

DECEMBER 2021

Corporate Finance Disclosure Report



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We strive to find the right balance that protects investors, allows our capital market to thrive and contributes to strengthening Alberta's economy.

The Alberta Securities Commission (**ASC**)’s Corporate Finance division is pleased to present its annual Corporate Finance Disclosure Report (**Report**). As highlighted in the Report, this past year saw an encouraging increase in capital market activity in Alberta, improving on pre-pandemic activity.

This year’s Report provides an overview of issues identified in connection with the team’s review of continuous disclosure, prospectus filings and cease trade order applications. It also provides an overview of several significant new regulatory initiatives intended to improve access to Alberta’s capital market, reduce unnecessary regulatory burden and address investor protection.

Balanced, timely, relevant and accurate material information is critical to ensuring investors can make informed investment decisions and to maintaining investor confidence in our capital markets. Staff conduct reviews of the continuous disclosure made by reporting issuers (**RIs**) for which the ASC is the principal regulator with a view to ensuring that these goals are met. We publish the results and observations to assist RIs and their advisers achieve these goals.

This Report includes results and observations from our continuous disclosure reviews and highlights areas in which disclosure concerns were identified. This year, disclosure issues were identified in relation to discussion of operations in the Management’s Discussion & Analysis (**MD&A**), inconsistent disclosure between regulatory filings and voluntary disclosure documents, and unbalanced and promotional disclosure.

In addition to conducting comprehensive reviews of the continuous disclosure of RIs, staff also conduct targeted issue-oriented reviews to address emerging issues and to provide the data necessary to inform intelligent policy development. During this past year we published the results of issue-oriented reviews pertaining to the global pandemic, women on boards and in executive officer positions, and climate change-related information. We found that RIs generally provide useful information in these areas in their regulatory filings and voluntary disclosure documents. However, staff did note some areas where disclosures were limited and cases where disclosure was boilerplate, vague or incomplete. RIs and their advisers can find these publications on our website and can subscribe for updates.

This last year, staff advanced a number of significant policy and rule-making projects both locally and together with our colleagues across the Canadian Securities Administrators (**CSA**). These included various regulatory burden reduction initiatives for both corporate and investment fund issuers, the implementation of National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure*, the adoption of new capital raising alternatives, and publication of Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*. We are currently undertaking important consultations respecting climate-related disclosure and diversity disclosure. Your participation and feedback is critical and we thank those who contributed in the past year.

For us at the ASC, another significant development this year was the departure of Tom Graham, formerly Director, Corporate Finance. Tom played a significant role guiding the ASC’s Corporate Finance division and represented the ASC for many years. We thank him for his contributions. It is now my distinct pleasure to be leading the division.

We regularly consult with RIs and those seeking to become RIs on prospective disclosure matters and we are also available to assist you. Please feel free to contact us with feedback or questions. I look forward to engaging with all of you in the future, including at our upcoming Corporate Finance presentation in January 2022.

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Each year the ASC issues four reports: the Annual Report, the Alberta Capital Markets Report, the Energy Matters Report (formerly the Oil and Gas Review Report) and the Corporate Finance Disclosure Report. These reports are created to provide timely and relevant information for market participants and reporting issuers. They can be found at www.albertasecurities.com.

1. 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 jointly with other members of the CSA, while other IORs are limited to Alberta.

Our reviews often identify deficiencies in disclosure that may result in ASC staff requesting that RIs make prospective changes in their disclosure practices, file un-filed documents or re-file certain documents. 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. ASC staff request the filing of un-filed 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. Serious deficiencies will be referred to the ASC's Enforcement division for further investigation.

ASC staff continue to encounter significant issues in the reviews that we conduct each year. Of the reviews completed over the past year, 51 per cent resulted in prospective changes being requested and 38 per cent resulted in the re-filing of a previously filed document or the filing of a previously un-filed document.

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.
- Provide copies of all correspondence with the ASC to the RIs chief financial officer (**CFO**), chief executive officer (**CEO**) and audit committee.
- Consider seeking advice from your legal and/or accounting advisors.
- Provide thorough and specific responses, referencing International Financial Reporting Standards (**IFRS**) and applicable securities legislation where relevant.
- Extensions are possible. 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.

2. Notable continuous disclosure review observations

A. DISCUSSION OF OPERATIONS

The MD&A provides management an opportunity to discuss how the RI performed during the period covered by the financial statements, including its financial condition and future prospects. A balanced discussion of financial performance and financial condition provides transparent communication that helps investors gain an overall understanding of the business. We continue to identify the discussion of operations as an area for improvement as this disclosure commonly does not provide sufficient depth of discussion for the period-over-period analysis.

The discussion of operations should be an area of focus for all entities. RIs can improve their disclosure by focusing on relevant material information, providing detailed analysis and including a discussion of significant projects, if applicable. We examine each of these below.

MATERIAL INFORMATION

The MD&A should provide a robust and in-depth analysis of the current period financial performance, financial condition and cash flows, with a focus on disclosure of material information. Information is material if a reasonable investor's decision to buy, sell or hold securities is likely to be influenced or changed if the information in question is omitted or misstated. RIs should update the discussion of operations every period, specifically in relation to material events. A significant acquisition that occurred during a period no longer covered by the financial statements may no longer be material and if not should be removed from the MD&A. It is our view that this type of historic disclosure in the current MD&A obscures material information, creates a longer and less relevant disclosure document and hinders a reader's ability to make an informed investment decision. This often happens when there is limited or no news to discuss. In that case, we recommend that RIs provide disclosure on their current operations and near term plans.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Excerpt from an RI's 2020 annual MD&A

On February 3, 2015, the Company announced that 2 million common shares were issued to ABC Co. at a deemed price of \$0.25 per share. In 2016 these shares were cancelled and returned to treasury. Certain shares that were subject to terms of the escrow agreement were also cancelled. After giving effect to the cancellation, the Company had 9 million common shares issued and outstanding.

ASC Comments

As this event occurred five years before the period covered by the MD&A, staff questioned the relevance of this disclosure to the RI's current operations. We encouraged the issuer to remove this disclosure in future filings of its MD&A to focus the discussion on events that occurred during the reporting period.

DETAILED ANALYSIS

One component of the MD&A is to explain the nature of, and reasons for, changes in the RI's performance. The analysis should provide investors with an understanding of current trends, events, transactions and expenditures. When an RI provides period-over-period variance analysis, it is important to quantify material changes and provide discussion that clearly explains the reasons for the change.

Simply disclosing the amount of change in a financial statement line item period-to-period and using boilerplate language is not sufficient. For instance, when discussing revenue variances, RIs should give a full discussion and analysis of the elements affecting revenue such as price and volume, and why those underlying variables have changed. Similarly, when discussing expense variances, providing a meaningful analysis and discussion of the material components of expenses, including offsetting variances, will provide investors with a better understanding of operations.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Excerpt from an RI's annual MD&A

Research and Development expenses for the year ended December 31, 2020 increased by 14%. The expenses were higher due to increased salary expense, although we had costs savings on raw materials used in our design work. We continue to focus on R&D, as we progress our efforts to commercialize our products.

Deficiencies

The analysis did not provide details for the change, such as quantifying the material components. Given the deficiencies identified, we requested that the RI amend and re-file the annual MD&A. The amended annual MD&A disclosure that met our expectation is presented below.

EXAMPLE THAT DID MEET OUR EXPECTATIONS

Excerpt from an RI's amended annual MD&A

Research and Development expenses for the year ended December 31, 2020 increased by \$4.1 million or 14% to \$34.3 million (2019 - \$30.2 million). The increase was due to higher salary expenses of \$10.2 million related to the hiring of dedicated design engineers and consultants, as the Company continues to refine our design efforts on product A, to allow for successful integration of our product with our partners vehicle fleet. The increase was offset by a \$6.1 million decrease in the cost of raw material purchases used in the design phase, as casting and molding work is near completion for product A. The Company expects R&D costs to remain consistent in future periods, as we finalize our design efforts, with a target to commercialize product A in Q2 2022.

SIGNIFICANT PROJECTS

The MD&A form requires RIs to describe each of their significant projects that have not yet generated revenue, including: the overall plan for the project, the status of the project relative to that plan, expenditures made to date and how those expenditures relate to the overall anticipated costs of the project. This disclosure is required for all RIs, irrespective of the industry they are in. We have seen an increase in the number of RIs failing to include sufficient disclosure, including RIs in the technology industry where research and development projects are common.

The Alberta market has seen an emergence of technology-based RIs, from consumer and industrial end products to parts and component manufacturers, supporting a broad range of industries. Early stage and developing RIs, that are technology-based and have not yet generated significant revenue from projects, are required to provide additional disclosures on their significant projects in the MD&A. We have observed RIs not discussing project plans in sufficient breadth and depth, and although the current period expenditure is often disclosed, there is a lack of disclosure on how the current expenditures impact the timing and remaining costs to take the project to the next stage, and ultimately reach commercialization.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Excerpt from an RI's interim MD&A

The Company has 3 ongoing projects in various stages with various partners. We expect to continue our research and development efforts, with the goal of reaching commercial production in 2025, and expect spending \$25 million dollars in this area over the next 5 years.

Deficiencies

The RI failed to disclose the overall plan for the projects, the status of the projects relative to the plan, or the expenditures made, and how these related to anticipated timing and costs remaining to take each of the three projects to the next stage of the plan. Given the deficiencies identified, we requested that the RI amend and re-file their interim MD&A. The amended interim MD&A disclosure that met our expectation is presented below.

EXAMPLE THAT DID MEET OUR EXPECTATIONS

Excerpt from an RI's amended interim MD&A

To integrate our technology into different platforms, we have engaged partners in the land, air and sea industries, with the goal of validating our technology and to ultimately reach commercialization. This approach enables the Company to build a product portfolio that can serve as many markets and partners as possible. The estimated costs disclosed below are based on management's best estimates, considering the information available on supply costs, wages and timelines. There is a risk that the estimates and/or timelines will not be achieved.

