

**Form 45-106F2**  
***Offering Memorandum for Non-Qualifying Issuers***

**Date:** [Insert the date from the certificate page.]

**The Issuer**

Name:

Head office:     Address:

                    Phone #:

                    E-mail address:

                    Fax #:

Currently listed or quoted? [If no, state in bold type: “**These securities do not trade on any exchange or market**”. If yes, state where, e.g., TSX/TSX Venture Exchange.]

Reporting issuer? [Yes/No. If yes, state where.]

SEDAR filer? [Yes/No]

**The Offering**

Securities offered:

Price per security:

Minimum/Maximum offering: [If there is no minimum, state in bold type: “**There is no minimum.**” and also state in bold type: “**You may be the only purchaser.**”]

State in bold type: **Funds available under the offering may not be sufficient to accomplish our proposed objectives.**

Minimum subscription amount: [State the minimum amount each investor must invest, or state “There is no minimum subscription amount an investor must invest.”]

Payment terms:

Proposed closing date(s):

Income tax consequences: There are important tax consequences to these securities. See item 6. [If income tax consequences are not material, delete this item.]

Selling agent? [Yes/No. If yes, state “See item 7”. The name of the selling agent may also be stated.]

**Resale restrictions**

State: “You will be restricted from selling your securities for [4 months and a day/an indefinite period]. See item 10.”

**Purchaser's rights**

State: “You have 2 business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this offering memorandum, you have the right to sue either for damages or to cancel the agreement. See item 11.”

State in bold type:

**“No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this offering memorandum. Any representation to the contrary is an offence. This is a risky investment. See item 8.”**

[All of the above information must appear on a single cover page.]

## Item 1: Use of Available Funds

**1.1 Funds** - Using the following table, disclose the funds available as a result of the offering. If the issuer plans to combine additional sources of funding with the available funds from the offering to achieve its principal capital-raising purpose, please provide details about each additional source of funding. If there is no minimum offering, state "\$0" as the minimum.

Disclose also the amount of any working capital deficiency, if any, of the issuer as at a date not more than 30 days prior to the date of the offering memorandum. If the working capital deficiency will not be eliminated by the use of available funds, state how the issuer intends to eliminate or manage the deficiency.

		Assuming min. offering	Assuming max. offering
A.	Amount to be raised by this offering	\$	\$
B.	Selling commissions and fees	\$	\$
C.	Estimated offering costs (e.g., legal, accounting, audit.)	\$	\$
D.	Available funds: $D = A - (B+C)$	\$	\$
E.	Additional sources of funding required	\$	\$
F.	Working capital deficiency	\$	\$
G.	Total: $H = (D+E) - F$	\$	\$

**1.2 Use of Available Funds** - Using the following table, provide a detailed breakdown of how the issuer will use the available funds. If any of the available funds will be paid to a related party, disclose in a note to the table the name of the related party, the relationship to the issuer, and the amount. If the issuer has a working capital deficiency, disclose the portion, if any, of the available funds to be applied against the working capital deficiency. If more than 10% of the available funds will be used by the issuer to pay debt and the issuer incurred the debt within the two preceding financial years, describe why the debt was incurred.

Description of intended use of available funds listed in order of priority	Assuming min. offering	Assuming max. offering
	\$	\$
	\$	\$
Total: Equal to G in the Funds table above	\$	\$

**1.3 Reallocation** - The available funds must be used for the purposes disclosed in the offering memorandum. The board of directors can reallocate the proceeds to other uses only for sound business reasons. If the available funds may be reallocated, include the following statement:

“We intend to spend the available funds as stated. We will reallocate funds only for sound business reasons.”

**Item 2: Business of [name of issuer or other term used to refer to issuer]**

**2.1 Structure** - State the business structure (e.g., partnership, corporation or trust), the statute and the province, state or other jurisdiction under which the issuer is incorporated, continued or organized, and the date of incorporation, continuance or organization.

**2.2 Our Business** - Describe the issuer's business. The disclosure must provide sufficient information to enable a prospective purchaser to make an informed investment decision. For a non-resource issuer this disclosure may include principal products or services, operations, market, marketing plans and strategies and a discussion of the issuer's current and prospective competitors. For a resource issuer this will require a description of principal properties (including interest held) and a summary of material information including, if applicable: the stage of development, reserves, geology, operations, production and mineral reserves or mineral resources being explored or developed. A resource issuer disclosing scientific or technical information for a mineral project must follow General Instruction A.8 of this Form. A resource issuer disclosing information about its oil and gas activities must follow General Instruction A.9 of this Form.

