

## **CALIAN GROUP LTD. AUDIT COMMITTEE CHARTER**

The Audit Committee (The Committee) will assist the Board of Directors in fulfilling its oversight responsibilities. In performing its duties, the Committee will maintain effective working relationships with management and the external auditors. The Committee expects the management of the Corporation to operate in compliance with the Corporation's Code of Conduct and corporate policies; with laws and regulations governing the Corporation; and to maintain strong financial reporting and control processes.

### **1. DEFINITIONS**

#### *1.1 Financial Literacy*

"Financially Literate" means the ability to read and understand a balance sheet, an income statement, a cash flow statement and the notes attached thereto and be sufficiently versed in financial matters to understand the Corporation's accounting practices and policies and the major judgments involved in preparing the financial statements.

#### *1.2 Independent Director*

"An Independent Director" means a Director that has no direct or indirect material relationship with the issuer. A material relationship means a relationship, which could, in the view of the issuer's board of directors, reasonably interfere with the exercise of a director's independent judgment.

### **2. GENERAL PROCEDURES**

- 2.1 The Committee shall be composed of a minimum of three directors, all of whom shall be independent directors and financially literate.
- 2.2 The Committee shall meet at least four times annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chairman, upon the request of two members of the Committee or at the request of the Chairman of the Board of the Corporation or the external auditors.
- 2.3 A quorum shall be a majority of the members.
- 2.4 Unless the Committee otherwise specifies, the Secretary of the Corporation shall act as Secretary of all meetings of the Committee.
- 2.5 In the absence of the Chairman of the Committee, the members shall appoint an acting Chairman.
- 2.6 A copy of the minutes of each meeting of the Committee shall be provided to each member of the Committee in a timely fashion.
- 2.7 Committee meeting agendas shall be the responsibility of the Chairman of the Committee in consultation with Committee members, senior management and the external auditors.
- 2.8 The Committee shall communicate its expectations to management with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management at least five (5) days in advance of meeting dates.
- 2.9 At each meeting of the Committee, the members of the Committee shall meet in private session with the Corporation's auditors.
- 2.10 The Committee, through its Chairman, shall report after each Committee meeting to the Board at the Board's next regular meeting.
- 2.11 To assist the Committee in discharging its responsibilities, the Committee may, in addition to the external auditors, at the expense of the Corporation, retain one or more persons having special expertise.

2.12 The Committee shall annually review, discuss and assess its own performance. In addition, the Committee shall periodically review its role and responsibilities.

### **3. Specific Responsibilities and Duties**

#### **3.1 Financial Reporting**

- 3.1.1 review the Corporation's quarterly financial statements including the Management Discussion and Analysis (MDA) and related press releases with management and review the Corporation's annual audited financial statements with the external auditors to gain reasonable assurance that the statements are accurate, complete, represent fairly the Corporation's financial position and performance and are in accordance with GAAP and report thereon to the Board before such financial statements are approved by the Board. Specifically, in its review of the Financial Statements, MDA and press releases, the Committee should:
- a) obtain an explanation from management of all significant variances between comparative reporting periods and budget;
  - b) review unusual items and other material matters outside of the normal course of business that affect financial reporting and adequacy of disclosure;
  - c) review related party transactions and adequacy of disclosure;
  - d) review key estimates and judgments;
  - e) review uncertainties, commitments and contingent liabilities and;
  - f) review the appropriateness of the Corporation's significant accounting principles and practices, including acceptable alternatives, and the appropriateness of any significant changes in accounting principles and practices.
- 3.1.2 review the quarterly and annual compliance of management certification of financial reports with applicable legislation and attestation of the Corporation's disclosure controls and procedures.
- 3.1.3 review general accounting trends and issues regarding accounting policy, standards and practices, including new developments with Generally Accepted Accounting principles, which may affect the Corporation.
- 3.1.4 annually review with management and the external auditors the degree of conservatism of the Corporation's underlying accounting policies, key estimates and judgments and reserves.
- 3.1.5 receive from the external auditors reports on their audit of the annual financial statements;
- 3.1.6 receive from management a copy of the representation letter provided to the external auditors and receive from management any additional representations required by the Committee;
- 3.1.7 Review any report which accompanies published financial statements (to the extent such report discusses financial condition or operating results) for consistency of disclosure with the financial statements themselves.
- 3.1.8 review and, if appropriate, recommend approval to the Board of prospectuses, material change disclosures of a financial nature, management discussion and analysis, annual information forms and similar disclosure documents to be issued by the Corporation.

