

The  
**NET-ZERO**  
Challenge

Committed to a clean future

**Reference Document for  
Small- and Medium-Sized  
Enterprises (SMEs) Based  
on Net-Zero Challenge  
Technical Guide**

Version 2.0



Environment and  
Climate Change Canada

Environnement et  
Changement climatique Canada

Canada

Cat. No.: En4-649/2026E-PDF  
ISBN: 978-0-660-98707-1  
EC25111

Unless otherwise specified, you may not reproduce materials in this publication, in whole or in part, for the purposes of commercial redistribution without prior written permission from Environment and Climate Change Canada's copyright administrator. To obtain permission to reproduce Government of Canada materials for commercial purposes, apply for Crown Copyright Clearance by contacting:

Environment and Climate Change Canada  
Public Information Centre  
Place Vincent Massey building  
351 St-Joseph boulevard  
Gatineau Quebec K1A 0H3  
Toll free: 1-800-668-6767  
Email: [enviroinfo@ec.gc.ca](mailto:enviroinfo@ec.gc.ca)

© His Majesty the King in Right of Canada, as represented by the Minister of the Environment, Climate Change and Nature, 2026.

Aussi disponible en français

## Table of Contents

1. Introduction .....	3
1.1 SME participation in the Net-Zero Challenge .....	3
1.2 Net-Zero Challenge minimum requirements .....	3
1.2.1 Participation stream .....	4
1.2.2 GHG emissions inventory.....	4
1.3 Participation tier ambition criteria specific for SMEs.....	5
2. How to develop a net-zero plan.....	7
2.1 Preliminary questionnaire .....	7
2.1.1 Net-zero plan .....	7
2.1.2 Baseline GHG emissions inventory .....	7
2.1.3 Corporate governance .....	11
2.2 Comprehensive questionnaire .....	11
2.2.1 Interim targets .....	11
2.2.2 Evidence of mitigation strategies.....	13
2.2.3 Reporting offset credit use .....	14
2.3 Annual questionnaire .....	14
2.3.1 Emissions inventory .....	15
2.3.2 Implementing mitigation strategies.....	15
3. Resources for SMEs .....	15
3.1 From the Government of Canada .....	16
3.2 Third party links.....	16

# 1. Introduction

This is a Reference Document to the [Net-Zero Challenge Technical Guide](#) Version 2.0 (the Technical Guide) for Small- and Medium-Sized Enterprises (SMEs). It is designed to specifically help SMEs identify the program requirements and develop a net-zero plan.

This document is a complement to the updated Technical Guide. The Technical Guide is the primary source of information for all participants on net-zero planning. We recommend that SMEs read the Technical Guide to become familiar with the aspects of net-zero planning and then use this Reference Document to develop their net-zero plan and complete their participation questionnaires. Note that all information in the [Technical Guide](#) applies to SMEs, except where noted in this Reference Document.

The [How to Develop a Net-Zero Plan](#) section below provides step-by-step instructions on how to create net-zero plans and complete the Net-Zero Challenge requirements specific to SMEs. This section is designed for those newer to net-zero planning and provides guidance on developing a credible plan that meets the minimum requirements of the program. It is structured as per the various questionnaires that program participants must submit, outlining the minimum requirements of the program for SMEs at each of these reporting stages.

## 1.1 SME participation in the Net-Zero Challenge

### Who can join the Net-Zero Challenge as SMEs

All businesses operating in Canada can join the Net-Zero Challenge, including SMEs, which are defined as independent, non-subsidiary companies with ≤ 499 employees. Multinational companies operating in Canada with ≤ 499 employees in Canada or globally can also participate. However, if a company has ≤ 499 employees in Canada but more than 500 employees globally, it must have a **Canadian-specific net-zero plan** to qualify for the SME stream. Please see [Technical Guide](#) 2.3.1 for more information.

SMEs have an important role to play in reducing greenhouse gases (GHGs) and achieving a net-zero economy. This is especially true when considering emissions across the entire value chain. For this reason, the Net-Zero Challenge welcomes SME participation in the program. We recognize that the elements included in a net-zero plan for SMEs may differ from those for large companies. Further, SMEs may face different challenges when it comes to net-zero planning, which may require certain flexibilities in the program.

## 1.2 Net-Zero Challenge minimum requirements

### What are the participation requirements

By signing a [commitment letter](#), SMEs agree to:

- a public commitment to planning for **net-zero emissions by 2050** or earlier;
- publicly announced **interim emission reduction target(s)** consistent with reducing emissions to net-zero by 2050 or earlier;

- establish a **base year GHG emissions inventory**, including scope 1 and scope 2 emissions; and scope 3 emissions as applicable (not required but encouraged);
- develop a **preliminary net-zero plan** within 12 months of joining the Challenge and a **comprehensive net-zero plan** within 24 months of joining;
- provide information on **mitigation strategies, corporate governance, and offset credit use (if applicable)** linked to net-zero planning; and
- **report on progress** annually.

