



Communication on International Financial Reporting Standards

Segal LLP

Table of Contents

	Page
1. IFRS is here to stay	3
2. Timeline	7
3. How we can help?	9
4. Appendix I - Selected Differences Between Canadian GAAP and IFRS	11
5. Appendix II – Selected Exemptions on First Time Adoption of IFRS	17
6. Appendix III – Contact Information	20

IFRS is here to stay

Canada is moving away from Canadian GAAP and adopting International Financial Reporting Standards (“IFRS”)

Canada to adopt IFRS

We would like to bring to your attention some important changes in accounting standards that may impact your financial statements in the near future. Canadian GAAP will be replaced by IFRS for years beginning on or after January 1, 2011, for publicly accountable enterprises. The adoption is required by all publically accountable entities.

What is a publically accountable entity?

- Publically listed entities
- Securities brokers/dealers
- Mutual funds
- Entities with fiduciary responsibilities (credit unions, insurance companies, investment banks, etc...)
- Certain not-for-profit organizations

What is IFRS?

IFRS is a principles based set of accounting standards that is used by in excess of 100 countries worldwide including, the European Union, United Kingdom, Australia, Russia, Japan, China, and most of South America.

The United States will allow voluntary adoption by 2011, and will require full adoption by 2014.

Impact on Private Enterprise

Currently private companies are not required to adopt IFRS, and can continue to use Canadian GAAP. However, voluntary adoption of IFRS is encouraged.

Benefits of IFRS

- Reach Global Markets. Companies will have easier access to international capital.
- Greater comparability to investors, creditors and regulators of financial information.
- Make Canada more attractive to foreign investors.
- Facilitate internal and external financial reporting
- Certain accounting policy options available on adoption that can provide favorable accounting treatment, for example:
 - IFRS allows for valuation of property and equipment to market value therefore allowing companies with appreciable assets to provide more relevant financial information. If a company has land it acquired in 1950 and is still carrying it on the balance sheet at original cost, the difference on the balance sheet may be significant if the company were allowed to revalue the land to current market value.
 - Reverse impairment charges on certain long-lived assets. Canadian GAAP does not permit the reversal of impairment charges. This allows certain assets that have been written down to recover their value.

Canada is moving away from Canadian GAAP and adopting International Financial Reporting Standards (“IFRS”) – cont’d

Differences between Canadian GAAP and IFRS

Canadian GAAP and IFRS are similar, however there are many notable differences which would result in significant differences in financial information depending on which reporting system is used.

As the differences between Canadian GAAP and IFRS are too many to discuss in this communication, Appendix I provides a selected list of differences.

First time adoption to IFRS allows for flexibility and choice on initial adoption, however choices have long-term consequences

A number of optional exemptions on initial adoption are allowed under IFRS 1 – *First Time Adoption* to facilitate an easier transition from Canadian GAAP. The exemptions are designed to ease the costs of transition where the cost of restatement is likely to exceed the benefits.

The following is a brief example of the major exemptions available on initial adoption:

Business Combinations

An entity may elect not to re-value business combinations occurring before the transition date as required by the acquisition method under IFRS 3 – *Business combinations*.

Employee benefits

An entity may opt out of the retrospective application of IAS 19 – *Employee benefits*, which requires that cumulative gains and losses from the plan inception must be classified into a recognized portion and an unrecognized portion.

Stock based compensation

Equity settled share-based payments to employees and others, are required to be measured and recognized at the more reliable of the fair value of the service provided or the fair value of the equity instruments granted. Some exemptive relief is available for equity instruments meeting certain criteria.

Decisions on adoption:

These exemptions require preparers to make certain reporting decisions which have to be adhered to on a going-forward basis, which can have implications on all future period financial statements.

Appendix II provides a selected list of exemptions and related reporting decisions on adoption of IFRS.

