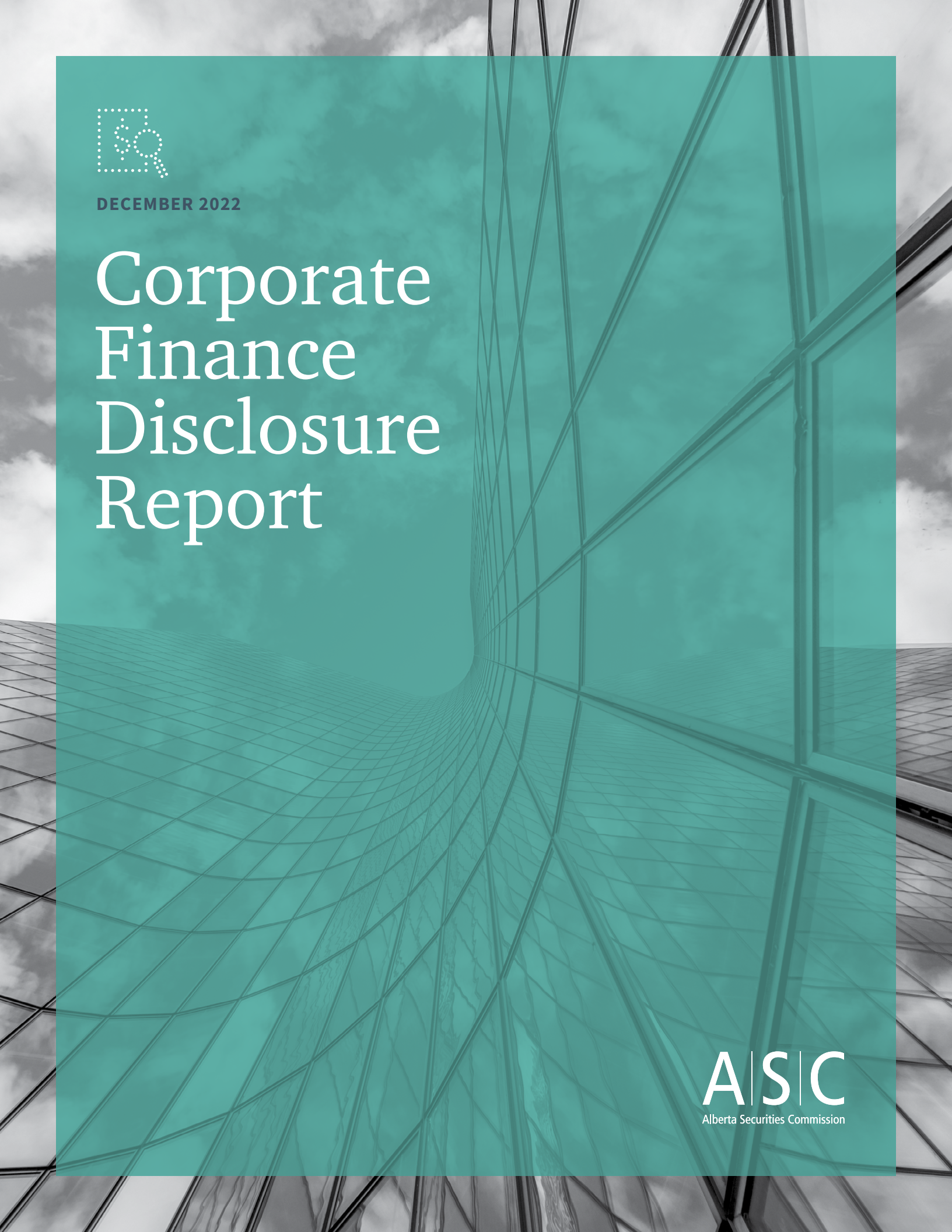

DECEMBER 2022

Corporate Finance Disclosure Report

Alberta Securities Commission

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Accurate, high-quality reporting is critical to a strong capital market and helps build investor confidence.

We are very pleased to share with you the 2022 Corporate Finance Disclosure Report (the **Report**). The goal of this Report is to help reporting issuers (**RI**s) and their advisers understand and apply the disclosure requirements under Alberta securities laws.

Each year, staff in our Corporate Disclosure & Financial Analysis department conduct reviews of the continuous disclosure made by RIs for which the Alberta Securities Commission (ASC) is principal regulator, and this Report provides guidance resulting from the observations made in those reviews. Staff reviews serve primarily to educate, although in a few cases, they result in important corrective measures or compliance action. We do this to help ensure investors are provided with balanced, timely material information to assist them in making informed investment decisions and to be helpful and ameliorate the burden of compliance.

This year's Report discusses related party transactions, forward-looking information, changes in auditors, impairment reversals, and more. It also includes observations from our review of long form prospectuses used in connection with an initial public offering or in a non-offering context filed in contemplation of an initial stock exchange listing. We have seen issuers in emerging sectors pursuing going public transactions this year and hope the guidance in this Report helps them prepare for that significant step.

On the regulatory front, I would like to highlight a few initiatives announced over the last year, which are discussed in more detail in the Report. First, we implemented a number of exemptions to assist issuers with financings, including the well-known seasoned issuer exemption, the listed issuer financing exemption and the expansion of the self-certified investor exemption. We continue to look at ways to better facilitate capital formation while still protecting investors.

An important upcoming milestone is the June 2023 SEDAR+ go-live date. SEDAR+ will replace the existing electronic filing and data access system and offers a number of improvements, such as web-based access and the ability to pay fees through electronic funds transfer. However, moving to a new system also means changes for RIs and their filing agents, including learning the new system and signing new agreements. To help ensure readiness for the transition, we encourage you to sign up for updates and training information at https://www.securities-administrators.ca/about-sedar/.

If you have questions regarding disclosure obligations, please feel free to reach out to us. We plan to hold an online seminar outlining the guidance in this Report in January 2023. We also plan to offer additional webinars and seminars on topics of interest. Please let us know of any topic areas where further guidance would be useful. We look forward to engaging with you further.

Yours truly,

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Each year the ASC issues four reports: the Annual Report, the Alberta Capital Markets Report, the Energy Matters Report and the Corporate Finance Disclosure Report. These reports are created to provide timely and relevant information for market participants and reporting issuers. These reports can be found at www.asc.ca.

Continuous disclosure review process

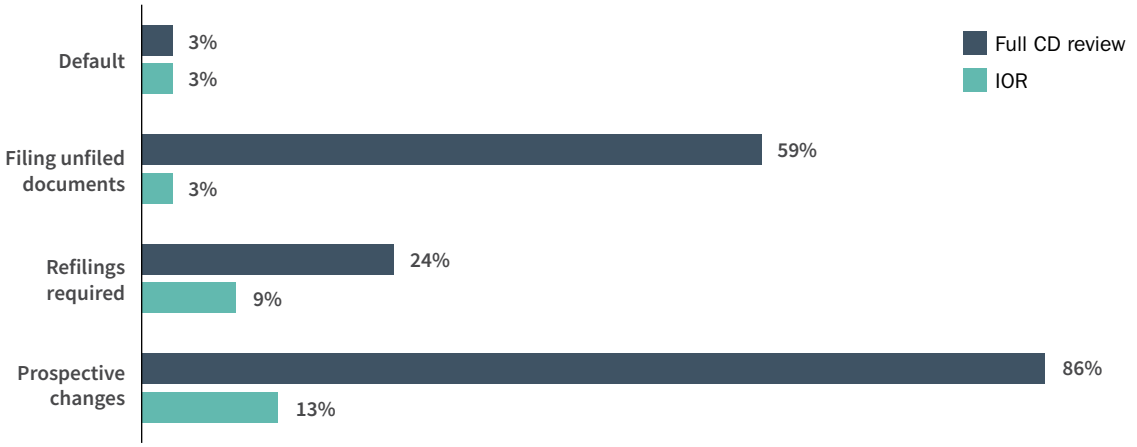
The ASC continuous disclosure (**CD**) review program is a key priority for the Corporate Finance division. We conduct CD reviews to assess RIs' compliance with securities regulatory requirements and to provide direct feedback to RIs on how to improve their disclosure. Our program involves two types of CD reviews: full CD reviews and issue-oriented reviews (**IORs**).

The scope of our full CD reviews is comprehensive and will usually include an assessment of an RI's financial reporting and other CD filings for its most recently completed annual and interim periods. In addition to reviewing the documents an RI is required to file under securities legislation, we also review and assess voluntary disclosures such as websites, social media platforms, webcasts and investor materials.

An IOR is a more limited review focused on particular issues, requirements or types of disclosure. IORs may be undertaken in furtherance of a CSA or ASC policy project, or to address a specific area of concern. We conduct some IORs on a coordinated basis with other members of the CSA, while other IORs are conducted only by ASC staff.

2022 CD REVIEW OUTCOMES

12-months ended October 31, 2022



When our reviews identify deficiencies in disclosure, we may request that an RI make prospective changes in its disclosure practices, file un-filed documents, re-file certain documents, or be noted in default. We typically request that an RI make changes in its future disclosure in circumstances where we conclude that a deficiency is not sufficiently serious or misleading to warrant a re-filing of previously filed documents. We request the filing of unfiled documents or re-filing of certain documents when we identify un-filed documents that are required to be filed under securities legislation, or when previously filed documents contain deficiencies requiring immediate correction. In more serious instances, our reviews may result in an RI being noted in default of securities legislation or cease-traded. Deficiencies may also be referred to the ASC's Enforcement division for further investigation.

WHAT SHOULD I DO IF MY RI IS SELECTED FOR A CD REVIEW?

- Reach out to ASC staff through phone or email if a comment is unclear or you require additional information.
- Engage with your legal and/or accounting advisors, as necessary.
- Provide thorough and specific responses, referencing International Financial Reporting Standards (**IFRS**) and applicable securities legislation where relevant.
- An extension of a response deadline may be available. If you require more time to provide a response, request an extension of the response deadline prior to the deadline, and explain why the extension is needed.