**2.3 Development of Business** - Describe (generally, in one or two paragraphs) the general development of the issuer's business over at least its two most recently completed financial years and any subsequent period. Include the major events that have occurred or conditions that have influenced (favourably or unfavourably) the development of the issuer.

**2.4 Long Term Objectives** - Describe each significant event that must occur to accomplish the issuer's long term objectives, state the specific time period in which each event is expected to occur, and the costs related to each event.

**2.5 Short Term Objectives and How We Intend to Achieve Them**

- (a) Disclose the issuer's objectives for the next 12 months.
- (b) Using the following table, disclose how the issuer intends to meet those objectives for the next 12 months.

What we must do and how we will do it	Target completion date or, if not known, number of months to complete	Our cost to complete
		\$
		\$

## ***2.6 Insufficient Funds***

If applicable, disclose that the funds available as a result of the offering either may not or will not be sufficient to accomplish all of the issuer's proposed objectives and there is no assurance that alternative financing will be available. If alternative financing has been arranged, disclose the amount, source and all outstanding conditions that must be satisfied.

## ***2.7 Material Agreements*** - Disclose the key terms of all material agreements

- (a) to which the issuer is currently a party, or
- (b) with a related party

including the following information:

- (i) if the agreement is with a related party, the name of the related party and the relationship,
- (ii) a description of any asset, property or interest acquired, disposed of, leased, under option, etc.,
- (iii) a description of any service provided,
- (iv) purchase price and payment terms (e.g., paid in instalments, cash, securities or work commitments),
- (v) the principal amount of any debenture or loan, the repayment terms, security, due date and interest rate,
- (vi) the date of the agreement,
- (vii) the amount of any finder's fee or commission paid or payable to a related party in connection with the agreement,
- (viii) any material outstanding obligations under the agreement, and

- (ix) for any transaction involving the purchase of assets by or sale of assets to the issuer from a related party, state the cost of the assets to the related party, and the cost of the assets to the issuer.

**Item 3: Interests of Directors, Management, Promoters and Principal Holders**

**3.1 Compensation and Securities Held** - Using the following table, provide the specified information about each director, officer and promoter of the issuer and each person who, directly or indirectly, beneficially owns or controls 10% or more of any class of voting securities of the issuer (a “principal holder”). If the principal holder is not an individual, state in a note to the table the name of any person that, directly or indirectly, beneficially owns or controls more than 50% of the voting rights of the principal holder. If the issuer has not completed its first financial year, then include compensation paid since inception. Compensation includes any form of remuneration including cash, shares and options.

Name and municipality of principal residence	Positions held (e.g., director, officer, promoter and/or principal holder) and the date of obtaining that position	Compensation paid by issuer or related party in the most recently completed financial year and the compensation anticipated to be paid in the current financial year	Number, type and percentage of securities of the issuer held after completion of min. offering	Number, type and percentage of securities of the issuer held after completion of max. offering

**3.2 Management Experience** - Using the following table, disclose the principal occupations of the directors and executive officers over the past five years. In addition, for each individual, describe any relevant experience in a business similar to the issuer's.

Name	Principal occupation and related experience

**3.3 Penalties, Sanctions and Bankruptcy**

- (a) Disclose any penalty or sanction (including the reason for it and whether it is currently in effect) that has been in effect during the last 10 years, or any cease

trade order that has been in effect for a period of more than 30 consecutive days during the past 10 years against

- (i) a director, executive officer or control person of the issuer, or
  - (ii) an issuer of which a person referred to in (i) above was a director, executive officer or control person at the time.
- (b) Disclose any declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors or appointment of a receiver, receiver manager or trustee to hold assets, that has been in effect during the last 10 years with regard to any
- (i) director, executive officer or control person of the issuer, or
  - (ii) issuer of which a person referred to in (i) above was a director, executive officer or control person at that time.

**3.4 Loans** - Disclose the principal amount of any debenture or loan, the repayment terms, security, due date and interest rate due to or from the directors, management, promoters and principal holders as at a date not more than 30 days prior to the date of the offering memorandum.

**Item 4: Capital Structure**

**4.1 Share Capital** - Using the following table, provide the required information about outstanding securities of the issuer (including options, warrants and other securities convertible into shares). If necessary, notes to the table may be added to describe the material terms of the securities.

