CONTINUOUS DISCLOSURE REVIEW PROGRAM: UPDATE ON THE RESULTS

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September 2006

AUTORITÉ DES MARCHÉS FINANCIERS

IN THIS UPDATE:

1. Introduction 03

2. Highlights 04

3. Results of Reviews 04

4. Accounting and Regulatory Prospects 14

5. Evolution of the CDR Program 17

6. Conclusion 18

1 INTRODUCTION

Not widely known at the beginning of this decade, the continuous disclosure review program (the "CDR Program") has carved out a significant place for itself within the *Autorité des marchés financiers* (the "AMF"). The program is designed to improve the completeness, quality and timeliness of continuous disclosure by reporting issuers. Public companies necessarily disseminate a significant amount of information, whether through Management's Discussion and Analysis (MD&A), financial statements or management proxy circulars, among other documents. These documents are governed by the *Securities Act* and the *Securities Regulation*. It goes without saying that the AMF plays an active role in monitoring issuer compliance with legislation.

The CDR Program team is pleased to provide you with its activity report for a fourth consecutive year. It sets out our comments and recommendations regarding the quality of the continuous disclosure noted in a sampling of public companies whose head office is in Québec. It contains certain highlights as well as results of reviews carried out between April 1, 2005 and March 31, 2006. We have also added a section that discusses accounting and regulatory prospects and a conclusion on the evolution of the CDR Program. We hope the report will foster awareness among issuers as well as their auditors and various advisers regarding certain continuous disclosure obligations, thereby ensuring the dissemination of higher quality information that conforms to securities legislation.

The AMF's CDR Program follows the harmonized continuous disclosure review program of the Canadian Securities Administrators (the "CSA"). CSA Staff Notice 51-312[1] provides more detailed information regarding, among other things, the selection of issuers, the scope of the harmonized program and the reporting periods to be reviewed.

1. http://www.lautorite.qc.ca/industrie/programme-examen-information-continue/51-312_StaffNoticeFinal%20_July16-2004.pdf

2 HIGHLIGHTS

This year, once again, we issued close to 1,000 recommendations to the 195 issuers selected. Improving the quality of the continuous disclosure records of reporting issuers is indeed the mission of the CDR Program. However, despite sustained efforts over recent years, we still find too many deficiencies. Our objective is not to reach 1,000 recommendations annually, but, rather, to be able to conclude that the documents being reviewed are improving. Certainly, we have noted improvements over the years, as our follow-up activities have confirmed. Nonetheless, certain documents still require careful attention by issuers, particularly the MD&A. Indeed, nearly one third of deficiencies noted for the reporting period in question related to MD&As.

- Nearly 1,000 recommendations issued: approximately one third related to deficiencies contained in MD&As.
- 195 issuers selected: as many issuers listed on the Toronto Stock Exchange as on the TSX Venture Exchange.
- 20% of the issuers selected under the CDR Program were required to restate disclosure documents: primarily venture issuers.

We remind issuers that when material deficiencies or errors are noted during our reviews, we require that they be corrected through the filing of amended documents. As regards the most recent reporting period, approximately 20% of the issuers selected were required to restate certain documents. Although, proportionally, our analysis was carried out on the same number of issuers listed on the Toronto Stock Exchange as on the TSX Venture Exchange, the majority of restatements affected small capitalization issuers. As mentioned in our previous activity reports, several venture issuers must enhance the quality of their continuous disclosure record, in particular their MD&As, which can often be improved.

3 RESULTS OF REVIEWS

This section discusses common deficiencies noted in our reviews. The deficiencies result primarily from non-compliance with the provisions of *Regulation 51-102 respecting Continuous Disclosure Obligations* ("Regulation 51-102") and with generally accepted accounting principles ("GAAP"). Four topics are treated in greater detail: the MD&A, the statement of executive compensation, business combinations, and disclosure regarding the mining industry. We have also included a table summarizing other deficiencies often noted in financial statements and conclude the discussion with the results of the reviews completed in co-operation with other CSA members.

a) MD&A (Form 51-102F1 of Regulation 51-102)

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 for management to help current and prospective investors understand what the financial statements show and do not show, grasp the context within which historical results were achieved and assess future prospects.