With the emergence of electric batteries being used in the transportation mobility space, the Company is focused on integrating its technology into existing electric battery systems. We believe our technology can provide greater storage capacity, thus allowing our partners mobility devices to be in service for longer periods of time, which means less time spent at charging stations. We expect the total cost of our project plan to be \$25 million, and that we will begin commercial production in 2023 to 2025. We expect to use our existing credit line to fund the projects. Each project is categorized into research, design, and validation stages, and is reviewed by management each period to assess remaining steps and expected costs to be incurred to advance the project to the next stage.

| PROJECT | STATUS | COST INCURRED | COST REMAINING | STEPS REQUIRED | TIMING |
|--------------|------------|---------------|----------------|--|---------|
| Land Project | Validation | \$12 million | \$3 million | The Company is currently validating the technology with two partners. Certain refinements are required to allow successful integration into our partners existing electric vehicle fleet. As the end product is substantially complete, we do not expect the refinements to impact our estimated costs and timeline to complete. | Q3 2023 |
| Air Project | Design | \$10 million | \$7 million | The Company is currently working with three major airlines to design an electric battery storage solution. There have been challenges in designing and configuring our product to meet stringent aviation regulations. We expect significant costs to be incurred on this project, and there is no guarantee our product will conform to aviation regulations. | Q1 2024 |
| Sea Project | Research | \$1 million | \$15 million | The Company continues to research ways in which our product can be integrated with marine vessels. Given the length of trips, and lack of available charging sources, the majority of costs and efforts remain in the research stage. The Company is in negotiations with various marine partners to assist in the research and ultimate design of this product. | Q4 2025 |

It is cautioned that not all aforementioned projects will turn into orders and generate revenue. These areas are identified to demonstrate the scalability and versatility of our technology. Once the technology is proven and validated, active discussions around commercial viability will begin. Revenue will only be generated once the finished products are shipped to the partner. We continue discussions with potential commercial customers, which helps us to determine the optimal fit for our end products.

QUESTIONS TO ASK YOURSELF

- Has each significant project been described in enough detail to enable investors to understand our plan for the project and the status of the project relative to the plan?
- Does our explanation of project expenditures clearly disclose costs incurred to date compared to estimated costs?
- Has a clear timeline been provided, including where we are in that timeline and when we anticipate being complete?
- Have we explained where we anticipate obtaining funding for the project, if required?
- If applicable, has a breakdown of the material components of research and development (**R&D**) been disclosed?

B. CONSISTENCY OF DISCLOSURE

During our CD reviews, in addition to reviewing the documents an RI is required to file under securities legislation, we may also review and assess voluntary disclosures to ensure compliance and consistency. Voluntary disclosure documents are typically published on an RI's website or on a social media platform and include documents such as corporate presentations, sustainability reports, public surveys and corporate citizenship reports. While the information disclosed in these voluntary documents may be useful to investors, we have observed inconsistencies between voluntary disclosure documents and regulatory filings, which can be misleading to investors.

CORPORATE PRESENTATIONS

Corporate presentations often include disclosures that are not included in regulatory filings, or are not updated in a timely manner. We generally presume that information disclosed in an RI's corporate presentation is material. We expect material information that is disclosed in a corporate presentation by an RI to also be disclosed in required filings, generally in the MD&A, to avoid the appearance of making selective disclosure.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Excerpt from an RI's corporate presentation

| <i>Disclosure</i> | <i>ASC Comments</i> |
|---|--|
| More than \$1 billion in the growth pipeline, with 12 shovel-ready or near shovel-ready projects. | The RI's current period MD&A provided no disclosure with respect to capital resources and the \$1 billion growth pipeline, nor was the status of the 12 shovel-ready / near shovel-ready projects discussed. We generally presume that information disclosed in an RI's corporate presentation is material. As such, it should also be disclosed in the RI's MD&A, which requires that information material to an RI be disclosed. |
| High quality project execution meeting and exceeding communicated targets. | The targets did not appear to have been communicated, as we were unable to find them in any of the RI's required or voluntary disclosures. As the targets were not disclosed in any document, we found the disclosure to be incomplete and promotional in nature. Given the deficiencies, we requested the corporate presentation be removed from the RI's website until the issue was resolved. |

CLIMATE-RELATED DISCLOSURE AREAS

We continue to observe RIs providing more expansive climate change-related disclosures in their voluntary reports (such as sustainability reports, public surveys and corporate citizenship reports) than are provided in their regulatory filings. While voluntary disclosure can provide another mechanism to communicate with stakeholders outside of an RI's regulatory filings, it should be prepared with the same rigour as the RI's regulatory filings.

- In the disclosure reviews conducted in connection with the development of Proposed National Instrument 51-107 *Disclosure of Climate-related Matters*, we observed several instances where RIs appeared to disclose material estimated financial impacts of identified climate-related risks in their voluntary reports which were omitted from their regulatory filings. While we acknowledge there are many challenges in precisely measuring and quantifying the financial impacts of climate-related risks, material information required to be disclosed under securities legislation must be disclosed in regulatory filings. It is not sufficient for this information to be contained only in voluntary disclosure.
- We also observed several instances where issuers disclosed climate-related risks in their voluntary disclosures that were only partially disclosed or not disclosed at all in their regulatory filings. Boards and management should ensure that the materiality of information contained in any voluntary disclosure is assessed and, if the information is material, that it is disclosed in the issuer's regulatory filings. Voluntary disclosure should be consistent with the information included in regulatory filings.

TECHNICAL REPORTS

In addition to inconsistencies between voluntary disclosure documents and regulatory filings, we have also encountered inconsistencies between disclosures in required reporting documents. For example, oil and gas RIs are required to annually file a statement of the reserves data and other information specified in Form 51-101F1 *Statement of Reserves Data and Other Oil and Gas Information (Form 51-101F1)* per National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities (NI 51-101)*. The disclosure in Form 51-101F1 is derived from technical reports prepared by qualified reserves evaluators. We have observed RIs identifying material future development costs (FDC) in Form 51-101F1 that exceed or do not align with the RI's liquidity and capital resources disclosure in the MD&A. Additionally, the net present value of reserves disclosed in Form 51-101F1 is sometimes lower than the related assets' carrying value disclosed in the financial statements, without an accompanying impairment analysis and disclosure.

Oil and gas RIs sometimes have their lending facilities tied to the value of their reserves; this is commonly referred to as reserve-based lending. With the challenging and unstable oil and natural gas pricing environment, the amount of credit RIs are able to access has been unpredictable period-over-period, and fluctuates during the term of the loan to account for changes in assumptions such as production and pricing. As available credit fluctuates, we encourage RIs to consider the potential impact this may have on their ability to execute operational and development plans, as well as how an increase or decrease in available credit would impact capital budgets and capital resource disclosure.

Further, the impact on an RI's ability to expend the required FDC to realize the value of reserves contained in the reserve report has been significantly impacted by the reduction in available credit. If an RI is not able to expend the required FDC per the reserve report, its ability to realize the net present value of cash flows in the reserve report is jeopardized. We often see disclosure in RIs' financial statements and MD&A indicating limited access to capital, alongside the inclusion of significant FDC in the reserve report, with no clear indication whether funding is available.

EXAMPLE THAT DID NOT MEET OUR EXPECTATIONS***Excerpt from the statement of financial position***

| (\$ millions) | December 31, 2020 | December 31, 2019 |
|-------------------------------|-------------------|-------------------|
| Cash | \$ 3 | \$ 6 |
| Property, plant and equipment | 100 | 80 |
| Long-term debt ¹ | 75 | 60 |

Excerpt from Form 51-101F1

| Future Development Costs | Proved Plus Probable Reserves (\$ millions) |
|--------------------------|---|
| 2021 | \$ 22 |
| 2022 - thereafter | \$ 110 |

| After-tax Net Present Value | Discounted at 10% (\$ millions) |
|-----------------------------|---------------------------------|
| Total Proved Plus Probable | \$ 35 |

Excerpt from annual MD&A

[1] As at December 31, 2020, there were no wells producing, as the Board has decided to suspend production for the foreseeable future, due to volatility in the international crude oil market, severe decline in crude oil prices, and having considered the fact that the Company's production equipment and road need repair.

[2] The Company will require additional funding in the form of debt and/or equity, joint venture arrangements and other structures to fund the development of its significant asset base. Once sufficient funding has been obtained, the Company intends to develop its projects in phases and expects that cash flows from the successfully developed early projects will help to finance later projects. Management believes that it is reasonable to assume the availability of external financing in the future, which financing could include one or more of: (i) debt financing; (ii) asset dispositions; (iii) joint ventures; and (iv) equity financing. There can be no guarantee, however, that sufficient funds will be available or will be available on a timely basis, or that the Company will allocate funding to develop all of its reserves. Failure to develop its reserves would have a negative impact on the Company's net revenue. The interest or other costs of external financing are not included in future net revenue estimates and would reduce future net revenue depending upon the financing sources utilized.

Deficiencies

- The RI did not have sufficient cash, cash flow from operating activities, or credit available to expend the \$22 million in FDC as contemplated by Form 51-101F1.
- The after-tax net present value of \$35 million disclosed in the reserve report is materially less than the carrying value of the property, plant and equipment assets of \$100 million, which indicates there are triggers for impairment present, which should have been identified by the RI and resulted in an impairment test being performed. Based on the disclosures made, we were of the view that both external and internal indicators of impairment exist.

C. CURRENT VS. NON-CURRENT ASSETS AND LIABILITIES

An RI is required to present current and non-current assets and current and non-current liabilities as separate classifications in its statement of financial position, unless presentation based on liquidity is more reliable and relevant. This presentation provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the RI's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period.

We have observed assets and liabilities being incorrectly classified based on the nature and terms of the related agreement. International Accounting Standards 1 *Presentation of Financial Statements (IAS 1)* sets out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

CURRENT ASSETS

While some assets, such as cash and cash equivalents, are easily identified as current assets, other assets require further analysis of the terms of repayment to determine the appropriate classification. It is critical that the classification is appropriate. Current assets have the following characteristics, among others:

- Asset is liquid and easily converted to cash;
- Maturity is no more than 12 months after the reporting period; and
- Asset is sold, consumed or realized as part of the RI's normal operating cycle (where the normal operating cycle is not clear, it is assumed to be 12 months, as outlined in IAS 1.68).