Description of security	Number authorized to be issued	Price per security	Number outstanding as at [a date not more than 30 days prior to the offering memorandum date]	Number outstanding after min. offering	Number outstanding after max. offering
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**4.2 Long Term Debt** - Using the following table, provide the required information about outstanding long term debt of the issuer. Disclose the current portion of the long-term debt due within 12 months of the date of the offering memorandum. If the securities being offered are debt securities, add a column to the table disclosing the amount of debt that will be outstanding after both the minimum and maximum offering. If the debt is owed to a related party, indicate that in a note to the table and identify the related party.

Description of long term debt (including whether secured)	Interest rate	Repayment terms	Amount outstanding at [a date not more than 30 days prior to the offering memorandum date]
			\$
			\$

**4.3 Prior Sales** - If the issuer has issued any securities of the class being offered under the offering memorandum (or convertible or exchangeable into the class being offered under the offering memorandum) within the last 12 months, use the following table to provide the information specified. If securities were issued in exchange for assets or services, describe in a note to the table the assets or services that were provided.

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received

**Item 5: Securities Offered**

**5.1 Terms of Securities-** Describe the material terms of the securities being offered, including:

- (a) voting rights or restrictions on voting,



- (b) conversion or exercise price and date of expiry,
- (c) rights of redemption or retraction, and
- (d) interest rates or dividend rates.

## ***5.2 Subscription Procedure***

- (a) Describe how a purchaser can subscribe for the securities and the method of payment.
- (b) State that the consideration will be held in trust and the period that it will be held (refer at least to the mandatory two day period).
- (c) Disclose any conditions to closing, e.g., receipt of additional funds from other sources. If there is a minimum offering, disclose when consideration will be returned to purchasers if the minimum is not met, and whether the issuer will pay the purchasers interest on consideration.

## **Item 6: Income Tax Consequences and RRSP Eligibility**

**6.1** State: “You should consult your own professional advisers to obtain advice on the income tax consequences that apply to you.”

**6.2** If income tax consequences are a material aspect of the securities being offered (e.g., flow-through shares), provide

- (a) a summary of the significant income tax consequences to Canadian residents, and
- (b) the name of the person providing the income tax disclosure in (a).

**6.3** Provide advice regarding the RRSP eligibility of the securities and the name of the person providing the advice or state “Not all securities are eligible for investment in a registered retirement savings plan (RRSP). You should consult your own professional advisers to obtain advice on the RRSP eligibility of these securities.”

## **Item 7: Compensation Paid to Sellers and Finders**

If any person has or will receive any compensation (e.g., commission, corporate finance fee or finder's fee) in connection with the offering, provide the following information to the extent applicable:

- (a) a description of each type of compensation and the estimated amount to be paid for each type,
- (b) if a commission is being paid, the percentage that the commission will represent of the gross proceeds of the offering (assuming both the minimum and maximum offering),
- (c) details of any broker's warrants or agent's option (including number of securities under option, exercise price and expiry date), and
- (d) if any portion of the compensation will be paid in securities, details of the securities (including number, type and, if options or warrants, the exercise price and expiry date).

## **Item 8: Risk Factors**

Describe in order of importance, starting with the most important, the risk factors material to the issuer that a reasonable investor would consider important in deciding whether to buy the issuer's securities.

Risk factors will generally fall into the following three categories:

- (a) Investment Risk - risks that are specific to the securities being offered. Some examples include
  - arbitrary determination of price,
  - no market or an illiquid market for the securities,
  - resale restrictions, and
  - subordination of debt securities.
- (b) Issuer Risk - risks that are specific to the issuer. Some examples include
  - insufficient funds to accomplish the issuer's business objectives,
  - no history or a limited history of sales or profits,
  - lack of specific management or technical expertise,
  - management's regulatory and business track record,

- dependence on key employees, suppliers or agreements,
  - dependence on financial viability of guarantor,
  - pending and outstanding litigation, and
  - political risk factors.
- (c) Industry Risk - risks faced by the issuer because of the industry in which it operates. Some examples include
- environmental and industry regulation,
  - product obsolescence, and
  - competition.