As indicated in the guidelines published by the CICA, a quality MD&A provides issuers with many advantages, such as lower-cost capital, enhanced coverage by financial analysts and greater access to capital from institutional investors.

In our most recent activity report, we discussed the MD&A at length and expressed our intention to continue devoting significant efforts to the review of MD&As and their improvement. Nonetheless, this year, once again, numerous observations and recommendations were sent to issuers in this regard. Some twenty issuers were required to prepare and file an amended annual or interim MD&A at our request. We also required that the majority of issuers selected make prospective changes. Given this finding, we believe it is important to discuss this issue further. The following is a non-exhaustive list of errors frequently encountered, together with examples and recommendations:

Failure to discuss the effects of significant acquisitions or discontinued operations.

EXAMPLE: *During the fourth quarter, the company recorded an allowance for impairment of goodwill resulting from a corporate acquisition during the financial year in order to give effect to the abandonment of non-strategic operations.*

The issuer must provide more detailed explanations regarding the cause of the decreased value of the acquired entity and the reasons for the abandonment of operations (Items 1.2 and 1.3).

Failure to quantify the factors causing changes in revenues.

EXAMPLE:

Revenues for the financial year were $3,500,000, compared with $1,700,000 in the preceding financial year, an increase of 106%. The winter months are usually the slowest for the company. However, this year there was growth, given that the company reported higher demand for its A and B products and prices rose.

The issuer must provide a quantitative explanation of the impact on its revenues resulting from the higher demand for its A and B products as well as the impact of the rise in prices. In addition, the issuer must state why, despite the usually slow winter months, there was higher demand for the A and B products (Item 1.4 (a)).

Repeating figures presented in the financial statements.

EXAMPLE:

The cost of goods sold was $600,000, compared with $300,000 in the preceding year. Gross profit was 40%, compared with 20% in the preceding year.

In addition to the presentation of figures in the financial statements, the issuer must explain the causes of changes to gross profit (Item 1.4 (c)).

Failure to discuss the issuer's liquidity position and needs in the short term and long term.

EXAMPLE:

At year-end, the company had cash holdings of $10,000 and accounts receivable of $80,000. Short-term assets totalled $160,000 and short-term liabilities stood at $380,000, representing a working capital deficiency of $220,000. The company believes it has sufficient capital to meet its working capital requirements over the next 12 months.

Given that the issuer has a working capital deficiency, it must explain how it expects to discharge its financial obligations as they come due. In particular, it must analyze the sources of financing needed to meet its working capital requirements (Item 1.6).

The presentation of non-GAAP financial measures without complying with CSA Staff Notice 52-306, *Non-GAAP Financial Measures* ("Notice 52-306").

EXAMPLE: *Excluding the impact of returns and bad debts, net income for the year was $5 million.*

Net income before returns and bad debts is a non-GAAP financial measure that must be designated as such. Accordingly, the issuer must comply with the guidelines set out in Notice 52-306 so as not to mislead investors, in particular by stating explicitly that the financial measure does not have any standardized meaning prescribed by GAAP and by explaining why the non-GAAP financial measure provides useful information to investors and how management uses this financial measure.

The MD&A does not state the chief executive officer's and the chief financial officer's conclusions about the effectiveness of the disclosure controls and procedures (the "DCP").

Under existing *Regulation 52-109 respecting Certification of Disclosure in Issuers' Annual and Interim Filings* ("Regulation 52-109"), the chief executive officer and chief financial officer are required to design the DCP or see to their design under their supervision so as to provide reasonable assurance that material information is available to them in a timely manner. As required by the Regulation forms, the MD&A must state that the chief executive officer and the chief financial officer have outlined their conclusions about the effectiveness of the DCP in the annual MD&A. Moreover, for financial years ended after June 29, 2006, Regulation 52-109 requires additional certificates regarding internal controls, including their design.

We believe that issuers are being provided with more and more information regarding their MD&A obligations. In addition to the guidelines set out in Form 51-102F1, Management's Discussion & Analysis, of Regulation 51-102 ("Form 51-102F1"), tools to assist them are easily available, such as those prepared by the CICA (the guide entitled "MD&A Guidance on Preparation and Disclosure" and the self assessment tool[2]) and others developed by chartered accounting firms. We consider it unacceptable for issuers to prepare MD&As that do not meet their objectives. We remind issuers that AMF staff may require MD&As that do not satisfy the provisions of Form 51-102F1 to be redrafted and refiled.