### **3.2 Internal Controls**

- 3.2.1 review and monitor the Corporation's internal control procedures, program and policies, and assess the adequacy and effectiveness of internal controls over the accounting and financial reporting systems.
- 3.2.2 review the annual plan for internal audits;
- 3.2.3 review the reports of the Corporation on internal audits with respect to control and financial risk, and any other matters appropriate to the Committee's duties. The Committee shall review the adequacy and appropriateness of management's response, including the implementation thereof;
- 3.2.4 review the evaluation of internal controls by the external auditors, together with management's response;
- 3.2.5 review the adequacy of the Corporation's internal audit resources; and
- 3.2.6 review the working relationship between management and the external auditors

### **3.3 External Auditors**

- 3.3.1 recommend to the Board the nomination of the external auditors and approve the remuneration and the terms of engagement of the external auditors as set forth in the Engagement Letter;
- 3.3.2 review the performance of the external auditors annually or more frequently as required and receive from the external auditors the annual CPAB public report. Furthermore, in the event that CPAB inspects the audit file of the Corporation, the committee will receive and review the following information:
  - 3.3.2.1 *a description of the focus areas selected for inspection by the CPAB;*
  - 3.3.2.2 *An indication of whether or not there are any significant inspection findings; and*
  - 3.3.2.3 *if there are significant inspection findings, a description of the findings and any actions the firm has taken in response to the findings and CPAB disposition;*
- 3.3.3 receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services by the Corporation;
- 3.3.4 review with the external auditors the audit plan including the scope of the audit, the areas of special emphasis to be addressed in the audit, the extent to which the planned audit scope can be relied upon to detect weaknesses in internal control or fraud or illegal acts, and the materiality levels which the external auditors propose to employ. The Committee should recommend to the Board of Directors the scope of the external audit as stated in the audit plan;
- 3.3.5 review all engagements for non-audit services provided by the external auditors together with fees for such services, and consider the impact of this on the independence of the external auditors. The Committee shall determine which non-audit services the external auditors are prohibited from providing.
- 3.3.6 meet annually with the external auditors in the absence of management to determine,
  - a) that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the Committee;
  - b) the level of cooperation received from management;
  - c) any unresolved material differences of opinion or disputes;
  - d) the effectiveness of the work of internal audit; and
  - e) the quality of the financial personnel.
- 3.3.7 establish effective communication processes with management and the Corporation's external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee.
- 3.3.8 when a change of auditors is proposed, the Committee shall review all issues related to the change, including the

information required to be disclosed by regulations and the planned steps for an orderly transition.

- 3.3.9 When discussing auditor independence, the Committee will consider both rotating the lead audit partner or audit partner responsible for reviewing the audit after a number of years and establishing hiring policies for employees or former employees of its external auditor.

### **3.4 Risk Management**

- 3.4.1 Put in place procedures to receive and handle complaints or concerns received by the Corporation about accounting or audit matters including the anonymous submission by employees of concerns respecting accounting and auditing matters.

- 3.4.2 acknowledging that it is the responsibility of the Board, in consultation with management, to identify the principal business risks facing the Corporation, determine the Corporation's tolerance for risk and approve risk management policies, the Committee shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled by:

- a) reviewing with management the Corporation's tolerance for financial risks;
- b) reviewing with management its assessment of the significant financial risks facing the Corporation;
- c) reviewing with management the Corporation's policies and any proposed changes thereto for managing those significant financial risks;
- d) reviewing with management its plans, processes and programs to manage and control such risks;

- 3.4.3 ascertain that policies and procedures are in place to minimize environmental, occupational health and safety and other risks to asset value and mitigate damage to or deterioration of asset value and review such policies and procedures periodically;

- 3.4.4 ascertain that policies and procedures include comprehensive computer disaster recovery plans.

- 3.4.5 review policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;

- 3.4.6 review foreign currency risk mitigation strategies, including the use of derivative financial instruments;

- 3.4.7 review the adequacy of insurance coverage maintained by the Corporation;

- 3.4.8 review regularly with management and the external auditors any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these matters have been disclosed in the financial statements.

### **3.5 Compliance with Laws and Regulations**

- 3.5.1 review regular reports from management and others (e.g. internal and external auditors) with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including:

- a) tax and financial reporting laws and regulations;
- b) legal withholding requirements;
- c) environmental protection laws and regulations;
- d) other laws and regulations which expose directors to liability;

- 3.5.2 review reports with respect to Occupational Health and Safety matters having a potential significant financial impact and to gain reasonable assurance annually that the Corporation's reserves with respect to such matters are sufficient and appropriate;

- 3.5.3 review the status of the Corporation's tax returns and those of its subsidiaries.

### **3.6 Other Responsibilities**

- 3.6.1 review periodically the form, content and level of detail of financial reports to the Board;
- 3.6.2 approve quarterly the reasonableness of the expenses of the Chief Executive Officer;
- 3.6.3 after consultation with the Chief Financial Officer and the external auditors, gain reasonable assurance, at least annually, of the quality and sufficiency of the Corporation's accounting and financial personnel and other resources;
- 3.6.4 review in advance the appointment of the Corporation's Chief Financial Officer;
- 3.6.5 investigate any matters that, in the Committee's discretion, fall within the Committee's duties;
- 3.6.6 review reports from management, the external auditors, and/or other Committee Chairmen on their review of compliance with the Corporation's Code of Conduct;
- 3.6.7 perform such other functions as may from time to time be assigned to the Committee by the Board.

### **3.7 Accountability**

- 3.7.1 annually review and assess the adequacy of its mandate and evaluate its effectiveness in fulfilling its mandate;
- 3.7.2 review and update this Charter on a regular basis for approval by the Board;
- 3.7.3 review the description of the Committee's activities as set forth in the Corporation's statement of corporate governance practices.