## **Item 9: Reporting Obligations**

**9.1** Disclose the documents, including any financial information required by the issuer's corporate legislation, constating documents, or other documents under which the issuer is organized, that will be sent to purchasers on an annual or on-going basis. If the issuer is not required to send any documents to the purchasers on an annual or on-going basis, state in bold type: **"We are not required to send you any documents on an annual or ongoing basis."**

**9.2** If corporate or securities information about the issuer is available from a government, securities regulatory authority or regulator, SRO or quotation and trade reporting system, disclose where that information can be located (including website address).

## **Item 10: Resale Restrictions**

**10.1** General Statement - For trades in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Québec, Saskatchewan and Yukon, state:

"These securities will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the securities unless you comply with an exemption from the prospectus and registration requirements under securities legislation."

**10.2** Restricted Period - For trades in Alberta, British Columbia, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nova Scotia, Nunavut, Prince Edward Island, Québec, Saskatchewan and Yukon state one of the following, as applicable:

- (a) If the issuer is not a reporting issuer in a jurisdiction at the distribution date state:

“Unless permitted under securities legislation, you cannot trade the securities before the date that is 4 months and a day after the date [insert name of issuer or other term used to refer to the issuer] becomes a reporting issuer in any province or territory of Canada.”

- (b) If the issuer is a reporting issuer in a jurisdiction at the distribution date state:

“Unless permitted under securities legislation, you cannot trade the securities before the date that is 4 months and a day after the distribution date.”

**10.3 Manitoba Resale Restrictions** - For trades in Manitoba, if the issuer will not be a reporting issuer in a jurisdiction at the time the security is acquired by the purchaser state:

“Unless permitted under securities legislation, you must not trade the securities without the prior written consent of the regulator in Manitoba unless

- (a) [name of issuer or other term used to refer to issuer] has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or
- (b) you have held the securities for at least 12 months.

The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.”

## **Item 11: Purchasers' Rights**

State the following:

“If you purchase these securities you will have certain rights, some of which are described below. For information about your rights you should consult a lawyer.

**(1) Two Day Cancellation Right** - You can cancel your agreement to purchase these securities. To do so, you must send a notice to us by midnight on the 2nd business day after you sign the agreement to buy the securities.

**(2) Statutory Rights of Action in the Event of a Misrepresentation** - [Insert this section only if the securities legislation of the jurisdiction in which the trade occurs provides purchasers with statutory rights in the event of a misrepresentation in an offering memorandum. Modify the language, if necessary, to conform to the statutory rights.] If there is a misrepresentation in this offering memorandum, you have a statutory right to sue:

- (a) [name of issuer or other term used to refer to issuer] to cancel your agreement to buy these securities, or
- (b) for damages against [state the name of issuer or other term used to refer to issuer and the title of any other person against whom the rights are available].

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within [state time period provided by the securities legislation]. You must commence your action for damages within [state time period provided by the securities legislation].

**(3) Contractual Rights of Action in the Event of a Misrepresentation** - [Insert this section only if the securities legislation of the jurisdiction in which the purchaser is resident does not provide purchasers with statutory rights in the event of a misrepresentation in an offering memorandum.] If there is a misrepresentation in this offering memorandum, you have a contractual right to sue [name of issuer or other term used to refer to issuer]:

- (a) to cancel your agreement to buy these securities, or
- (b) for damages.

This contractual right to sue is available to you whether or not you relied on the misrepresentation. However, in an action for damages, the amount you may recover will not exceed the price that you paid for your securities and will not include any part of the damages that [name of issuer or other term used to refer to issuer] proves does not represent the depreciation in value of the securities resulting from the misrepresentation. [Name of issuer or

other term used to refer to issuer] has a defence if it proves that you knew of the misrepresentation when you purchased the securities.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the securities. You must commence your action for damages within the earlier of 180 days after learning of the misrepresentation and 3 years after you signed the agreement to purchase the securities.”

### **Item 12: Financial Statements**

Include in the offering memorandum immediately before the certificate page of the offering memorandum all required financial statements as set out in the Instructions.

### **Item 13: Date and Certificate**

State the following on the certificate page of the offering memorandum:

“Dated [insert the date the certificate page of the offering memorandum is signed].