2. http://www.icca.ca/index.cfm/ci_id/622/la_id/1.htm

b) Statement of Executive Compensation (Form 51-102F6 of Regulation 51-102)

The two principal objectives of disclosing executive compensation are to provide investors with essentially quantitative information regarding all compensation paid to executive officers and to explain the qualitative criteria applied by the compensation committee in determining such compensation as well as the specific relationship between such compensation and the company's performance. The relevant regulatory provisions are contained in Form 51-102F6, Statement of Executive Compensation, of Regulation 51-102 ("Form 51-102F6").

Our analysis of disclosure regarding compensation indicates that a large number of issuers do not satisfy the requirements of the second objective. In these cases, the explanations provided by the committee in the report on executive compensation (the "Report on Compensation") do not allow investors to determine how the compensation was calculated or how it is specifically linked to the company's performance, the latter item being particularly lacking.

For several issuers, the Report on Compensation is no more than half a page of text setting out general concepts with standard wording expressed in vague terms. The following paragraph presents an excerpt that does not satisfy the regulatory provisions set out in Form 51-102F6.

The committee's philosophy regarding compensation is guided by its objective to attract and retain executive officers with skills that are essential to the success and increased value of the entity. The compensation plan for executive officers includes a base salary combined with bonuses granted under short-term and long-term incentive plans. These plans are subject to the entity attaining certain financial objectives and the individuals in question meeting personal objectives. The long-term incentive plans are designed to attract, retain and motivate key employees and encourage them to hold securities. The short-term incentive plan is intended to foster the required growth and efficiencies in the short term.

The disclosure provided in this example does not allow readers to understand how the compensation was calculated nor does it explain the direct relationship between such compensation and the company's performance.

Generally speaking, Reports on Compensation that satisfy the requirements of Form 51-102F6 set out the compensation policy and present an analysis of the compensation paid to executive officers based on this policy and on the company's performance. The following example provides readers with a better understanding of the calculation and the specific relationship between the chief executive officer's compensation and the company's performance.

Over half of the chief executive officer's compensation consists of at-risk compensation that is paid when performance objectives have been met (short-term and long-term incentives). The president and chief executive officer's annual bonus is established on the basis of objectives predetermined by the board of directors with a view to the company achieving predetermined financial results, such as earnings before tax, cash flow and return on equity. At the beginning of each financial year, the compensation committee considers each objective and establishes a minimum and maximum target for each. If the entity meets or surpasses targets, the president and chief executive officer will receive between 66 2/3% and 100% of his base salary. The objectives relating to the bonus paid in 2005 were entirely based on earnings before tax. Given that the company's results exceeded the maximum target, the president and chief executive officer earned the maximum bonus.

In this example, the criterion used to determine the bonus for the 2005 financial year, namely earnings before tax, as well as the relationship between compensation and the company's performance are clearly set out.

In addition to the relationship between the compensation of executive officers and the company's performance, the deficiencies most often encountered in the Report on Compensation are a lack of or insufficient disclosure regarding the following:

- the policy for executive compensation;
- the relative weighting of the various forms of compensation;
- a description of the comparison groups when competitive rates are used; and
- the performance criteria used in determining compensation and the relative weighting of these criteria.

As regards quantitative disclosure provided by issuers, it generally complies with the requirements set out in Form 51-102F6, except for the tables on options granted and exercised, which are sometimes omitted or contain erroneous information.