Notable continuous disclosure review observations

RIs in Alberta have experienced many challenges and opportunities over the past few years. In general, they have been responsive to the changing landscape, providing timely and clear communication to investors. However, we continue to see opportunities for improved disclosure in certain areas. This year's Report will look at some notable CD observations we made during our reviews, describe common deficiencies and provide some illustrative examples to help RIs address these deficiencies and understand what is expected of them.

A. RELATED PARTY TRANSACTIONS

Comprehensive disclosure of related party transactions (**RPTs**) is important as it highlights the influence relationships can have over a transaction and the financial results of an RI. In many instances, we have found that the disclosure provided in the financial statements and management's discussion and analysis (**MD&A**) is incomplete or lacks an appropriate level of detail. As a result, investors may not be fully aware of an an RPT or of a potential conflict of interest nor be able to fully assess the impact of RPTs on the RI.

It is important that financial statements contain the disclosures necessary to draw attention to the possibility that an RI's financial position and profit or loss may have been affected by the involvement of related parties and by RPTs, and disclose any outstanding balances, including commitments. If an RI has had RPTs during the periods covered by the financial statements, paragraphs 13 to 27 of International Accounting Standard (**IAS**) 24 *Related party disclosures* requires some of the following key disclosures:

- The nature of the related party relationship;
- The amounts of the transactions, terms, and outstanding balances of RPTs;
- Any further commitments resulting from RPTs; and
- The expense recognized during the period in respect of bad or doubtful debts due from related parties.

Further, identification of the relationships between parent and subsidiaries is required regardless of whether there are any transactions between them.

With regards to financial statement disclosure of RPTs, we have found that the disclosure of parent and subsidiary relationships is often omitted, and RIs fail to disclose the nature of related party relationships, terms of RPTs, and additional commitments resulting from them.

The disclosure required in the MD&A is meant to provide readers with a more complete understanding of RPTs including their business purpose and economic substance. Unfortunately, RIs often just repeat financial statement related party disclosures in their MD&A. According to the instructions in section 1.9 of Form 51-102F1 *Management's Discussion & Analysis* (**Form 51-102F1**), RIs should disclose the following quantitative characteristics that are necessary for an understanding of the transactions' business purpose and economic substance:

- The identity of the related party and the relationship between the RI and the related party;
- The recorded amount of the RPT and the measurement basis used to determine the amount;
- The business purpose of the RPT; and
- A description of any ongoing contractual or other commitments resulting from the RPT.

The issues that we most often note, regarding MD&A disclosure, is a failure to describe the business purpose of the RPT, and the use of general titles, like director, to describe related parties rather than naming the person or entity. The following examples demonstrate MD&A disclosure that did not, and did meet our expectations.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Excerpt from an RI's 2021 annual MD&A

For information on related party transactions, please refer to Note 8 of the Company's audited consolidated financial statements for the year ended December 31, 2021.

ASC comments

The MD&A disclosure requirements are more comprehensive than those required by IFRS; therefore, it is not sufficient to make reference to an RI's financial statement disclosures in the MD&A. The MD&A should disclose the identity of the related party and include a discussion of quantitative and qualitative factors necessary to understand the business purpose and economic substance of the transaction.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Excerpt from an RI's 2021 annual MD&A

On April 16, 2021, we sold property for total consideration of $1,120,000 to a company controlled by one of our directors. The transaction resulted in a gain on disposal of $106,500 and was carried out under market terms and conditions.

ASC comments

This MD&A disclosure did not meet staff's expectations because it did not describe the business purpose of the RPT, did not describe the measurement basis or methods used to determine the value of the RPT, or provide the identity of the director.

EXAMPLE THAT *WOULD* MEET OUR EXPECTATIONS

Illustration demonstrating improved disclosure based on the above RI's MD&A disclosure

On April 16, 2021, we sold a secondary warehouse for total consideration of $1,120,000 to Miles Inc., a company controlled by Tamara James, one of our directors. The warehouse was no longer being used by the Company due to the decision to curtail manufacturing of one of our product lines (refer to Note 5), and management concluded that the sale was in the best interest of the company as it would provide additional capital required for day-to-day operations. The sale price was based on an independent valuation of the warehouse, and independent directors of the Board reviewed the terms of the sale and determined that they were comparable to market terms. There are no further contractual commitments resulting from this related party transaction. The transaction resulted in a gain on disposal of assets held for sale of $106,500.

ASC comments

This MD&A disclosure would meet staff's expectations because the disclosure required by section 1.9 of Form 51-102F1 was substantially provided, allowing readers to understand the substance and purpose of the RPT. Specifically, the identity of the related party was provided, the relationship is described, it is clear how the value of the transaction was determined and the reasons for the sale are plainly provided.

Related party transactions and MI 61-101

RIs should consider whether RPTs fall within the scope of Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* (**MI 61-101**). In circumstances where conflicts of interest may arise, including RPTs, RIs may be required to:

- Provide additional disclosure;
- Obtain formal independent valuations;
- Obtain minority security holder approval; and
- Have an independent committee of the board consider the transaction.

The application of MI 61-101 may be of particular relevance to smaller RIs that have a control person or larger shareholder that may be considered a related party. It should be noted that the related party provisions in MI 61-101 apply to transactions that meet the definition of an RPT as defined in MI 61-101 (which may differ from IFRS). Exemptions from security holder approval or independent valuation may be available in certain situations; however, disclosure will typically still be required.

PRACTICE TIPS

- Processes should be developed regarding RPTs to ensure that financial statement and MD&A disclosure requirements are met.
- The valuation techniques and the assumptions used to determine the fair value of an RPT should be disclosed.
- Policies and processes should be implemented to identify areas where conflicts of interest may arise and to identify RPTs that fall within the scope of MI 61-101.

B. FORWARD-LOOKING INFORMATION

RIs frequently include forward-looking information (**FLI**) in their MD&A and other documents about management's plans for future operations, anticipated economic conditions and expected future financial results. This disclosure must comply with the FLI disclosure requirements that are outlined in Parts 4A, 4B and section 5.8 of National Instrument 51-102 *Continuous Disclosure Obligations* (**NI 51-102**). These requirements apply to all FLI regardless of the type of document in which it is included (i.e. a prescribed CD document or voluntary disclosure) or the location within the document. The required disclosure is meant to assist investors identify FLI, understand how it was determined, appreciate the risk factors that could lead to differences between expectations and actual results, and allow readers to see how the actual results compared to outlooks. The disclosure is also important to be able to rely on the defence to liability for FLI provided by section 205.1 of the Act.

We have found that many RIs have not complied with these requirements, resulting in insufficient information, and in some circumstances misleading disclosure, being provided to investors. The following table outlines areas that we have identified as requiring improvement and provides suggestions on how an RI could improve its FLI disclosure.

AREA OF IMPROVEMENT	HOW TO IMPROVE DISCLOSURE
Reasonable basis	Only FLI that can be substantiated should be disclosed. If FLI, and the assumptions on which it is based, do not have a reasonable basis, disclosure could be considered overly promotional or even potentially misleading to investors. Disclosed FLI should also be limited to the period of time for which the information can be reasonably estimated.
Material factors and assumptions	RIs should disclose the detailed material factors and assumptions used in formulating FLI, as this will allow investors to understand how the values were determined and follow the RI's progress in subsequent reporting periods. The material factors and assumptions should be entity-specific and if possible, quantified.
Risk factors	Disclosure of risk factors by RIs is often boilerplate and many RIs simply refer to the "risk factors" section of the MD&A, which is not sufficient. Detailed and comprehensive disclosure of entity-specific risk factors should be provided. This will allow investors to assess the potential impact of risks and uncertainties on the RI and its results.
Updating of FLI	It is necessary to update FLI so readers can track the RI's progress with regards to the FLI. Further, when new events or circumstances impact previously disclosed FLI, it is necessary to describe the circumstances so investors can understand how and why the target or guidance has changed.
Withdrawal of previously disclosed FLI	Some RIs discontinue reporting on previously disclosed FLI without disclosing the decision to withdraw it as required by subsection 5.8(5) of NI 51-102. RIs should disclose any decision to withdraw the FLI and discuss the events and circumstances that led to the decision to withdraw it. It should be clear why the FLI is no longer valid or relevant.
Inclusion in the MD&A	RIs often disclose FLI in news releases or in voluntary disclosure documents like an investor presentation, but fail to include the FLI in the MD&A. We believe that if information is significant enough to include in an investor presentation, it is generally material and should also be included in the MD&A.

EXAMPLE THAT *MET* OUR EXPECTATIONS

Excerpt from an RI's interim MD&A

The Corporation is forecasting net income of $600 to $700 million on a capital expenditure budget of $200 to $225 million for 2023. The following table summarizes the Corporation's underlying assumptions for this preliminary outlook.

WTI	US$bbl	$82.57
AECO	$/GJ	$5.75
Foreign Exchange Rate	CDN$/US$	1.312
Average Production (boe/d)	boe/day	34,000 – 36,000
% Oil and NGL	%	80 to 82
Royalties	$/boe	$10.50 to $11.00
Interest	$/boe	$2 to $2.25
G&A	$/boe	$1.50 to $1.80
Decommissioning Expenditures	$MM	$4.5 to $5.0

Actual results could differ materially as a result of the following material risk factors:

- Inability to complete the acquisition
- Difficulties integrating the business acquisition
- Volatility in the market prices for oil and natural gas
- Well performance
- Success of the capital program

ASC comments

This FLI disclosure met our expectations as it included the information prescribed by Parts 4A and 4B of NI 51-102 and therefore provided investors with a full understanding of forecasted net income. The information is clearly identified as FLI through the use of the words "forecast" and "outlook" which highlight the information as forward-looking. The assumptions provided do not appear unreasonable, and are detailed and quantified which allows investors to understand how net income was determined and assess whether they agree with the issuer's assumptions. For example, an investor could compare posted exchange rates and prices to the disclosed exchange rates and prices for oil and natural gas. Finally, a list of entity-specific risk factors has been provided which allows investors to assess the potential impact of risks on the FLI and the RI.