CURRENT LIABILITIES

The distinction between current and non-current liabilities is critical for many RIs, as it affects key financial metrics such as current ratios and may affect financial covenants. Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the RI's normal operating cycle. An RI classifies such operating items as current liabilities even if they are due to be settled more than 12 months after the reporting period. RIs should consider the following for other liabilities:

- If the right to demand repayment of the debt for a period of more than 12 months after the reporting period has not been waived in writing, the debt should be classified as current.
- A liability should be classified as current if a financial covenant is breached on or before the reporting date; however, if the lender agreed by the end of the reporting period to provide a period of grace ending at least 12 months after the end of the reporting period, the liability can be classified as non-current.
- Events impacting covenants and the RI's financial conditions after the end of the reporting period do not influence the classification of a loan at the reporting date.
- A portion of long-term debt with no terms of repayment may need to be classified as current if the debt continues to be partially repaid in subsequent periods.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS***Excerpt from the statement of financial position***

| (\$ thousands) | | December 31, 2020 | December 31, 2019 |
|--------------------------------|-----|-------------------|-------------------|
| <i>Current liabilities</i> | | | |
| Trade and accrued liabilities | | \$ 28,000 | \$ 20,000 |
| Other loans | [2] | 15,000 | 25,000 |
| Total current liabilities | | \$ 43,000 | \$ 45,000 |
| <i>Non-current liabilities</i> | | | |
| Bonds | [1] | 10,000 | - |
| Shareholders' loan | [3] | 20,000 | - |
| Other loans | [2] | 5,000 | - |
| Total liabilities | | \$ 78,000 | \$ 45,000 |

Excerpt from the statement of cash flow

| (\$ thousands) | | December 31, 2020 | December 31, 2019 |
|--|----------|-------------------|-------------------|
| <i>Cash flows provided in financing activities</i> | | | |
| Proceeds from issue of common shares | | \$ - | \$ 30,000 |
| Proceeds from bonds and other loans | [1], [2] | 15,000 | 20,000 |
| Repayment of bonds and other loans | [2] | (10,000) | (10,000) |
| Proceeds from shareholders' loans | [3] | 30,000 | - |
| Repayment of shareholders' loans | [3] | (10,000) | - |
| Net cash provided by financing activities | | \$ 25,000 | \$ 40,000 |

Excerpt from the notes to the financial statements

[1] On June 10, 2020, the Company issued convertible bonds for the principal amount of \$10,000 to an arms-length third party. The convertible bonds interest rate is 10% per annum and require repayment in full within two years from the issuance date. All the subscription proceeds were subsequently received on July 30, 2020. There was no conversion made during the year ended December 31, 2020.

[2] As at December 31, 2020, the Company had unsecured loans bearing interest at 10% per annum, of which \$15,000 have a maturity date by January 31, 2021 and \$5,000 is maturing on May 31, 2022.

[3] As at December 31, 2020, the Company had loans from shareholders' that are unsecured, interest bearing at 10% per annum and are repayable in two years.

Deficiencies:***Disclosure:***

- The notes do not provide sufficient detail to understand the RI's financial liabilities,¹ including the following: date of issuance of the \$5,000 bond, repayment terms of the shareholders' loan and other loans, the maturity date of the shareholders' loan, and conversion terms of the bonds, including an understanding of the accounting for the conversion feature.

¹ See paragraphs 7 and 31 of IFRS 7 *Financial instruments: Disclosures*.

- The statement of cash flows includes a repayment of bonds and other loans of \$10,000; however, the notes provide no disclosure to indicate that there was a repayment of the bonds or other loans during the reporting period. Providing clear disclosure about debt proceeds and repayments will assist users in understanding cash flow movements presented in the statement of cash flows.

Classification: Although the shareholders' loan has no disclosed terms of repayment or maturity date, as the RI continues to partially repay the shareholders' loan, it may not be appropriate to classify the entire balance as a long-term liability. The RI should assess if a portion of the shareholders' loan should be classified as current and provide additional disclosure around these partial repayments made.

AMENDMENTS TO IAS 1

In January 2020, the International Accounting Standards Board (**IASB**) issued *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)*, clarifying the requirements for the presentation of liabilities in the statement of financial position. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. At the June 22/23, 2021 IASB meeting, the IASB tentatively decided to defer the effective date of the Amendments to IAS 1 to no earlier than January 1, 2024. As these amendments must be applied retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, ASC staff encourage RIs to assess the impact of these amendments early.

D. PROMOTIONAL DISCLOSURE

Promotional disclosures regarding an RI's business activities and future prospects are often observed in news releases, MD&A, corporate presentations and on social media platforms. Promotional disclosures also tend to be forward-looking in nature, and often do not contain the required material factors and assumptions to support such disclosure. With the emergence of "clean" and "green" technologies and processes, disclosure made by RIs in this area can be challenging to verify, and it is often unclear if the disclosure is supportable.

We remind RIs that with increased access to data and information online, it is important to ensure that all manner of public disclosure be factual and balanced. Further guidance is provided in CSA Staff Notice 51-356 *Problematic Promotional Activity by Issuers*. Examples of promotional disclosure are discussed below.

PARTNERSHIPS AND ALLIANCES

We have observed RIs with new product lines or operations that have not yet recorded significant revenue, disclose the potential future revenue expected from partnerships and alliances without providing the supporting facts and sources.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Extracts from an RI's disclosures regarding its total addressable market

| <i>Disclosure</i> | <i>ASC Comments</i> |
|--|---|
| Total addressable global market for our partner's product is \$1 billion by 2025. | Despite the overall market demand for the RI's partner's products, the RI's product relates to an integrating component. For this reason, the addressable market potential for the RI was significantly less than the overall market for its partner's products, making this disclosure potentially misleading. |
| In 2020, there were 10 million products sold in the global market and we estimate the annual global demand of our partner's products to be \$7 billion in the United States, \$5 billion in Canada, and \$3 billion in Europe. | The RI failed to include a reference to the third-party source from which this information was obtained. |

Additionally, we have observed disclosure of potential sales through partnerships where material factors and assumptions are omitted.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Extracts from RIs' disclosures regarding potential sales

| <i>Disclosure</i> | <i>ASC Comments</i> |
|--|--|
| We have expanded our strategic partnership with ABC Co. and have forecasted volume production targets to be 800 gadgets minimum by the second-year post validation. | The required material factors and assumptions to support the production target of 800 were not disclosed. Additionally, the timing and steps required to reach the "second-year post validation" are unclear. |
| Our partner will issue a purchase order to integrate the technology into its current product and beyond. The partner, in collaboration with the Company, anticipates building a working prototype that is expected to be implemented in the field by late 2024. | This statement implies that the RI has executed a purchase order with a partner, but upon further inquiry, we determined that no such agreement had been executed. Additionally, as the RI has not yet generated revenue, this would be a milestone event that could artificially inflate the RIs share price. |
| Our cannabis products will now be offered in the Asian market, through various channel partners and re-sellers. We have entered into sales agreements with two partners, for \$12 million and \$21 million, respectively. We expect to receive the necessary permits and approvals, from government agencies to distribute cannabis, within twelve-months. | The steps required to obtain the necessary permits and approvals were not disclosed, and there was no accompanying risk disclosure made by the RI in regards to entering a new foreign market. Upon further inquiry, it was determined that the sales agreements related to countries in which the possession of cannabis is illegal, and that these countries have no plans to legalize cannabis in the foreseeable future. |

GREEN WASHING DISCLOSURES

The publication of sustainability reports disclosing an entity's environmental, social and governance (**ESG**) impact is becoming more widespread. These reports usually describe the RI's operational performance in the context of clean or green production, such as achieving net-zero emission targets, and a carbon neutral position.

We have observed RIs including unsupportable disclosures in these reports that appear promotional in nature, as they do not contain the related material factors and assumptions.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS***A sample of disclosures from RIs' websites and sustainability reports***

| <i>Disclosure</i> | <i>ASC Comments</i> |
|--|--|
| ESG report that disclosed that the company achieved “high scores” in environmental, social and governance categories, based on a survey conducted by a national newspaper. | The actual “scores” were not disclosed and it was unclear what standards the scores were based on or the framework employed by the national newspaper. |
| Website disclosed that the Company was undertaking “the world’s first zero emissions energy production project”. | There was no supporting disclosure to indicate how the zero emissions energy project would be achieved and where the Company is in respect to its development plan. The RI did not publish a sustainability report nor did it publish any related emissions data, which makes it virtually impossible to verify the RI’s claims. |
| Website described operations as “carbon-neutral” and “clean sustainable energy”. | There was no accompanying disclosure on how the RI was in fact carbon-neutral, or how its operations produced clean and sustainable energy. The accompanying sustainability report was outdated and had not been updated for the current period. Lastly, as the framework was not disclosed, it is unclear what standards were followed, such as those of the Task Force on Climate-related Financial Disclosures (TCFD), Sustainability Accounting Standards Board (SASB) or Global Reporting Initiative (GRI). |

OTHER PROMOTIONAL DISCLOSURES

We have concerns that promotional and problematic disclosure may artificially increase a RI’s share price and trading volume, which undermines the integrity of the capital markets, and puts investors at risk of harm by making misinformed investment decisions.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS***Excerpt from a RI’s MD&A and news release***

| <i>Disclosure</i> | <i>ASC Comments</i> |
|---|---|
| <p>During the nine-months ended September 30, 2021, franchise-wide sales¹ increased 24% to \$2.5 million, mainly due to the opening of 12 new franchise stores.</p> <p>⁽¹⁾ total revenue reported to the RI by the franchise retail stores.</p> | <p>The RI failed to disclose that franchise-wide sales were not the same as revenue recorded in its financial statements. Rather, the \$2.5 million figure was a summation of all retail locations, and not the franchise royalty revenue earned by the franchisor in accordance with IFRS, which was materially lower than the franchise-wide sales. We considered this measure to be a non-GAAP (generally accepted financial principles) financial measure, which was not appropriately defined, labeled, or reconciled in accordance with CSA Staff Notice 52-306 (Revised) <i>Non-GAAP Financial Measures</i>.</p> |

Our record order book as of September 30, 2021 is \$55 million, with significant demand coming from U.S. and European markets. We expect these orders to ship within the next 18-24 months. We also recently launched a new product line and have received strong demand in Asia, with orders approaching \$12 million, all of which are expected to ship within the next 18-24 months.

We are of the view that this disclosure was a material financial outlook, as it gives guidance to investors of the amounts of revenue expected to be earned within a certain time frame. As such, it must comply with the disclosure requirements of part 4B of National Instrument 51-102 *Continuous Disclosure Obligations* (**NI 51-102**) to include material assumptions and risks. It was also unclear what the RI means by “order book”, and whether this represented contracted sales or was an internal forecast.

PRACTICE TIPS

We remind RIs that if actual revenues earned materially differ from the forward looking disclosure, such as a material difference in the amount or the timing of revenue, then subsection 5.8(4) of NI 51-102 would require disclosure and discussion of the material difference.

FORWARD LOOKING INFORMATION

Forward looking information (**FLI**) disclosure can take the form of a financial outlook or a statement about future events and conditions. It gives guidance to investors regarding the amount of revenue, financial performance metrics, and other events or milestones that are expected to be achieved within a certain time frame. We often find that the FLI disclosure requirements are neglected when FLI is disclosed outside of the MD&A; for example, in corporate presentations, websites and social media platforms. If an RI provides material FLI disclosure and it is included in voluntary disclosure outside of the MD&A, the RI should consider whether the disclosure represents material information, and as such should also be disclosed in the MD&A.