**This offering memorandum does not contain a misrepresentation.”**

**Instructions for Completing**  
**Form 45-106F2**  
*Offering Memorandum for Non-Qualifying Issuers*

**A. General Instructions**

1. Draft the offering memorandum so that it is easy to read and understand. Be concise and use clear, plain language. Avoid technical terms. If technical terms are necessary, provide definitions.
2. Address the items required by the form in the order set out in the form. However, it is not necessary to provide disclosure about an item that does not apply.
3. The issuer may include additional information in the offering memorandum other than that specifically required by the form. An offering memorandum is generally not required to contain the level of detail and extent of disclosure required by a prospectus. Generally, this description should not exceed 2 pages. However, an offering memorandum must provide a prospective purchaser with sufficient information to make an informed investment decision.
4. The issuer may wrap the offering memorandum around a prospectus or similar document. However, all matters required to be disclosed by the offering memorandum must be addressed and the offering memorandum must provide a cross-reference to the page number or heading in the wrapped document where the relevant information is contained. The certificate to the offering memorandum must be modified to indicate that the offering memorandum, including the document around which it is wrapped, does not contain a misrepresentation.
5. It is an offence to make a misrepresentation in the offering memorandum. This applies both to information that is required by the form and to additional information that is provided. Include particulars of any material facts, which have not been disclosed under any of the Item numbers and for which failure to disclose would constitute a misrepresentation in the offering memorandum. Refer also to section 3.8(3) of Companion Policy 45-106CP for additional information.
6. When the term “related party” is used in this form, it refers to:
  - (a) a director, officer, promoter or control person of the issuer,
  - (b) in regard to a person referred to in (a), a child, parent, grandparent or sibling, or other relative living in the same residence,
  - (c) in regard to a person referred to in (a) or (b), his or her spouse or a person with whom he or she is living in a marriage-like relationship,

- (d) an insider of the issuer,
- (e) a company controlled by one or more individuals referred to in (a) to (d), and
- (f) in the case of an insider, promoter or control person that is not an individual, any person that controls that insider, promoter or control person.

(If the issuer is not a reporting issuer, the reference to “insider” includes persons or companies who would be insiders of the issuer if that issuer were a reporting issuer.)

7. Disclosure is required in item 3.1 of compensation paid directly or indirectly by the issuer or a related party to a director, officer, promoter and/or principal holder if the issuer receives a direct benefit from such compensation paid.
8. Refer to National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (NI 43-101) when disclosing scientific or technical information for a mineral project of the issuer.
9. If an oil and gas issuer is disclosing information about its oil and gas activities, it must ensure that the information is disclosed in accordance with Part 4 and Part 5 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* (NI 51-101). Under section 5.3 of NI 51-101, disclosure of reserves or resources must be consistent with the reserves and resources terminology and categories set out in the Canadian Oil and Gas Evaluation Handbook. For the purposes of this instruction, references to reporting issuer in Part 4 and Part 5 of NI 51-101 will be deemed to include all issuers.
10. Securities legislation restricts what can be told to investors about the issuer's intent to list or quote securities on an exchange or market. Refer to applicable securities legislation before making any such statements.
11. If an issuer uses this form in connection with a distribution under an exemption other than section 2.9 (*offering memorandum*) of National Instrument 45-106 *Prospectus and Registration Exemptions*, the issuer must modify the disclosure in item 11 to correctly describe the purchaser's rights. If a purchaser does not have statutory or contractual rights of action in the event of a misrepresentation in the offering memorandum, that fact must be stated in bold on the face page.
12. During the course of a distribution of securities, any material forward-looking information disseminated must only be that which is set out in the offering memorandum. If an extract of FOFI, as defined in National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102), is disseminated, the extract or summary must be reasonably balanced and have a cautionary note in boldface stating that the information presented is not complete and that complete FOFI is included in the offering memorandum.



## **B. Financial Statements - General**

1. All financial statements, operating statements for an oil and gas property that is an acquired business or a business to be acquired and summarized financial information as to the assets, liabilities and results of operations of a business relating to an acquisition that is, or will be, an investment accounted for by the issuer using the equity method included in the offering memorandum must comply with National Instrument 52-107 *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* (NI 52-107), regardless of whether the issuer is a reporting issuer or not. Under NI 52-107, a non-qualifying issuer that uses Canadian GAAP cannot use differential reporting as set out in the Handbook.
2. Include all financial statements required by these instructions in the offering memorandum immediately before the certificate page of the offering memorandum.
3. If the issuer has not completed one financial year or its first financial year end is less than 120 days from the date of the offering memorandum, include in the offering memorandum financial statements of the issuer consisting of:
  - (a) an income statement, a statement of retained earnings and a cash flow statement for the period from inception to a date not more than 90 days before the date of the offering memorandum,
  - (b) a balance sheet as at the end of the period referred to in paragraph (a), and
  - (c) notes to the financial statements.
4. If the issuer has completed one or more financial years, include in the offering memorandum annual financial statements of the issuer consisting of:
  - (a) an income statement, a statement of retained earnings and a cash flow statement for
    - (i) the most recently completed financial year that ended more than 120 days before the date of the offering memorandum, and
    - (ii) the financial year immediately preceding the financial year in clause (i), if any,
  - (b) a balance sheet as at the end of each of the periods referred to in paragraph (a), and
  - (c) notes to the financial statements.

