Introduction

In 2004, the Canadian Securities Administrators issued Multilateral Instrument 52-110 (‘MI 52-110’) outlining requirements for audit committees of reporting issuers (see Appendix E for details).

In 2001, the Joint Committee on Corporate Governance, a joint committee of the Canadian Institute of Chartered Accountants ("CICA"), the Canadian Venture Exchange ("CDNX") and the Toronto Stock Exchange ("TSE") made numerous recommendations in their report "Beyond Compliance: Building a Governance Culture", aimed at strengthening the financial reporting system. They emphasized the value of audit committees, recommending stronger responsibilities. The report included recommendations on the financial literacy of committee members, the composition of the committee and the necessity for a formal written mandate for the committee (see Appendix D for details).

In 1999, in the United States, the Blue Ribbon Committee issued a report entitled "Improving the Effectiveness of Corporate Audit Committees". The report included a revised definition of what constitutes an independent director and auditor, requirements of an independent audit committee and criteria governing the size, responsibilities and financial understanding of audit committees.

In 1994, a Toronto Stock Exchange Committee issued the Dey Report outlining several guidelines on the basic structure and mandate of an audit committee. Although the report just issued guidelines, the TSE required entities listed on the TSE to disclose their own corporate governance policies and compare them to the Dey Report. As a five-year follow up to the Dey report, in November 1999, the Toronto Stock Exchange issued guidance on corporate governance disclosure. All TSE listed entities are now required to specifically address each of the 14 recommended governance guidelines in their annual report and disclose of the entity's system of corporate governance relative to each guideline. Although the report did not specifically identify the role of the audit committee, it did provide the following guidance:

"The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The audit committee duties should include oversight responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so."

Recent regulatory and accounting pronouncements are requiring increased note disclosure on interim financial statements, quarterly management discussion and analysis and a review of the interim statements by the board of directors before their release to the shareholders. This increasing responsibility, and the highly-publicized audit failures of recent years, has focused attention on the audit committee function.

This publication is designed to encourage greater effectiveness of audit committees and to assist members to fulfill their responsibilities. Our comments are focused on Canadian entities and do not extend to the requirements for those entities that may be subject to U.S. regulatory compliance.
The Canada Business Corporations Act and many provincial Corporations Acts contain provisions regarding the establishment of audit committees, and rules governing their membership and responsibilities.

Canadian statutory provisions relevant to audit committees generally provide that:

a) corporations offering securities to the public must have an audit committee of at least three directors;

b) the majority of the committee must be "outside" directors, who are not officers or employees of the corporation or its affiliates;

c) the committee is to review financial statements before approval by the board of directors;

d) auditors are entitled to receive notice of, and have the right to attend, all meetings of the committee; and

e) auditors or any committee member may call a meeting of the committee.
Objectives of an audit committee

The Audit Committee's role is to act in an objective, independent capacity as a liaison between the auditors, management and the Board of Directors to ensure the auditors have a facility to consider and discuss governance and audit issues with parties not directly responsible for operations.

The Audit Committee's responsibilities include:

- being available to assist and provide direction in the audit planning process when and where appropriate;
- meeting with the auditors as necessary and prior to release and approval of consolidated financial statements to review audit, disclosure and compliance issues;
- where necessary, reviewing matters raised by the auditors with appropriate levels of management, and reporting back to the auditors their findings;
- making known to the auditors any issues of disclosure, corporate governance, fraud or illegal acts, non-compliance with laws or regulatory requirements that are known to them, where such matters may impact the consolidated financial statements or auditors' report;
- providing guidance and direction to the auditors on any additional work they feel should be undertaken in response to issues raised or concerns expressed;
- making such enquiries as appropriate into the findings of the auditors with respect to corporate governance, management conduct, cooperation, information flow and systems of internal controls;
- reviewing the draft consolidated financial statements prepared by management, including the presentation, disclosures and supporting notes and schedules, for accuracy, completeness and appropriateness, and approve same to be passed to directors for approval; and
- pre-approving all professional services and allowable consulting services to be provided by the auditors.
An audit committee is usually established through by-law or by a board of directors’ resolution, which sets forth the formal mandate of the committee, and its responsibility for the financial reporting process. Audit committees can adopt a formal written charter or mandate which can be disclosed to the shareholders and reviewed annually. The charter should include key objectives, responsibilities and scope of actions such as:

- the committee’s relationship with the external auditors and an assessment as to their independence;
- review of risk management policies;
- review of internal controls;
- oversight of the quality and integrity of the financial reporting practices;
- review of accounting policies and major accounting issues requiring judgement for possible earnings management or fraudulent reporting; and
- review of external communication policies and information disclosure.

Notwithstanding the statutory requirement for a majority of audit committee members to be outside directors, stock exchanges and regulators strongly suggest that audit committees be comprised exclusively of outside directors. However, this might not be practical for smaller entities.

The board of directors should review annually the composition, the position of chair, the mandate, and the performance of the audit committee. It may be desirable to nominate new members every two or three years, thus assuring continuity while providing fresh perspective.

All audit committee members should have a basic understanding of accounting and finance. At least one member of the committee should have more extensive accounting or related financial management expertise, including the ability to understand and interpret the financial statements, and experience in accounting or finance in the applicable industry. With the increase in accounting and disclosure requirements, the Committee will need the resources to ask appropriate questions of both management and the external auditor.

While the frequency of meetings will depend on the size and activities of the organization and the scope of duties assigned, audit committees should meet at least each quarter. The Committee should meet with external auditors prior to the commencement of the fiscal year-end audit, and should meet to review and approve interim financial statements and any public documents such as prospectuses and information circulars. The Ontario Securities Commission (“OSC”) requires the board of directors to review quarterly financial statements before they are distributed. The OSC has not yet mandated that external auditors review the interim financial statements, as is the case in the United States. Many Boards and audit committees of public entities in Canada are, however, obtaining greater comfort on quarterly disclosures by engaging auditors to perform quarterly reviews. We expect this practice will quickly become the norm in Canada, since directors will be
reluctant to be exposed to the risk of having their judgement not to obtain such a review called into question, should any problems arise.

Compensation of the audit committee and the board of directors varies. Some entities compensate committee members with a cash honorarium for each meeting, while others provide no cash compensation. Frequently, directors are compensated through stock options, or other stock-based compensation plans. Controversy exists over the usefulness of stock-based compensation for directors. On one hand, rewarding directors based on appreciation in the entity's stock price should encourage decision-making that is aligned with shareholder desires for increased stock values. Options also allow entities to attract and reward directors without sacrificing cash. On the other hand, options present potential conflicts of interest. The Board may arguably be reluctant to fully disclose unfavourable information to the public that could potentially decrease the value of options.

Senior management should assist, if requested, at the meetings of the audit committee as resource personnel. External auditors should also be invited to attend all meetings of the audit committee. If management personnel are part of the audit committee, the outside directors of this audit committee should consider meeting with the internal and external auditors without management present to allow for frank discussion of sensitive issues.

Minutes of the meetings of the audit committee should be maintained at the head office of the organization. These minutes should detail the principal subjects discussed, the decisions made and actions undertaken. The board of directors should develop a policy for the distribution of minutes.

Some audit committees now report annually to shareholders (see sample report in Appendix C). The report should describe the activities of the audit committee and be signed by the audit committee chair. The audit committee's role is also usually described in less detail in Management's Report to Shareholders for public entities.

The auditors should have free access to the audit committee without obtaining prior management approval to discuss auditing and financial reporting matters. The committee should be able to operate in an independent and objective manner that is free of bias from management.
Responsibilities of an audit committee

Responsibilities undertaken by an audit committee will depend on the size and complexity of the organization and the particular interests and concerns of its directors. However, every audit committee should remain informed of the affairs of the organization, and be diligent in fulfilling its responsibilities, while maintaining independence from management. The members should ask more than just a checklist of questions but strive to understand critical aspects of the entity and the auditor’s relationship with the entity.