When events and circumstances occur that impact previously reported FLI, RIs need to disclose this information, along with the updated FLI. Simply providing an update of previously disclosed FLI without also disclosing the data that relates to the change in the underlying factors and assumptions provides no insight on why and how the target or guidance has changed. In addition, it is not sufficient to merely cease reporting a specific FLI statement. Instead, RIs are required to disclose in their MD&A the decision to withdraw previously disclosed FLI, along with a discussion of the events, circumstances and assumptions that are no longer valid. The disclosure of FLI is subject to the requirements under Parts 4A, 4B and section 5.8 of NI 51-102, irrespective of where FLI is located within a document or the nature of the document in which FLI is disclosed. If an RI elects to disclose such information, it is bound by these disclosure requirements.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Excerpt from an RI's corporate presentation

| Disclosure | ASC Comments |
|--|---|
| Existing operating assets expected to generate 2022 Revenue of ~C\$180 million and EBITDA of ~C\$23 million with additional growth expected from our near-term development pipeline. | The noted disclosures were not included in the RI's MD&A. We are of the view that if an RI believes information is material enough to include in a corporate presentation, it should generally also be disclosed in the MD&A to avoid selective disclosure. |

| | |
|--|---|
| Projected 2021-2025 EBITDA CAGR of over 60%. | Where no disclosure was made in the RI's MD&A, we were unable to verify if the FLI guidance remained accurate, if it was withdrawn, or if actual results were materially different from the FLI disclosed. |
| Projected 2023 EBITDA of C\$19-21 million. | We also objected to the FLI disclosure made in the corporate presentation itself, as it was unclear if there was a reasonable basis for the FLI, given the RI was in a new and emerging market, and incurred significant net and EBITDA losses. The material factors and assumptions to support the FLI were not disclosed. |

PRACTICE TIPS

- Staff recommend that RIs keep a record of all FLI they disclose, including which documents contain FLI disclosure, to ensure it is appropriately updated or withdrawn, in accordance with section 5.8 of NI 51-102.
- RIs should establish policies and procedures over the disclosure of FLI, and have the disclosure reviewed by the appropriate level of an RI's management, legal counsel, audit committee, and if appropriate, the board of directors, to ensure the requirements of Parts 4A, 4B of NI 51-102 are met.

E. STATEMENT OF EXECUTIVE COMPENSATION

To disclose the compensation provided to each named executive officer (**NEO**) and director for the financial year, and the decision-making process relating to compensation, an RI is required to file Form 51-102F6 *Statement of Executive Compensation (Form 51-102F6)* or Form 51-102F6V *Statement of Executive Compensation – Venture Issuers (Form 51-102F6V)* (collectively, the **Statement of Executive Compensation**).

We have seen a rise in the number of RIs that have failed to file the Statement of Executive Compensation or have filed the statement late. The Statement of Executive Compensation must be filed no later than 140 days after the end of the RI's most recently completed financial year if the RI is not a venture issuer, or 180 days if it is a venture issuer. RIs that are required to send an information circular are required to include the Statement of Executive Compensation in the information circular and file it within the above timeframe. For RIs that are not required to send an information circular, the Statement of Executive Compensation can be included in their Annual Information Form (**AIF**), if applicable, or filed as a stand-alone document.

In addition, we have seen an increase in the number of RIs not providing appropriate or sufficient disclosure in relation to their executive compensation. Specifically, we have identified the following disclosure areas requiring improvement:

| AREA OF IMPROVEMENT | HOW TO IMPROVE DISCLOSURE |
|-----------------------|---|
| Departure from format | RIs that are non-venture issuers must complete Form 51-102F6, while venture issuers have the option of completing Form 51-102F6 or Form 51-102F6V. The required disclosure must be made in accordance with the applicable form, with no hybrid form permitted. |
| Identification of NEO | One component of the definition of a "NEO" is the inclusion of the CEO, CFO or an individual who performed similar functions to a CEO or CFO. For example, an interim CFO or contract CFO who is employed by an external management company and provides services to the RI under an understanding, arrangement or agreement should be identified as a NEO and relevant disclosures provided. |

| AREA OF IMPROVEMENT | HOW TO IMPROVE DISCLOSURE |
|--|--|
| Completeness of benchmark disclosure | If benchmarking is used to determine compensation or any element of compensation, include the benchmark group and describe why the benchmark group and selection criteria are considered by the RI to be relevant. |
| Performance goals described in sufficient detail | Disclose performance goals that are based on objective, identifiable measures, including the specific targets. Provide enough detail to explain how each element of compensation is tied to performance and allow a reasonable person to connect the discussion to the rest of the Statement of Executive Compensation disclosure. Disclosure that merely states the performance goals used for determining compensation or compensation already awarded, earned, paid or payable is not adequate. |
| Performance graph trend not compared to compensation of NEOs | Certain RIs are required to provide a graph illustrating the total shareholder return over the past five financial years compared to an equity market index. This should include a discussion of how the trend shown in this graph compares to the trend in the compensation paid to NEOs over the same period. |
| Quantification of termination and change in control benefits | For each contract, agreement, plan or arrangement that provides for payment to a NEO, an RI is required to disclose, among other things, a description, explanation and where appropriate, a quantification of the estimated incremental payments, payables and benefits that are triggered by a termination, resignation, a change in control of the company or a change in a NEO's responsibilities. It is not sufficient to simply disclose that if the CEO was terminated without cause, the CEO would be entitled to an amount equal to two times the annual base salary amount. We would also expect the RI to quantify what this amount would be. |

We encourage RIs to review the Statement of Executive Compensation carefully and consider the above items while preparing their disclosure.

F. BUSINESS ACQUISITION REPORTS

We receive many inquiries from RIs respecting the filing of the business acquisition reports (**BARs**). We have also noted that some RIs have failed to file a BAR when required. This section is intended to provide additional guidance in understanding the BAR filing requirement. When an RI enters into an agreement to acquire a business, the RI must determine whether the business to be acquired constitutes a "significant acquisition". It is also important to note that what constitutes a "business" for purposes of IFRS and securities legislation may differ. We generally consider that a separate entity, a subsidiary or a division is a business and in certain circumstances a smaller component of a company may also be a business, whether or not the business previously prepared financial statements. As such, if an RI has completed an acquisition of a business, it must consider the BAR requirements under Part 8 of NI 51-102.

WHAT IS A BAR?

A BAR describes the significant business acquired and the effect of the acquisition on an RI. It also provides historical financial information for the business acquired and pro forma financial information for the combined entity, if required. The content of a BAR is outlined in Form 51-102F4 *Business Acquisition Report* (**Form 51-102F4**).

How to determine a significant acquisition?

An acquisition of a business or related businesses is a significant acquisition if:

- for a non-venture issuer, at least two of the following significance tests are triggered at the 30 per cent threshold; or
- for a venture issuer, at least one of the following significance tests is triggered at the 100 per cent threshold.

| SIGNIFICANCE TEST | | NON-VENTURE | VENTURE |
|---------------------|---|-------------|--------------|
| ASSET TEST | $\frac{\text{Acquired assets}}{\text{RI total assets}} =$ | $\geq 30\%$ | $\geq 100\%$ |
| INVESTMENT TEST | $\frac{\text{Investment in and advances to the acquired business}}{\text{RI total assets}} =$ | $\geq 30\%$ | $\geq 100\%$ |
| PROFIT OR LOSS TEST | $\frac{\text{Specified profit/loss of the acquired business}}{\text{RI specified profit/loss}} =$ | $\geq 30\%$ | N/A |

The significance test of an acquisition of a business or related businesses must be applied as at the acquisition date using the most recent audited annual financial statements of the RI and the business or related businesses. In addition, if an RI chooses to use the optional test, the optional significance tests use the financial statements from the most recently completed interim period or financial year of the RI and the business or related business, without giving effect to the acquisition.

WHEN IS A BAR REQUIRED TO BE FILED?

If it is determined that a significant acquisition has occurred, a BAR must be filed within 75 days after the acquisition date. However, if the most recently completed financial year of the acquired business ended 45 days or less before the acquisition date, this deadline is extended to within 90 days after the acquisition date in the case of a non-venture issuer, or within 120 days after the acquisition date in the case of a venture issuer.

EXAMPLE

If an RI acquired a significant business with a December 31, 2021 year-end on February 14, 2022, the RI would be required to file a BAR within 90 days of the acquisition date if the RI is a non-venture issuer and 120 days if it is a venture issuer.



However, if the issuer acquired the significant business on February 15, 2022, 46 days after the most recently completed financial year, the RI would be required to file the BAR within 75 days, by May 1, 2022.

WHAT IS INCLUDED IN A BAR?

When an RI is required to file a BAR, the report must include the following for each business or related businesses:

1. Audited annual financial statements for the most recently completed financial year ended on or before the acquisition date, including the comparative financial year, if any. If the business has not completed one financial year, the financial period commencing on the date of formation and ending on a date not more than 45 days before the acquisition date.
2. Interim financial statements² for the most recently completed interim period ended on or before the acquisition date, including the comparable period in the preceding financial year.

Additionally, a non-venture issuer must include a pro forma statement of financial position, pro forma income statement and pro forma earnings per share, as at and for the most recently completed financial year and interim period, if any, that gives effect to the significant acquisition as if it had taken place before the financial period. If the RI has not filed financial statements for any annual or interim period, include the above pro forma financial statements as at and for the most recently completed financial year and interim period of the acquired business.

PRACTICE TIPS

Other items that RIs should consider are:

- A “business” includes an interest in an oil and gas property to which reserves, as defined in NI 51-101, have been specifically attributed. Section 8.10 of NI 51-102 provides an exemption from the financial statement disclosure requirements in a BAR, if the acquisition meets certain criteria. An RI relying on this exemption must provide alternative disclosure, including operating statement(s), pro forma operating statement(s), and certain disclosures regarding the oil and gas property (or properties) acquired.
- Ensure that the auditors have given their consent to include their audit report in the BAR. If not, disclose this fact.
- An RI does not have to engage an auditor to review the interim financial report of an acquired business included in a BAR. However, if the RI later incorporates the BAR into a prospectus, the interim financial report will have to be reviewed in accordance with section 32.3 of Form 41-101F1 *Information Required in a Prospectus* (**Form 41-101F1**).
- If multiple acquisitions have been completed, the pro forma financial statements must give effect to each acquisition completed since the beginning of the most recently completed financial year. The pro forma financial statements should be prepared on the basis of the RI’s financial statements having already been filed.
- If the transition year of the acquired business is less than nine months, the RI may be required to include financial statements for the transition year of the acquired business in addition to financial statements for the two financial years required to be filed in the BAR. The transition year may or may not be audited.