5. If the issuer has completed one or more financial years, include in the offering memorandum interim financial statements of the issuer comprised of:
  - (a) an income statement, a statement of retained earnings and a cash flow statement for the most recently completed interim period that ended
    - (i) more than 60 days before the date of the offering memorandum, and
    - (ii) after the year-end date of the financial statements required under B.4(a)(i),
  - (b) an income statement, a statement of retained earnings and a cash flow statement for the corresponding period in the immediately preceding financial year, if any,
  - (c) a balance sheet as at the end of the periods required by paragraphs (a) and (b), and
  - (d) notes to the financial statements.
6. An issuer is not required to include the comparative financial information for the period in B.4(a)(ii) in an offering memorandum if the issuer includes financial statements for a financial year ended less than 120 days before the date of the offering memorandum.
7. For an issuer that is not an investment fund, the term “interim period” has the meaning set out in NI 51-102. In most cases, an interim period is a period ending nine, six, or three months before the end of a financial year. For an issuer that is an investment fund, the term “interim period” has the meaning set out in National Instrument 81-106 – *Investment Fund Continuous Disclosure* (NI 81-106).
8. The comparative financial information required under B.5(b) and (c) may be omitted if not previously prepared.
9. The financial statements required by B.3 and the financial statements of the most recently completed financial period referred to in B.4 must be audited. The financial statements required under B.5, B.6 and the comparative financial information required by B.4 may be unaudited; however, if any of those financial statements have been audited, the auditor’s report must be included in the offering memorandum.
10. Refer to National Instrument 52-108 *Auditor Oversight* for requirements relating to reporting issuers and public accounting firms.
11. All unaudited financial statements and unaudited comparatives must be clearly labelled as unaudited.
12. If the offering memorandum does not contain audited financial statements for the issuer’s most recently completed financial year, and if the distribution is ongoing, update the offering memorandum to include the annual audited financial statements and the accompanying auditor’s report as soon as the issuer has approved the audited financial statements, but in any event no later than the 120<sup>th</sup> day following the financial year end.

13. The offering memorandum does not have to be updated to include interim financial statements for periods completed after the date that is 60 days before the date of the offering memorandum unless it is necessary to prevent the offering memorandum from containing a misrepresentation.
14. Forward looking information included in an offering memorandum must comply with section 4A.2 of NI 51-102 and must include the disclosure described in section 4A.3 of NI 51-102. In addition to the foregoing, FOFI or a financial outlook, each as defined in NI 51-102, included in an offering memorandum must comply with Part 4B of NI 51-102. For an issuer that is not a reporting issuer, references to “reporting issuer” in section 4A.2, section 4A.3 and Part 4B of NI 51-102 should be read as references to an “issuer”. Additional guidance may be found in the companion policy to NI 51-102.
15. If the issuer is a limited partnership, in addition to the financial statements required for the issuer, include in the offering memorandum the financial statements in accordance with Part B for the general partner and, if the limited partnership has active operations, for the limited partnership.

### **C. Financial Statements - Business Acquisitions**

1. If the issuer
  - (a) has acquired a business during the past two years and the audited financial statements of the issuer included in the offering memorandum do not include the results of the acquired business for 9 consecutive months, or
  - (b) is proposing to acquire a business and the acquisition has progressed to a state where a reasonable person would believe that the likelihood of the acquisition being completed is high,  
  
include the financial statements specified in C.4 for the business if either of the tests in C.2 is met, irrespective of how the issuer accounts, or will account, for the acquisition.
2. Include the financial statements specified in C.4 for a business referred to in C.1 if either:
  - (a) the issuer's proportionate share of the consolidated assets of the business exceeds 40% of the consolidated assets of the issuer calculated using the annual financial statements of each of the issuer and the business for the most recently completed financial year of each that ended before the date of acquisition or, for a proposed acquisition, the date of the offering memorandum or
  - (b) the issuer's consolidated investments in and advances to the business as at the date of acquisition or the proposed date of acquisition exceeds 40% of the consolidated

assets of the issuer, excluding any investments in or advances to the business, as at the last day of the issuer's most recently completed financial year that ended before the date of acquisition or the date of the offering memorandum for a proposed acquisition.