## 1.2.1 Participation stream

SMEs join the Net-Zero Challenge through the SMEs stream by signing the Commitment Letter. All participants must include scope 1 and 2 emissions. In general, SMEs are not required to include scope 3 emissions, however, SMEs that have neither scope 1 nor scope 2 emissions must include at least one category of scope 3 emissions. [Section 2.1.2.3](#) describes how to identify and quantify emissions sources within the three emissions scopes.

Participants must select the proper participation stream. The Net-Zero Challenge reserves the right to discuss a participant's self-selection, including designation as an SME. In case of dispute, the Net-Zero Challenge has the right to remove a participant from the program.

### What if the business grows

If a participant has joined the program as an SME and grows to 500 or more employees, they are required to notify the Net-Zero Challenge. This notification can be made in their next Annual Questionnaire. The participant will no longer be considered an SME and will be reclassified as an Other Businesses and Organizations participant.

The participant has 12 months from the submission of their last Annual Questionnaire to update the information in their Preliminary Questionnaire. The participant has 24 months from the submission of their Annual Questionnaire to update the information in their Comprehensive Questionnaire. Specifically, the net-zero target inventory and interim targets must be updated to include at least the single most relevant category of scope 3 emissions. The participant's Participation Tier status will be re-evaluated following the submission of their new Comprehensive Questionnaire.

## 1.2.2 GHG emissions inventory

### 1.2.2.1 GHGs to include

GHGs include a range of gases, with carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), and nitrous oxide (N<sub>2</sub>O) being the most common, accounting for over 98% of total GHG emissions in Canada. For the Net-Zero Challenge, **where relevant and to the extent possible**, net-zero plans, interim targets, and the GHG emissions inventory should be comprehensive. They should cover all the GHGs that are subject to reporting to the [Greenhouse Gas Reporting Program \(GHGRP\)](#).

For detailed guidance on identifying emissions sources and scopes, please refer to the [Technical Guide](#) section 4.0. The [Technical Guide](#) sections 4.1, 4.2, and 4.3 provide specific

guidance and examples for scope 1, scope 2, and scope 3 emissions, respectively. In addition, the third-party resources listed under GHG Inventory in [section 3](#) below may be of use to participants when calculating emission inventories.

### 1.2.2.2 Categorisation of leased assets

Many SMEs lease some of their assets but may not know how to categorize the associated emissions. If a company or organization is using office space(s) and/or vehicle(s) that are leased to them, then they should categorize those emissions under scope 1, 2, or 3. The categorization should be based on whether they have financial or operational control over the leased asset(s). When creating their GHG emissions categories and inventory, participants should refer to the GHG Protocol's [Appendix F – Categorizing GHG Emissions Associated with Leased Assets](#) for more information.

## 1.3 Participation tier ambition criteria specific for SMEs

The participation tiers reward ambition in net-zero planning through three different participation tier levels: Bronze, Silver, and Gold. All participants will achieve the Bronze tier level for meeting the minimum requirements of the Net-Zero Challenge. If a participant wishes to advance to higher tier levels, they will have to meet additional criteria as described in Table 1.

Tiers can only be assigned after the evaluation of the Comprehensive Questionnaire, which is required within 24 months of signing the Commitment Letter. Participation tiers are re-evaluated each time a participant submits an Annual Questionnaire. The tier status of each participant will be published on the [Net-Zero Challenge website](#).

The new tier system will be phased in:

- current program participants can select the previous tier system or the new tier system in 2025 and 2026.
- new participants will be evaluated using the new tier system upon joining the program.
- the new tier system will be applied to all participants beginning January 1, 2027.

**Table 1:** SME-Specific participation tier ambition criteria

Net-Zero Challenge program requirements and participation tiers	
<b>Bronze</b> <i>(minimum program requirements)</i>	Public commitment to plan for net-zero GHG emissions by 2050 or earlier for scope 1 and scope 2; and for scope 3 emissions (as applicable).
	GHG base year inventory disaggregated and in absolute terms for scope 1 and 2 emissions; and in absolute, intensity or a range of estimates for scope 3 emissions (not required, as applicable).
	Corporate governance strategy for sustainability.
	Interim targets for scope 1 and 2 emissions; and if applicable, scope 3 emissions; Interim targets can be aggregated or disaggregated (strongly encouraged) and can be expressed in either absolute or intensity terms. For the first interim target:

	<ul style="list-style-type: none"> <li>• The minimum reduction required for scope 1 and 2 emissions is a maximum 40% deviation from a straight-line path to net-zero.</li> <li>• There is no minimum reduction required for scope 3 emissions.</li> </ul> <p>Mitigation strategies indicating % of emission reductions expected for scope 1 and 2 emissions; and for scope 3 emissions (as applicable).</p> <p>If used, carbon offset reductions and removals, PPAs and RECs must be accounted for separately.</p> <p><b>Note:</b> if used, it is strongly encouraged to purchase offsets in the following order of priority: 1) the compliance system, 2) the voluntary system with a Core Carbon Principle (CCP) label from the <a href="#">Integrity Council for the Voluntary Carbon Market (ICVCM)</a>, and 3) the voluntary system with a standard endorsed by the <a href="#">International Carbon Reduction and Offset Alliance (ICROA)</a>, national or international.</p>
<p style="text-align: center;"><b>Silver</b></p>	<p>A Canadian net-zero plan.</p> <p>For the first interim target:</p> <ul style="list-style-type: none"> <li>• 40% absolute emissions reduction for scope 1 and 2</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• 20% absolute emissions reduction for a meaningful category of scope 3 emissions (as applicable)</li> </ul> <p><b>Notes:</b></p> <ol style="list-style-type: none"> <li>1. Participants that have neither scope 1 nor scope 2 emissions <u>must</u> meet the scope 3 condition for this participation tier requirement. Similarly, participants that are exempt from reporting scope 3 emissions <u>must</u> meet the scope 1 and 2 conditions for this participation tier requirement.</li> <li>2. “Meaningful” is defined as one of the highest emitting categories for the participant.</li> </ol> <p>50% of offsets used (reductions or removals) must be from the federal/provincial compliance systems, or the voluntary system either with a CCP label from ICVCM or a standard endorsed by ICROA (national or international).</p>
<p style="text-align: center;"><b>Gold</b></p>	<p>A Canadian net-zero plan.</p> <p>For the first interim target:</p> <ul style="list-style-type: none"> <li>• 50% absolute emissions reduction for scope 1 and 2</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• 30% absolute emissions reduction for a meaningful category of scope 3 emissions (as applicable)</li> </ul> <p><b>Notes:</b></p> <ol style="list-style-type: none"> <li>1. Participants that have neither scope 1 nor scope 2 emissions <u>must</u> meet the scope 3 condition for this participation tier requirement. Similarly, participants that are exempt from reporting scope 3 emissions <u>must</u> meet the scope 1 and 2 conditions for this participation tier requirement.</li> <li>2. “Meaningful” is defined as one of the highest emitting categories for the participant.</li> </ol> <p>100% of offsets used (reductions or removals) must be from federal/provincial compliance systems, or the voluntary system either with a CCP label from ICVCM or a standard endorsed by ICROA (national or international).</p>

# 2. How to develop a net-zero plan

## 2.1 Preliminary questionnaire

The Preliminary Questionnaire is due within 12 months of submitting the Commitment Letter, or earlier.

**Participants must meet the following minimum requirements:**

- have a publicly announced commitment to plan to achieve net-zero emissions by 2050 or earlier for all appropriate scopes (see [section 2.1.1](#));
- provide a baseline GHG emissions inventory that meets the requirements of the program (see [section 2.1.2](#)); and
- provide a description of incorporating the net-zero plan in corporate governance (see [section 2.1.3](#)).

More detailed information on each of the minimum requirements for the Preliminary Questionnaire are outlined in the following sections.

### 2.1.1 Net-zero plan

Participants must publicly announce a plan for net-zero emissions by 2050 or earlier for their scope 1 and 2, and if applicable, scope 3 emissions. The plan can be announced on the company's website, in a public-facing report, or in any manner that is available to the public. The public commitment must include the company's name, the target year (for example, 2050), and information about scope 1, 2, and 3 emissions, where applicable. The Net-Zero Challenge recommends an absolute emissions reduction target, but either an absolute emissions reduction or emissions intensity target is acceptable. If a participant does not have scope 1 or 2 emissions, they **must** report on at least one scope 3 category to ensure that they have reported emissions that can be reduced to net-zero by 2050, or earlier.

### 2.1.2 Baseline GHG emissions inventory

The initial GHG emissions inventory is the baseline or starting point for the net-zero plan, clearly showing the gap between a participants' current emissions and its goal for net-zero emissions by 2050. The more accurate the inventory, the more accurate the estimate of the gap to net-zero.

