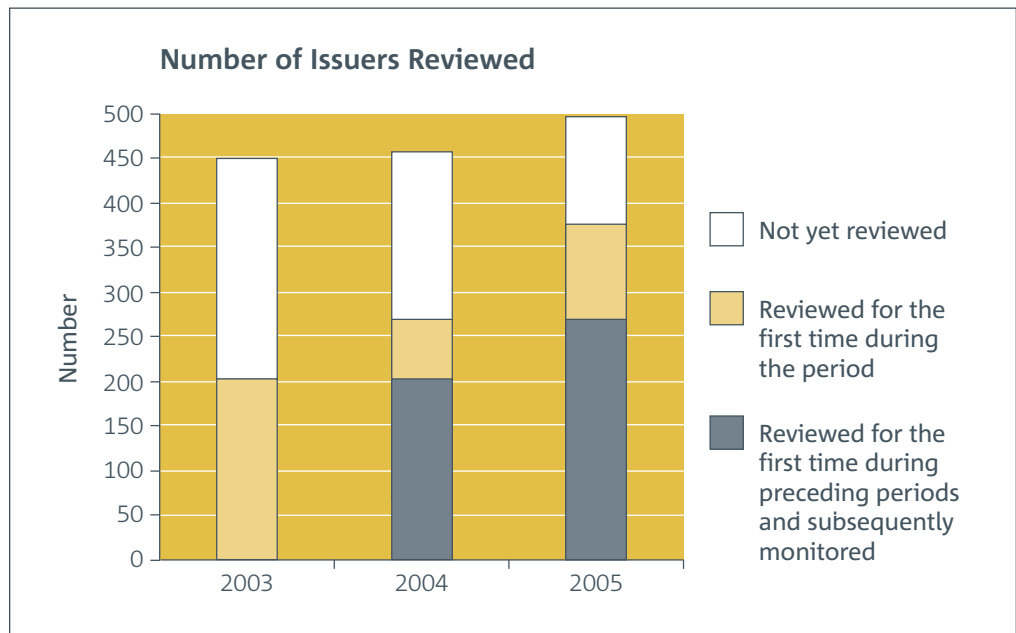
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<sup>1</sup> See CSA Staff Notice 51-312, *Harmonized Continuous Disclosure Review Program*.  
[http://www.cvmq.com/Upload/fichier\\_pdf/norme/A-1-24a.PDF](http://www.cvmq.com/Upload/fichier_pdf/norme/A-1-24a.PDF)

This report provides an overview of the various review categories carried out during Phase III of the CDR Program and sets out the highlights and results of the reviews carried out between April 1, 2004 and March 31, 2005, as well as the outlook for the forthcoming year.