Pursuant to section 5.8 of NI 51-102, we expect that in subsequent filings of the MD&A, an update to this FLI will be provided that includes a description of any events or circumstances that occurred that are reasonably likely to cause actual results to differ materially from the disclosed FLI. Further, in the next annual MD&A we would expect to see a comparison of actual net income to the FLI and a discussion of the material differences between the two.

PRACTICE TIPS

- Develop policies regarding FLI to ensure that the requirements of Parts 4A and Part 4B of NI 51-102 are met.
- Management should keep a record of all disclosed FLI so that it can be appropriately updated or withdrawn, in accordance with section 5.8 of NI 51-102.
- The disclosure review process should include steps to ensure that material FLI included in voluntary disclosure documents is also included in prescribed CD documents.

C. CORPORATE GOVERNANCE

Most RIs are required to have a board of directors and audit committee that comply with the requirements of National Instrument 58-101 *Disclosure of Corporate Governance Practices* (**NI 58-101**) and National Instrument 52-110 *Audit Committees* (**NI 52-110**).

We have concerns regarding the extent to which some RIs fail to provide clear or complete accounts of their corporate governance practices or fail to comply with board and audit committee composition requirements. In many instances boiler-plate language is used and when related party or compensation information is considered, it may become evident that potential conflicts of interest or director independence issues exist.

The disclosure requirements for venture issuers are less extensive than those applicable to non-venture issuers. The following is a summary of the key reporting requirements.

	NON-VENTURE ISSUERS	VENTURE ISSUERS
Audit committee composition	Minimum of three directors, each of whom is independent[1] and financially literate.[2]	Minimum of three directors, majority of which must not be executive officers, employees or control persons of the RI or an affiliate.
Disclosure requirement	Form 58-101F1 *Corporate Governance Disclosure* Form 52-110F1 *Audit Committee Information Required in an AIF*	Form 58-101F2 *Corporate Governance Disclosure (Venture Issuers)* Form 52-110F2 *Disclosure by Venture Issuers*
Filing requirement	Include required disclosures in the RI's information circular or annual information form (**AIF**) if not required to send an information circular.	Include required disclosures in the RI's information circular or in its AIF or annual MD&A if not required to send an information circular.

[1] A director is independent within the meaning of section 1.4 of NI 52-110.
[2] An individual is financially literate within the meaning of section 1.6 of NI 52-110.

QUESTIONS TO ASK

- Who are the independent members of the board of directors?
- Does any director have a material relationship which could be reasonably expected to interfere with the exercise of independent judgement (e.g. been or has family that has been an employee or executive of the RI or a partner or employee of the auditor in the last three years)?
- How does the board of directors operate independent from management?
- Are directors compensated for other services for the RI?
- Have the auditors provided any services to the RI beyond the audit?
- What initial and continuing education opportunities are provided to directors?
- Is there a clear position description for the chair of the board of directors and the chair of each board committee?
- Are the external auditors required to report to the audit committee?
- If a director has been engaged to provide a service, are they still independent?

D. MATERIAL CHANGE REPORT

All RIs have an obligation to consider whether an event affecting an RI constitutes a material change, which is defined (for a non-investment fund) to include a change in its business, operations or capital that would reasonably be expected to have a significant effect on the market price or value of a security of the issuer or certain decisions to implement such a change. If so, RIs are required to immediately issue and file a news release authorized by an executive officer disclosing the nature and substance of the change. In addition, RIs must also file a material change report (**MCR**) with respect to the material change as soon as practicable, and in any event within 10 days of the date on which the change occurs.

Examples of changes that would require reporting, if material, may include:

(i) A breach of financial covenants under a credit facility;

(ii) Significant disruptions to an RI's workforce or operations;

(iii) A significant acquisition or disposition;

(iv) A reverse take-over;

(v) An RPT under MI 61-101; and

(vi) A material departure from the written code of business conduct and ethics by a director or executive officer.

Part 2 of National Policy 51-201 *Disclosure Standards* provides additional examples of the types of events that may be material.

It is important that an RI describe the nature and substance of the material change in a timely manner. For changes that an RI initiates, the change occurs once the decision has been made to implement it. This may happen before the directors approve it, if it is probable they will do so. The MCR should describe the significant facts relating to the material change, information about the time and resources required for the change in business as well as the barriers and obligations involved in realizing the change. Announcements of material changes should be factual and balanced. Unfavourable news must be disclosed just as promptly and completely

as favourable news. The MCR should contain enough detail to enable investors to understand the substance and importance of the change it is disclosing. Avoid including unnecessary details, exaggerated reports or promotional commentary.

Assessing whether a change in the business, operations or capital constitutes a material change requires an RI to exercise careful judgement.

Securities legislation permits reporting issuers to delay disclosure of a material change in very limited circumstances where disclosure would be unduly detrimental to the issuer's interest. In this case it is critical that the RI maintain complete confidentiality with respect to the material change until it is generally disclosed and take steps to avoid leaks or trading on undisclosed information.

E. CHANGE IN AUDITOR NOTICE

Upon the termination or resignation of its auditor, an RI is required to prepare a change in auditor notice, have the audit committee or board of directors approve the notice, file the reporting package with the regulator or securities regulatory authority in each jurisdiction where it is an RI, and if there are any reportable events, issue and file a news release describing the information in the reporting package.

We have seen an increase in the number of RIs who have recently changed auditors; however, the required change in auditor notice and accompanying auditor letters were not furnished and filed within the required 14-day timeframe. Even when the required documents are filed within the required timeframe, we are seeing instances where the change in auditor notice appears to be incomplete (e.g. omits reportable event disclosure or is not accompanied by the predecessor auditor letter).

Change of auditor information, particularly in the case of reportable events, provides information that is often material to investors. We remind RIs and their auditors that when preparing a change in auditor notice the notice must disclose:

- The date of termination or resignation; and
- Whether the predecessor auditor resigned on their own initiative or at the RI's request, was removed or is proposed to be removed during the predecessor auditor's term of appointment, or was not reappointed or has not been proposed for reappointment.

The following reportable event disclosure, by type, is required to be included in the change in auditor notice, if applicable.

TYPE OF REPORTABLE EVENT	REQUIRED DISCLOSURE
Disagreement	• A description of the disagreement. • Whether the RI's board or audit committee discussed the disagreement with the predecessor auditor. • Whether the RI authorized the predecessor auditor to respond fully to inquiries by any successor auditor concerning the disagreement and, if not, a description of and reasons for any limitation.
Consultation	• A description of the issue that was the subject of the consultation. • A summary of the successor auditor's oral advice, if any, provided to the RI concerning the issue. • A copy of the successor auditor's written advice, if any, received by the RI concerning the issue. • Whether the RI consulted with the predecessor auditor concerning the issue and, if so, a summary of the predecessor auditor's advice concerning the issue.
Unresolved Issue	• A description of the issue. • Whether the RI's board or audit committee discussed the issue with the predecessor auditor. • Whether the RI authorized the predecessor auditor to respond fully to inquiries by any successor auditor concerning the issue and, if not, a description of and reasons for any limitation.

F. IMPAIRMENT REVERSAL

Many RIs recorded impairment charges to their assets and cash-generating-units (**CGUs**) in prior years. As commodity markets or operating conditions improve, IFRS may permit a reversal of certain prior period impairment charges. Where impairment reversal is permitted and is reversed and recorded, the accompanying disclosure to support reversing the impairment loss is often lacking and does not meet the disclosure requirements in paragraphs 126 to 132 of IAS 36 *Impairment of assets* (**IAS 36**).

At the end of each reporting period, RIs are required to assess whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, an estimate of the recoverable amount is required to be made. In assessing the recoverable amount of assets or a CGU, RIs should measure its recoverable amount in accordance with requirements set-out in paragraphs 19 to 57 of IAS 36 and in doing so the RI should reassess and re-evaluate the reasonableness of the assumptions to ensure they now reflect the asset or CGUs current outlook. RIs are reminded that an impairment loss recognized for goodwill cannot be reversed in subsequent periods.

IAS 36 stipulates that an impairment loss recognized in prior periods shall be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was

recognized.[3] A change from value-in-use to fair value less costs of disposal to measure the recoverable amount, or a change in the amount or timing of estimated future cash flows or in the discount rate under the value-in-use model[4] are examples of such change in estimates that are considered when reversing an impairment.

Disclosure

An RI is required to make certain quantitative disclosures when reversing an impairment loss. The following is a list of key disclosure items. Refer to IAS 36 for a complete list.

IMPAIRMENT	KEY DISCLOSURE ITEMS
All	For each class of asset: • The amount of impairment losses and reversals of impairment losses recognized in profit or loss during the period. • The amount of impairment losses and reversals of impairment losses on revalued assets recognized in other comprehensive income during the period.
Individual asset or CGU	Disclose the following for an individual asset or a CGU, for which an impairment loss has been recognized or reversed during the period: • The events and circumstances that led to the recognition or reversal of the impairment loss. • A description of the CGU or nature of the asset and if the aggregation of assets for identifying the CGU has changed since the previous estimate of the recoverable amount. • Whether the recoverable amount is its fair value less costs of disposal or its value-in-use. • If the recoverable amount is fair value less costs of disposal: - The level of the fair value hierarchy (IFRS 13) within which the fair value measurement of the asset or CGU is categorized, including the accompanying disclosures. - The discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique. • If recoverable amount is value-in-use, the discount rate(s) used in the current estimate and previous estimate (if any) of value-in-use.