² If the business does not, or related businesses do not, constitute a material departure from the business or operations of the RI immediately before the acquisition, earlier interim financial statements are permitted under two scenarios:

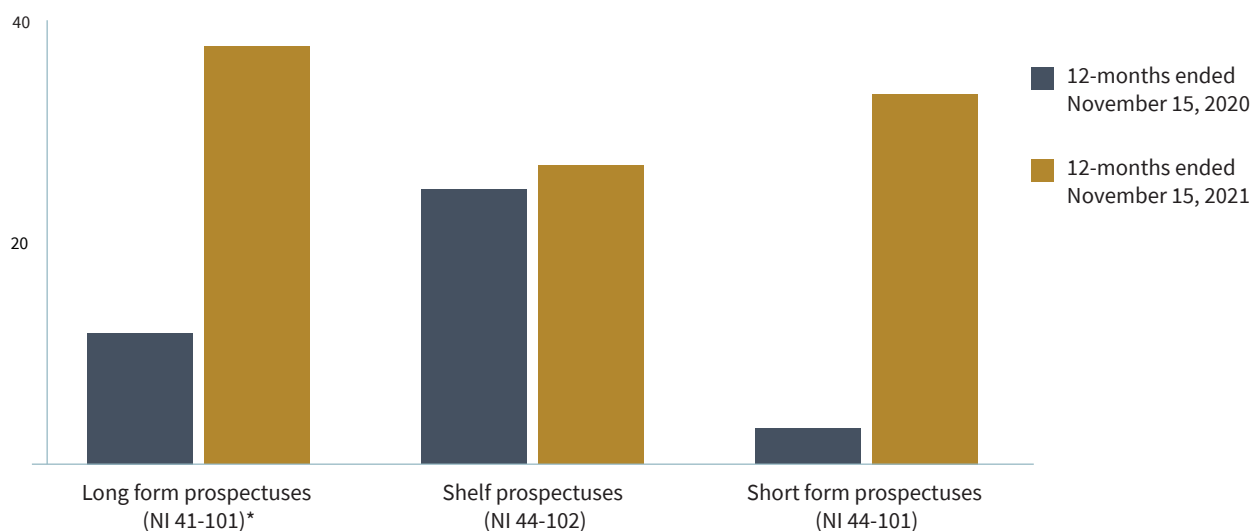
1. The BAR is filed within 45 days after the most recently completed interim period for a non-venture issuer or 60 days after the most recently completed interim period for a venture issuer;
2. The RI filed a document before the acquisition date that included financial statements for the business or related businesses that would have been required if the document were a prospectus, and those financial statements are for a period ending not more than one interim period before the interim period ended before the acquisition date.

These exemptions only relate to interim financial statements (i.e. Q1, Q2, Q3) and cannot be applied to annual financial statements.

3. Prospectus filings

We have seen a significant increase in the number of prospectus filings during the past 12 months. As shown in the below chart, the number of long form prospectuses filed increased threefold from 11 to 35 filings, and the number of short form prospectuses increased tenfold from three to 31. We are encouraged by the increase in capital market activity and the number of new businesses that are choosing to call Alberta home.

Number of Prospectus Filings



*The data for the 12-month period ended November 15, 2021 includes 17 prospectuses filed for capital pool companies. The comparative period includes three.

Throughout our prospectus reviews we have encountered a number of common deficiencies. While not all of these items are material on their own, they are often pervasive throughout our reviews, and can result in a delay in the issuance of a preliminary or final receipt for a prospectus and in additional comments being raised by staff during the review process. To help facilitate the prospectus review, we have identified the most common deficiencies and provided tips to ensure a smooth process.

PRELIMINARY MATERIALS

Prior to the issuance of a preliminary receipt for a prospectus, ASC review analysts complete a preliminary review of the materials submitted to determine if all of the required filings have been filed and are free from material deficiencies. As we often encounter issues with preliminary materials, here are some items to consider before filing.

- Ensure that all documents incorporated by reference into the prospectus have been filed in each of the jurisdictions in which the prospectus is being filed.
- When disclosing the documents incorporated by reference within the prospectus, include the date of the document itself, not the date that it was filed.
- In short-form prospectus filings, ensure the qualification certificate required to be filed under section 4.1(a) (ii) of National Instrument 44-101 *Short Form Prospectus Distributions* (NI 44-101) is dated as of the date of the preliminary prospectus and has been executed by an individual who is an executive officer of the RI. The term “executive officer” is defined in National Instrument 41-101 *General Prospectus Requirements* (NI 41-101) and NI 51-102. It would not typically include a corporate secretary unless that individual is a vice-president in charge of a principal business unit or performs a policy-making function in respect of the RI.

- Do not submit financial statements that have been marked draft or that do not include an auditor's report, if applicable. Please note if the auditor's report submitted with the preliminary prospectus is unsigned, the issuer is also required to submit an auditor comfort letter with the preliminary materials.
- Marketing materials should be dated, and contain the legends on the first page of the materials as required under section 13 of NI 41-101 and section 7 of NI 44-101.

Additionally, it is important that issuers file preliminary materials on a timely basis to allow staff sufficient time to complete their review prior to issuing a preliminary receipt. A receipt will be dated as of the date of filing if all required materials are filed no later than 5:00 p.m. (Mountain time) on that date. However, a receipt for a prospectus filed by 5:00 p.m. (Mountain time) but after 3:00 p.m. (Mountain time), although dated as of the date of the filing, may not be issued until the following business day. For overnight marketed deals, we ask that issuers advise us as soon as possible that the receipt will need to be issued when markets close.

PERSONAL INFORMATION FORMS

Securities legislation requires that a completed personal information form (**PIF**) be delivered concurrently with the filing of a preliminary prospectus for each director, executive officer and promoter of the issuer.

PERSONAL INFORMATION CHECKLIST

Prior to submitting a PIF, the individual completing the form should consider the following items:

- Provide your full legal name, including middle name(s). If you do not have a middle name, fill in the box with "N/A" or "None".
- Describe all present or proposed position(s) with the issuer, including the date elected/appointed.
- Fill-in your gender, date of birth and marital status.
- Provide all residential addresses for the past 10 years, up to and including your current address, ensuring no gaps in the history.
- Declare your citizenship.
- Provide your employment history for the past five years, including employer name, address, position(s) and dates of employment. Ensure that your employment history is consistent with the information disclosed in the issuers CD filings, such as biographical information disclosed in the issuer's information circular or AIF.
- If you have been a director, officer, promoter, insider or control person for any reporting issuers, provide the names of each reporting issuer, position(s) held with each, markets on which the RI traded and the dates during which you held the position(s).
- Identify any professional designation(s) held and professional associations to which you belong, as well as your post-secondary educational history, if any.
- For sections (6) Offences, (7) Bankruptcy, (8) Proceedings, (9) Civil Proceedings and (10) Involvement with Other Entities, answer each question with a "Yes" or "No" response.
- If you answer "Yes" to any of the questions in sections 6 to 10, you must provide complete details in an attachment, including the circumstances, relevant dates, names of the parties involved and if known, the final disposition. Ensure that the attachment is signed or initialled for validation.
- Irrespective of the PIF completed (i.e. Schedule 1 – Part A of Appendix A of NI 41-101, TSX/TSXV, or Aequitas NEO Exchange), attach a completed certificate and consent in the form set out in Schedule 1 – Part B of Appendix A of NI 41-101. The certificate and consent should be signed and dated within 30 days of the date of the preliminary prospectus.

FINANCIAL STATEMENTS

We continue to see a number of long form prospectuses lacking financial statements for the required reporting periods. This is frequently observed where the issuer has not considered the distinction between the filing requirements for venture issuers and IPO venture issuers. An IPO venture issuer is generally an issuer that is not yet a RI, but intends to become a venture issuer upon final receipt of the long form prospectus. Although an IPO venture issuer intends to become a venture issuer, when determining what financial statements must be filed in the prospectus it must follow requirements applicable to non-venture issuers. This requires the inclusion of annual financial statements for financial years ended more than 90 days before the date of the prospectus and interim financial statements for the most recent interim period that ended more than 45 days before the date of the prospectus. These timelines vary from those afforded to venture issuers of 120 days and 60 days respectively.

In addition, we remind issuers that due to the passage of time the financial statements included in the final prospectus or an amendment to the final prospectus may not be the same as those included in the preliminary prospectus and that they may need to be updated to comply with the time periods noted above.

INCORPORATION OF AUDITOR'S REPORTS

Annual financial statements are required to be accompanied by an auditor's report. Where a prospectus is being filed/registered in both Canada and the U.S., the respective requirements to incorporate an auditor's report(s) by reference may differ. If the issuer is incorporating by reference multiple auditors' reports into its U.S. registration statement (in accordance with U.S. requirements) but is incorporating only the auditor's report on annual financial statements into the Canadian prospectus (in accordance with Canadian requirements), then this distinction needs to be clearly made. For example, if an SEC issuer incorporates by reference into its base shelf prospectus both the auditor's report on the financial statements and the auditor's report on internal control over financial reporting for the purposes of its U.S. registration statement, but the issuer is not incorporating by reference both reports in the Canadian base shelf prospectus, the issuer should clearly state this fact (e.g. separately state the reports that are being incorporated for the purpose of the U.S. registration statement and the report that is incorporated by reference into the Canadian prospectus).

DISCLAIMER LANGUAGE

We have noticed a number of instances of inappropriate disclaimer language being included in prospectus filings during our recent reviews.

EXAMPLE THAT *DID NOT* MEET OUR EXPECTATIONS

Excerpt from various prospectus filings

| Disclosure | ASC Comments |
|---|--|
| Information contained on the Company's website shall not be deemed to be a part of this Prospectus or incorporated by reference herein and may not be relied upon by prospective investors for the purpose of determining whether to invest in the securities qualified for distribution under this Prospectus. | We object to this disclaimer language. It is unnecessary due to the provisions included in item 11 of Form 44-101F1 <i>Short Form Prospectus</i> . As such, it may create confusion for investors. |
| This summary is not a complete description of the terms of the agreement/contract and is qualified in its entirety by reference to the agreement/contract. | We object to this disclaimer language as all material terms are required to be disclosed within the body of the prospectus. We would not object to a statement of this type if reference was made to materiality (e.g. the following is a summary of the material terms...). |

Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented, should not be relied upon for investment or other purposes.