## 2. HIGHLIGHTS

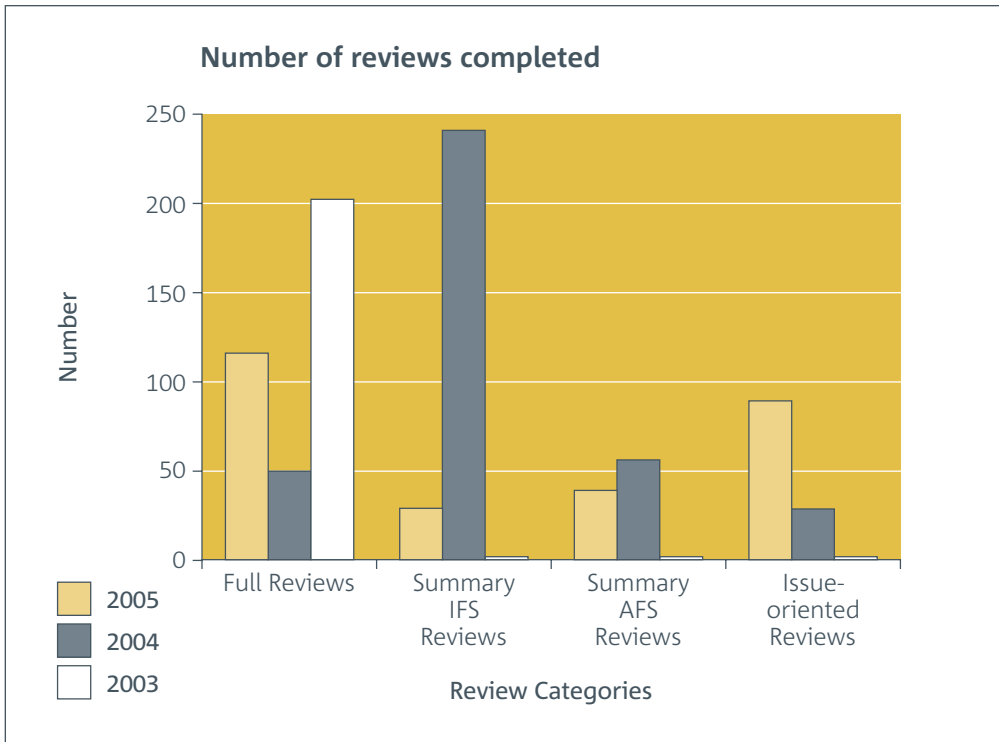
All issuers who are reporting issuers under the *Securities Act* and whose head office is located in Québec (approximately 500 issuers, excluding investment funds and credit unions) fall within the CDR Program. With the completion of this third activity report, we can confirm that close to 80% of targeted reporting issuers had their continuous disclosure records examined under different categories of reviews. The other issuers, primarily unlisted issuers, have not yet been the subjects of a review, particularly due to their small size in the market.



The graph next page shows the breakdown of the 270 reviews conducted from April 1, 2004 to March 31, 2005. More than 230 issuers were the subjects of at least one examination, primarily issuers listed on the TSX Venture Exchange. We had undertaken to review the files of issuers who had not yet undergone a full review and whose securities are listed on a stock exchange. Moreover, in October of 2004 we had begun an issue-oriented review of MD&As that had also targeted issuers listed on the TSX Venture Exchange, given that for certain venture issuers the MD&A is a new continuous disclosure obligation in Québec. During the preceding period, 375 reviews had been completed, primarily Summary IFS Reviews. We closely monitored issuers comprising the Indice-Québec 150<sup>2</sup> who had been the subjects of a full review at the beginning of the CDR Program.

<sup>2</sup> <http://www.iq30-iq150.org>

We wanted to be proactive by summarily reviewing the interim financial statements as soon as they had been filed, because in the past we had uncovered several deficiencies in the interim financial statements of issuers included in this sample group.



In the course of the reviews that were conducted during the period covered by this report, we required over 1,200 changes. Moreover, further to our reviews, 26 issuers were required to restate, amend and re-file continuous disclosure documents. Restatements are required where there are material deficiencies or errors. CSA Staff Notice 51-312 states the following:

***“How can issuers correct a disclosure problem?”***

*When material deficiencies or errors relating to financial statements are identified during a CD review, issuers will generally be expected to correct that default by restating and re-filing the financial statements. We expect that at least the most recent annual financial statements and subsequent interim financial statements will be restated and re-filed. Depending upon the nature and extent of the deficiency or error, we may require that financial statements for preceding periods also be restated and re-filed. If the deficiency or error affects information included in a related MD&A, we will generally require that the issuer restate and re-file the affected MD&A as well.*

*Issuers will also be expected to correct any material deficiencies or errors relating to other CD information such as AIF, technical disclosure, press releases and material change reports. Generally issuers will have to correct the default by restating and re-filing the information and documentation in question.”*

### 3 CDR PROGRAM REVIEW CATEGORIES

The continuous disclosure records of issuers may be reviewed in various manners. There are four (4) major review categories:

- full review;
- summary review of the interim financial statements and interim MD&A (“Summary IFS Review”);
- summary review of the annual financial statements and annual MD&A (“Summary AFS Review”<sup>3</sup>); and
- issue-oriented review.