The responsibilities of an audit committee cover broad areas, including the audit plan, internal controls, interim financial statements, annual financial statements, results of the audit, and other financial information.

I. The Audit Plan

- understand the annual audit process, the terms of the engagement and the scope of the auditor’s work, including a general outline of the proposed audit coverage of departments, divisions, subsidiaries, etc.;
- discuss the general audit approach, including:
  - nature, timing, and extent of audit procedures,
  - extent of planned use of the work of internal and other auditors,
  - extent of audit coverage of high risk areas,
  - the “materiality” and audit risk levels on which the audit is based;
- inquire about any particular difficulties encountered by the auditor in dealing with management, or any significant matters that have not been resolved with management;
- determine from management, the efficiency of the audit and the quality and timeliness of services rendered;
- review any changes in statutory requirements, accounting policies, or standards of financial statement presentation which may impact the organization;
- review the overall cost-effectiveness of audit and non-audit services performed; consideration should always be given to whether the nature or extent of such services could impair the auditor’s independence in fact or appearance;
- be available to management for discussion of financial statement issues that require significant judgment;
• review the independence of the auditor, giving consideration to the range of audit and non-audit services performed by them, and approve the professional services provided by the auditors prior to the start of the engagement; and

• where appropriate, request the auditors to perform additional audit procedures or investigate specific areas of concern.

II. Internal Controls and Risk Management

• review with the auditors, their evaluation of the effectiveness of the system of internal controls, and their recommendations to management regarding weaknesses, as well as management's response to these recommendations;

• making known to the auditors any issues of fraud or other illegal acts that are known to them;

• review the scope of the internal auditors' work, the results of their work and the extent of the implementation of their recommendations to management;

• if the organization maintains a code of conduct, inquire into any breaches or questionable matters under this code;

• inquire as to policies and controls to ensure compliance with terms of significant contracts and agreements;

• confirm that all tax and regulatory filings and remittances have been made in the prescribed manner.

The audit committee should have a primary oversight role with respect to identifying and monitoring the management of principal financial risks that could impact the financial reporting of the entity. The audit committee should assess, as part of its internal control responsibilities, the effectiveness of the overall process for identifying principal business and financial risks and provide its view to the board. In particular, the audit committee needs to assess high-risk areas, such as controls in place over derivative financial instruments and off-balance sheet activities and whether management has the expertise to enforce and carry out the policies effectively. Disclosure of the process followed by the board and its committees, of the entity's management of principal business and financial instrument risks, should be included in the annual report.

III. The Annual Financial Statements

• review the annual financial statements with management and the auditors before submission to the board of directors; this review should concentrate primarily on the completeness, accuracy and fairness of presentation, paying particular attention to those areas which involve a significant amount of judgement;

• consider any changes in accounting principles and practices followed by the entity, including interim accounting; and,

• review the adequacy and quality of selection of accounting policies from alternative acceptable accounting principles and methods.
IV. The Results of the Audit

• review the results of the annual audit with the auditors prior to public release, especially if the standard report is qualified in any way;

• inquire about other significant audit issues such as:
  o restrictions on the auditors' work;
  o results of auditing high risk areas;
  o reasons for unadjusted items, if any;
  o implications of pending or potential lawsuits on the financial statements and views of legal counsel; and
  o significant tax exposure areas.