In addition to the required quantitative disclosure, RIs are also required to make qualitative disclosures to support an impairment loss reversal. An RI is encouraged to disclose assumptions used to determine the recoverable amount of assets and CGUs during the period.[5]

[3] Refer to IAS 36.114
[4] Refer to IAS 36.115
[5] Refer to IAS 36.132

EXAMPLE THAT *MET* OUR EXPECTATIONS

Excerpt from an RI's 2021 annual financial statements

As at December 31, 2021, there were indicators of impairment reversals for the Company's upstream cash-generating units ("CGU's") due to an increase in forward commodity prices. An assessment was performed and indicated the recoverable amount was greater than the carrying value. As at December 31, 2021, the recoverable amount of the X, Y and Z CGU's was estimated to be $750 million. In 2020, the Company recorded a total impairment charge of $555 million on the upstream CGU's due to a decline in forward commodity prices and changes in future development plans. As at December 31, 2021, the Company reversed the full amount of impairment losses of $555 million, net of dispositions and the Depletion, Depreciation & Amortization that would have been recorded had no impairment been recorded. The reversal was primarily due to improved forward commodity prices. The following table summarizes impairment reversals recorded in 2021 and estimated recoverable amounts as at December 31,2021, by CGU:

CASH-GENERATING UNIT	REVERSAL OF IMPAIRMENT	RECOVERABLE AMOUNT
X	$125	$175
Y	$200	$250
Z	$230	$325

Key Assumptions

The recoverable amounts (Level 3) of the upstream CGUs were determined based on fair value less costs of disposal ("FVLCD"). Key assumptions in the determination of future cash flows from reserves include forward prices and costs, consistent with the Company's independent qualified reserves evaluators ("IQREs"), costs to develop, abandonment & reclamation costs and the discount rate. The fair values for producing properties were calculated based on discounted after-tax cash flows of proved and probable reserves using forward prices and cost estimates as at December 31, 2021. All reserves have been evaluated as at December 31, 2021, by the Company's IQREs.

Crude Oil, NGLs and Natural Gas Prices

The forward prices as at December 31, 2021, used to determine future cash flows from crude oil, NGLs and natural gas reserves were:

	2022	2023	2024	2025	2026	Increase Thereafter
West Texas Intermediate (US$/barrel)	72.83	68.78	66.76	68.09	69.45	2.00%
Western Canadian Select (C$/barrel)	74.43	69.17	66.54	67.87	69.23	2.00%
Edmonton C5+ (C$/barrel)	91.85	85.53	82.98	84.63	86.33	2.00%
Alberta Energy Company Natural Gas (C$/Mcf) [(1)]	3.56	3.20	3.05	3.10	3.17	2.00%

[(1)] *Assumes gas heating value of one million British thermal units per thousand cubic feet ("Mcf").*

Discount and Inflation Rates

Discounted future cash flows are determined by applying a discount rate between 10% and 15% based on the individual characteristics of the CGU, and other economic and operating factors. CGU X was evaluated using a 10% discount rate, CGU Y was evaluated using a 12% discount rate and CGU Z was evaluated using a 15% discount rate. Inflation was estimated at approximately 2%. The discount rate used to determine impairment losses in 2020 were between 10-15%, consistent with the CGU specific discount rates used in 2021, and there was no change in the aggregation of assets in identifying the Company's CGU's.

Sensitivities

The sensitivity analysis below shows the impact that a change in the discount rate or forward commodity prices would have had on the calculated recoverable amount used in the impairment testing completed as at December 31, 2021, for the following CGUs:

	INCREASE (DECREASE) TO RECOVERABLE AMOUNT [2]			
Cash-Generating Unit	5% increase in discount rate	5% decrease in discount rate	5% increase in forward prices	5% decrease in forward prices
X	(15)	15	10	(10)
Y	(30)	30	15	(15)
Z	(25)	25	25	(25)

[2] *The Company reversed the full amount of impairment losses at December 31, 2021. The changes to the recoverable amount noted in the sensitivities analysis would not have resulted in a change in the amount of the impairment reversal.*

ASC comments

Staff were of the view that the disclosure requirements of IAS 36 have been met.

Going public

The decision by an issuer to go public through an initial public offering (**IPO**) is a significant step and, wherever possible, we want to add certainty to the process. To assist, we have provided insights below.

A. EMERGING INDUSTRY AND NEW TECHNOLOGIES

Alberta is home to several issuers that are developing new technologies and operating in emerging industries, such as cleantech, renewable energy, crypto assets and related technology, agritech, artificial intelligence and machine learning. We understand that these issuers want to obtain timely access to financing; however, we are also mindful that these new industries and technologies can present novel risks and circumstances.

An issuer will need to provide disclosure about its business and strategy so investors can understand what the issuer's plans are and what it is trying to achieve. This disclosure should include a detailed description of the issuer's products or services, clearly outline its expected revenue streams and related costs, and provide the key terms of any material agreements that the issuer has entered into with other entities so investors can understand their impacts. It is important to avoid industry jargon and technical terms that would not be readily understood by the average investor and to adequately explain and define those terms so that investors can understand them. If the issuer is developing innovative technologies, it should describe its development plan, identify key milestones, and disclose the stage of the issuer's development relative to its plan. Expenditures-to-date and the estimated time and cost to reach the next milestones, and eventually commercialization, should also be provided.

It is also important that both industry and issuer-specific risk factors and uncertainties be fully and clearly disclosed so investors can evaluate their potential impact on the issuer. Risks and uncertainties to issuers in emerging industries often include that an issuer has limited financial history, an unestablished market and customer base, limited access to capital, unestablished supply chains, and lengthy and uncertain requirements for licenses and permits. It is also important to consider and identify any risks unique to the issuer.

PRACTICE TIPS

- Disclosure of an issuer's business should be detailed but written in plain language so it is understandable to someone outside the issuer's industry.
- Industry and entity-specific risk factors should be disclosed in plain language.
- Risk factors should be presented from most to least serious, and should not be minimized by excessive caveats or conditions.
- Processes should be set up to monitor changes (e.g. to regulations) and ensure that risk disclosure is updated accordingly.

B. PRIMARY BUSINESS

An issuer planning to go public may have been created through the combination of several business entities. An issuer going public by way of an IPO using a long form prospectus or in circumstances where the disclosure is required to be in accordance with Form 41-101F1 *Information required in a Prospectus* (**Form 41-101F1**) must include general business disclosure and financial statements for the issuer and any business or businesses acquired or proposed to be acquired if a reasonable investor reading the prospectus would regard the primary business of the issuer to be the business or businesses acquired, or proposed to be acquired, by the issuer. Examples of when this will typically occur in the prospectus context are: when the acquisition(s) was or will be a reverse takeover; when an acquisition satisfies any of the applicable significance tests set out in subsection 8.3(2) of NI 51-102 if "30 per cent" is read as "100 per cent"; or when an acquisition results in a fundamental change in the primary business of the issuer (e.g. a change in industry), as disclosed in the prospectus.

Issuers are reminded that an acquisition may constitute the acquisition of a business under securities legislation even if the acquired set of activities or assets does not meet the definition of a "business" for accounting purposes. In the long form prospectus, there should be sufficient financial history and information concerning the business conducted or to be conducted by the issuer to allow an investor to make an informed investment decision. For oil and gas issuers, where an acquisition includes an interest in an oil and gas property to which reserves, as defined in National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*, have been specifically attributed, the acquisition will be considered to be an acquisition of a business.

Where an acquisition meets the primary business requirements, financial statements and MD&A will be required as set out under Item 32 and Item 8 of Form 41-101F1, respectively. Where an acquisition does not form the primary business of the company it may still represent a significant acquisition in respect of which financial statements, as set out in Item 35 of Form 41-101F1, will be required. The concepts of "primary business" and "significant acquisition" have some similarities but are distinct concepts. An acquired business can not be both a primary business and a significant acquisition.

Specific generally accepted accounting principles (**GAAP**) and generally accepted auditing standards (**GAAS**) requirements apply to financial statements included in the long form prospectus as set out in National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* (**NI 52-107**).

Even when no financial statements are required under Item 32 or Item 35 of Form 41-101F1, an issuer should consider whether additional financial information, other than financial statements, are necessary to meet the requirement for full, true and plain disclosure in the prospectus. For example, it may be necessary to include, a discussion of the business acquired, property or valuation reports, forecasted cash flow information or additional disclosure about an acquired business, such as key financial information that explains the financial performance and operations of that business prior to its acquisition.

The primary business disclosure requirements also apply in instances where securities legislation and exchange requirements refer to disclosure prepared in accordance with Form 41-101F1. Examples of this would be the disclosure required by the TSX Venture Exchange in connection with a capital pool company qualifying transaction or the requirement in Form 51-102F5 *Information Circular* for an information circular relating to a restructuring transaction to contain prospectus-level disclosure.

The companion policy to National Instrument 41-101 *General Prospectus Requirements* (**NI 41-101**) provides guidance on the interpretation of primary business and predecessor entity including in what situations, and for which periods, financial statements would be required. It provides guidance on the circumstances when additional information may be necessary for the prospectus to meet the requirement to contain full, true and

plain disclosure of all material facts relating to the securities being distributed. It also clarifies when an issuer can use optional tests to calculate the significance of an acquisition, and when an acquisition of mining assets would not be considered an acquisition of a business under securities legislation.

In practice, when acquisitions are involved, issuers and their advisors often consult with ASC staff to consider what financial statements must be included in the prospectus and to confirm whether one or more businesses comprise the primary business of the issuer.

PRACTICE TIPS

Below are the key considerations when assessing the financial statement requirements.

	PRIMARY BUSINESS[6]	SIGNIFICANT ACQUISTION[7]
Reporting requirements	• 3 years of audited financial statements and MD&A • 2 years of audited financial statements and MD&A if considered an IPO venture issuer • Certain exceptions to financial statement and audit requirements detailed in section 32.4 *Exceptions to financial statement requirements* and 32.5 *Exceptions to audit requirement* of Form 41-101F1	• 2 years of financial statements • MD&A disclosure not required to be included in the prospectus
Assurance requirements	• The annual financial statements for primary business must be audited for all years presented	• The current year financial statements must be audited • The comparative year financial statements are required to be reviewed
Accounting standards requirements	• U.S. GAAP is permitted for primary business acquisitions if the RI meets the definition of an SEC issuer as defined in NI 52-107	• U.S. GAAP may be allowed for significant acquisitions per section 3.11 of NI 52-107

[6] Primary business financial statement requirements are detailed in Item 32 of Form 41-101F1.
[7] Significant acquisition financial statement requirements are detailed in Item 35 of Form 41-101F1.