The GHG emissions baseline is the GHG emissions inventory at one point in time, serving as the reference point for the interim and net-zero targets. If a participant has an existing GHG emissions inventory that meets the requirements stipulated in the following sections, it may be used as the baseline. If a participant does not have an existing GHG emissions inventory, their first inventory will serve as their baseline.

In the future, changes to the GHG emissions baseline may be needed due to changes to the company (e.g., mergers, acquisitions, expansions), to the calculation methods (e.g., more accurate measurement), or for other unforeseen reasons. If this occurs, participants should

update their baseline when updating their net-zero plan and include an explanation for the changes. See sections 2.1.2.1 to 2.1.2.4 below on key steps of developing a GHG emissions inventory.

### **2.1.2.1 Base year**

A base year needs to account for 12 full months of emissions data for the company's scope 1 and 2 GHG emissions. SMEs are also encouraged, but are not required, to include scope 3 emissions in their inventory. However, if they have neither scope 1 nor scope 2 emissions, they must include at least one scope 3 emissions category. It can either be a full calendar year, or 12 contiguous months spanning two years (e.g., March 2022 to February 2023).

If a participant is using a new baseline, it should be set as close to the present date as possible but no earlier than five years prior to developing the preliminary plan. The selected base year should align with the participant's operational goals and should be a year for which the company or organization can get complete and accurate information. The baseline year must be provided along with the scope 1 and 2 emissions (and scope 3 if applicable) when completing the Preliminary Questionnaire.

Some participants may already have a base year GHG emissions inventory established. The existing base year inventory may be used even if it dates back several years so long as the emissions included meet the minimum requirements for scope 1 and 2, and if applicable, scope 3.

For companies not yet in operation, they can select a year in the future within five years of developing the preliminary plan and provide estimates of the projected emissions for their baseline inventory. Participants that are not yet in operation cannot be recognized with a Participation Tier until the company is in normal operations and has emissions to report.

### **2.1.2.2 Determining inventory boundary**

The first step for developing a base year GHG emissions inventory is to set the **organizational boundaries**. Organizational boundaries refer to how to define the company or corporation for the purposes of establishing a GHG inventory. These boundaries are easily defined for smaller organizations that wholly own all their operations. It is a more complex task for larger corporations. The [GHG Protocol Corporate Standard](#) describes three standard approaches to define these boundaries: 1) equity share; 2) operational control; and 3) financial control. Participants may use any of these approaches when defining their organizational boundary (see [Technical Guide](#) section 5.1.2.1). Within the organizational boundaries, it is important to determine the scope of emissions to be included.

### **2.1.2.3 Identifying GHG emissions by scopes**

Emissions scopes can be divided into two main categories: direct and indirect emissions. The GHG Protocol defines direct emissions as "emissions from sources that are owned and controlled by the company." These are known as scope 1 emissions (see [section 2.1.2.3.1](#)). The GHG Protocol defines indirect emissions as emissions that "are a consequence of the activities of the company but occur at sources owned or controlled by another company." They result from a company's activities, but the actual release of emissions occurs elsewhere. Indirect emissions can be divided into purchased energy, known as scope 2 emissions (see [section 2.1.2.3.2](#)), and value chain emissions, known as scope 3 emissions (see [section 2.1.2.3.3](#)).

Please refer to the [GHG Protocol Corporate Accounting and Reporting Standard](#) for more details on these emissions scopes. All SME participants must include scope 1 and 2 emissions in their net-zero plans and GHG emissions inventory. SMEs are encouraged, but not required, to include as many categories of scope 3 emissions as possible. SMEs who do not have either scope 1 or 2 emissions must include at least one category of scope 3 emissions (See [Technical Guide](#) section 4.3 for scope 3 emissions categories).

Participants must **disaggregate** and state their baseline emissions in **absolute** terms (e.g., XXX kt CO<sub>2</sub> eq) for scope 1 and scope 2 emissions. Scope 3 emissions (as applicable) can be stated in absolute terms, intensity, or a range of estimates.

Additional resources on how to identify and quantify emissions for each scope are listed on the [Net-Zero Challenge](#) website.

### 2.1.2.3.1 Scope 1

Scope 1 emissions are direct emissions resulting from the types of activities undertaken by a company.

#### Scope 1 emissions may include the following:

- emissions from fuel combustion in company owned/controlled stationary sources to generate heat, electricity, or steam (e.g., boilers, furnaces, turbines, engines, flares);
- emissions from the manufacturing or processing of chemicals and materials (e.g., cement, petrochemicals) and waste processing;
- emissions from transportation of materials, products, waste, and employees through fuel combustion that the company owned/controlled (e.g., trucks, trains, ships, airplanes, buses, and cars);
- emissions from intentional or unintentional releases (e.g., equipment leaks from joints, seals, packing, and gaskets; methane emissions from coal mines and venting, hydrofluorocarbon (HFC) emissions during the use of refrigeration and air conditioning equipment; and methane leakages from gas transport); and
- emissions from human-caused land-use change (e.g., deforestation).