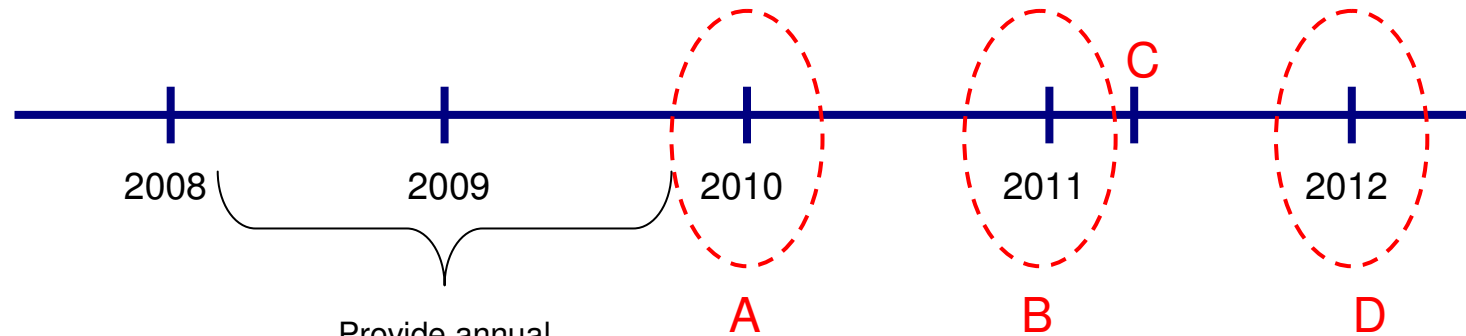
Proposed Amendments to IFRS 1 – *First Time adoption*:

The IASB has published an exposure draft in September 2008 and is collecting comments on the following proposed additional exemptions for first-time adopters of IFRS:

- Deemed cost for oil and gas assets – the exposure draft proposes that entities may continue to measure the costs of exploration, evaluation, development, and production in accordance with the entity's previous GAAP at the date of transition to IFRS. This non-IFRS measurement and the means of measurement would be disclosed in the financial statements.
- Deemed cost for operations subject to rate regulation – the exposure draft proposed that entities may elect to use the carrying amount of property, plant, and equipment held for use in rate regulated operations as the deemed cost at the date of transition to IFRS.
- Leases - the exposure draft proposes that where an entity has made the same determination under previous GAAP as that required by IFRIC 4 - *Determining whether and arrangement contains a lease*, but at a date other than that required by IFRIC 4, the entity need not reassess that determination when it adopts IFRS.

Timeline

Timeline



Provide annual disclosure regarding expected changes in accounting policies. Identify company specific issues and develop implementation plan.

* assuming a December 31 year-end

- A** **January 1, 2010** – Prepare opening balance sheet in IFRS
- B** **December 31, 2010** – Prepare comparative information for IFRS adoption
- C** **March 31, 2011** – Prepare first interim IFRS financial statement (with IFRS comparatives)
- D** **December 31, 2011** – Prepare first annual IFRS financial statement (with IFRS comparatives)

How can we help?

How can we help? – Practical insights. Inspired results.

Services:

Advisory

Is IFRS conversion right for your business? Talk to your Segal professional about the options available to you, and whether conversion is the right choice.

Education

Educate the members of your organization on the impact and the complexity of the IFRS reporting model and the conversion process.

Implementation and Conversion

Develop and provide technical assistance for a detailed conversion plan for your organization which includes the following:

- Work with your accounting professionals to effect the required changes.
- Impact on IT infrastructure
- Financial reporting matters

Capabilities:

Trained Professionals

Segal has a team of skilled professionals with international exposure that will assist you in the conversion process.

International Resources

Segal is an independent member of DFK Canada Inc. and in turn an associate of DFK International.

DFK International is a major international association of independent accounting firms and business advisors that has been meeting the needs of clients with interest in more than one country for more than 45 years. The association has over 300 offices across the world. Each DFK member is an independent legal entity in its own country.

Appendix I – Selected Differences Between Canadian GAAP and IFRS

Selected Differences Between Canadian GAAP and IFRS

Description	Canadian GAAP	IFRS
Financial Instruments – foreign exchange hedges	Hedge effectiveness must be assessed on a quarterly basis. If certain criteria are met, “short-cut” method can be used to account for cross-currency interest rate swaps.	Hedge effectiveness must be assessed, at a minimum when company prepares annual or interim financial statements. Furthermore the assessment must involve a numerical calculation (i.e. no short-cut method).
Leases	<p>Divides capital leases into sales-type and direct finance leases.</p> <p>For capital leases the lower of interest rate implicit in the lease, and the lessee’s incremental borrowing rate is used to discount future lease payments.</p>	<p>Does not divide leases into sales-type and direct finance leases.</p> <p>Uses the term “finance lease” in the same manner as Section 3065 uses “capital lease”.</p> <p>For capital leases, specifies use of the interest rate implicit in the lease when it is practicably determinable, otherwise the lessee’s incremental borrowing rate is used to discount future lease payments.</p>
Revenue Recognition	<p>Canadian GAAP allows the use of the completed contract method.</p> <p>Canadian GAAP provides specific guidance regarding goods sold with right of return in EIC 141.</p>	IFRS does not allow the use of the completed contract method of revenue recognition.
Capitalized Interest	Allows a policy selection in expensing or capitalizing costs related to acquisition, production and construction of certain assets.	Capitalization of borrowing costs related to acquisition, production and construction of certain assets is required.