C. USE OF PROCEEDS DISCLOSURE

We often find the use of proceeds section within a prospectus vague and non-compliant with the disclosure requirements in Item 6 of Form 41-101F1.

Issuers are required to describe, in reasonable detail, each of the principal purposes for the proceeds, with the approximate amounts for which the net proceeds will be used. If the distribution is subject to a minimum offering amount, an issuer must provide disclosure of the use of proceeds for both the minimum and maximum offering amounts.

Specific disclosure is required if more than 10 per cent of the net proceeds will be used to repay indebtedness, acquire assets, repay insiders, or to be deployed in research and development activities.

PRINCIPAL PURPOSES	DISCLOSURE
Indebtedness	If the indebtedness was incurred within the two preceding years, disclose the principal purposes for which the proceeds of the indebtedness were used.
Asset acquisition	Describe the assets being acquired. If known at the time the prospectus is filed, describe the particulars of the purchase price being paid or being allocated to the assets, including intangible assets, as well as the nature of the title to, or interest in, the assets to be acquired.
Insiders	If the net proceeds are going to an insider, associate or affiliate of the issuer, identify the parties involved and the nature of the relationship, as well as the amount of net proceeds to be received.
Research & development	For each research and development program that will be funded using the proceeds from the distribution, describe the timing and stage of the program and the major components of the program, including an estimate of anticipated costs. Additionally, an issuer must disclose if it is conducting its own research and development, is subcontracting it out, or is using a combination of those methods, as well as the additional steps required to reach commercial production and an estimate of costs and timing for each step.

Issuers are also required to disclose the business objectives that are expected to be accomplished using the net proceeds from the distribution. For each significant event that must occur for the business objectives to be accomplished, state the specific time period in which each event is expected to occur and the costs related to each event.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Excerpt from an RI's preliminary prospectus – Use of proceeds section

The net proceeds to the Corporation will be combined with the Corporation's working capital for total available funds of approximately $3,000,000. The following table sets forth the principal purposes for which the Corporation proposes to use the net proceeds available to it upon the completion of the Offering:

	Estimated Amount
Exploration activities	$2,000,000
General corporate purposes	$1,000,000
Total estimated net proceeds of the Offering	**$3,000,000**

The net cash proceeds from the Offering will be used by the Corporation for exploration activities and general corporate purposes. The Corporation expects to accomplish the business objectives described in this Prospectus using the total estimated net proceeds of the Offering. The Corporation intends to spend the funds available to it as stated in this Prospectus. There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary.

ASC comments

The disclosure is overly general. In these circumstances we will request that the issuer provide additional information, such as a breakdown of the net proceeds towards a certain phase of a project, specific breakdown of the proceeds towards capital expenditures or a breakdown of proceeds allocated to general and administrative expenditures.

Sufficiency of proceeds

On occasion, a minimum offering amount may not be included in the preliminary prospectus, however, staff may take the view that a minimum offering amount is necessary in certain circumstances. This could occur, for example, if staff have concerns that a minimum amount of proceeds must be raised in order for the issuer to achieve its stated objectives or to continue as a going concern.

Negative cash flow from operating activities

If an issuer has negative cash flow from operating activities in its most recently completed financial year, it should prominently disclose that fact in the use of proceeds section of the prospectus. Negative cash flow from operating activities should also be described as a risk factor within the prospectus. We may also request additional information be disclosed in the prospectus relating to an issuer's most current working capital amount, cash burn rate on a monthly or quarterly basis, the period of time that the proceeds of the offering are expected to fund operations, and any significant debt obligations maturing in the short term.

Financial condition

Section 120 of the Act provides that the Executive Director must not issue a receipt for a prospectus if the proceeds, together with the other resources of the issuer, are insufficient to accomplish the issuer's stated objective. If concerns exist regarding the financial condition of an issuer and the sufficiency of proceeds in the

context of a prospectus offering, this may affect staff's ability to recommend that a receipt be issued for the prospectus. A principal purpose of the statutory provision is to protect the integrity of the capital markets, which would be harmed if an issuer ceased operations on account of insufficient funds shortly after completing a public securities offering.

Issuers can refer to CSA Staff Notice 41-307 (Revised) *Concerns regarding an Issuer's Financial Condition and the Sufficiency of Proceeds from a Prospectus Offering* for further guidance in this area.

EXAMPLE THAT *DID* MEET OUR EXPECTATIONS

Excerpt from an issuer's prospectus – Use of proceeds section

The Offering will not be completed and the subscription proceeds will not be advanced to the Corporation unless the Minimum Offering has been raised. In the event that the Minimum Offering is completed, the net proceeds from the sale of the Units hereunder are estimated to be $1,500,000 after deducting the fees payable to the Agents of $90,000 assuming the Minimum Offering, and the estimated expenses of the Offering, estimated to be $300,000.

In the event that the Maximum Offering is completed, the net proceeds from the sale of the Units hereunder are estimated to be $3,000,000 after deducting the fees of $180,000 payable to the Agents and the estimated expenses of the Offering estimated to be $300,000. If the maximum Over-Allotment Option is exercised in full, the aggregate net proceeds of the Offering are estimated to be $3,300,000 and after deducting the fee of $198,000 payable to the Agents and estimated expenses of the Offering estimated to be $300,000. See "Plan of Distribution".

A portion of the net proceeds of the Offering will be used to reduce indebtedness under the New Credit Facility in the amount of $1.0 million, part of which has been incurred in advance of the Offering to acquire asset X at an aggregate cost of approximately $900,000. The balance of the net proceeds of the Offering will be used to support growth initiatives, and for general working capital purposes, as more fully described below:

	FUNDS TO BE USED [1][2]	
Use of Proceeds	**Minimum Offering**	**Maximum Offering**
Repay indebtedness – Asset X	$ 900,000	$ 900,000
Additional Asset X purchases	-	900,000
Asset Y – 10 to 20 units	500,000	1,100,000
Expansion and working capital	100,000	100,000
Total	**$ 1,500,000**	**$ 3,000,000**

[1] *Based on the anticipated net proceeds of the Offering after deducting the fee payable to the Agents and estimated expenses of the Offering of $300,000.*

[2] *If the maximum Over-Allotment Option is exercised in full, the additional net proceeds from the exercise of the Over-Allotment Option will be allocated to purchase additional Asset Y units and for general corporate purposes. In addition, the net proceeds from the completion of the Concurrent Private Placement, if any, will also be allocated to purchase additional Asset Y units and for general corporate purposes.*

Assuming the completion of Maximum Offering, the Corporation intends to use the net proceeds: (i) to acquire an additional 10 Asset X units during the second quarter of 2022; and (ii) to acquire up to 20 Asset Y units by July, 2022. The business objectives the Corporation expects to accomplish using the net proceeds is to expand its fleet of Asset Y units under operation to meet customer demand and backlog and to expand its geographical footprint in Western Canada and expand into Eastern Canada in the second half of 2022.

While the Corporation intends to use the net proceeds as stated above, there may be circumstances that are not known at this time where a reallocation of the net proceeds may be advisable for business reasons that management believes are in the Corporation's best interests.

The Corporation has negative cash flow from operating activities and has historically incurred net losses. To the extent that the Corporation has negative operating cash flows in future periods, it may need to deploy a portion of its existing working capital to fund such negative cash flows. The Corporation will be required to raise additional funds through the issuance of additional equity securities, through loan financing, or other means. There is no assurance that additional capital or other types of financing will be available if needed or that these financings will be on terms at least as favourable to the Company as those previously obtained, or at all. See those risk factors described in the "Risk Factors" section of this prospectus.

ASC comments

The above disclosure is considered sufficient to meet the use of proceeds requirement.

D. THIRD-PARTY SOURCE INFORMATION

When information from third parties, such as research or written and oral statements, is presented we expect the source to be provided. It is important that a reader is able to differentiate between issuer-specific information and third-party information. The citation to the source should be specific to enable a reader to corroborate the third-party information.

EXAMPLE THAT *DID* MEET OUR EXPECTATIONS

Excerpt from marketing materials

Alberta's oil and gas methane emissions went down by about 34% between 2014 and 2020 [(1)].

[(1)] *Source:* 2020 Methane Emissions Management from the Upstream Oil and Gas Sector in Alberta. *Government of Alberta, January 2022.*

ASC comments

The source of the third-party information includes the authorizing organization, along with the title and date of the report.

We have also seen instances where an issuer used third-party information as an input in combination with internal information. For example, an issuer recalculating its market share based on internal information and external sources. In this case, it is important that the issuer clearly distinguish between disclosure that is purely externally sourced and disclosure that includes some inputs from third-party sources, but is prepared internally.

If an issuer chooses to provide third-party information, we expect the issuer to take steps to assess whether the third-party statements are reasonably reliable. Some issuers provide a general disclaimer relating to the third-party source information included in the prospectus. The disclaimer indicates that the issuer is not responsible for information provided by third parties. We will object to issuers disclaiming responsibility for the statements. We remind issuers that securities legislation makes an issuer liable for any misrepresentation in a prospectus, even if the misrepresentation in the prospectus is based upon information included from a reliable third-party source. We expect prospectuses to focus on issuer-specific data with accurate and reliable third-party information being used for support.

Our expectation is that if an issuer includes third-party source information in its prospectus, management must reasonably believe the information to be accurate and the source reliable.

E. CONFIDENTIAL PRE-FILE REVIEW OF PROSPECTUS

The regulatory review process for prospectuses normally begins when an issuer publicly files its preliminary prospectus. If a material issue is raised during the review process, this may cause delays in receipting the prospectus and closing the offering. The confidential pre-file process is intended to address as many issues as possible prior to the preliminary prospectus being filed publicly.

An issuer can use the pre-file process to pre-file a long form prospectus, short form prospectus or base shelf prospectus. Issuers seeking to confidentially pre-file a prospectus should follow the process for pre-filing interpretations set out in Part 8 of National Policy 11-202 *Process for Prospectus Reviews in Multiple Jurisdictions,* as supplemented by the guidance outlined in CSA Staff Notice 43-310 *Confidential Pre-File Review of Prospectuses.*

Confidential pre-file applications should be submitted by e-mail to the ASC at legalapplications@asc.ca.