When first compiling an emissions inventory, all participants will need to identify their direct emissions from one or more of the types of activities listed above.<sup>1</sup> Each participant will have a different proportion of emissions from each category. Many SME participants, such as office-based organizations, may not have any direct emissions.

There are no specific methodologies for identifying scope 1 emissions. Rather, participants should understand where their direct emissions come from based on their operations and the descriptions of common direct emissions sources. Participants are encouraged to be as broad as possible when identifying their scope 1 emissions and should include even the smallest of sources in their GHG emissions inventory.

GHG emissions from the identified sources can be calculated either directly or indirectly. Monitoring and measuring GHG emissions are considered the “gold standard” for quantifying emissions, and thus participants with this capacity are encouraged to do so. GHG emissions

---

<sup>1</sup> The list is non-exhaustive; SME participants may identify other scope 1 emissions sources not listed here.

from many common scope 1 activities can also be calculated indirectly by using emission factors.

Emission factors are pre-determined values that have been calculated to quantify emissions associated with various activities, following detailed methodologies. When using emission factors to quantify GHG emissions, participants should use those developed for Canada's latest [National Inventory Report](#) (NIR) (found in Annex 6), to the extent possible. Additional resources for emission factors and quantifying GHG emissions can be found under the resources section on the [Net-Zero Challenge Website](#).

If applying emission factors, participants will need to gather information related to scope 1 activities (e.g., the amount of fuel used in company-owned vehicles). The [GHG Protocol](#) provides several online calculation tools and calculation guidance, including cross-sector tools, for common emissions sources like stationary combustion and transportation, and sector-specific tools for specific industries.

### **2.1.2.3.2 Scope 2**

Scope 2 emissions are indirect emissions from electricity, heating, cooling, or steam that a company purchases for its own use. These purchased forms of energy include the direct transfer of these energy forms as well as electricity from electricity grids.

To quantify scope 2 emissions, participants need to determine their total consumption of these purchased energy forms on an annual basis. For electricity purchased from the grid, participants can simply refer to their utility bills to determine consumption. Emission factors can be used to quantify the emissions from this consumption. Canada's latest NIR includes electricity emission factors reflecting the Canadian federal, provincial, and territorial averages (found in [Annex 13 of the NIR](#)). Participants may also use more localized emission factors, should the information be available.

For guidance on determining the quantity of steam, heat, and cooling, and for complex electricity situations (e.g., shared buildings), refer to the GHG Protocol's [Scope 2 Guidance](#). For participants that lease their space, please refer to [Appendix F to the GHG Protocol Corporate Accounting and Reporting Standard](#) for details on how to account for the emissions associated with leased assets.

### **2.1.2.3.3 Scope 3**

In general, SMEs are not required to include scope 3 emissions. However, SMEs that do not have scope 1 and scope 2 emissions must include at least one category of scope 3 emissions. Scope 3 emissions include all indirect emissions in the value chain. The GHG Protocol recommends that companies focus on those that have the most significant GHG emissions and offer the most significant emissions reduction opportunities.<sup>2</sup> Please refer to [Technical Guide](#) section 5.1.2.2.3 on how to identify scope 3 emissions.

Scope 3 emissions are often the most difficult to estimate as the assets associated with these emissions are not owned or controlled by the company or organization. It is acceptable to determine a range of estimates for scope 3 emissions and describe the confidence level in

---

<sup>2</sup> GHG Protocol, [Technical Guidance for Calculating Scope 3 Emissions](#), (2013), p. 11.

these estimates. Participants may refer to the [GHG Protocol's guidance](#) on scope 3 to help estimate these emissions.

#### 2.1.2.4 Establishing a GHG emissions inventory

All of the identified GHGs that fall within the participant's operational boundaries should be quantified separately and then reported as a total in CO<sub>2</sub> equivalents (CO<sub>2</sub> eq). GHGs can be converted to CO<sub>2</sub> eq by using the [GHG's global warming potential \(GWP\)](#). The GWP is a common metric that was developed to allow comparisons of the warming impacts of different GHGs relative to CO<sub>2</sub>. Participants should use the 100-year GWPs from the latest IPCC Assessment Report: [GHG Protocol: IPCC Global Warming Potential Values](#). However, values from IPCC Assessment Report 5 are also acceptable and are currently used by Canada's GHG Reporting Program (most recently published in December 2023 - Canada Gazette, Part 1, Volume 157, Number 49: SUPPLEMENT 1).

