

**NATIONAL POLICY STATEMENT No. 50
RESERVATIONS IN AN AUDITOR'S REPORT**

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PART 1 PURPOSE

This policy statement sets out the position of the securities regulatory authorities with respect to the acceptability of the financial statements of an issuer, a registrant or other person (collectively an "Issuer") required to file financial statements with a securities regulatory authority in any province or territory in Canada in accordance with the requirements of the statutes concerning the regulation of securities markets and trading in securities in a jurisdiction, and the regulations in respect of these statutes ("Securities Legislation"), where the financial statements are accompanied by an auditor's report containing a reservation of opinion.

PART 2 APPLICATION

This policy statement applies to all financial statements filed by an Issuer, that are required to be audited, under the requirements of the Securities Legislation of any jurisdiction, unless otherwise specified in, or exempted by, the specific provisions of the Securities Legislation of that jurisdiction. The application of this policy statement to the financial statements that are required to be audited of an Issuer incorporated or organized in a jurisdiction other than Canada or a province of Canada (a "Non-Canadian Issuer") is set out in part 6.

PART 3 FINANCIAL STATEMENTS TO BE PREPARED IN ACCORDANCE WITH CANADIAN GAAP

The Securities Legislation of certain jurisdictions requires, subject to certain exceptions, that financial statements be prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") and with any applicable provisions of the Securities Legislation. Where the Securities Legislation of a jurisdiction is silent on the issue of compliance with generally accepted accounting principles, the securities regulatory authorities nonetheless require that Issuers prepare their financial statements in accordance with Canadian GAAP. See National Policy Statement No. 27 for a discussion of the meaning of "Canadian GAAP" and information on the additional accounting and disclosure requirements that may be imposed by certain jurisdictions.

PART 4 AUDITS TO BE PERFORMED IN ACCORDANCE WITH CANADIAN GAAS

Where an Issuer is required to file audited financial statements, the Securities Legislation of certain jurisdictions requires that the auditor make the necessary audit to be able to prepare an auditor's report in accordance with generally accepted auditing standards as set out in the Handbook of the Canadian Institute of Chartered Accountants ("Canadian GAAS") and with any applicable provisions of the Securities Legislation. In these jurisdictions, as well as in jurisdictions where the Securities Legislation is silent on the issue of compliance with generally accepted auditing standards, the securities regulatory authorities expect that the auditor will complete the audit, and prepare the auditor's report, in accordance with Canadian GAAS. For a full discussion of the meaning of "Canadian GAAS", see section 5100 of the Handbook of the Canadian Institute of Chartered Accountants.

PART 5 RESERVATIONS IN AN AUDITOR'S REPORT

5.1 Acceptability of financial statements accompanied by an auditor's report containing a reservation of opinion

Where financial statements accompanied by an auditor's report containing a reservation of opinion are filed with the securities regulatory authorities, the securities regulatory authorities will generally take the position that the Issuer has not filed financial statements that are in compliance with the requirements of the Securities Legislation.

5.2 Meaning of reservation of opinion

The expression "reservation of opinion" is used when an auditor

- (1) forms a positive opinion on the financial statements as a whole, but qualifies that opinion with respect to a departure from generally accepted accounting principles or a limitation in the scope of the audit (a "Qualified Opinion");
- (2) forms an opinion that the financial statements are not presented fairly in accordance with generally accepted accounting principles (an "Adverse Opinion"); or
- (3) is unable to form an opinion on the financial statements as a whole because of a limitation in the scope of the audit (a "Denial of Opinion").

See section 5510 of the Handbook of the Canadian Institute of Chartered Accountants for a discussion of the circumstances when the auditor is unable to express an opinion without reservation on financial statements.

5.3 *Financial statements accompanied by a reservation of opinion acceptable in limited circumstances*

The securities regulatory authorities recognize that, in certain limited circumstances, it may be in the public interest to accept, for the purpose for which they are filed, financial statements on which the auditor is not able to express an opinion without reservation. Subject to part 7, where the Securities Legislation gives the appropriate representative of the securities regulatory authority (the "Applicable Regulator") the discretion to accept financial statements accompanied by an auditor's report in which the auditor is not able to express an opinion without reservation, these financial statements will generally be accepted except where the reservation is:

- (1) due to a departure from Canadian GAAP; or
- (2) due to a limitation in the scope of the auditor's examination that
 - (a) results in a Denial of Opinion,
 - (b) is imposed or could reasonably be eliminated by management, or
 - (c) could reasonably be expected to be recurring.

5.4 *Example of application of section 5.3*

Financial statements will generally be accepted where the reservation of opinion is due to a limitation in the scope of the auditor's examination resulting from an event that clearly limits the availability of accounting records that substantiate a specific financial statement balance to such an extent that the Issuer is unable to provide its auditor with sufficient appropriate audit evidence to afford a reasonable basis for the auditor to express an opinion without reservation on the financial statements as a whole. In such a circumstance, for the financial statements to be considered for acceptance the auditor must have performed all of the other procedures necessary and reasonable under the circumstances and as required by Canadian GAAS on the financial statements except those that cannot be performed because of the limiting event.