- 2.1 In this Instruction C, the term “date of acquisition” means the date of acquisition used for accounting purposes.
3. If an issuer or a business has not yet completed a financial year, or its first financial year ended within 120 days of the offering memorandum date, use the financial statements referred to in B.3 to make the calculations in C.2.
4. If under C.2 you must include in an offering memorandum financial statements for a business, the financial statements must include:
  - (a) If the business has not completed one financial year or its first financial year end is less than 120 days from the date of the offering memorandum
    - (i) an income statement, a statement of retained earnings and a cash flow statement
      - A) for the period from inception to a date not more than 90 days before the date of the offering memorandum, or
      - B) if the date of acquisition precedes the ending date of the period referred to in (A), for the period from inception to the date of acquisition or a date not more than 45 days before the date of acquisition,
    - (ii) a balance sheet dated as at the end of the period referred to in clause (i), and
    - (iii) notes to the financial statements.
  - (b) If the business has completed one or more financial years include
    - (i) annual financial statements comprised of:
      - A) an income statement, a statement of retained earnings and a cash flow statement for the following annual periods:

- i. the most recently completed financial year that ended before the date of acquisition and more than 120 days before the date of the offering memorandum, and
    - ii. the financial year immediately preceding the most recently completed financial year specified in clause i, if any,
  - B) a balance sheet as at the end of each of the periods specified in (A),
  - C) notes to the financial statements, and
- (ii) interim financial statements comprised of:
  - A) an income statement, a statement of retained earnings and a cash flow statement for either:
    - i. the most recently completed year-to-date interim period and the three month period ending on the last date of the interim period that ended before the date of acquisition and more than 60 days before the date of the offering memorandum and ended after the date of the financial statements required under C.4(b)(i)(A)i, or
    - ii. the period from the first day after the financial year referred to in C.4(b)(i) to a date before the date of acquisition and after the period end in C.4(b)(ii)(A)i, and
  - B) an income statement, a statement of retained earnings and a cash flow statement for the corresponding period in the immediately preceding financial year, if any,
  - C) a balance sheet as at the end of the periods required by (A) and (B), and
  - D) notes to the financial statements.

Refer to Instruction B.7 for the meaning of “interim period”.

5. The information for the most recently completed financial period referred to in C.4(b)(i) must be audited and accompanied by an auditor’s report. The financial statements required under C.4(a), C.4(b)(ii) and the comparative financial information required by C.4(b)(i) may be unaudited; however, if those financial statements or comparative

financial information have been audited, the auditor's report must be included in the offering memorandum.

6. If the offering memorandum does not contain audited financial statements for a business referred to in C.1 for the business's most recently completed financial year that ended before the date of acquisition and the distribution is ongoing, update the offering memorandum to include those financial statements accompanied by an auditor's report when they are available, but in any event no later than the date 120 days following the year-end.
7. The term "business" should be evaluated in light of the facts and circumstances involved. Generally, a separate entity or a subsidiary or division of an entity is a business and, in certain circumstances, a lesser component of an entity may also constitute a business, whether or not the subject of the acquisition previously prepared financial statements. The subject of an acquisition should be considered a business where there is, or the issuer expects there will be, continuity of operations. The issuer should consider:
  - (a) whether the nature of the revenue producing activity or potential revenue producing activity will remain generally the same after the acquisition, and
  - (b) whether any of the physical facilities, employees, marketing systems, sales forces, customers, operating rights, production techniques or trade names are acquired by the issuer instead of remaining with the vendor after the acquisition.
8. If a transaction or a proposed transaction for which the likelihood of the transaction being completed is high has been or will be accounted for as a reverse take-over as defined in NI 51-102, include financial statements for the legal subsidiary in the offering memorandum in accordance with Part A. The legal parent, as that term is defined in the CICA Handbook, is considered to be the business acquired. C.1 may also require financial statements of the legal parent.
9. An issuer satisfies the requirements in C.4 if the issuer includes in the offering memorandum the financial statements required in a business acquisition report under NI 51-102.