#### 2.1.3 Corporate governance

The third and final minimum requirement for the Preliminary Questionnaire is corporate governance. As part of the preliminary net-zero plan, participants must provide a description of their corporate governance strategy. This should demonstrate how net-zero planning, climate change targets, and more broadly, climate change risks and opportunities, are incorporated into business and/or investment decisions. In addition, many companies have found it useful to have Environmental, Social, and Governance (ESG) criteria as a metric in determining executive compensation. **Participants must simply provide evidence that there is publicly available information on how the organization incorporates net-zero planning and/or emissions reduction targets into business and/or investment decisions** (See Technical Guide Section 5.3 for more information).

### 2.2 Comprehensive questionnaire

The Comprehensive Questionnaire is due within 24 months of submitting the Commitment Letter, or earlier. For this questionnaire to be approved by the Net-Zero Challenge program, participants must meet all of the minimum requirements of the Preliminary Questionnaire (see [section 2.1](#)) as well as the following minimum requirements:

- have a publicly announced first interim target(s) (see [section 2.2.1](#));
- provide evidence of mitigation strategies and specify the percentage of anticipated emissions reductions for each applicable scope (see [section 2.2.2](#)); and
- disclose information on offset credit use, PPAs, and RECs, if applicable (see [section 2.2.3](#));

More detailed information on each of the minimum requirements for the Comprehensive Questionnaire are outlined in the following sections.

#### 2.2.1 Interim targets

Participants must set two sequential interim targets on the path to net-zero by 2050. The first interim target must be defined in the Comprehensive Questionnaire and publicly announced on the company's website or LinkedIn page. The second interim target can be left undefined until

participants update their net-zero plans for the first time (up to five years after submitting the Comprehensive Questionnaire). Interim targets modifications must be detailed in the Annual Questionnaire.

If a participant has set their net-zero target for the year 2040 or earlier, then only one interim target is required. If a participant has set their net-zero target for 2030 or earlier, then no interim targets are required.

The date of the first interim target must be at least five years from the date of joining the Net-Zero Challenge, but no later than 2035. The date of the second interim target must be at least five years from the date of the first interim target, but no later than 2045. Interim targets must be anchored to specific years, such as 2030 and 2040. Participants can choose the years they wish, so long as the interim targets adhere to the timeline parameters described above.

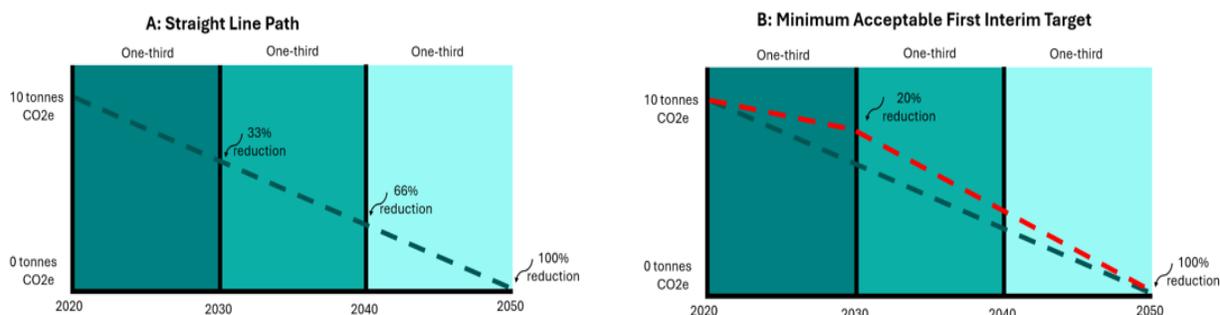
Emissions reduction targets can be stated in terms of emissions intensity or absolute emissions reductions. It is strongly recommended that participants set an absolute reduction net-zero target for all of their emissions. An absolute emissions reduction target is defined by a percentage reduction in absolute emissions. For example, a participant's interim target could be a 50% reduction of GHG emissions by 2030. An emissions intensity target is defined by a reduction in emissions relative to productivity or economic output. For example, a participant's interim target could be a 50% reduction of GHG emissions per unit sold by 2030. Although these examples are expressed as percentages, this is not a mandatory requirement. Interim targets can be expressed as a specific reduction amount (e.g., 10,000 tonnes CO<sub>2</sub> equivalent), so long as it is measurable against the GHG emissions inventory baseline and meets the other parameters described in this section.

Scope 1 and 2 emissions can be aggregated together (disaggregating them is strongly encouraged), but scope 3, if included, must be disaggregated. The first interim target for scope 1 and scope 2 emissions must meet a minimum threshold of ambition.