• review appropriateness of methods used by management in arriving at accounting estimates, the degree of conservatism reflected, and the reasonableness of estimates;

• review any litigation, claims or other contingencies/legal matters that should be disclosed in the financial statements and have a material impact from regulatory or governmental agencies;

• any major divergence of views or disagreements between management and the auditors and whether or not these have been resolved;

• review significant errors found by auditors and subsequently adjusted by management, and any significant immaterial errors also found by auditors;

• inquire into instances when management has sought accounting advice from an accounting firm other than the one appointed as auditor;

• recommend the (re)appointment of external auditors to the board of directors;

• review actions taken by management on recommendations relating to organization, internal controls and operations made by the auditors;

• meet with management and auditors to review the effectiveness of the entity's internal controls, including computerized information systems controls and security; and

• prepare an audit committee report to reflect the primary responsibilities and activities of the committee (Appendix C).
V. Other Financial Information

- review interim financial statements before publication and discuss any issues that arose during the interim review engagement with the auditors;

- review information, other than the annual financial statements, prepared by management and included in the annual report, such as the Management Discussion and Analysis;

- review the audit committee letter which contains recommendations made by the external auditor and follow up with management's response and solutions to the identified weaknesses;

- review all public disclosure documents that contain financial information before release. This includes prospectuses, annual information forms, and management's discussion and analysis, and any attached financial statements;

- review the entity's policy on corporate governance, environment and ethics and investigate any matters relating to discrepancies from the policies;

- coordinate the entity's compliance with internal policies and any outside regulations;

- review any financial information published on the Internet and monitor the adequacy of security procedures;

- approve audit fees;

- review conflicts of interest arising with officers or employees;

- review the performance of the chief financial officer and controller;

- review and reassess the adequacy of the audit committee charter annually; and

- other duties that the board of directors assign.
New members should become acquainted as soon as possible with the audit committee's objectives, responsibilities, and specific practices, either by formal orientation sessions or through informal discussions with present members. New members should become familiar with the committee's relationship with management, with internal and external auditors, and with the board of directors, and be as informed as possible about the entity, its activities and internal operations.

New audit committee members should review the following:

a) the by-law or board resolution which created the audit committee and established its mandate;

b) the minutes of audit committee meetings for the past few years;

c) the list of officers and senior management, including a brief resume of their backgrounds;

d) prior years' annual reports and financial statements, the current year's quarterly reports, and any other financial information filed recently with the Securities Commission or other regulatory authority;

e) the schedule of upcoming meetings and reporting requirements, and their respective dates for the current year's agenda;

f) prior years' audit committee letters issued by the external auditors, and reports issued by the internal auditors along with management's response.
Role of external auditors

The external auditor's fundamental responsibility is to express an opinion as to the fairness of presentation of financial statements for the year(s) in question, in accordance with generally accepted accounting principles. In order to arrive at this opinion, auditors perform an examination in accordance with generally accepted auditing standards. These standards relate to the auditors' qualifications, the performance of their examination, and the preparation of their report.

It is standard practice in Canada for auditors to issue an engagement letter which outlines their statutory obligations, and other responsibilities or services to be rendered in addition to the audit appointment. Audit committees should review the engagement letter to be sure it is consistent with their understanding of the engagement.

Auditors engaged to report on financial statements are required to obtain a sufficient understanding of internal controls, in order to determine the nature, extent, and timing of the procedures sufficient to support the content of the auditors' report. Significant control weaknesses which have come to the attention of the auditors as a result of the audit are reported to the audit committee. Auditors generally do not test internal controls with the view to making specific recommendations or conclusions, unless specifically engaged to do so. However, they must report any significant control weaknesses discovered during the course of the audit.

When performing their examination, auditors seek reasonable assurance that the financial statements are not materially misstated. Auditors cannot obtain absolute assurance due to practical limitations of annual audits: the need for judgement, the use of sampling procedures, the use of estimating procedures and the imperfect quality of audit evidence. An unqualified audit opinion is not necessarily an indication that the financial statements are entirely free of errors or misstatements. Auditors require correction only for such misstatements that are, individually or in aggregate, "material" to the statements in question. Materiality of misstatements or omissions are evaluated both as to the dollar level, and the qualitative impact and sensitivity of the item. The audit committee should require the auditor to discuss the nature of unadjusted errors and misstatements discovered.