#### Full Review

This type of review covers an issuer’s entire continuous disclosure record. However, particular attention is paid to the annual and interim financial statements in order to monitor the quality of financial information provided, particularly as regards compliance with GAAP. The MD&A, which is essential for a proper understanding of the financial statements, is also reviewed in detail in order to ensure its compliance with existing regulatory provisions. Disclosure of executive compensation included in the information circular is also reviewed in order to ensure compliance with the rules.

A large portion of our work this year was devoted to full reviews. In fact, we examined the continuous disclosure records of 117 issuers. The following table breaks down these reviews based on issuers listed on the Toronto Stock Exchange or the TSX Venture Exchange as well as unlisted issuers:

	Number
Issuers listed on the Toronto Stock Exchange	30
Issuers listed on the TSX Venture Exchange	82
Issuers not listed	5
Total	117

<sup>3</sup> Formerly referred to as the summary analysis of the annual report (AR).

In this review category, we required over 700 changes. In all, 87% of this sample received requests for changes. With respect to the annual financial statements, 55% had been audited by one of the five (5) large accounting firms in Québec.

### Summary IFS Review

When the interim financial statements and interim MD&A are filed, they are the subjects of a summary review in order to determine whether the financial information provided regarding material events that occurred during the period reflect those events in a timely manner and in compliance with GAAP. A subsample is selected, based either on the results of the full reviews or on material events such as a reverse takeover; the subsample varies from time to time.

During the period covered by this report, 29 Summary IFS Reviews were completed.

### Summary AFS Review

When the annual financial statements and annual MD&A are filed, they are the subjects of a summary review. The objectives and issuers covered in this review are the same as those covered by the Summary IFS Review.

During the period in question, we conducted 38 Summary AFS Reviews. Combining this review category with the Summary IFS Reviews, we required nearly 130 changes.

### Issue-Oriented Review

Issue-oriented reviews are also conducted. These reviews are intended in particular to monitor the adequate and timely application of regulatory provisions or new accounting standards.

Over the past year, issue-oriented reviews were conducted on each of the following topics:

#### ***Standards of disclosure for mineral projects***

Last year, we began an issue-oriented review on the standards of disclosure for mineral projects. We initially selected eight (8) issuers. During the year, we expanded the sample through certain full reviews and through the issue-oriented review of the MD&A. In all, more than 75 mining exploration companies were examined under various review categories.

### **MD&A (Form 51-102F1)**

Regulation 51-102 applies to MD&As for fiscal periods or years beginning on or after January 1, 2004. In order to ensure compliance with these new regulatory provisions, particularly the requirements regarding MD&As set out in Form 51-102F1, we undertook a review of the MD&As of venture issuers whose head office is located in Québec. Nearly 90 issuers were the subjects of the review. Furthermore, the MD&As of several other issuers were reviewed as part of the full review of their continuous disclosure records.

## **4. RESULTS OF REVIEWS**

The following are the results of the reviews conducted by the CDR Program analysts on the four (4) topics that particularly drew their attention during the period covered by this report, namely: The MD&A, stock-based compensation and other stock-based payments, business combinations, and mining exploration companies.

### **MD&A**

The MD&A is a narrative explanation, through the eyes of management, of how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects. In addition to accompanying the financial statements, the MD&A is a crucial tool through which management can help current and prospective investors understand what the financial statements show and do not show, grasp the context within which historical results were obtained and assess future prospects.

Based on the review results, it appears that the MD&As of a number of venture issuers do not meet these objectives or satisfy the related regulatory provisions. More than 20% of the issuers selected as part of the issue-oriented review had to file a restated MD&A.

The following are examples of material deficiencies in the MD&As for which restated re-filings were required:

- incomplete MD&A, often less than one page, with the majority of the Form 51-102F1 items missing;
- MD&A that merely reiterates the numbers in the financial statements and gives few or no explanations regarding changes that took place;
- MD&A that provides little or no relevant and material information regarding the company; and
- MD&A that does not analyze or refer to the financial statements.