Selected Differences Between Canadian GAAP and IFRS (cont'd)

Description	Canadian GAAP	IFRS
Future Income Taxes	Allows separate presentation of current and long-term deferred taxes assets/liabilities.	All deferred tax assets/liabilities are classified as long-term.
Income Taxes	Prohibits the allocation to equity of any current-year deferred taxes on items that are related to an item charged to equity in a prior year.	<p>Allows the allocation to equity of any current-year deferred taxes on items that are related to an item charged to equity in a prior year.</p> <p>Required recognition of an income tax asset or liability when there is a temporary difference on intercompany transfer of assets.</p>
Income Tax Credits	CICA Section 3805 provides specific guidance on how to account for investment tax credits using the cost reduction approach.	IFRS provide no guidance on investment tax credits.

Selected Differences Between Canadian GAAP and IFRS (cont'd)

Description	Canadian GAAP	IFRS
Capital Assets	<p>Depreciable amount is the greater of asset cost less residual value and asset cost less salvage value.</p> <p>Initial losses incurred while capital asset output is below optimal levels can be capitalized with the cost of the asset.</p>	<p>Depreciable amount is asset cost less residual value.</p> <p>IFRS allows capital assets to be revalued to fair market value. The frequency of revaluation depends on the changes in fair value of the capital asset, however the recommended frequency is every three to five years.</p> <p>Initial losses incurred while capital asset output is below optimal levels is expensed.</p>
Assets – impairment	<p>Two-Step Test:</p> <p>Step one is to compare carrying value to recoverable amount (undiscounted), and proceed to step two if carrying value exceeds recoverable amount.</p> <p>Step two is to compare carrying value to fair value, and write-down to fair value if carrying value exceeds fair value.</p> <p>No reversal of impairment losses.</p>	<p>One-Step Test:</p> <p>Long-lived assets are subject to more stringent rules, in that assets are impaired and written down when the recoverable amount (the higher of fair value less costs to sell and discounted value in use) of an asset is less than the carrying amount.</p> <p>IFRS allows the reversal of an impairment loss should the recoverable amount change.</p>
Interim financial reporting	<p>Does not allow condensed form financial statements, and requires interim period cash flow statement with comparative figures.</p>	<p>Allows condensed form financial statements, and only requires cumulative cash flow statement for year to date with comparative figures.</p>

Selected Differences Between Canadian GAAP and IFRS (cont'd)

Description	Canadian GAAP	IFRS
Intangible asset	Requires that intangible assets be measured at cost.	Allows for periodic revaluation to fair value if an active market exists. Increased disclosure requirements.
Stock Based Compensation	<p>Definition of employee is narrower, excludes awards to consultants who are considered non-employees.</p> <p>No specific guidance regarding income tax implications.</p> <p>Share based payments measured at fair value of goods received or value of equity, whichever is more reliably measurable.</p> <p>Measure cash-settled awards at intrinsic value (i.e. mark to market each period).</p> <p>Estimate number of awards to vest and adjust cost recognized as estimate changes.</p>	<p>Definition of employee is broader, includes awards to individuals that provide services similar to employees, i.e. consultants.</p> <p>Deferred income tax implication based on estimate of future tax deduction.</p> <p>Share based payments measured at fair value of goods or services received, unless that cannot be estimated reliably, then measured value of equity instruments granted.</p> <p>Measure at fair value using option pricing models.</p> <p>Account for forfeitures in one of two ways, i) based on estimates or ii) based on actual forfeitures only.</p> <p>More extensive disclosures.</p>
Joint ventures	Only proportionate consolidation method is to be applied to interest in joint ventures.	Allows choice between equity method or proportionate consolidation.
Agriculture	No specific guidance on measurement of inventories of agriculture or forest products.	<p>Prescribes accounting treatment for biological assets during growth, production and procreation.</p> <p>Prescribes measurement of agricultural assets at fair value less costs to sell.</p>

Selected Differences Between Canadian GAAP and IFRS (cont'd)