Annual financial statement audits are not designed to detect fraud or illegal acts. If directors suspect fraud or illegal acts, a special investigation should be instituted. Auditors must assess the potential audit implications of any irregularities, or of fraudulent activities and errors, which come to their attention, and must consider their effect on the financial statements. Where fraud or illegal acts are discovered in the financial statement audit, auditors are required to immediately inform the appropriate level of management or the audit committee.

The written mandate of the audit committee, if there is one, should be reviewed by the auditors. Also, auditors should discuss with the audit committee matters on which the committee expects the auditor to report, and matters on which the committee expects management to report.

In 2002, The Canadian Institute of Chartered Accountants ('CICA') issued new requirements ('Communications with those having oversight responsibility for the financial reporting process') on how auditors communicate with audit committees or their equivalent, which applies to audits of both public and private entities. Where no audit committee exists, such as in owner-managed
entities and certain non-public entities, this oversight responsibility may be held by the owner or the board of directors as a whole.

Under the CICA recommendations, the auditor’s communication with the audit committee may be made orally or in writing, except for matters that bear on independence, which must be in writing on an annual basis prior to the completion of the engagement (see Appendix B for a listing of items that an auditor should communicate to the audit committee). Management should be present when discussing the auditor’s recommendations to ensure proper representation and to adopt a plan of action to resolve any deficiencies noted in the report.

It is important that the audit committee consider the auditor’s independence. External auditors should be free from any influence or relationship that could impair their professional judgement or objectivity during the audit. This includes being economically dependent on the entity, holding shares, and personal relationships. As well, the external auditors must be able to discuss matters confidentially with the audit committee without any bias or pressure from management. Special consideration should be given regarding non-audit services provided by the auditors. This includes factors such as:

- is the non-audit service known about and approved by the audit committee?
- are there conflicting roles between the special engagement and the audit?
- will the special engagement interfere the auditors objectivity?
- will the auditors be auditing information they have generated themselves?
- what is the size and fee of the non-audit service in relation to the audit services?
Conclusion

The duties of directors have expanded with increased expectations of shareholders, regulators and the general public.

An appropriately constituted and organized audit committee working in an environment favouring independence and a critical attitude, will improve the quality of financial information provided to users, ensure better internal control, and assist those who assume statutory responsibilities regarding the affairs of the organization and the distribution of financial information.

If you would like more detailed information regarding formation and conduct on the audit committee in your organization, please contact us.

Collins Barrow Calgary LLP
Chartered Accountants and Consultants
#1400, 777 – 8th Avenue S.W.
Calgary, Alberta
T2P 3R5

tel: (403) 298-1500
fax: (403) 298-5814
e-mail: calgary@collinsbarrow.com
web: www.cbcalgary.com
Appendix A

Audit Committee Checklist

The following is a checklist of activities the audit committee would normally be expected to undertake each year. The list is not exhaustive, and the committee should be alert for other areas of concern.

I. Audit Plan
   • Review the engagement letter.
   • Discuss the audit approach including risk assessments and special areas of concern.
   • Discuss the timing of the audit and set a date for draft financial statements and set the audit committee meeting agenda and date.
   • Review other non-audit services the auditors are providing and assess independence.
   • Discuss audit fees with the auditors and management.
   • Review the independence of the auditors.

II. Internal Controls
   • Assess the adequacy of internal controls over the financial reporting and information systems as well as the safeguarding of the entity’s assets.
   • Assess the controls initiated by management over business and financial risks, in particular for complex and high-risk areas such as trading of derivative financial instruments.
   • Comparison of budgets to actual.

III. Review Of Financial Statements
   • Review all accounting policy changes and choices.
   • Discuss all significant events and financial reporting issues and related disclosures.
   • Review and discuss all related party transactions and their disclosure.
   • Discuss subsequent events that could have significant impact on the financial statements.
   • Review all contingent liabilities and discuss any undisclosed contingent liabilities.
• Review any derivative financial instruments or off-balance sheet activities and related disclosure.