The MD&A should provide additional information to allow readers to see the company's situation through the eyes of management. We noted that many sections were not developed at all or were vaguely developed, without really providing useful information for understanding the financial statements. The following are elements that should be improved and elaborated upon in the MD&A of the majority of issuers:

- If, for a number of reasons, there has been a variance in sales or gross earnings or in a significant line item in the income statement, it is important to identify the various reasons and quantify the variances for each of these reasons. Comments such as “the Company’s performance is the result of a dynamic marketing strategy that led to increased sales” or “the increase in gross earnings is due to increased sales” are insufficient. The lack of content in these comments makes this information of little use to readers.
- The MD&A must discuss important trends and risks that have affected the financial statements. It must discuss known trends, needs, commitments, events or uncertainties that are reasonably likely to affect the issuer’s business.
- Discussions on liquidity, sources of financing and cash flow must not be superficial, as is too often the case. We often noted a repetition of the numbers already set out in the cash flow statement. Among other things, issuers should discuss the financing required to support their business activities and strategies, their working capital requirements in order to meet current commitments or obligations and achieve expected results, as well as their financing requirements in order to meet anticipated growth.

We also noted that certain items required by Form 51-102F1 were missing, of which the following were the most frequent:

- discussion of related party transactions (Item 1.9 of Form 51-102F1); and
- discussion of the quarterly and year-to-date results (Item 2.2 of Form 51-102F1).

The MD&A was undoubtedly the focus of our work over the past months and we will continue to devote much of our efforts to it so that the information circulated with respect to Québec companies properly informs market participants.

### Stock-Based Compensation and Other Stock-Based Payments (Section 3870 of the CICA Handbook)

The changes to Section 3870 of the CICA Handbook require that all stock-based compensation and all stock-based payments be charged to compensation cost on the grant date. These new requirements apply to fiscal years beginning on or after January 1, 2004 and require that stock-based transactions be measured at their fair value. The fair value of a stock option is estimated using an option pricing model. Any generally recognized model that takes the specified variables into account may be used. The variables with the greatest impact on the value of options are the expected volatility and the expected life of the options.

Our reviews indicated that a number of issuers tended to undervalue certain variables included in the determination of fair value, thereby underestimating the charge to income. We noted that, at times, the expected volatility used for calculation purposes had no rational basis. The CICA Handbook specifies that the factors to consider in estimating expected volatility include:

- the historical volatility of the stock over the most recent period that is generally commensurate with the expected option life;
- the length of time an enterprise's stock has been publicly traded;
- the mean-reversion tendency of volatilities; and
- appropriate and regular intervals for price observations.

We required many issuers to re-examine their calculation of volatility and take the historical volatility of their shares into consideration. We also noted that certain issuers did not attribute a value (or attributed a nominal value) to options upon the first grant of options, given that the company had no volatility history. We remind issuers that the recommendations in the CICA Handbook require that a period equivalent to the life of the options be used to assess the volatility of the options and that if the issuer does not have a sufficiently long history, the volatility of options of comparable companies for a comparable period in their lives should be used.

We also noted that several issuers used an expected option life that was considerably lower than the contractual term of the options, without having a historical basis for evaluating such duration. We remind issuers that in the absence of reliable evidence on a stock option's expected life, its contractual life is to be used.

Moreover, as regards the required disclosure, this year, once again, we must point out that certain issuers are not properly describing their stock-based compensation plans or the general terms and conditions of grants under the plans, such as the conditions for vesting of rights.

Section 3870 of the CICA Handbook requires that a fair value be recorded in income for all forms of stock-based compensation. Issuers are advised that we will continue to question the assumptions used to calculate fair value when they do not seem logical.

### **Business Combinations (Section 1581 of the CICA Handbook and EIC-10 of the CICA Handbook)**

Although Section 1581 of the CICA Handbook has been in force since July 2001, it seems that certain principles are still misunderstood or ignored. In the course of our reviews, we questioned several elements relating to business combinations, including the allocation of the cost of purchase and reverse takeover accounting.