**D. Financial Statement - Exemptions**

1. An issuer will satisfy the financial statement requirements of this form if it includes the financial statements required by securities legislation for a prospectus.
2. Notwithstanding the requirements in section 3.2(a) of NI 52-107, an auditor's report that accompanies financial statements of an issuer or a business contained in an offering memorandum of a non-reporting issuer may contain a qualification of opinion relating to inventory if

- (a) the issuer includes in the offering memorandum a balance sheet that is for a date that is subsequent to the date to which the qualification relates, and
  - (b) the balance sheet referred to in paragraph (a) is accompanied by an auditor's report that does not contain a qualification of opinion relating to closing inventory, and
  - (c) the issuer has not previously filed financial statements for the same entity accompanied by an auditor's report for a prior year that contained a qualification of opinion relating to inventory.
3. If an issuer has, or will account for a business referred to in C.1 using the equity method, then financial statements for a business required by Part C are not required to be included if:
- (a) the offering memorandum includes disclosure for the periods for which financial statements are otherwise required under Part C that:
    - (i) summarizes information as to the assets, liabilities and results of operations of the business, and
    - (ii) describes the issuer's proportionate interest in the business and any contingent issuance of securities by the business that might significantly affect the issuer's share of earnings;
  - (b) the financial information provided under D.3(a) for the most recently completed financial year has been audited, or has been derived from audited financial statements of the business; and
  - (c) the offering memorandum discloses that:
    - (i) the financial information provided under D.3(a) for any completed financial year has been audited, or identifies the audited financial statements from which the financial information provided under D.3(a) has been derived; and
    - (ii) the audit opinion with respect to the financial information or financial statements referred to in D.3(c)(i) was issued without a reservation of opinion.

If the financial information included in an offering memorandum under D.3(a) has been derived from financial statements of a business incorporated or organized in a foreign jurisdiction that have been prepared in accordance

with foreign GAAP, the information must be accompanied by a note that explains and quantifies the effect of material differences between Canadian GAAP and the foreign GAAP.

4. Financial statements relating to the acquisition or proposed acquisition of a business that is an interest in an oil and gas property are not required to be included in an offering memorandum if the acquisition is significant based only on the asset test or:
- (a) the issuer is unable to provide the financial statements in respect of the significant acquisition otherwise required because those financial statements do not exist or the issuer does not have access to those financial statements,
  - (b) the acquisition was not or will not be accounted for as a “reverse take-over” as defined in NI 51-102,
  - (c) the business did not or does not constitute a “reportable segment” of the seller, as defined in section 1701 of the CICA Handbook, at the time of acquisition, and
  - (d) the offering memorandum contains alternative disclosure for the business which includes:
    - (i) an operating statement for each of the financial periods for which financial statements would, but for this section, be required under C.4, presenting for the business, at a minimum, the following line items:
      - A) gross revenue,
      - B) royalty expenses,
      - C) production costs, and
      - D) operating income,

The operating statement for the most recently completed financial period referred to in C.4(b)(i) must be audited.

- (ii) a description of the property or properties and the interest acquired by the issuer,
- (iii) information with respect to the estimated reserves and related future net revenue attributable to the business, the material assumptions used in



preparing the estimates and the identity and relationship to the issuer or to the seller of the person who prepared the estimates,

- (iv) actual production volumes of the property for the most recently completed year, and
  - (v) estimated production volumes of the property for the first year reflected in the estimate disclosed under D.4(d)(iv).
5. Financial statements for a business that is an interest in an oil and gas property, or for the acquisition or proposed acquisition by an issuer of a property, are not required to be audited if during the 12 months preceding the date of acquisition or the proposed date of acquisition, the daily average production of the property on a barrel of oil equivalent basis (with gas converted to oil in the ratio of six thousand cubic feet of gas being the equivalent of one barrel of oil) is less than 20 per cent of the total daily average production of the seller for the same or similar periods and:
- (i) despite reasonable efforts during the purchase negotiations, the issuer was prohibited from including in the purchase agreement the rights to obtain an audited operating statement of the property,
  - (ii) the purchase agreement includes representations and warranties by the seller that the amounts presented in the operating statement agree to the seller's books and records, and
  - (iii) the offering memorandum discloses
    - 1. that the issuer was unable to obtain an audited operating statement,
    - 2. the reasons for that inability,
    - 3. the fact that the purchase agreement includes the representations and warranties referred to in D.5(ii), and
    - 4. that the results presented in the operating statements may have been materially different if the statements had been audited.