PRACTICE TIPS

- Pre-filed prospectuses should contain all financial and non-financial disclosure that would be included in the public preliminary prospectus filing.
- Where practicable, include an estimate of the price of the offering and other information derived from the price.
- Include a timeline in the cover letter to assist staff in understanding when the issuer expects to file a preliminary prospectus. It is expected that the RI will file a preliminary prospectus shortly after the completion of the review of the pre-filed prospectus.
- Highlight any legal or accounting questions where ASC staff input is required.

F. CAPITAL STRUCTURE

Composition

In the lead up to filing an IPO, assets or businesses may be acquired from persons who originated or established the business. As the business develops, one or more financing rounds, at various prices per share, may also have been completed. Together, these events will form the capital structure of the issuer. When the issuer has issued an unusually large number of shares for nominal cash consideration or a business is acquired where the value is not readily supportable, public interest concerns may arise related to the issuer's capital structure.

CSA Staff Notice 41-305 *Share Structure Issues – Initial Public Offerings* provides guidance as to when securities regulators may raise comments with respect to an issuer's capital structure and factors considered in evaluating acceptable share structures. In the course of our prospectus reviews, examples of situations where staff may raise comments include when:

- A business was acquired for shares where limited information is available at the time of the transaction to corroborate the valuation for the business;
- The business is in an emerging industry and/or has limited operating history;
- The IPO price is significantly higher than the average capital contributed per share;
- IPO purchasers will contribute an amount of capital that is significantly disproportionate to their equity interest on completion of the offering;
- The issuer has not applied to list its securities on a Canadian exchange;
- An underwriter is not involved with the IPO prospectus;
- The IPO financing is relatively small or the prospectus is a non-offering prospectus; and
- Significant warrants and options are outstanding at exercise prices considerably lower than the IPO price.

Where securities escrow requirements may be established, section 2.4 of NP 46-201 *Escrow for Initial Public Offerings* provides that securities regulators may impose additional escrow if an underwriter has not signed the IPO prospectus, the securities will not be listed on a Canadian exchange or if there are other exceptional circumstances. As capital structure issues can be complex, issuers that have concerns regarding their capital structure are encouraged to consider them early in the going public process.

Restricted securities

Restricted securities are equity securities that carry restricted voting rights or a lower number of votes per share, or that are entitled to more limited participation in the earnings or assets of an issuer than another class of equity securities. When an issuer plans to distribute restricted securities, Part 12 of NI 41-101 may restrict prospectus filing eligibility, unless certain exemptions apply.

An issuer with restricted securities outstanding, proposed to be offered under a prospectus, or securities that may be converted into or exchanged or exercised for restricted securities, should include a detailed description of:

- The voting rights attached to the restricted securities and the voting rights, if any, attached to the securities of any other class of securities of the issuer that are the same as or greater than, on a per security basis, those attached to the restricted securities;
- Any significant provisions under applicable corporate and securities law that do not apply to the holders of the restricted securities, but do apply to the holders of another class of equity securities, and the extent of any rights provided in the constating documents (i.e. the issuer's articles of incorporation and bylaws, declaration of trust, or similar organizing document) or otherwise for the protection of holders of the restricted securities; and
- Any rights under applicable corporate law, in the constating documents or otherwise, of holders of restricted securities to attend, in person or by proxy, meetings of holders of equity securities of the issuer and to speak at the meetings to the same extent that holders of equity securities are entitled.

Where the capital structure of the issuer, including dual class share structures, provides one or more persons or companies with the ability to control voting of the issuer, this should be prominently disclosed in the prospectus.

G. INNOVATION IN FINANCE

The Innovation in Finance team at the ASC is a cross-divisional team, with staff from both Corporate Finance (the division that regulates issuers) and Market Regulation (the division that regulates registrants – firms and individuals who are in the business of advising or trading in securities). The Innovation in Finance team was formed in the spring of 2022.

The team is focused on exploring ways to better facilitate access to capital for issuers in emerging sectors, including small business financing, and in addressing emerging technologies in the capital market such as crypto assets, blockchain and financial technology. Through engagement with those in Alberta's innovation and start-up ecosystem, the team endeavours to be a resource to both the founder and funder community and those who advise them. Small businesses participate in the capital market anytime they raise capital, whether publicly or privately. As the mandate of the ASC is to facilitate an efficient capital market and to protect investors, we look for ways to assist small and growing companies navigate securities law as they raise capital without compromising investor protection.

The work of the team is concentrated on three main pillars:

(1) Engagement and education through the ASC's Innovation Hub;

(2) Research and policy; and

(3) Technology testing through the ASC's Innovation Lab and the CSA's Regulatory Sandbox.

ASC Innovation Hub: Engagement and education

The Innovation in Finance team participates in start-up and tech-focused events across Alberta, offering a resource to those seeking to raise capital in a compliant way but unsure where to start. They also work with advisors to small businesses who may not have securities law expertise. The team regularly speaks at events and offers educational workshops.

Research and policy

In an effort to promote efficient capital markets, the Innovation in Finance team seeks market feedback and considers ways to reduce regulatory burden on small business while maintaining appropriate protections for investors. As the ASC strives to be an intelligent, best-in-class regulator, feedback from businesses raising capital and from investors helps us appropriately develop and modernize securities law policy and rules.

ASC Innovation Lab / CSA Regulatory Sandbox

Financial technology businesses who offer innovative products and services may be eligible to participate in a regulatory sandbox where they can operate in a tailored regulatory regime. The regulatory sandbox initiative can enhance capital formation for novel business models and aid regulators in the practical application and evolution of securities law rules to innovate businesses. The Innovation in Finance team leads the ASC's Innovation Lab efforts. It also participates in testing nationally through the CSA's Regulatory Sandbox and globally through the Global Financial Innovation Network.

The Innovation in Finance team is a resource to the growth and innovation ecosystem in Alberta. Navigating securities law is complex – the ASC now has a team dedicated to help.

A. PROPOSED NATIONAL INSTRUMENT 51-107 *DISCLOSURE OF CLIMATE-RELATED MATTERS*

The ASC is co-leading the CSA's efforts in relation to climate-related disclosure. In March 2021, the CSA published the proposed climate-related disclosure rule, National Instrument 51-107 *Disclosure of Climate-related Matters.* The comment period for the proposed rule ended in February 2022. Since that time, important international developments have occurred.

In March 2022, the United States Securities and Exchange Commission (**SEC**) proposed rules that would require registrants (issuers reporting in the U.S.) to provide certain climate-related information in their registration statements and annual reports.

The International Sustainability Standards Board (**ISSB**) also published a proposed general standard for the disclosure of sustainability-related financial information as well as a proposed specific climate-related disclosure standard.

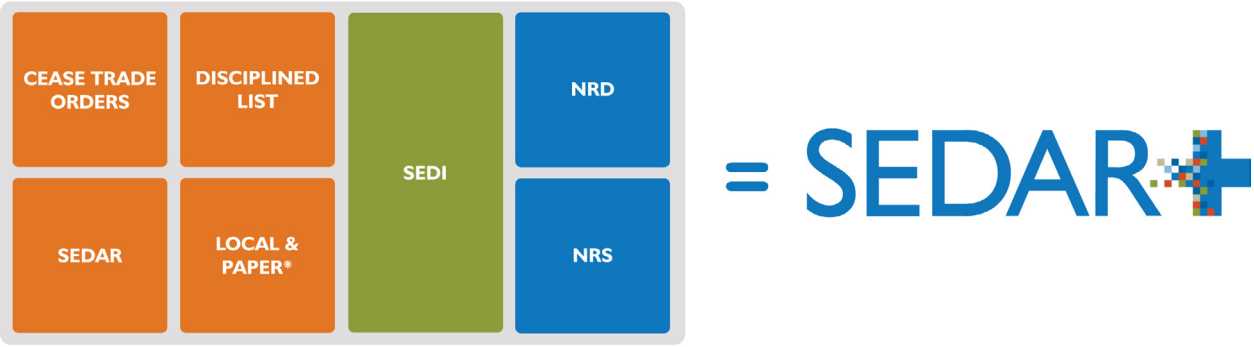
While the CSA, SEC and ISSB proposals are all largely based on the Task Force on Climate-Related Financial Disclosures recommendations, some substantive differences exist. The CSA is analyzing these key differences as well as revisiting letters it received on its 2021 proposal, and reviewing Canadian stakeholder feedback that was submitted directly to the SEC and ISSB, to inform a CSA rule that serves the needs of Canadian capital markets, has considered international consensus, and responds to Canadian investor needs.

B. SEDAR+ IS COMING

The ASC, together with the other provincial and territorial securities regulators in the CSA, has been working to modernize the electronic filing and data access systems that underpin Canadian securities regulation. SEDAR+ is the new, web-based application that will be available 24 hours a day, seven days a week. When it launches in June 2023, SEDAR + will be used by all market participants to file, disclose and search for issuer information in Canada's capital markets.

SEDAR+ will ultimately bring seven CSA National Systems under one digital roof, providing one source for all securities filings, insider trading and registrant information. Over the coming years, the CSA will migrate the legacy systems to SEDAR+ in three phases.

- Phase 1, launching in June 2023, incorporates legacy SEDAR, the Cease Trade Order database, the Disciplined List database, the reporting issuers list, paper filings by issuers (e.g. applications for discretionary exemptive relief) and the local exempt market filing systems in B.C. and Ontario.
- Phase 2 will replace SEDI, the national system for insider trade reporting.
- Phase 3 will replace the National Registration Database and National Registration Search.



* Various national requirements filed on paper format & local electronic filing systems

What should I do to be ready?