Moreover, we remind issuers that we consider the definition of executive officer to include any employee of an external management company that is separate from the reporting issuer, if this employee performs duties that would normally be performed by an executive officer of the reporting issuer. We generally consider that the executive officers of the external management company perform a policy-making function in respect of the reporting issuer through that entity. Disclosure regarding the compensation of those particular executive officers, who are employed by a separate entity, must therefore be provided in the reporting issuer's management proxy circular in order to comply with the regulatory provisions of Form 51-102F6.

c) Business Combinations and Intangible Assets (Sections 1581 and 3062 of the CICA Handbook)

As stated in our October 2005 activity report, the allocation of the cost of purchase for business combinations is a crucial element because of its effect on income in subsequent periods. This year, once again, we analyzed files in which intangible assets had not been recognized separately from goodwill, namely customer relationships. We required certain issuers to revise and amend the allocation of the cost of purchase so as to take the intangible assets acquired into account. As regards disclosure required under Section 1581 of the CICA Handbook, we noted that such disclosure was at times incomplete, including with respect to the following elements:

- the method used for determining the value of equity instruments issued;
- the condensed balance sheet disclosing the amount assigned to the assets acquired or to the liabilities assumed; and
- a statement to the effect that the allocation of the cost of purchase has not been finalized.

Moreover, we required certain issuers to restate downwards the useful life of certain intangible assets so that the depreciation expense would better reflect the duration of the economic benefits related to these assets.

Issuers should consult experts when they are parties to a business combination so that their financial statements properly reflect the fair value of the assets acquired and the liabilities assumed as well as the useful life of certain assets, and so that they also provide all the information required by the CICA Handbook.

On July 7, 2006, we published a staff notice on reverse takeovers involving a capital pool company. We invite issuers who carry out this type of transaction to consult the notice in order to improve the quality of their financial disclosure.

d) Mining Industry (*Regulation 43-101 respecting Standards of Disclosure for Mineral Projects*)

The CSA amended *Regulation 43-101 respecting Standards of Disclosure for Mineral Projects* ("Regulation 43-101") and Form 43-101F1. New Regulation 43-101 came into force on December 30, 2005. The policy statement to the new regulation provides additional guidance regarding its application. We remind issuers that under the new regulation, when written disclosure of scientific or technical information is made in a press release, the issuer must indicate the name and relationship to the issuer of the qualified person. In addition, when filing a technical report, the issuer must now file a consent letter from the qualified person. We invite mining industry participants to read Regulation 43-101 in order to familiarize themselves with the other amendments.

As part of our reviews, we visit issuer websites, and we had to require amendments because certain information presented did not comply with regulations. Mining companies were affected most by these requests. We remind them that Regulation 43-101 relates to written information, which includes disclosure available on websites. For example, appropriate warnings must accompany the disclosure of historical estimates. As regards other recommendations specific to this industry, we emphasize that certain issuers are failing to file technical reports in the prescribed form for significant mineral projects. As regards the MD&A, we remind issuers that it must contain a description of each property, together with the plan for each project and the status of the project relative to that plan, as well as the expenditures incurred and the costs that are anticipated. We reiterate the importance of preparing an MD&A of high quality in order to properly inform market participants.

e) Other Common Deficiencies

In addition to the elements set out above, the following is a non-exhaustive list of the deficiencies or omissions routinely noted in financial statements:

Section of the CICA Handbook	Description of Deficiencies or Omissions
1400 – General standards of financial statement presentation	■ use of inadequate terminology ■ vague and abstruse disclosure
1540 – Cash flow	■ offsetting certain transactions ■ inclusion of non-monetary transactions
1701 – Segment disclosures	■ information about geographic areas omitted ■ information about major customers omitted
3500 – Earnings per share	■ reconciliation of the numerators and the denominators of the basic and diluted per share computations omitted ■ information missing on potentially dilutive securities
3840 – Related party transactions	■ description of the relationship between the transacting parties omitted ■ measurement basis used missing
3870 – Stock-based compensation and other stock-based payments	■ inadequate description of plans ■ conditions for vesting of rights omitted

Unfortunately, these deficiencies are noted year after year. Yet, in our opinion, the relevant requirements in the CICA Handbook are clear and unambiguous. Although we pay particular attention to the application of new standards, issuers should note that we will continue to monitor the proper application of all accounting principles. In addition, we believe that certain issuers must make efforts to improve the quality of their financial statements, whether audited or unaudited.

f) CSA Staff Reviews

We conclude this section by outlining the results of reviews carried out by CDR Program analysts in co-operation with staff of other CSA members.