We object to this disclaimer language. Information should not be included within a prospectus document if it can not be relied on by investors and other stakeholders.

We are mindful that the filing of a prospectus can be a significant undertaking for issuers and their advisors and that they are often time sensitive and subject to a number of external pressures. As such, we continue to encourage issuers and their advisors to reach out to the ASC to discuss any issue(s) or potential issue(s) both prior to the filing of a preliminary prospectus and during the prospectus review process. Additionally, we remind issuers that they can confidentially pre-file a prospectus for review purposes before the filing of materials, in accordance with Part 8 of National Policy 11-202 *Process for Prospectus Reviews in Multiple Jurisdictions*.

4. Revocation of a cease trade order

The ASC and other CSA regulators issue failure-to-file cease trade orders (**CTOs**) against RIs for failing to comply with securities legislation. CTOs are most frequently issued for failure to file required CD documents within the prescribed time periods but may also be issued when the documents filed do not comply with the applicable requirements. If a securities regulator issues a CTO in respect of an RI's securities, a person or company generally must not purchase or trade in a security of the RI, except in accordance with any conditions of the order including any variation or partial revocation or until a full revocation of the CTO has been issued.

Guidance related to the revocation of a CTO is addressed in National Policy 11-207 *Failure-to-File Cease Trade Orders and Revocations in Multiple Jurisdictions* (**NP 11-207**) for CTOs issued following the adoption of the passport system for CTOs in June 2016, or National Policy 12-202 *Revocations of Certain Cease Trade Orders* for CTOs issued prior to that time. For the purposes of this Report, we have focused on the application of NP 11-207.

PARTIAL REVOCATION

A partial revocation order is granted to permit certain transactions involving trades in securities of the RI. Staff will generally not recommend exercise of discretion to grant a partial revocation order unless the issuer intends to subsequently apply for a full revocation order and reasonably anticipates having sufficient resources after the proposed transaction to bring its CD record and fees up to date.

To apply for a partial revocation, an RI should file an application with its principal regulator.^{3,4} Following the completion of a trade permitted by a partial revocation order, all securities of the issuer remain subject to the CTO until a full revocation is granted.

FULL REVOCATION

Initiating the full revocation process

The approach to obtain a full revocation of a CTO varies depending on how long the CTO has been in place:

- 90 days or less: No application is required. Filing of the required CD documents initiates the review process by the principal regulator for a revocation of the CTO.
- More than 90 days: An application for a full revocation of a CTO is required to be submitted to the principal regulator.⁴

³ The process for a partial revocation order is set out in section 34 of NP 11-207.

⁴ As the Ontario Securities Commission (**OSC**) has not adopted the passport system, RIs who report in both Alberta and Ontario are reminded that they will need to submit a dual application to both regulators.

Filing materials for a revocation application

To make an application to fully revoke a CTO, send the application materials⁵ in paper format, including the draft order and a cheque for the applicable fees payable to the Alberta Securities Commission to the ASC at Suite 600, 250–5th St. SW, Calgary, Alberta, T2P 0R4. Electronic versions of the materials, including a Word version copy of the draft order, should also be sent by email to the ASC at legalapplications@asc.ca.

REVOCAATION APPLICATION CHECKLIST

Prior to submitting an application for a full revocation of a CTO, an RI should consider the following items:

- Prepare all outstanding CD documents. In certain cases where it is impractical to prepare and file all outstanding disclosures, make a detailed submission explaining why this is the case. In most cases, disclosure for periods within the most recent three financial years for a non-venture issuer, or the most recent two financial years for a venture issuer is sufficient.
- Complete and file all outstanding CD documents, including:
 - audited annual financial statements, annual MD&A and annual certificates
 - AIF, information circulars and material change reports (**MCRs**) (as applicable)
 - audit committee and corporate governance disclosures
 - executive compensation disclosure
 - technical reports for mineral projects
 - interim financial statements, interim MD&A and interim certificates⁶ for all interim periods in the current fiscal year.
- Complete a PIF for each current and incoming director, executive officer and promoter of the RI.
- If the RI's annual meeting requirements have not been complied with, provide an undertaking, addressed to the "Executive Director of the Alberta Securities Commission", to hold an annual meeting within three months after the date of the full revocation order.
- Confirm that the RI's SEDAR and SEDI profiles are up-to-date.
- Prepare a draft news release and MCR to be filed when the full revocation order is issued.
- Pay all outstanding fees to each jurisdiction in which the RI reports.

Review process

When a revocation application is received, we will conduct a review of the revocation application and filings the RI has made since the CTO was put in place. If the application is deficient or incomplete, we may ask the RI to file an amended application. This will likely delay the review process as ASC staff will not proceed with the application until a complete application is received. During this process, the RI will only deal with the ASC, as principal regulator, who will provide comments to and receive responses from the RI. After completing the review process, we will determine whether to grant the revocation of a CTO.

If an RI decides to withdraw an application at any time during the process, the RI must notify us or, for a dual application, the ASC and the OSC, and provide an explanation of the withdrawal.

⁵ Materials required to be filed with an application for a full revocation order are set out in section 33 of NP 11-207.

⁶ An RI must file a certificate of disclosure, for the CEO and CFO, in its annual and interim filings as outlined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*.

Acts in furtherance of a trade

A CTO will typically prohibit purchases and trades of the securities of an RI. Under the *Securities Act* (Alberta), acts in furtherance of a trade are themselves a trade. In any particular case, it is a question of legal interpretation whether a step taken by an RI or other party is an act in furtherance of a trade, and therefore a breach of the CTO. We regularly encounter RIs entering into debt agreements with related parties to pay for the costs of the revocation application. The definition of what constitutes a “security” for purposes of the Act is very broad, including “any bond, debenture, note or other evidence of indebtedness”. Further, both the Alberta Court of Appeal⁷ and the Ontario Court of Appeal⁸ have affirmed the broad definition of “security” in relation to a loan agreement. It is staff’s view that many loan transactions may constitute a trade, thus breaching the CTO. Therefore, we encourage RIs to consult their legal counsel whenever there is doubt as to whether a proposed action would be an act in furtherance of a trade. We expect an RI to obtain a partial revocation order before carrying out an act in furtherance of a trade. During the review process, if it is determined that an act in furtherance of trade has occurred, we will consider whether enforcement action is appropriate.

We encourage RIs to reach out to the ASC with any questions on the CTO revocation process.

5. Regulatory update

A. NATIONAL INSTRUMENT 52-112 NON-GAAP AND OTHER FINANCIAL MEASURES DISCLOSURE

WHAT’S NEW: FINAL RULE FOR NON-GAAP AND OTHER FINANCIAL MEASURES PUBLISHED

On May 27, 2021, the CSA published National Instrument 52-112 *Non-GAAP and Other Financial Measures Disclosure* (**NI 52-112**), which includes disclosure requirements for issuers that disclose non-GAAP and other financial measures on a voluntary basis. The rule is intended to improve the quality of information provided to investors respecting various financial measures that commonly lack standardized meaning.

The rule became effective August 25, 2021 and is subject to certain transition provisions in section 13 of NI 52-112. Issuers not yet subject to the rule should continue to refer to Staff Notice 52-306 (Revised) *Non-GAAP Financial Measures* (**SN 52-306**), which will be withdrawn when transition to the final rule is complete.

WHAT ISSUERS AND DOCUMENTS ARE IN SCOPE?

NI 52-112 applies to all reporting issuers, with an exception for investment funds⁹, designated foreign issuers and SEC foreign issuers.¹⁰ It also applies to non-reporting issuers when a specified financial measure is disclosed in a document made available to the public related to filings such as initial public offerings, offering memoranda¹¹ or documents submitted to a stock exchange in connection with a qualifying transaction, reverse takeover, change of business, listing application, significant acquisition or similar transaction.

Subject to limited exceptions, NI 52-112 covers all documents made available to the public as well as other written communications that are intended to be, or are reasonably likely to be, made available to the public (including websites and social media platforms). In addition, certain disclosures are exempt from the requirements of NI 52-112, as outlined in section 4 of NI 52-112.

⁷ *R. v. Stevenson* 2017 ABCA 420 (Alta. C.A.).

⁸ *Ontario Securities Commission v. Tiffin* 2020 ONCA 217

⁹ Investment funds, as defined in National Instrument 81-106 *Investment Fund Continuous Disclosure*.

¹⁰ Designated foreign issuers and SEC foreign issuers, as such terms are defined in National Instrument 52-107 (Revised) *Acceptable Accounting Principles and Auditing Standards*.

¹¹ As outlined in paragraphs 3(b) and (c) of NI 52-112, a document that is made available to the public and is subject to NI 41-101, or filed with a regulator or a securities regulatory authority in connection with a distribution made under section 2.9 of National Instrument 45-106 *Prospectus Exemptions*.

WHAT TYPE OF MEASURES ARE CAPTURED?

NI 52-112 prescribes specific disclosure requirements for the following financial measures:

| <i>Specified financial measure type</i> | <i>Summarized definition¹²</i> | <i>Common example</i> |
|--|---|------------------------------------|
| Non-GAAP financial measure (both historical and forward-looking) | <ul style="list-style-type: none"> Financial measure (other than a ratio¹³) that depicts historical or expected future financial performance, financial position or cash flow; Either excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most directly comparable financial measure disclosed in the primary financial statements; and Is not disclosed in the financial statements. | Adjusted EBITDA |
| Non-GAAP ratio | <ul style="list-style-type: none"> A ratio that has a non-GAAP financial measure as one or more of its components; and Is not disclosed in the financial statements. | Adjusted EBITDA per share |
| Total of segments measure | <ul style="list-style-type: none"> Financial measure that is a subtotal or total of two or more reportable segments; Is not disclosed in the primary financial statements and is not a component of a line item disclosed in the primary financial statements; and Is disclosed in the financial statement notes. | Total of segments operating income |
| Capital management measure | <ul style="list-style-type: none"> Financial measure intended to enable an individual to evaluate an entity's objectives, policies and processes for managing the entity's capital; Is not disclosed in the primary financial statements and is not a component of a line item disclosed in the primary financial statements; and Is disclosed in the financial statement notes. | Net debt |
| Supplementary financial measure | <ul style="list-style-type: none"> Financial measure that is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow; Is not disclosed in the financial statements; and Is not a non-GAAP financial measure or non-GAAP ratio. | Same store sales |

¹² Refer to NI 52-112 for the full definitions or requirements.