Phase 1 of SEDAR+ is currently targeted to launch in June 2023. This will impact all current users of SEDAR, the Cease Trade Order database, the Disciplined List and issuers that make filings in paper format or through local filing systems. Taking the following steps will help you be ready:

1. Get and stay informed

We encourage all impacted users and their advisors to:

- Visit the SEDAR+ page on the CSA website to learn more about SEDAR+. The page includes FAQs and demo videos.
- Subscribe to the quarterly SEDAR+ Connection e-newsletter to stay informed about the transition to SEDAR+, including key project dates, training information and important process changes for organizations.

2. Engage in the early, streamlined onboarding process

Organizations that currently subscribe to SEDAR must complete a series of steps to onboard (gain access) to SEDAR+. The Onboarding process will include providing new legal agreements, information for new organization and user accounts, and information for new issuer profiles.

The CSA has developed a pre-launch Onboarding process, which secures a subscriber's immediate access to SEDAR+ when it launches.

By December 2022, primary contacts of SEDAR subscribing organizations will receive an email from the CSA Service Desk with instructions on how to sign up for the streamlined SEDAR+ Onboarding process. In January 2023, those who file in paper or through local systems will also be invited to participate in Onboarding.

We strongly encourage subscribers to take advantage of the early Onboarding window. This is particularly important if you have filing deadlines between June and December 2023. If subscribers wait until after launch to onboard, they will have to submit access requests and requirements in SEDAR+, and then wait for a review process to be completed.

3. Review the training materials

The SEDAR+ Learning Centre will be available in early February, with training and other readiness activities continuing through to launch in June 2023.

4. Contact the SEDAR+ support team

The CSA has a support team in place to assist users with the Onboarding and the transition to SEDAR+. The contact information is:

- SEDAR Plus Transitions Inquiries: SedarPlus.Transition@acvm-csa.ca
- General Inquiries: SEDAR+ Contact Us: https://www.securities-administrators.ca/about-sedar/sedarplus-contact-us/

C. REDUCING REGULATORY BURDEN

In 2017, the CSA published a consultation paper to identify areas of securities legislation (applicable to non-investment fund issuers) that could benefit from a reduction of undue regulatory burden, without compromising investor protection or the efficiency of the capital market. The CSA recognizes that as capital markets evolve, its approach to regulation needs to reflect the realities of business for RIs to remain competitive. We believe that regulatory requirements and the associated compliance costs should be balanced against the significance of the regulatory objectives sought to be realized and the benefit provided by such regulatory requirements to investors and other stakeholders.

We received over 50 responses to this consultation paper from a diverse group of stakeholders including RIs, investors, accounting and law firms, advocacy and industry groups, stock exchanges, etc. In response to the feedback received, in March 2018 the CSA announced that it would undertake six separate policy projects. These six projects were selected as they were generally supported by stakeholders as an identified area of undue regulatory burden, most achievable and within the scope of securities regulation, and would provide the most impact in terms of reducing potential burden. Of the six projects announced, three have been completed and three are in various stages of completion. The following chart outlines the status of each project underway as part of this initiative.

PROJECT	DESCRIPTION	STATUS
Prospectus Requirements		
Alternative prospectus models	Listed Issuer Financing Exemption (**LIFE**) The CSA published for comment amendments that would introduce a new prospectus exemption for RIs that have securities listed on a Canadian stock exchange and that are up to date on their CD obligations. The amendments allow RIs to distribute freely tradeable listed equity securities (and/or warrants convertible into such securities) to the public. The offering is generally limited to the greater of $5,000,000 or 10 per cent of the RI's market capitalization to a maximum total dollar amount of $10,000,000. To access this exemption, the RI must file a short offering document and meet certain other requirements.	Complete The CSA published notice of implementation of amendments to National Instrument 45-106 *Prospectus Exemptions* to introduce a new prospectus exemption for RIs that have securities listed on a Canadian stock exchange and that are up to date on their CD obligations. The amendments became effective on November 21, 2022.
	Well Known Seasoned Issuer (**WKSI**) Regime. In response to feedback received in our initial consultation, CSA staff recommended adopting a regime that would permit a category of larger and well established RIs in Canada to file a final base shelf prospectus, with no requirement to file a preliminary base shelf prospectus, and obtain a receipt the same day, without regulators reviewing documents filed prior to issuing a receipt.	In progress. Each CSA jurisdiction issued a temporary blanket order to facilitate the WKSI regime, which took effect on January 4, 2022. CSA staff are working on proposed amendments to National Instrument 44-101 *Short Form Prospectus Distributions* and National Instrument 44-102 *Shelf Distributions* (**NI 44-102**) to implement a permanent WKSI regime.
At-the-market (ATM) offerings	The CSA published amendments to NI 44-102 and the related companion policy to streamline ATM distributions in Canada. Prior to the amendments being adopted, NI 44-102 did not provide an exemption from the prospectus delivery requirements. Consequently, RIs had to seek exemptive relief each time they wished to conduct an ATM distribution. With the adoption of these amendments, RIs no longer need to apply for this relief, resulting in a faster and more cost-effective way to raise capital.	Complete. The amendments became effective on August 31, 2020.

PROJECT	DESCRIPTION	STATUS
Primary business — financial statement requirements	The CSA published amendments to the companion policy to NI 41-101 to provide clarity on the interpretation of item 32 of Form 41-101F1, specifically in determining when historical financial statements are required when an issuer has acquired or proposes to acquire a business that a reasonable investor would regard as being the primary business of the issuer.	Complete. The amendments became effective on April 14, 2022.
Continuous Disclosure Requirements		
Business Acquisition Report (BAR) requirements	The CSA published amendments to the BAR requirements aimed at reducing the regulatory burden associated with BAR filings without compromising investor protection. The amendments, which apply to non-venture RIs: • Altered the determination of significance such that an acquisition of a business or related businesses is a significant acquisition only if at least two of the existing significance tests are triggered (the Two-Trigger Test); and • Increased the threshold of the significance tests from 20 to 30 per cent.	Complete. The amendments became effective on November 18, 2020.
Annual and interim continuous disclosure obligations	The CSA published proposed amendments to NI 51-102 and related consequential amendments to change the annual and interim filing requirements of RIs by streamlining and clarifying certain disclosure requirements for the MD&A and AIF, as well as combining the financial statements, MD&A and, where applicable, AIF into one reporting document. This proposed reporting document will be called the Annual Disclosure Statement (**ADS**) for annual reporting purposes and the Interim Disclosure Statement (**IDS**) for interim reporting purposes.	In progress. CSA staff have reviewed the comment letters and are finalizing the amendments.

PROJECT	DESCRIPTION	STATUS
Access equals delivery model	The CSA received feedback in its initial consultation period that issuers continue to incur significant costs associated with printing and delivering various documents required under securities legislation. The feedback indicated that commenters were generally supportive of switching to electronic delivery, if investors retained an option to continue to receive paper documents. The CSA subsequently published a consultation paper to solicit additional views on the appropriateness of introducing an "access equals delivery" model in the Canadian market. Under this model, delivery of a document would be effected by the issuer alerting investors that the document is publicly available on SEDAR and the issuer's website.	In progress. On April 27, 2022, the CSA published proposed amendments aimed at implementing an access equals delivery model for prospectuses generally, annual financial statements, interim financial reports and related MD&A for non-investment fund reporting issuers. Under this model, providing public electronic access to the documents and alerting investors that the documents are available would constitute delivery for the documents. The comment period expired on July 6, 2022. The CSA received 28 comment letters from various market participants. Comment letters are currently being reviewed and considered by CSA staff.

In addition to reducing regulatory burden for non-investment fund issuers, the CSA has also undertaken various initiatives to reduce regulatory burden on investment fund issuers. Implementation of the first stage of amendments comprising eight initiatives was published on October 7, 2021. Subsequent stages will include further examination of the prospectus filing regime, modernizing the continuous disclosure regime, and exploring alternatives to the current requirements for delivering various investment fund related materials.

PROJECT	DESCRIPTION	STATUS
Investment funds		
Proposed Modernization of Prospectus Filings Model for Investment Funds	On January 27, 2022 the CSA published proposed amendments to the prospectus rules for investment funds (NI 41-101 and National Instrument 81-104 *Alternative Mutual Funds*) that would: • Allow an investment fund in continuous distribution to file a new prospectus every two years rather than every year (no change to when Fund Facts and ETF Facts must be filed and delivered). • Eliminate the requirement for an investment fund to obtain a final receipt for a prospectus within 90 days of the preliminary receipt.	The comment period ended in April 2022. Comment letters are currently being reviewed and considered by CSA staff.
CSA Notice and Request for Comment — Proposed Amendments and Proposed Changes to Implement an Access-Based Model for Investment Fund Reporting Issuers	On September 27, 2022 the CSA published proposed amendments to implement an access-based model for investment fund RIs. The proposed changes would modernize existing delivery practices for investment fund continuous disclosure documents and reduce the regulatory burden on investment fund reporting issuers.	The comment period ends December 26, 2022.

Important recent staff notices and initiatives[8]

NOTICE	DESCRIPTION	DATE OF PUBLICATION
CSA Multilateral Staff Notice 51-364 ***Continuous Disclosure Review Program Activities for the fiscal years ended March 31, 2022 and March 31, 2021***	The notice outlines observations resulting from the CSA reviews of RIs' disclosures and provides additional relevant information not covered by this Report. In addition, the notice includes the results of recently completed reviews to assess compliance with certain aspects of National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure* (**NI 52-112**), describes the common deficiencies noted in the reviews, and provides guidance for meeting the requirements of NI 52-112.	November 3, 2022
CSA Multilateral Staff Notice 58-314 ***Review of Disclosure Regarding Women on Boards and in Executive Officer Positions (Year 8 Report)***	This notice outlines key findings from the CSA's eighth annual review of public disclosure regarding women on boards and in executive officer positions. This notice is based on a review sample of 625 issuers that had year-ends between December 31, 2021 and March 31, 2022. The notice also provides guidance to help improve the consistency and comparability of this disclosure.	October 27, 2022
CSA Notice of Amendments to NI 45-106 ***Prospectus Exemptions*** **to introduce the LIFE**	The amendments introduce a new prospectus exemption available to RIs that are listed on a Canadian stock exchange, allowing them to issue free trading securities. The amendments became effective on November 21, 2022.	September 8, 2022
CSA Notice of Amendments to Alberta and Saskatchewan Orders 45-538 ***Self-Certified Investor Prospectus Exemption***	The prospectus exemption allows purchasers who do not meet the financial thresholds or other criteria required to qualify as an accredited investor to invest provided they self-certify that they meet other criteria intended to demonstrate their financial and investment knowledge. In July 2022, the exemption was expanded to better facilitate the use of special purpose vehicles and to treat self-certified investors more similarly to accredited investors. The amended exemption became effective July 28, 2022.	July 26, 2022

[8] Refer to section 4 of this report for other important regulatory initiatives, not repeated here.