CSA Staff Notice 51-316 on Continuous Disclosure Review of Smaller Issuers – This notice, published on December 9, 2005, summarizes some of the deficiencies most frequently noted during reviews of the continuous disclosure record of smaller issuers. We invite these issuers to read the notice in order to avoid these disclosure deficiencies. The topics dealt with in the notice are: financial statements, the MD&A, the mining and oil & gas industries, and finally, other disclosure issues, including timely disclosure.

CSA Staff Notice 52-312 on Audit Committee Compliance Review – *Regulation 52-110 respecting Audit Committees* ("Regulation 52-110") came into force in Québec on June 30, 2005. This Regulation requires all issuers to have an audit committee and, except for venture issuers, it requires that all members of the audit committee be independent and financially literate. It also requires that the audit committee have a written charter that sets out its mandate and responsibilities. Moreover, all issuers must provide disclosure regarding their audit committee in their annual filings.

On January 13, 2006, the CSA published a staff notice following reviews of issuer compliance with the obligations set out in Regulation 52-110. The results of the reviews indicated that 92% of issuers listed on the Toronto Stock Exchange had audit committees made up solely of independent directors. Moreover, although venture issuers are not required to comply with the independence requirements, 31% of venture issuers had audit committees composed entirely of independent directors. Furthermore, all audit committee members were found to be financially literate. As regards the written charters of audit committees, 64% of them set out all of the responsibilities prescribed by Regulation 52-110. In our view, this percentage is inadequate and we invite issuers to review their written charters in order to comply with Regulation 52-110 as soon as possible, if this has not already been done.

CSA Staff Notice 51-319 on Report on Staff's Second Continuous Disclosure Review of Income Trust Issuers – Income trusts have become a popular vehicle for public offerings. In order to evaluate the financial disclosure practices of income trusts, CSA staff reviewed the continuous disclosure records of some 50 income trusts and published their results on August 4, 2006 in the CSA Staff Notice on Second Continuous Disclosure Review of Income Trust Issuers.

Based on the review, CSA staff identified significant deficiencies relating to the transparency of disclosure in the MD&A regarding distributable cash. In addition, the MD&As were often incomplete since there was no analysis of overall performance, liquidity, or the risks and uncertainties that are specific to income trusts and can influence the stability of distributions. Moreover, the review indicated that many income trusts had used non-GAAP financial measures without complying with the guidelines set out in Notice 52-306, particularly as regards disclosure and adjustments relating to distributable cash. We invite income trusts to consult this notice, which specifies certain continuous disclosure expectations of CSA staff.

Review of Compliance with the Application of Accounting Guideline AcG-15, Consolidation of Variable Interest Entities ("VIEs") – AcG-15 requires enterprises to identify VIEs in which they have an interest, determine whether they are the primary beneficiary of such entities and, if so, to consolidate them. While no notice was published, a CSA review regarding compliance with the application of AcG-15 was carried out on a sample of approximately 65 reporting issuers. The review focused primarily on the following matters: the description of the process adopted and the controls implemented by issuers in order to detect all potential variable interests in VIEs, as well as the analysis supporting the determination as to whether or not consolidation of the VIE by the company was required.

Our observations allowed certain issuers to identify areas for improvement, particularly documentation procedures. For many junior issuers, the scope of training of the persons involved in applying AcG-15 was limited to a cursory reading of the accounting guideline. Although we did not note any major deficiencies, we nevertheless remind issuers of the importance of properly documenting all of the work performed in identifying the issuer's variable interests, the controls implemented as well as the conclusions regarding the accounting treatment of VIEs.

4 ACCOUNTING AND REGULATORY PROSPECTS

One of the fundamental objectives of the CDR Program is to foster awareness among issuers about their continuous disclosure obligations. We have therefore included an overview of the principal accounting and regulatory prospects for the 2006-2007 period so as to highlight certain topics on which we will focus in the next few years.

a) Prospects – Accounting Requirements

Below is a non-exhaustive list of the topics that were of particular interest to us; for further details, we encourage you to consult the CICA Handbook for the terms and conditions related to the coming into force and application of the sections discussed. We will begin with a discussion of a few new sections that apply to public companies as regards the interim and annual financial statements for fiscal periods beginning as of October 1, 2006:

***Financial Instruments – Recognition and Measurement** (Section 3855)* – This Section indicates when a financial instrument must be recognized on the balance sheet, classifies instruments based on their purpose and discusses the initial and subsequent measurement of financial instruments. The measurement may be made at the instrument's fair value or, in other cases, at a value based on cost. It also specifies how gains and losses on financial instruments should be presented.