### **2.2.1.1 Minimum ambition threshold**

The Net-Zero Challenge stipulates a minimum ambition threshold for the first interim target for scope 1 and 2 emissions. Note that there is no maximum threshold; however, participants are encouraged to be as ambitious as possible with their first interim targets. Given that everyone's pathway to net-zero is different, participants are allowed to have a maximum deviation of **up to 40%** from the straight-line path for the first interim target for scope 1 and 2 emissions. This is to accommodate the varying challenges in achieving net-zero while ensuring a minimum level of ambition for **scopes 1 and 2**. See [Technical Guide](#) 6.1.4 and 6.1.5 on how to set ambition level and calculate your first interim target.

**Figure 1: Minimum acceptable first interim target**



## 2.2.2 Evidence of mitigation strategies

The second minimum requirement for the Comprehensive Questionnaire is to provide information on planned mitigation strategies and specify the percentage of anticipated emissions reductions for each applicable emissions scopes. One example per emissions scope will be considered sufficient to meet this minimum requirement. Mitigation strategies that include early actions and that result in early emissions reductions should be prioritized whenever possible. These actions will contribute to the most likely pathways for Canada and the world to meet net-zero by 2050.

Strategies that avoid creating emissions in the first place are preferred. Emissions that cannot be avoided should be reduced, and emissions that cannot be reduced should be offset. There is a wide range of mitigation strategies that can be deployed to reduce scope 1 and 2 emissions. The examples provided throughout the next sections are meant to be illustrative; they are neither exhaustive nor prescriptive. Additionally, mitigation strategies can be informed by resources produced by reputable organizations such as the IEA, the United Nations, the Government of Canada, the [Canadian Net-Zero Advisory Body](#), and non-profit think-tanks. The [Net-Zero Challenge website](#) also includes a list of resources on net-zero planning to aid participants.

### 2.2.2.1 Scope 1

There are many potential mitigation strategies for scope 1 emissions. For example, electrification and energy efficiency are recognized as key mitigation strategies by Canada's Net-Zero Advisory Body. For example, participants that own or have operational control over buildings can look to replace less efficient heating and cooling systems with more energy efficient ones. Other mitigation strategies, especially for industrial emissions, include implementing clean technology solutions, such as carbon capture, utilization and storage (CCUS), switching to cleaner fuels, and the adoption of zero emissions electric vehicles for the company fleet.

When identifying mitigation strategies for scope 1 emissions, participants should also be aware of any regulatory requirements that they must meet in their business sector. Please see Environment and Climate Change Canada's [Acts and Regulations Website](#) for more information.

### 2.2.2.2 Scope 2

When mitigating scope 2 emissions, participants should first seek to reduce their purchased electricity (and heat/steam/cooling) by reducing demand (where possible) and employing energy efficiency measures. This can range from simple and modest measures such as using less air conditioning, installing energy efficient appliances or lightbulbs, to investments in renewable energy produced on-site.

Once the available demand reductions and energy efficiency measures have been incorporated into the net-zero plan, remaining scope 2 emissions can be addressed through the purchase of offset credits, by entering into off-site power purchase agreements, or by participating in utility green power programs.

### 2.2.2.3 Scope 3

It is recognized that plans to reduce scope 3 emissions will likely be the most imprecise of the three scopes. Participants should make their best estimate of how their actions—whether engaging suppliers or finding cleaner procurement options—will reduce their emissions. See [Technical Guide](#) section 6.2.4 for examples of mitigation strategies to reduce scope 3 emissions.

## 2.2.3 Reporting offset credit use

The final minimum requirement for the Comprehensive Questionnaire is the reporting of planned or purchased offset credits. Participants may use offset credits as a strategy to achieve net-zero emissions in their net-zero plans. In all cases, participants should first seek to avoid and reduce as many of their emissions as possible. Offset credits should be used only as a last resort to compensate for any residual emissions, including hard-to-abate emissions. All participants must report whether they plan to use offset credits in their net-zero plans and for which scope of emissions they anticipate using those offset credits. See [Technical Guide](#) section 6.3 for offset credits use guidelines and reporting requirements.

## 2.3 Annual questionnaire

The first Annual Questionnaire is due within 18 months following the submission of the Comprehensive Questionnaire. All subsequent submissions are due within 12 months following the submission of the most recent Annual Questionnaire.