The allocation of the cost of purchase for business combinations is a crucial element because of its effect on income in subsequent periods. For the past few years, goodwill is no longer amortized and companies are only required to perform an annual impairment test in order to assess and, if applicable, account for an impairment in income. As for intangible assets, they are generally amortized over their useful life, unless their useful life is taken as being indeterminate. The advantage to a company of recording significant goodwill is quite simple: Given that goodwill is no longer amortized, there are no more charges to income, unless an impairment is recognized, while intangible assets are amortized over their useful life, thereby creating a recurring charge to income.

In our reviews, we noted that certain issuers tended to overstate goodwill and failed to recognize certain intangible assets, particularly customer relationships as required by the abstract of issue discussed in EIC-137 of the CICA Handbook. The indefinite useful life of certain intangible assets was also questioned. Certain issuers were required to revisit their allocation of the cost of purchase and the useful life of their intangible assets; other issuers were required to consult chartered business valuers so that their financial statements could properly reflect the fair value of the assets acquired.

With respect to reverse takeovers, we noted that certain issuers did not satisfy the requirements of EIC-10 of the CICA Handbook or the applicable regulatory provisions. Therefore, we required that certain issuers restate their financial statements and file supplemental continuous disclosure documents. The principal reasons were the following:

- The comparative amounts presented in the consolidated financial statements prepared after the reverse takeover were not those of the subsidiary for legal purposes.
- Total transaction costs were recorded as a charge to the retained earnings of the new consolidated company, although all transaction costs in excess of the public company's cash should have been charged to income.
- Failure to file financial statements for periods ended between the most recent period presented in connection with the qualifying transaction and the date of the reverse takeover pursuant to the provisions of Regulation 51-102.

We encourage issuers to consult accounting experts or chartered business valuers when carrying out business combinations, particularly for reverse takeovers as well as for the evaluation of the fair value and the useful life of the intangible assets acquired. Over the coming year, we will continue to question various facets of business combinations.

### Mining Exploration Companies

The following are the results of reviews conducted with respect to mining exploration companies. They are divided into three (3) components: the MD&A, the financial statements, and National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("National Instrument 43-101").

Many of these companies do not disseminate complete information regarding their mining properties and deferred charges. In particular, the following information, required by Form 51-102F1 and Regulation 51-102, must be provided:

- a summary of the exploration work undertaken during the period and the results of that work as well as a discussion of the work as compared with the anticipated budget;
- a description of the phases of the exploration work for the property and the cost schedule;
- the anticipated cost of the work in order to move the project to the next phase;
- a description of the way in which the issuer intends to finance the exploration work;
- an analysis of decisions made by management for each property, particularly regarding the abandonment or complete or partial sale of a property;
- a breakdown of the material components of capitalized or expensed exploration costs; and
- an analysis of capitalized or expensed exploration costs on a property-by-property basis.

With respect to the financial statements, we often noted that mining exploration companies had deferred exploration costs for properties on which little or no work had been undertaken for several years. We remind issuers that under current accounting standards, when startup activities are delayed for more than three (3) years, there is a presumption that a write-down of the capitalized costs is necessary. This presumption can only be rebutted by convincing evidence to the contrary. We asked several issuers to justify the lack of a write-down with respect to fully or practically inactive mineral projects; some issuers were asked to recognize the appropriate write-downs.

As regards compliance with the provisions of National Instrument 43-101, we reiterate last year's recommendations. Our results show that certain issuers are presenting information regarding mineral resources or reserves that are not always founded on a technical report in the prescribed format for mineral projects on material properties. Furthermore, issuers do not always use the applicable rules with respect to the classification of mineral resources and reserves. In addition, they do not provide all the information required regarding historical estimates, in particular the source and date of the estimate, confirmation that the estimate was relevant and a statement regarding the reliability of the estimate, as well as warnings to clearly show that the issuer is not treating the historical mineral resources or reserves as being up to date.

We also noted on a few occasions that mining companies whose properties are in the development stage are providing information that leads to the premature conclusion that a mine, in the traditional sense, is in production. We required certain issuers to modify the terminology used in their continuous disclosure documents and others to file press releases to re-establish the facts regarding their status so as to avoid any confusion with respect to the progress of their projects.