***Hedges** (Section 3865)* – This Section allows entities to apply treatments other than those provided for in Section 3855 to eligible transactions that it designates, for accounting purposes, as constituting elements of a hedging relationship. It explains in detail how to apply hedge accounting and specifies the required disclosure.

***Comprehensive Income** (Section 1530)* – This Section establishes standards for reporting comprehensive income. Certain gains and losses arising from changes in fair values and derivatives designated as cash flow hedges must be temporarily excluded from net income for the period in question.

***Financial Instruments – Disclosure and Presentation** (Section 3861)* – This stems from the amendments made, primarily by Section 3855, and replaces Section 3860.

We would also like to point out that the following will be coming into force shortly:

Accounting Changes – This proposal provides, among other things, that a voluntary change in the accounting method used would be permissible only if it results in a reliable and more relevant presentation.

Earnings Per Share –The amendments to Section 3500 deal, among other things, with the date on which shares that may be issued upon the conversion of mandatorily convertible instruments should be included in the computation of earnings per share, the application of the treasury stock method to determine diluted earnings per share for a year-to-date period and, finally, the impossibility of overcoming the presumption that a contract will be settled in common shares rather than in cash.

Internally Developed Intangible Assets – These proposed amendments to Sections 1000 and 3062 should eliminate cases in which the current practice is to recognize certain types of expenses as assets.

For 2007, the Accounting Standards Board (the "AcSB") also proposes to publish several other standards dealing, among other things, with the measurement of fair value, income tax, business combinations and inventories.

In addition, the following decision will have a considerable impact on financial reporting in Canada:

International Financial Reporting Standards – In January 2006, the AcSB adopted its strategic plan[3] that confirms the transition from Canadian GAAP to the International Financial Reporting Standards ("IFRS"). The AcSB expects a gradual and systematic adoption of the IFRS over a transition period of approximately five years, until 2011. These standards are already being used in the countries of the European Union as well as in several other major countries. We strongly urge issuers to monitor developments in these fundamental changes to the financial reporting system.

3. http://www.cica.ca/multimedia/Download_Library/Standards/Accounting/English/e_NewDirections.pdf

b) Prospects – 2006-2007 Regulatory Requirements

The CSA regularly take stock of their proposals. They focus in particular on regulatory harmonization and the streamlining of procedures. They often publish press releases, staff notices and other reports of interest to the Canadian market. We invite issuers to consult these regulatory updates.[4] The following are some important topics regarding continuous disclosure that may be of interest to issuers:

CSA Staff Notice 52-313 – This notice was published in March 2006. After an extensive consultation, the CSA announced that they had decided not to proceed with proposed *Regulation 52-111 respecting Reporting on Internal Control over Financial Reporting*. The draft proposed that issuers be required to obtain an opinion from their external auditors concerning management's assessment of the effectiveness of internal control over financial reporting. The CSA propose instead to publish, for comments, amendments to Regulation 52-109. The amendments set out an additional obligation for the Chief Executive Officer and Chief Financial Officer of a reporting issuer to certify annually that they have evaluated the effectiveness of the issuer's internal control over financial reporting. The issuer will be required to include in its annual MD&A its conclusions about the effectiveness of such control as of the end of the financial year. These requirements will apply no earlier than in respect of financial years ending on or after December 31, 2007. Regulation 52-111 excluded venture issuers from its scope, while Regulation 52-109 applies to all issuers. The amendments that will be made to Regulation 52-109 should therefore be taken into account by all issuers.

Regulation 51-102 – On December 9, 2005, the CSA published a request for comment regarding a draft regulation to amend *Regulation 51-102 respecting Continuous Disclosure Obligations*, its forms and policy statement, in order to, in particular, clarify certain obligations. Among other things, the proposed provisions related to business acquisition reporting have been streamlined. Moreover, the proposal adds a requirement for an issuer to publish a press release if it is determined that the issuer filed a document that is materially deficient. Given that the comment period is now over, the CSA are currently considering the comments received.