¹³ A ratio includes a fraction, percentage or similar representation.

WHAT DO I NEED TO DISCLOSE?

If an issuer that is subject to NI 52-112 has disclosed a specified financial measure, subject to certain application exceptions, certain disclosure is required. For instance, under NI 52-112, issuers may not disclose non-GAAP financial measures that are historical information unless the following requirements are met:

| <i>Disclosure attribute</i> | <i>Summarized disclosure requirements¹²</i> |
|-----------------------------|--|
| Labelling | Labelled with a term that describes the measure and distinguishes it from totals, subtotals and line items disclosed in the primary financial statements. |
| Identification | The measure is identified as a non-GAAP financial measure. |
| Relationship | The document discloses the most directly comparable financial measure disclosed in the primary financial statements of the entity to which the measure relates. |
| Prominence | The measure is given no more prominence than the most directly comparable financial measure. |
| | In proximity to the first instance of the measure, certain information is included or, where permitted, incorporated by reference: |
| Cautionary | <ul style="list-style-type: none"> • Explanation that the measure does not have a standardized meaning and may not be comparable; |
| Composition | <ul style="list-style-type: none"> • Explanation of the composition; |
| Usefulness | <ul style="list-style-type: none"> • Explanation of how the measure is useful to an investor and the additional purposes, if any, for which management uses it; and |
| Reconciliation | <ul style="list-style-type: none"> • A quantitative reconciliation to the most directly comparable financial measure, presented in the permitted format. |
| Comparative | Unless impractical, where the measure is disclosed in MD&A or in an earnings release, the document discloses the measure for a comparative period. |

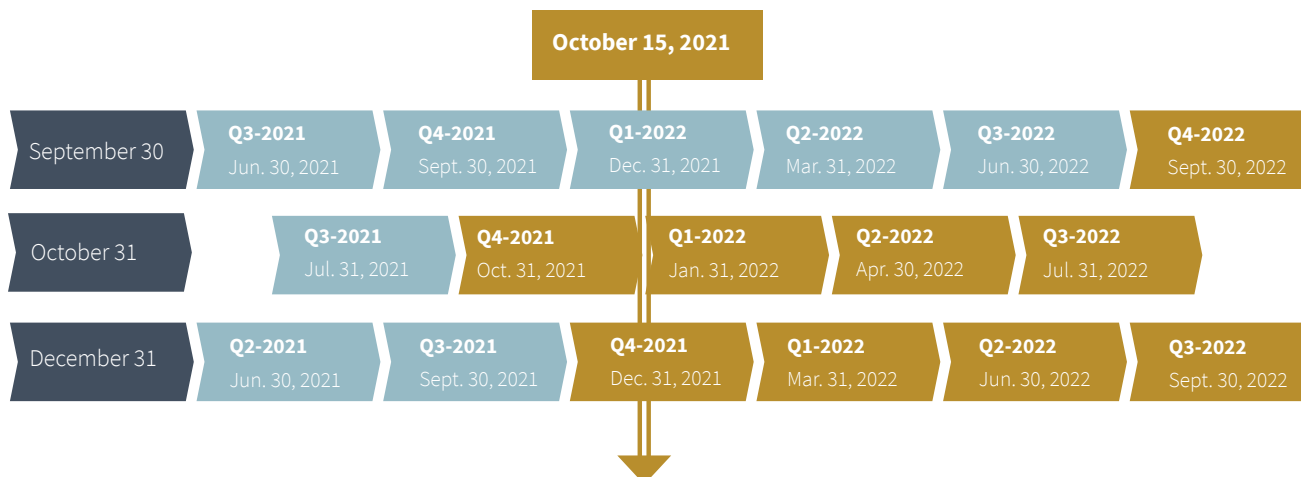
Similar (although more limited) requirements are included in regard to the disclosure of non-GAAP financial measures that are FLI, non-GAAP ratios, total of segments measures, capital management measures, and supplementary financial measures.

WHEN DO I NEED TO APPLY NI 52-112?

While NI 52-112 came into force on August 25, 2021 and early adoption is permitted any time after this date, it will not apply to RIs in respect of documents filed for a financial year ending before October 15, 2021, and it will not apply to non-reporting issuers until after December 31, 2021.

RIs

An RI with a financial year-end of December 31, 2021 must initially adopt NI 52-112 for its Q4/annual 2021 filings (e.g. annual MD&A, earnings release, etc.) and to any other documents filed subsequently. Therefore, such an issuer would **not** have to apply NI 52-112 to its Q3-2021 interim filing and can continue to apply the guidance in SN 52-306 for this filing. The chart on the following page outlines what these transition provisions mean for RIs with different year-ends.



■ NI 51-112 is not applicable to the document filed, but the guidance in SN 52-306 applies.

■ NI 52-112 is applicable to the document filed.

NON-REPORTING ISSUER

If a non-reporting issuer files a preliminary long form prospectus prior to December 31, 2021 but anticipates that its final long form prospectus (or an amendment) will be filed in 2022, the non-reporting issuer should consider preparing the preliminary prospectus in accordance with NI 52-112. A long form prospectus filed after December 31, 2021 must comply with NI 52-112.

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

Climate-related risk is a current area of focus for investors, particularly institutional investors and a number of RIs are currently reporting climate-related information in their CD and voluntary reports. Securities regulators have a role to play in promoting disclosures that yield decision-useful information for investors. On October 18, 2021, the CSA published Proposed National Instrument 51-107 *Disclosure of Climate-related Matters* (**Proposed Instrument**) and its companion policy (**Proposed Policy**) for a 90-day comment period.

Application. The Proposed Instrument would generally apply to all RIs other than investment funds.

Disclosure Requirements. The Proposed Instrument would require RIs to disclose certain climate-related information in compliance with the recommendations of the TCFD, subject to certain modifications. The TCFD framework has four core elements:

1. Governance
2. Strategy
3. Risk Management
4. Metrics and Targets

GHG Emissions. If adopted, all RIs, not just those engaged in resource extraction, would be required to disclose Scope 1, 2 and 3 greenhouse gas (GHG) emissions¹⁴ and the related risks, or the reasons for not disclosing this information. Requiring disclosure on a “comply or explain” basis will provide RIs with the flexibility to disclose one or more of the GHG emissions categories or to provide reasons for not disclosing. Guidance set out in the Proposed Policy provides that RIs that were required to disclose their Scope 1 GHG emissions under an existing GHG emissions reporting program, including the federal Greenhouse Gas Reporting Program, would be expected to also disclose Scope 1 GHG emissions under the Proposed Instrument.

As an alternative, the CSA is consulting on mandatory disclosure of Scope 1 GHG emissions, (a) when that information is material, or (b) in all cases. With this alternative, disclosure of Scope 2 and 3 GHG emissions would remain on a “comply or explain” basis.

Location of Disclosure. The climate-related disclosure requirements relating to governance would typically be contained in a RI’s information circular. The climate-related disclosures related to strategy, risk management and metrics and targets would typically be included in an RI’s AIF, if applicable, or the annual MD&A.

Transition. The Proposed Instrument contemplates a phased-in transition of the disclosure requirements over a one-year period for non-venture issuers and a three-year period for venture issuers. Assuming the instrument comes into force on December 31, 2022 and the RI has a December 31 year-end, the first mandatory climate-related disclosure would appear respectively in the RI’s filings made for the financial year ended December 31, 2023, filed in 2024 and December 31, 2025, filed in 2026.

Request for Comments. The CSA is requesting comments on the Proposed Instrument and the Proposed Policy and on specific questions as set out in the CSA Notice and Request for Comment (**Notice**).

The ASC encourages Alberta stakeholders to provide written comments by January 17, 2022 as set out in the Notice.

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, our 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 (i) generally supported by stakeholders as an identified area of undue regulatory burden, (ii) most achievable and within the scope of securities regulation, and (iii) would provide the most impact in terms of reducing potential burden. Of the six projects announced, two have been completed and four are in various stages of completion. The chart on the following pages outlines the status of each project as part of this initiative.

¹⁴ GHG emissions have the following categories: “Scope 1” means all direct GHG emissions by an issuer, “Scope 2” means all indirect GHG emissions arising from an issuer’s consumption of purchased electricity, heat or steam, and “Scope 3” means all other indirect GHG emissions of an issuer, other than those described in the definition of Scope 2.

| PROJECT | DESCRIPTION | STATUS |
|--|---|--|
| Prospectus Requirements | | |
| Alternative prospectus models | <p>Listed Issuer Financing Exemption (LIFE)</p> <p>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.</p> <p>The proposed amendments would allow RIs to distribute freely tradeable listed equity securities to the public that would generally be 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 would have to file a short offering document and meet certain other requirements.</p> | <p>In progress.</p> <p>On July 28, 2021, the CSA published for comment proposed amendments to National Instrument 45-106 <i>Prospectus Exemptions</i> and related consequential amendments. The comment period for this notice ended on October 26, 2021. Comment letters are currently being reviewed and considered by CSA staff.</p> |
| | <p>Well Known Seasoned Issuer (WKSI) Regime</p> <p>In response to feedback received in our initial consultation, CSA staff recommended adopting a regime that would permit a category of larger, WKSI 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.</p> | <p>In progress.</p> <p>Each CSA jurisdiction has issued a temporary blanket order to facilitate the WKSI regime, which will take effect on January 4, 2022.</p> <p>In addition, CSA staff are working on proposed amendments to National Instrument 44-101 <i>Short Form Prospectus Distributions</i> and National Instrument 44-102 <i>Shelf Distributions (NI 44-102)</i> to implement the WKSI regime on a permanent basis.</p> |
| At-the-market (ATM) offerings | <p>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.</p> | <p>Complete.</p> <p>The amendments became effective on August 31, 2020.</p> |

| PROJECT | DESCRIPTION | STATUS |
|--|---|---|
| Primary business - financial statement requirements | <p>The CSA received feedback in its initial consultation period that suggested that issuers and their advisors needed additional 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.</p> <p>To address these concerns, the CSA has published for comment additional guidance on the interpretation of primary business including in what situations, and for which periods, financial statements would be required. The proposed changes provide 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.</p> | <p>In progress.</p> <p>On August 12, 2021 the CSA published for comment proposed changes to Companion Policy 41-101CP to National Instrument 41-101 <i>General Prospectus Requirements</i>. The comment period for this notice ended on October 11, 2021. Comment letters are currently being reviewed and considered by CSA staff.</p> |
| Continuous Disclosure Requirements | | |
| BAR requirements | <p>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:</p> <ul style="list-style-type: none"> • 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. | <p>Complete.</p> <p>The amendments became effective on November 18, 2020.</p> |

| PROJECT | DESCRIPTION | STATUS |
|--|---|--|
| Annual and interim continuous disclosure obligations | <p>The CSA published proposed amendments to NI 51-102 and related consequential amendments. The proposed amendments aim 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.</p> | <p>In progress.</p> <p>On May 20, 2021, the CSA published for comment proposed amendments to NI 51-102 along with other proposed amendments and changes relating to annual and interim filings. The comment period for this notice ended on September 17, 2021 and comment letters are currently being reviewed and considered by CSA staff.</p> <p>In addition, the CSA also requested feedback on semi-annual reporting for venture issuers on a voluntary basis. The feedback received as part of this consultation is also being reviewed and considered by CSA staff.</p> |
| Other Securities Regulation Requirements | | |
| Access equals delivery model | <p>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.</p> <p>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.</p> | <p>In progress.</p> <p>On January 9, 2020, the CSA published CSA Consultation Paper 51-405 <i>Consideration of an Access Equals Delivery Model for Non-Investment Fund Reporting Issuers</i>. The comment period for this consultation ended on January 9, 2020; the CSA received 27 comment letters from interested stakeholders. CSA staff reviewed the responses and are developing proposed amendments aimed at implementing an access equals delivery model. These amendments will be published for comment in the coming months.</p> |