Finally, issuers in the mining sector who were selected during the year are advised that we will closely monitor the changes requested in our comment letters and will pursue matters with our consulting geologist in order to ensure proper compliance with the standards of disclosure for mineral projects.

### Miscellaneous

This section sets out a non-exhaustive list of financial information frequently omitted from the financial statements in files reviewed during the year and with respect to which the AMF required numerous changes. They are divided into two (2) components: generally accepted accounting principles (“GAAP”) and regulatory provisions. We invite issuers to use this section as a guide when preparing their next financial statements.

### GAAP

#### ***Income statement (Section 1520 of the CICA Handbook)***

Certain minimum information to be provided with respect to the income statement is often missing, including:

- the amount of exchange gain or loss included in income;
- the amount of research and development costs charged to expense for the period; and
- government assistance credited directly to income.

### ***Cash flow statements (Section 1540 of the CICA Handbook)***

In recent years, we have noted two (2) recurring problems with respect to this Section:

- non-cash transactions included in the cash flow statement; and
- cash flows reported on a net basis.

### ***Segment disclosures (Section 1701 of the CICA Handbook)***

The following segment information is often omitted from financial statements:

- the basis of accounting for any transactions between reportable segments;
- information about geographic areas; and
- information about major customers.

### ***Interim financial statements (Section 1751 of the CICA Handbook)***

The form and content of interim financial statements are clearly outlined in this Section. The following are the most frequent omissions:

- certain headings and subtotals included in the most recent annual financial statements;
- certain line items required in annual financial statements pursuant to recommendations in other Sections;
- diluted earnings per share;
- the statement indicating that the interim financial statements should be read in conjunction with the most recent annual financial statements;
- the statement indicating any policy or method that has been changed (including a change made in adopting a new accounting requirement); and
- certain segment disclosures.

### ***Income taxes (Section 3465 of the CICA Handbook)***

This Section establishes standards for the recognition, measurement, presentation and disclosure of income and refundable taxes in an enterprise's financial statements. The following information is regularly omitted:

- the amount and expiry date of unused tax losses and income tax reductions, and the amount of deductible temporary differences, for which no future income tax asset has been recognized;
- the nature and tax effect of the temporary differences, unused tax losses and income tax reductions that give rise to future income tax assets and future income tax liabilities;
- significant offsetting items included in future income tax assets and liabilities balances; and
- a reconciliation of the income tax rate or expense, related to income or loss for the period before discontinued operations and extraordinary items, to the statutory income tax rate or dollar amount, including the nature and amount using percentages or dollar amounts of each significant reconciling item. Significant offsetting items included in the income tax expense should be disclosed even when there is no variation from the statutory income tax rate.

### ***Earnings per share (Section 3500 of the CICA Handbook)***

Companies often omit the following information for each period for which an income statement is presented:

- a reconciliation of the numerators and the denominators of the basic and diluted per share computations for income before discontinued operations and extraordinary items. The reconciliation should include the individual income and share amount effect of each class of securities that affects earnings per share; and
- diluted per share amounts for income or loss before discontinued operations and extraordinary items and for net income or loss.

### ***Related party transactions (Section 3840 of the CICA Handbook)***

At times, disclosure of related party transactions is insufficient, in particular:

- the description of the relationship between the transacting parties;
- the recognized amount of the transactions classified by financial statement category; and
- the measurement basis used.

### ***Financial instruments - disclosure and presentation (Section 3860 of the CICA Handbook)***

For each class of financial assets and liabilities, companies are regularly omitting the following information:

- significant terms and conditions attaching thereto that may affect the amount, timing and certainty of future cash flows;
- contractual repricing or maturity dates as well as effective interest rates, when applicable; and
- the fair value.

## **Regulatory Provisions**

### ***Item 4.3 Interim financial statements (Regulation 51-102)***

- A notice indicating that the interim financial statements were not reviewed by the auditor is often omitted.