Description	Canadian GAAP	IFRS
Business Combinations	<p>Shares issued as consideration are measured at market price over a reasonable period before and after the date the terms of the business combination are agreed to and announced.</p> <p>Allows the use of the acquiree's share of the fair market value of the net assets or equity instruments acquired if that is more reliably measurable in determining the cost of a business combination.</p> <p>Contingent consideration can only be recognized when the outcome of the contingency can be determined beyond a reasonable doubt and can be reasonably measured.</p> <p>Requires that negative goodwill should be eliminated, to the extent possible, by allocating it as a pro rata reduction of the amounts that otherwise would be assigned to all of the acquired assets.</p> <p>Allows the acquirer to recognize only the acquirer's share of the assets and liabilities at fair market value and not the acquiree's.</p>	<p>Shares issued as consideration are measured at fair market value at the date of the exchange transaction.</p> <p>Prohibits the use of the acquiree's share of the fair market value of the net assets or equity instruments acquired if that is more reliably measurable in determining the cost of a business combination.</p> <p>Requires that contingent consideration be recognized when it is probable that it will be paid and can be reliably measured.</p> <p>Requires negative goodwill to be recognized immediately in income.</p> <p>Requires the acquirer to recognize 100% of the acquiree's identifiable assets and liabilities at their fair market value, therefore resulting in any non-controlling interest being stated at fair market value.</p> <p>Increased disclosure requirements</p>

Appendix II – Selected Exemptions on First Time Adoption of IFRS

Selected Exemptions on First Time Adoption of IFRS

Description	Points of Consideration	Issues to Resolve
<p>Business combinations - <i>an entity may elect not to re-value business combinations occurring before the transition date as required by the acquisition method under IFRS 3</i></p>	<p>Once IFRS 3 is applied, it must be applied to all business combinations from that point forward.</p> <p>Where goodwill has previously been recognized as a deduction from equity, adjustments to goodwill caused by subsequent impairments or contingencies impacting the purchase price will be recognized in retained earnings rather than on the statement of profit and loss.</p> <p>Certain assets and liabilities not originally recognized may need to be recognized in the opening statement of financial position.</p> <p>Any changes resulting from recognition or de-recognition of assets and liabilities will require adjustments to goodwill or retained earnings (restatement).</p> <p>Adjustments to recognized assets and liabilities affect the measurement of non-controlling interests and deferred tax</p>	<p>Which business combinations should be re-valued on transition?</p> <p>Is there sufficient information to perform the revaluation retrospectively for all of the designated business combinations?</p> <p>Has there been any impairment to acquired goodwill since the combination date?</p> <p>Have any deferred tax assets or liabilities been acquired as part of the business combination?</p> <p>What impact will revaluation have on (deferred) taxes and contingent payments, if any?</p>
<p>Employee benefits - <i>An entity may opt out of the retrospective application of IAS 19 which requires that cumulative gains and losses from the plan inception must be classified into a recognized portion and an unrecognized portion.</i></p>	<p>An entity may elect to recognize all cumulative actuarial gains and losses of the plan at the transition date.</p> <p>Certain disclosures such as the fair value of plan assets, surplus/deficiencies, and experience adjustments may be made prospectively from the transition date.</p> <p>This election applies to all plans.</p>	<p>Which plans are included in the scope of IAS 19 – Employee Benefits?</p> <p>How have cumulative actuarial gains been recognized in prior periods?</p> <p>How will cumulative actuarial gains be recognized in future periods?</p>

Selected Exemptions on First Time Adoption of IFRS (cont'd)

Description	Points of Consideration	Issues to Resolve
<p>Stock-based compensation – <i>equity settled share-based payments to employees and others, are required to be measured and recognized at the more reliable of the fair value of the service provided or the fair value of the equity instruments granted. Some exemptive relief is available for equity instruments meeting certain criteria.</i></p>	<p>Non-compensation awards are within the scope of IFRS 2 whereas CICA HB 3870 considers only employee compensation arrangements</p> <p>IFRS 2 - Stock Based Compensation, must be applied to awards granted after November 7, 2002, but which have not vested at the transition date</p> <p>IFRS 2 may only be applied to equity instruments if the entity has publically disclosed the value of the instruments.</p>	<p>Are there additional awards (e.g. employee stock option plans) which fall within the scope of IFRS 2 – Stock Based Compensation?</p> <p>How is the fair value of the awards being determined?</p> <p>Will any of the awards have different compensation expense attribution (e.g. graded vested awards & forfeitures)?</p> <p>What impact will the recognition criteria have on the deductions and inclusions for tax reporting purposes?</p> <p>What impact will revaluation have on taxes and contingent payments, if any?</p>

Appendix III – Contact information

Contact Information



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John is proactively involved in the development and monitoring of the firm's adherence to quality control standards. He is also regularly involved in developing presentations on intricate accounting issues and new accounting rules to clients, providing internal instruction on complex accounting issues



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