6. Important recent staff notices and initiatives¹⁵

| NOTICE | DESCRIPTION | DATE OF PUBLICATION |
|---|---|---------------------|
| CSA Multilateral Staff Notice 58-313 <i>Review of Disclosure Regarding Women on Boards and in Executive Officer Positions (Year 7 Report)</i> | <p>This notice outlines key findings from the CSA's seventh annual review of public disclosure regarding women on boards and in executive officer positions. This notice is based on a review sample of 599 issuers that had year-ends between December 31, 2020 and March 31, 2021. The notice also provides new guidance to help improve the consistency and comparability of this disclosure.</p> <p>As part of this initiative, the CSA is also conducting further research and consultations with issuers, investors and other industry stakeholders on its consideration of broader diversity on boards and in executive officer positions. This work is ongoing.</p> | November 4, 2021 |
| CSA Notice of Amendments Reducing Regulatory Burden for Investment Fund Issuers Phase 2, Stage 1 | <p>The CSA is adopting amendments to numerous rules to implement the following initiatives to reduce regulatory burden on investment fund issuers:</p> <ul style="list-style-type: none"> • Streamlining and consolidating the AIF and simplified prospectus forms; • Mandating that each RI investment fund have a designated website; • Codifying routine exemptive relief granted regarding notice-and-access applications with respect to investment fund proxy materials; • Eliminating duplicative PIF filings for certain individual registrants and permitted individuals; • Codifying various types of routine exemptive relief granted with respect to conflict of interest prohibitions; • Broadening the pre-approval criteria for investment fund mergers; • Repealing regulatory approval requirements for a change of manager, a change of control over a manager, and a change of custodian that occurs in connection with a change of manager; and • Codifying routine exemptive relief granted with respect to the fund facts delivery requirement and corresponding exemptions from the fund facts delivery requirement for exchange-traded funds. | October 7, 2021 |

¹⁵ Refer to section 5 of this report for other important regulatory initiatives, not repeated here.

| NOTICE | DESCRIPTION | DATE OF PUBLICATION |
|--|--|---------------------|
| CSA Notice of Publication National Instrument 45-110 <i>Start-up Crowdfunding Registration and Prospectus Exemptions</i> | <p>The start-up crowdfunding rule facilitates securities crowdfunding for start-ups and early stage issuers by providing a nationally harmonized:</p> <ul style="list-style-type: none"> • Exemption from the prospectus requirement that allows an issuer to raise up to \$1.5 million in 12 months using a streamlined offering document by distributing eligible securities through an online funding portal; and • Exemption from the dealer registration requirement for funding portals that facilitate online distributions by issuers relying on that prospectus exemption. <p>The instrument came into force on September 21, 2021.</p> | June 23, 2021 |
| Alberta and Saskatchewan Orders 45-538 <i>Self-Certified Investor Prospectus Exemption</i> | <p>The new prospectus exemption was designed to provide greater access to capital for Alberta and Saskatchewan businesses and broaden investment opportunities for investors in these jurisdictions.</p> <p>It is intended to allow purchasers in these jurisdictions who do not meet the financial thresholds or other criteria required to qualify as an accredited investor to invest alongside accredited investors if they meet other criteria intended to demonstrate the purchaser's financial and investment knowledge.</p> <p>The exemption became effective on March 31, 2021.</p> | March 31, 2021 |
| Alberta and Saskatchewan Orders 45-539 <i>Small Business Financing</i> | <p>The new prospectus exemption is available in Alberta and Saskatchewan and is intended to streamline the financing process for small businesses in those provinces. It allows them to raise up to \$5,000,000 using a streamlined offering document, without the requirement for financial statements for financings less than \$1.5 million in 12 months and permitting certain financial statement relief for other financings.</p> <p>The exemption became effective on September 1, 2021.</p> | March 25, 2021 |
| CSA Staff Notice 41-307 (Revised) <i>Concerns regarding an Issuer's Financial Condition and the Sufficiency of Proceeds from a Prospectus Offering</i> | <p>The revised notice provides an update to the guidance regarding the financial condition of an issuer and/or the sufficiency of proceeds in the context of a prospectus offering.</p> | March 25, 2021 |
| CSA Staff Notice 51-363 <i>Observations on Disclosure by Crypto Assets Reporting Issuers</i> | <p>The notice describes CSA staff's observations from a review of filings made by RIs that engaged materially with crypto assets via mining and/or the holding or trading of those assets. It outlines the expectations of CSA staff in key areas such as safeguarding crypto assets, the use of crypto asset trading platforms, risk factors, material changes and promotional activities and provides guidance on navigating certain complex accounting and disclosure issues.</p> | March 11, 2021 |

| NOTICE | DESCRIPTION | DATE OF PUBLICATION |
|---|---|---------------------|
| CSA Multilateral Staff Notice 58-312 <i>Report on Sixth Staff Review of Disclosure Regarding Women on Boards and in Executive Officer Positions</i> | The notice outlines key trends from the CSA's sixth annual review of public disclosure regarding women on boards and in executive officer positions as required by Form 58-101F1 <i>Corporate Governance Disclosure</i> . This notice is based on a review sample of 610 issuers that had year-ends between December 31, 2019 and March 31, 2020. | March 10, 2021 |
| CSA Staff Notice 51-362 <i>Staff Review of COVID-19 Disclosures and Guide for Disclosure Improvements</i> | The notice reports on key findings from a review conducted by CSA staff on the disclosures provided by RIs on the impact of COVID-19 on their business. Guidance and disclosure examples are provided to assist RIs with reporting on the impacts of COVID-19. | February 25, 2021 |
| ASC Blanket Order 81-508 Exemptions from National Instrument 81-104 <i>Alternative Mutual Funds</i> | The ASC and other CSA regulators have issued harmonized blanket relief orders that provide dealing representatives in the Mutual Fund Dealers Association (MFDA) channel and outside the MFDA channel in Quebec with additional proficiency options for distributing alternative mutual funds. | January 28, 2021 |
| CSA Consultation Paper 25-403 <i>Activist Short Selling</i> | The consultation paper aims to facilitate a discussion of concerns relating to activist short selling and its potential impact on Canadian capital markets. | December 3, 2020 |
| | The comment period ended on March 3, 2021. | |

7. 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 our updates¹⁶ or follow us on Twitter [@ASCUpdates](https://twitter.com/ASCUpdates) and on LinkedIn [@AlbertaSecuritiesCommission](https://www.linkedin.com/company/albertasecuritiescommission).

| | |
|--|----------------|
| <u>CONTINUOUS DISCLOSURE RULES</u> | 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 |
| <u>CONTINUOUS DISCLOSURE FORMS</u> | |
| 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 |
| <u>INTERPRETATION AND GUIDANCE</u> | |
| 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 |
| <u>CORPORATE GOVERNANCE</u> | |
| Audit Committees | NI 52-110 |
| Non-Venture Issuers | Form 52-110F1 |
| Venture Issuers | Form 52-110F2 |
| Corporate Governance Disclosure | NI 58-101 |
| Non-Venture Issuers | Form 58-101F1 |
| Venture Issuers | Form 58-101F2 |
| <u>CERTIFICATION OF DISCLOSURE</u> | NI 52-109 |
| <u>NON-GAAP AND OTHER FINANCIAL MEASURES DISCLOSURE</u> | NI 52-112 |

¹⁶ <https://www.albertasecurities.com/news-and-publications/weekly-updates-web-page>

8. 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 will be held in January 2022. Anyone who would like to attend this webinar can sign-up for a notification 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 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. Words importing the singular number include the plural, and vice versa.

“**Act**” means the *Securities Act* (Alberta).

“**AIF**” means Annual Information Form, specifically, a completed Form 51-102F2 *Annual Information Form* (**Form 51-102F2**).

“**ASC**” means the Alberta Securities Commission.

“**BAR**” means Business Acquisition Report, specifically, a completed Form 51-102F4 *Business Acquisition Report*.

“**CD**” means continuous disclosure.

“**CSA**” means the Canadian Securities Administrators.

“**FLI**” means Forward-looking Information, as that term is defined in National Instrument 51-102 *Continuous Disclosure Obligations* (**NI 51-102**).

“**GAAP**” means generally accepted accounting principles.

“**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**” Sections 1(cc) and 1(ccc) of the *Securities Act* (Alberta) provide the definition of issuer and reporting issuer (**RI**) respectively. Although most of this report is directed towards Alberta RIs, certain securities legislation addressed in this report applies to all issuers including RIs, in these instances “issuer” has a specific meaning in application and reference. The report refers to RI unless use of the term issuer is necessary to make the distinction.

“**MCR**” means Material Change Report, specifically, a completed Form 51-102F3 *Material Change Report* (**Form 51-102F3**).

“**MD&A**” means Management’s Discussion and Analysis, specifically, a completed Form 51-102F1 *Management’s Discussion & Analysis*.

“**PIF**” means personal information form, as that term is defined in NI 41-101.

“**SEDAR**” has the same meaning as in National Instrument 13-101 *System for Electronic Document Analysis and Retrieval*.

“**SEDI**” means System for Electronic Disclosure by Insiders.

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





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