NOTICE	DESCRIPTION	DATE OF PUBLICATION
CSA Notice of Changes to Companion Policy 41-101 *General Prospectus Requirements relating to Financial Statement Requirements*	The CSA has adopted changes to Companion Policy 41-101 to National Instrument 41-101 *General Prospectus Requirements* and consequential changes to Companion Policy 51-102 *Continuous Disclosure Obligations.* The notice describes the CSA's harmonized interpretation of the primary business and financial statement requirements for a long form prospectus.	April 14, 2022
CSA Consultation Paper 43-401 *Consultation on National Instrument 43-101 Standards of Disclosure for Mineral Projects*	The CSA published a consultation paper to obtain feedback from stakeholders about the efficacy of several key provisions of NI 43-101, priority areas for revision, and whether regulatory changes would address concerns expressed by certain stakeholders. The comment period ended on September 13, 2022.	April 14, 2022
CSA Staff Notice 24-318 *Preparing for the Implementation of T+1 Settlement*	The notice describes CSA staff's role with respect to an initiative by the Canadian securities industry to shorten the standard settlement cycle for most trades in securities from two days after the date of trade (T+2) to one day after the date of trade (T+1). CSA staff are of the view that shorter settlement cycles can help reduce settlement risk and have the potential to improve operational efficiencies for the industry.	February 3, 2022
CSA Staff Notice 81-334 *ESG-Related Investment Fund Disclosure*	The notices provides guidance for investment funds on their disclosure practices that relate to environmental, social and governance (**ESG**) considerations, particularly funds whose investment objectives reference ESG factors and other funds that use ESG strategies (**ESG-Related Funds**). It is intended to address the risk of "greenwashing" by helping investment funds and their fund managers enhance the ESG-related aspects of the funds' regulatory disclosure documents and ensure that the sales communications of ESG-related funds are not untrue or misleading and are consistent with the funds' regulatory offering documents.	January 19, 2022

NOTICE	DESCRIPTION	DATE OF PUBLICATION
ASC Blanket Order 44-501 ***Exemption from Certain Prospectus Requirements for Well-Known Seasoned Issuers***	The ASC and other CSA regulators have issued harmonized blanket relief orders from certain prospectus requirements for qualifying WKSIs that will allow a WKSI to file a final base shelf prospectus with its principal regulator and obtain a receipt on an accelerated basis, without first filing a preliminary base shelf prospectus.	December 6, 2021
ASC Blanket Order 52-501 ***Exemption from National Instrument 52-112 Non-GAAP and Other Financial Measures Disclosure***	The ASC and other CSA regulators have issued harmonized blanket relief orders from certain requirements in National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure,* such that the Instrument does not apply to eligible issuers in respect of disclosure of a specified financial measure pursuant to an Office of the Superintendent of Financial Institutions (OSFI) Guideline, under certain conditions.	December 2, 2021
CSA Staff Notice and Request for Comment 11-343 ***Proposal to Establish a CSA Investor Advisory Panel***	On July 14, 2022, the CSA announced its plans to establish an Investor Advisory Panel (**CSA IAP**) to represent the interests of retail investors in pan-Canadian policy development activity. IAP members have been appointed for staggered terms of either two or three years beginning on September 1, 2022.	December 2, 2021
ASC Notice of Implementation of ASC Blanket Order 31-536 ***Alberta Small Business Finder's Exemption***	The exemption allows a finder who meets certain conditions to intermediate the sale of the securities of an Alberta small business issuer under certain prospectus exemptions. The exemption became effective on November 10, 2021 and will expire on November 11, 2024.	November 10, 2021

Resources available

Listed below are some commonly used rules and guidance to assist RIs in understanding the requirements and where to find them.

To keep up to date on recent and upcoming changes, please subscribe to updates[9] or follow us on Twitter @ASCUpdates and on LinkedIn @AlbertaSecuritiesCommission.

CONTINUOUS DISCLOSURE RULES	NI 51-102
Financial Statements	Part 4
Forward-Looking Information, FOFI and Financial Outlooks	Parts 4A & 4B
Management's Discussion & Analysis	Part 5
Annual Information Form	Part 6
Material Change Reports	Part 7
Business Acquisition Report	Part 8
Information Circulars	Part 9
Material Contracts	Part 12
CONTINUOUS DISCLOSURE FORMS	
Management's Discussion & Analysis	Form 51-102F1
Annual Information Form	Form 51-102F2
Material Change Report	Form 51-102F3
Business Acquisition Report	Form 51-102F4
Information Circular	Form 51-102F5
Statement of Executive Compensation	Form 51-102F6
Statement of Executive Compensation — Venture Issuers	Form 51-102F6V
GENERAL PROSPECTUS RULES	NI 41-101
PROSPECTUS FORMS	
Information Required in a Prospectus	Form 41-101F1
Information Required in Short-Form Prospectus	Form 44-101F1
ACCEPTABLE ACCOUNTING PRINCIPLES AND AUDITING STANDARDS	NI 52-107
CERTIFICATION OF DISCLOSURE	NI 52-109
NON-GAAP AND OTHER FINANCIAL MEASURES DISCLOSURE	NI 52-112
CORPORATE GOVERNANCE	
Audit Committees	NI 52-110
Non-Venture Issuers	Form 52-110F1
Venture Issuers	Form 52-110F2

[9] https://www.asc.ca/en/news-and-publications/weekly-updates-web-page

Corporate Governance Disclosure	NI 58-101
Non-Venture Issuers	Form 58-101F1
Venture Issuers	Form 58-101F2
PROTECTION OF MINORITY SECURITY HOLDERS IN SPECIAL TRANSACTIONS	MI 61-101
INTERPRETATION AND GUIDANCE	
Process for Prospectus Reviews in Multiple Jurisdictions	NP 11-202
General Prospectus Requirements — Companion Policy	NI 41-101CP
Share Structure Issues — Initial Public Offering	SN 41-305
Sufficiency of Proceeds from a Prospectus Offering	SN 41-307
Confidential Pre-File Review of Prospectuses	SN 43-310
Escrow for Initial Public Offerings	NP 46-201
Continuous Disclosure Obligations — Companion Policy	NI 51-102CP
Disclosure Standards	NP 51-201
Environmental Reporting Guidance	SN 51-333
Reporting of Climate Change-related Risks	SN 51-358
Corporate Governance Guidelines	NP 58-201

The ASC provides additional resources on its website to assist RIs in complying with Alberta securities legislation, including:

- Issuer Toolkit for guidance (including videos) on NI 52-112.
- Energy Matters information, including the Energy Matters Report (formerly the Oil and Gas Review Report).
- A filing fee schedule and a filing fee calculator.
- Plain language summaries of prospectus exemptions and access to an exempt market dashboard.
- Reports & Publications bulletins on technical matters.
- Webinars and seminars on specific securities legislation issues.

Sign up to receive updates: https://www.asc.ca/news-and-publications/weekly-updates-subscription.

Contact personnel and presentation

We welcome comments on this Report and other Corporate Finance matters. Comments may be directed to any of the individuals listed below:

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UPCOMING PRESENTATION

An information webinar related to this Report and other topics is being planned for January 2023. Anyone who would like to attend this webinar can sign up to be notified of the presentation date and submit topics or questions they would like us to address by sending an email to cf-report@asc.ca.

Information about past and future seminars and webinars can be found on the ASC website at: https://www.albertasecurities.com/news-and-publications/events.

Glossary of terms

The following terms have the meanings set forth below unless otherwise indicated.

"**Act**" means the *Securities Act* (Alberta).

"**AIF**" means Annual Information Form; specifically, a completed Form 51-102F2 *Annual Information Form.*

"**ASC**" means the Alberta Securities Commission.

"**CD**" means continuous disclosure.

"**CSA**" means the Canadian Securities Administrators.

"**FLI**" means forward-looking information, as that term is defined in NI 51-102.

"**GAAP**" means generally accepted accounting principles, the accounting principles used to prepare an issuer's financial statements including, without limitation, IFRS and U.S. GAAP.

"**GAAS**" means generally accepted auditing standards, the auditing standards used to audit an issuer's financial statements including, without limitation, Canadian GAAS and U.S. PCAOB GAAS.

"**IFRS**" means International Financial Reporting Standards, the standards and interpretations adopted by the International Accounting Standards Board, as amended from time to time.

"**IPO**" means an initial public offering.

"**Issuer**" includes an issuer or RI as defined in sections 1(cc) and 1(ccc) of the *Securities Act* (Alberta), respectively. Although most of this Report is directed towards RIs for which the ASC is the principal regulator, Alberta securities legislation applies to all issuers that are RIs in Alberta. In some instances this Report is also applicable to issuers that are not yet RIs. The Report refers to RIs unless the term "issuer" is necessary to make the distinction.

"**MCR**" means a Material Change Report; specifically, a completed Form 51-102F3 *Material Change Report*.

"**MD&A**" means management's discussion and analysis; specifically, a completed Form 51-102F1.

"**SEDAR**" has the same meaning as defined in National Instrument 13-101 *System for Electronic Document Analysis and Retrieval (SEDAR)*.

"**SEDI**" has the same meaning as defined in National Instrument 55-102 *System for Electronic Disclosure by Insiders (SEDI)*.

"**Venture issuer**" has the same meaning as defined in NI 51-102.

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