We remind issuers that CSA Staff Notice 51-311 requires that the notice be provided on a separate page appearing immediately before the financial statements, in a manner similar to an audit report that accompanies annual financial statements.

### ***Statement of executive compensation (Form 51-102F6)***

The information circular must contain:

- the specific relationship of the company's performance to executive compensation; and
- a description of each measure of the company's performance, whether quantitative or qualitative, on which executive compensation was based and the weight assigned to each measure.

### ***Non-GAAP financial measures (CSA Staff Notice 52-306)***

Certain non-GAAP financial measures are being presented in continuous disclosure documents without the disclosures and reconciliations recommended in the CSA staff notice.

### ***Press release (Section 73 of the Securities Act and Form 51-102F3, Material Change Report)***

We remind issuers that where a material change occurs that is likely to have a significant influence on the value or the market price of their securities and is not generally known, a press release and material change report must immediately be prepared and distributed.

## **5. FOLLOW-UP ON PRECEDING PERIODS**

In general, we are satisfied with the degree of co-operation of issuers and those working closely with them. When monitoring issuers in the year following our review, in the majority of cases we noted that our requests for changes had been fulfilled.

## 6. FUTURE OUTLOOK OF CDR PROGRAM

Over the coming year, we will focus on the following review categories:

### Full Reviews

Initially, we will continue to review issuers who have not yet been part of a full review under the CDR Program and who are listed on the Toronto Stock Exchange or the TSX Venture Exchange, in particular those having made an initial public offering during the past 12 months and those having used a reverse takeover in order to obtain a stock exchange listing.

As stated in our previous activity report, we also expect to continue to review issuers forming part of the Indice-Québec 30<sup>4</sup> every three (3) years, given their significant market capitalization. As for other issuers listed on the Toronto Stock Exchange or the TSX Venture Exchange, they will be the subjects of a full review every five (5) years.

### Issue-Oriented Reviews

As published in the May 6, 2005 edition of the Bulletin de l'Autorité des marchés financiers,<sup>5</sup> as part of a CSA initiative, we are currently conducting a review of a sample of issuers focusing on their compliance with the requirements of Regulation 52-110 regarding audit committee composition and responsibilities.

Other issue-oriented reviews are also under way. For example, we are currently reviewing a sample of income trusts.

### Other

As stated in the highlights section, we initially chose to target primarily issuers listed on a stock exchange, because of the size of their market. This year, the AMF has decided to accelerate the incorporation of investment funds into its sample, given the adoption, on June 1, 2005, of *Regulation 81-106 respecting Investment Fund Continuous Disclosure*. This Regulation outlines the obligations of investment funds with respect to financial statements, the annual information form (for those who do not have a current prospectus), management reports of fund performance, material change reports, information circulars, proxies and certain other continuous disclosure matters. It also indicates the format for management reports. The purpose of the Regulation is to harmonize continuous disclosure obligations across Canada and replace most local continuous disclosure rules.

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<sup>4</sup> <http://www.iq30-iq150.org>

<sup>5</sup> The notice was published in French in the *Bulletin* and is available in English at: [http://www.cvmq.com/Upload/fichier\\_pdf/norme/A-2-18a.pdf](http://www.cvmq.com/Upload/fichier_pdf/norme/A-2-18a.pdf)

## 7. CONCLUSION

Since its establishment, the CDR Program has reviewed the continuous disclosure records of almost all issuers who are listed on a stock exchange and whose head office is located in Québec. As a result, we are able to state that, in spite of certain deficiencies, most companies are careful about fulfilling their continuous disclosure obligations. However, several venture issuers must still make an effort to better master the nature and scope of all their obligations. We believe that our interventions during the year have fostered awareness among these issuers and will guide them toward better compliance.

Our challenge: Improve the quality of financial information communicated to market participants in a highly evolving regulatory and accounting environment.

We welcome comments on the CDR Program from companies, external auditors and investors. They will contribute to the continuous improvement of our review and annual activity report process so that it can properly address the concerns of financial market participants.

For more information or to provide us with your comments, please contact:

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