5.5 *Action by securities regulatory authorities where financial statements accompanied by a reservation of opinion*

Subject to part 7, where financial statements accompanied by an auditor's report containing a reservation of opinion are filed with the securities regulatory authorities in circumstances other than those acceptable to the securities regulatory authorities, the securities regulatory authorities may:

- (1) require the Issuer to revise its financial statements or provide its auditor with the necessary information, as is appropriate in the circumstances, such that the financial statements are prepared in accordance with Canadian GAAP and the audit is completed, and auditor's report is prepared, in accordance with Canadian GAAS,
- (2) issue a cease trading order, if the financial statements are filed as part of an Issuer's continuous disclosure obligations under the Securities Legislation,
- (3) suspend, cancel or restrict the registration of an Issuer, if the financial statements are filed as part of the Issuer's obligation to file financial statements under the Securities Legislation,
- (4) refuse to issue a receipt for a preliminary or final prospectus, if the financial statements form part of, or are incorporated by reference into, that prospectus, or
- (5) use the remedies available under the Securities Legislation, if the financial statements form part of, or are incorporated by reference into, an offering memorandum or a take-over bid circular.

PART 6 FINANCIAL STATEMENTS OF NON-CANADIAN ISSUERS

6.1 Financial statements of Non-Canadian Issuers accompanied by an auditor's report containing a reservation of opinion

Where the financial statements of a Non-Canadian Issuer are accompanied by an auditor's report that contains a reservation of opinion due to either

- (1) a departure from the applicable non-Canadian generally accepted accounting principles ("Non-Canadian GAAP"), or
- (2) a limitation in the scope or application of the audit under the applicable non-Canadian generally accepted auditing standards ("Non-Canadian GAAS"), the principles set out in part 5 will apply. The principles set out in part 5 will also apply where Non-Canadian GAAS does not require the expression of a reservation of opinion in situations where Canadian GAAS would require a reservation to be included.

6.2 *Financial statements of Non-Canadian Issuers where reservation not required by Canadian GAAS*

Where Non-Canadian GAAS requires the expression of a reservation of opinion in situations where Canadian GAAS would not require such a reservation, and in all other respects the financial statements and auditor's report comply with all of the requirements of the applicable Securities Legislation, the securities regulatory authorities will generally take the position that the Non-Canadian Issuer has filed financial statements that are acceptable for the purpose for which they were filed. This position will also be taken when the auditor's report that accompanies a Non-Canadian Issuer's financial statements includes additional emphasis paragraphs in situations that do not represent or require a reservation of opinion under Canadian GAAS.

6.3 *Example of application of section 6.2*

A report prepared in accordance with generally accepted auditing standards in the United States may include an additional emphasis paragraph where there is uncertainty as to an issuer's ability to continue to operate as a going concern. As Canadian GAAS does not permit this reference when there is adequate disclosure in the financial statements, the securities regulatory authorities will generally take the position that the Non-Canadian Issuer has filed financial statements that are acceptable for the purpose for which they were filed, if, in all other respects,

- (1) the financial statements are prepared in accordance with generally accepted accounting principles in the United States,
- (2) the audit has been performed in accordance with generally accepted auditing standards in the United States, and
- (3) there is adequate disclosure of the uncertainty in the financial statements.

PART 7 DISCRETION AVAILABLE TO APPLICABLE REGULATOR

Where an Issuer, including a Non-Canadian Issuer, or the Issuer's auditor believes that the auditor's report on the Issuer's financial statements will contain a reservation of opinion that is not, or may not be, otherwise acceptable to the securities regulatory authorities, the Issuer together with its auditor should discuss the situation with the Applicable Regulator. The Applicable Regulator may, if it has the necessary authority under the Securities Legislation of that jurisdiction and it considers it to be in the public interest,

- (1) at the request of the Issuer, and
- (2) upon receipt in writing from the
 - (a) Issuer of all relevant information, and
 - (b) Issuer's auditor of the impact of the relevant information on the preparation of the financial statements in accordance with Canadian GAAP or the auditor's ability to complete the audit in accordance with Canadian GAAS or Non-Canadian GAAS, as applicable, together with the anticipated form of the auditor's report,

sufficiently in advance of the filing deadline applicable to the financial statements that will be accompanied by an auditor's report containing a reservation of opinion, exercise its discretion to accept financial statements that are accompanied by an auditor's report containing a reservation of opinion when the financial statements are filed. In certain jurisdictions the Applicable Regulator may require the holding of a public hearing as part of its consideration of the Issuer's request.

PART 8 EFFECTIVE DATE

This policy statement is effective December 31, 1992.