Extensible Business Reporting Language ("XBRL") – On June 29, 2006, the CSA launched a survey to determine the level of awareness about XBRL in the marketplace and assess the need for information in this format. Survey findings will help the CSA provide for the eventual filing of financial disclosure documents in XBRL by reporting issuers. For more detailed information, refer to CSA Staff Notice 52-314.

Statement of Executive Compensation – The CSA are currently revising Form 51-102F6, which sets out the rules governing the disclosure of compensation to senior executives. The revision seeks in particular to clarify the rules in order to make quantitative descriptions more easily comprehensible and improve qualitative disclosure.

4. www.csa-csa.ca

Future-Oriented Financial Information – The CSA are currently working on a proposal to replace National Policy No. 48, Future-Oriented Financial Information. The proposed provisions would be integrated into Regulation 51-102. The work is focusing on reviewing the current requirements whose scope would cover not only financial forecasts, but also forward-looking statements.

In addition to the new requirements and provisions discussed above, we refer readers to the bulletins of the AMF[5] for information regarding the most recent regulatory amendments. Moreover, we wish to emphasize the importance of referring to the work carried out by the Accounting Standards Board[6] regarding developments relating to GAAP. We expect issuers to have up-to-date knowledge in both these areas and to consult experts when appropriate.

5 EVOLUTION OF THE CDR PROGRAM

Over the years, and concurrently with the coming into force of several new regulations, the scope of reviews carried out under the CDR Program has grown. We need only mention the recently introduced requirements regarding audit committees or those relating to disclosure of corporate governance practices. The CDR Program team participates actively in the CDR Program's development and, in so doing, it helps ensure that issuers comply properly with the various obligations imposed upon them.

In selecting issuers and determining the frequency of reviews, we have maintained and will continue to maintain a three-year review cycle for issuers with a market capitalization of more than $750 million and approximately five years for other issuers listed on an exchange. In addition, we will review the continuous disclosure records of issuers within a period of twelve months following their initial public offering. It should be noted that issuers may also be selected more often, whether randomly or for other reasons. Moreover, the CDR Program team will continue to be an active participant in the various CSA initiatives designed to shed light on the problems that affect securities legislation and to find solutions to those problems.

Readers should also know that the AMF's website sets out a list of reporting issuers.[7] The list contains codes indicating whether a reporting issuer has failed to file certain prescribed disclosure documents. This year, new default codes have been added to identify issuers that have filed documents containing material deficiencies.

Finally, on May 3, 2006, the AMF invited mining industry members to a conference to provide them with further information regarding rules and regulations and financial disclosure in Québec, including the CDR Program. Many accepted our invitation, and the event was much appreciated. We intend to apply this formula to other industry stakeholders.

5. www.lautorite.qc.ca
6. www.cnccanada.org
7. http://www.lautorite.qc.ca/industrie/liste-emetteurs-assujettis.en.html

6 CONCLUSION

Since the introduction of the CDR Program, we have noted, through our monitoring activities, that our actions have enhanced the quality of continuous disclosure documents published by Québec-based public companies, thereby accomplishing our mission. Together with issuers and those who work with them, we are aiming for excellence as regards compliance of continuous disclosure records. Nonetheless, we recognize that there are a large number of accounting requirements and regulatory provisions, and we believe that our efforts are helping issuers better understand them.

The results of our reviews over the past year indicate that the majority of issuers must intensify their efforts in preparing their MD&As so that these documents provide balanced and complete disclosure. The MD&A is essential for a proper understanding of the financial statements and, consequently, it is an important source of information for decision-making by investors. Moreover, we reiterate that disclosure regarding executive compensation must provide accurate and clear information. We expect issuers to apply all of the recommendations contained in this report so as to avoid the deficiencies we have routinely observed in our reviews. 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 topics discussed in this report.