• Discuss special accounting treatments such as inventory valuation, allowance for doubtful accounts, extraordinary gains/losses and impairment in value of assets.

• Review unadjusted errors with the auditors and any significant accounting estimates made by management.

• Meet with the auditors privately and discuss items concerning management such as adequacy of management's responses, deficiencies in internal controls, fraud, illegal acts, any disagreements and conflict of interests.

• Review the auditors report to the audit committee and address implementation of recommendations.

• Compare the entity's accounting policies with other entities in the industry.

• Review the annual report.

• Review the financial statements and recommend them to the board of directors for approval.

IV. Other

• Review all interim financial statements before public release.

• Reassess the audit committee charter.

• Review of other public documents.

• Review compliance with regulatory rules and regulations.

• Review any issues related to the change of an auditor or reappointment as necessary.

• Review performance of Chief Financial Officer.

• Review performance of both internal and external auditors.
Appendix B

Items auditors should communicate to the audit committee or equivalent under 'Communications with those having oversight responsibility for financial reporting process' (S. 5751 Assurance Recommendations and other related sections):

a) Audit and non-audit services the auditor is providing to the entity and any related entities.

b) The auditor’s responsibility under generally accepted auditing standards.

c) A summary of the audit approach.

d) Significant transactions that appear to be inconsistent with ordinary course of business, including fraud, possible fraud and misstatements arising from error.

e) Management failures to address fraud or possible fraud.

f) Illegal acts.

g) Weaknesses in internal control.

h) Related party transactions not in the normal course of operations.

i) Significant accounting principles and policies including initial selection of policies, possible alternatives, recent guidance in controversial or emerging areas.

j) Management judgements and accounting estimates, including any perceived biases on management’s part in making the estimates.

k) Factors affecting asset and liability carrying values.

l) Timing of transactions that affect the recognition of revenues or avoid recognition of expenses.

m) Misstatements.

n) Other information in annual reports

o) Disagreements with management.

p) Consultation with other accountants.

q) Major issues discussed that influence audit appointment.

r) Difficulties encountered in performing the audit.

s) Unusual actions which significantly increase the risk of loss to the entity.
t) Actions, which, if they became public knowledge, might cause serious embarrassment to the entity, such as breaches of the corporate code of conduct.

u) Matters related to the auditor's independence, in writing, including the confirmation of the auditor's independence, disclosure of all relationships between the auditor and the entity that in the auditor's professional judgement may reasonably be thought to bear on the auditor's independence and, for entities with public accountability, disclosure of the total fees charged for audit and non-audit services provided by the auditor to the entity. Relationships to report to the audit committee would include:

1. consideration of services provided in addition to the audit engagement;
2. personal or business relationships between the auditor and management;
3. holding a position to exert significant influence over financial or accounting policies of the entity;
4. financial interest held in the entity; and
5. economic dependence on the entity by the auditor.

Certain of these matters need to be discussed with the audit committee because of the potential for misunderstanding the nature of the items themselves and the auditor's responsibility for their identification.
Reporting to the Shareholders

The following is a sample report to shareholders:

AUDIT COMMITTEE REPORT

To the shareholders of

ABC Company Limited

The audit committee oversees the entity's financial reporting process on behalf of the board of directors. The committee is composed entirely of outside, independent directors. As part of its responsibilities, the committee has met to review the entity's annual and quarterly financial statements and recommended their approval to the board of directors.

The audit committee has also met with the entity's internal and external auditors to review the results of their examinations, their evaluations of the system of internal controls, the overall quality of the entity's financial reporting and the entity's choices of accounting policies. The audit committee also examined all financial information prepared for regulatory bodies before filing, and has recommended the engagement (or re-appointment) of the entity's external auditors.