For this Questionnaire to be approved, participants must meet all of the minimum requirements of the Preliminary Questionnaire (see [section 2.1](#)), the Comprehensive Questionnaire (see [section 2.2](#)), as well as the following minimum requirements:

- provide evidence of a recent GHG emissions inventory and compare it to baseline (see [section 2.3.1](#)).
- provide evidence of the progress or implementation of mitigation strategies (see [section 2.3.2](#)).
- reiteration of the publicly announced interim targets, including any changes.
- reiteration of offset credit use, including any changes.
- changes to the incorporation of net-zero planning in corporate governance.

The Annual Questionnaire assesses participant progress in achieving interim and net-zero targets. Net-zero plans that do not achieve the minimum emission reductions required for interim, or net-zero targets are not considered to be meaningfully reducing emissions. More detailed information on each of the minimum requirements of the Annual Questionnaire are outlined in the following sections.

Minimum emission reduction requirements are outlined for the first interim target in section [2.2.1](#) above. Participants will be given a one-year resolution period to meet their interim emissions reduction target or the minimum emissions reduction requirement, before their participation in the program is reconsidered. Given that the first interim target must be set between 2030 and 2035, all participants will have to meet a minimum emission reduction requirement by 2036, at the latest.

Minimum emission reduction requirements for the second interim target will be outlined in future technical guidance.

### **2.3.1 Emissions inventory**

Participants must provide evidence of a recent GHG emissions inventory. This inventory should account for 12 full months of emissions data for at least scope 1 and 2 emissions, or scope 3 emissions as applicable. When creating an annual GHG emissions inventory, participants must meet the same requirements as outlined in [section 2.1.2](#) above.

Additionally, participants must clearly compare their recent GHG inventory to their baseline inventory. Any changes in the recent inventory from the baseline inventory must be highlighted and participants must explain the reasons for the change.

### **2.3.2 Implementing mitigation strategies**

Participants must present evidence of progress in implementing mitigation strategies that were outlined in the Comprehensive Questionnaire, which can be a high-level overview. If no progress has been made, participants must indicate planned or future mitigation strategies. At least one mitigation strategy must be included for each scope of emissions in the participant's GHG inventory.

#### **Contact**

This reference document is meant to complement the [Net-Zero Challenge Technical Guide](#) in aiding SME participants when completing their questionnaires. The Net-Zero Challenge is available to answer questions at [defizeronet-netzerochallenge@ec.gc.ca](mailto:defizeronet-netzerochallenge@ec.gc.ca).

## **3.Resources for SMEs**

### **What resources are available for SMEs**

Below are links and brief descriptions of tools and resources that may be useful to SME participants, especially those at the beginning of their net-zero journey. More resources are available under the resources section of the [Net-Zero Challenge website](#).

## 3.1 From the Government of Canada

- [Business Benefits Finder](#)  
A tool to help businesses find government programs to help grow their business.
- [Clean Growth Hub](#)  
The whole of government focal point for clean technology that helps innovators and adopters navigate and access federal programs and services.

## 3.2 Third party links

### Net-zero planning

- [Guide to Greenhouse Gas Management for Small Business & Low Emitters](#)  
This guide walks the user through the following key steps: getting started, calculating greenhouse gas emissions, creating a GHG inventory management plan, setting a reduction goal, and tracking progress.
- [Net-Zero Ambition Disclosure \(NAD\) Tool](#)  
The Net-Zero Ambition Disclosure (NAD) Tool is a generic, SME-friendly self-assessment tool that scores the organization's commitment to, and progress toward, science-based net-zero targets. It also suggests over two dozen actions that would reduce Scope 1, 2, and 3 GHG emissions.

### GHG inventory

- [GHG Protocol's Corporate Accounting and Reporting Standard](#)  
The GHG Protocol Corporate Standard provides standards and guidance for companies and other types of organizations preparing a GHG emissions inventory.
- [Simplified GHG Emissions Calculator](#)  
The EPA Simplified GHG Emissions Calculator is designed as a simplified calculation tool to help small business and low emitter organizations estimate and inventory their annual greenhouse gas (GHG) emissions.
- [Business Carbon Calculator](#)  
The Business Carbon Calculator helps SMEs estimate their company's full carbon footprint and find quick-win actions to reduce emissions.
- [Emission Factors and Reference Values](#)  
This document provides emission factors and reference values that a participant may use to quantify the GHG emissions.

### Disclosure and reporting

- [A Climate Disclosure Framework for Small and Medium-sized enterprises](#)

This framework provides guidelines for SMEs on measuring their emissions, setting greenhouse gas reduction targets grounded in science, taking bold actions, reporting on progress and ultimately reducing emissions.

- [Financial Impacts of Climate Form](#)

The Financial Impacts of Climate Form (FICF) is a free, open-source tool, designed to help companies develop qualitative TCFD-aligned disclosures of climate-related information.