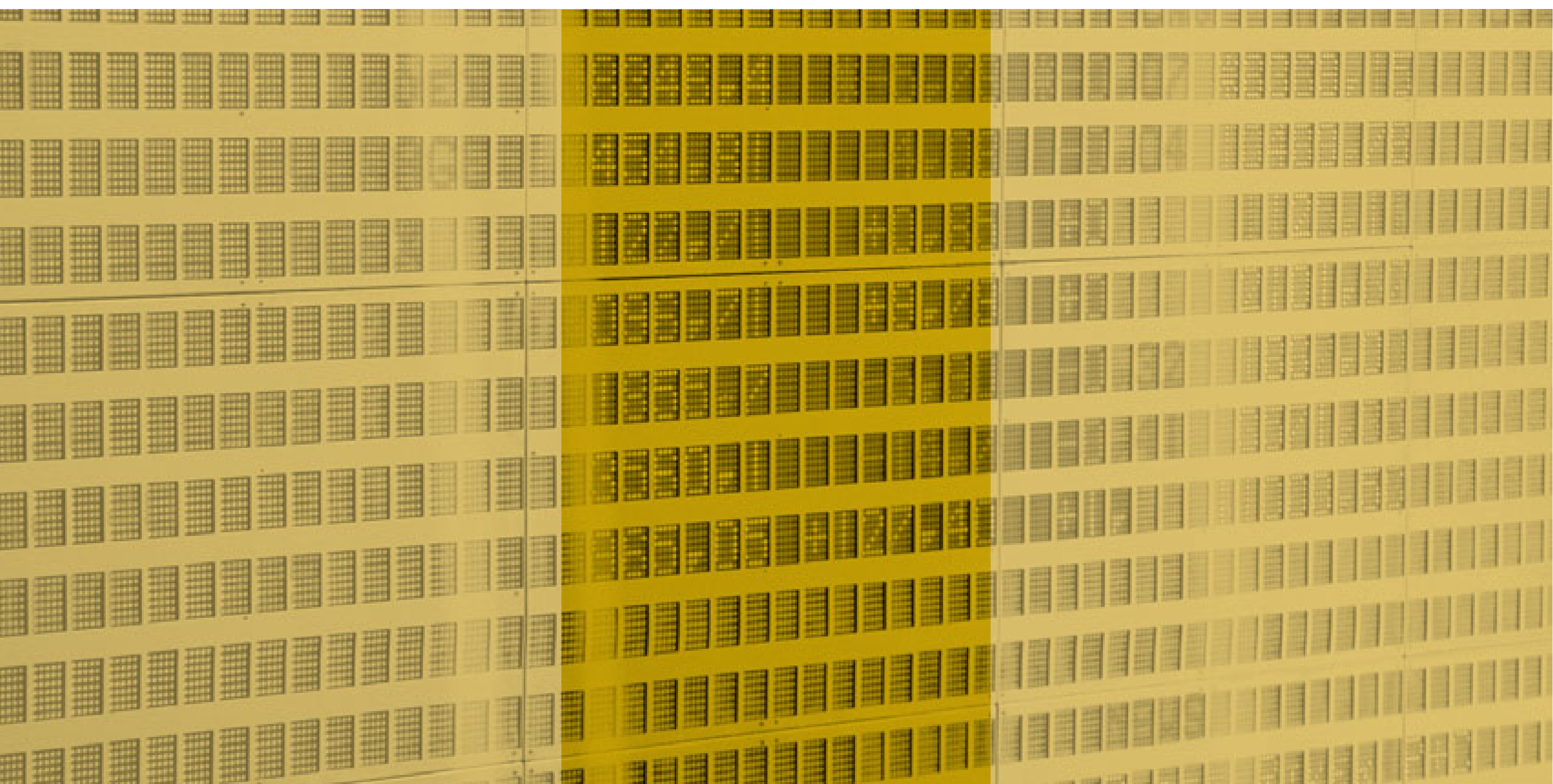
Finally, we reiterate our commitment to our mission and will continue to make every effort needed to help restore investor confidence.

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

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

Josée Deslauriers
Director, Financial Markets
Telephone: 514-395-0558, ext. 4371
Toll-free: 1-877-525-0337, ext. 4371
E-mail: josee.deslauriers@lautorite.qc.ca

Nadine Gamelin
Analyst, Corporate Finance
Telephone: 514-395-0558, ext. 4417
Toll-free: 1-877-525-0337, ext. 4417
E-mail: nadine.gamelin@lautorite.qc.ca



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