(signed)
Chair of the Audit Committee

Date
Appendix D

Recommendations of the Joint Committee on Corporate Governance, November 2001

The following is a list of the recommendations of the Joint Committee on Corporate Governance as they relate to audit committees. Although these recommendations are not currently mandatory for public entities, they provide useful guidance to audit committees and Boards of Directors.

a) The governance guidelines relating to audit committees should be amended to reflect the following:

1) Audit committees should be composed solely of outside directors who are also "unrelated". We further recommend that some flexibility with regard to related directors, but not outside directors, be provided by CDNX for Tier 2 entities that have small boards.

2) All members of the audit committee should be "financially literate" and at least one member should have accounting or related financial expertise. The definition of and criteria for "financial literacy" should be determined by each board.

3) Audit committees should adopt a formal written mandate that is approved by the full board and that sets out the scope of the committee's responsibilities. This mandate should be disclosed to shareholders, and a regular assessment of the effectiveness of the committee against the mandate should be conducted and reported to the full board. The audit committee mandate should set out explicitly the role and responsibility of the audit committee with respect to:

   o its relationship with and expectation of the external auditors;
   o its relationship with and expectation of the internal auditor function;
   o its oversight of internal control;
   o disclosure of financial and related information; and
   o any other matters that the audit committee feels are important to its mandate or that the board chooses to delegate to it.

b) Audit committee mandates should explicitly affirm that the external auditor is accountable to the board of directors and the audit committee, as representatives of the shareholders, and that these shareholder representatives have the ultimate authority and responsibility to select, evaluate and, where appropriate, recommend replacement of the external auditor.

   Auditors must recognize that their ultimate client is not management, and work constructively and meet regularly with audit committees to build an effective relationship.

c) The audit committee should periodically request from management a review of the need for an internal audit function and, on the basis of this review, determine whether such a function should be instituted.
d) The Ontario Securities Commission should revise its regulation to make it clear that either the audit committee or the board should review quarterly financial reports and related financial documents before any public disclosure of the information. Audit committees, as a matter of best practice, should ask external auditors to review this material before considering it.
Appendix E

Multilateral Instrument 52-110 of the Canadian Securities Administrators ‘Audit Committees’

The following rules apply to most reporting issuer’s on the earlier of i) their first annual meeting after July 1, 2004 and ii) July 1, 2005. Reporting issuers must comply with the following:

- Have an audit committee;
- Require its external auditor to report directly to the audit committee;
- Have a written charter that sets out the mandate and responsibilities of the audit committee;
- The audit committee must recommend to the board of directors:
  a) The external auditor to be nominated
  b) The compensation of the external auditor
- Audit committee must be directly responsible for overseeing the work of the external auditor;
- Audit committee must pre-approve all non-audit services to be provided by the external auditor (this responsibility can be delegated to an independent member);
- Audit committee must review the issuer’s financial statements, MD & A and earnings press releases before information is publically disclosed;
- Audit committee must be satisfied that adequate procedures are in place for the review of the issuer’s public disclosure of financial information;
- Audit committee must establish procedures for:
  a) the receipt, retention and treatment of complaints received by the issuer regarding accounting, internal controls or auditing matters; and
  b) the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.
- Audit committee must review and approve the issuer’s hiring policies regarding current or former partners and employees of the present and former external auditors of the issuer;
- Audit committee composition:
  a) Have a minimum of 3 members;
b) Every member must be a director;

c) Every member must be independent;

d) Every member must be financially literate.

NOTE: Venture issuers are exempt from the composition rules stated above.

- Each audit committee must have the authority:

  a) To engage independent council and other advisors if necessary;

  b) To set and pay compensation for said advisors;

  c) To communicate directly with the internal and external auditors.

- All issuers (except Venture Issuers) are required to include disclosures in their Annual Information Forms ('AIFs') related to:

  a) Text of the audit committee charter;

  b) Composition of the audit committee;

  c) Relevant education and experience of members of audit committee;

  d) Reliance on certain exemptions under MI 52-110;

  e) If a recommendation of the audit committee to nominate or compensate an external auditor was not adopted by the board of directors, state that fact and explain why;

  f) Any specific policies for the engagement of non audit services;

  g) External auditor service fees by category for the last two fiscal years.