

## **Committees of the Board**

### **Audit Committee**

#### *Audit Committee Charter*

The Board of Directors (the “Board”) has established an Audit Committee (the “Committee”) to assist the Board in fulfilling its oversight of the financial reporting process including the integrity of the Corporation’s accounting and financial reporting, the Corporation’s internal controls and disclosure controls, the Corporation’s legal and regulatory compliance, the Corporation’s ethics policy and timeliness of filings with regulatory authorities, the independence and performance of the Corporation’s external auditors, the management of the Corporation’s risks, the Corporation’s credit worthiness, treasury plans and financial policy and the Corporation’s whistleblower and complaint procedures.

#### *1. MEMBERSHIP*

- The Committee will have a minimum of three members, including the Chair of the Committee. The Board will appoint and remove the members of the Committee by a majority vote. The members will sit on the Committee at the pleasure of the Board.
- The Board will appoint the Chair of the Committee from the Committee’s members by a majority vote. The Chair of the Committee will hold such position at the pleasure of the Board.
- All members of the Committee will be Independent Directors. A director is independent if he or she has no direct or indirect material relationship with the Corporation as determined in accordance with applicable laws and regulations.
- All members of the Committee will be financially literate as defined in accordance with applicable securities laws and standards.

## 2. *MEETINGS*

- The Committee will meet at least once each quarter corresponding with the Corporation's reporting cycle and otherwise as necessary. Any member of the Committee may call meetings of the Committee.
- The Chair of the Committee will prepare an agenda in advance of each meeting.
- The notice, agenda and supporting documentation will be circulated to the members of the Committee at least four days in advance of the meeting to allow members appropriate time to prepare for the meeting. The notice and agenda will also be circulated to the CEO and all Directors.
- All Directors of the Corporation, including management directors, may attend meetings of the Committee provided, however, that no director is entitled to vote at such meetings and is not counted as part of the quorum for the Committee if he or she is not a member of the Committee.
- At each meeting of the Committee, the Committee members may meet in private sessions among themselves only; and when appropriate with the external auditors only; and with Management only.
- The Committee will report to the Board on its meetings and each member of the Board will have access to the minutes of the Committee's meetings, regardless of whether the director is a member of the Committee.

## 3. *QUORUM*

- The quorum necessary for the transaction of business at Committee meetings will be a majority of the members of the Committee.

## 4. *DUTIES*

The Board hereby delegates to the Committee the following duties to be performed by the Committee on behalf of and for the Board:

### Financial Reporting

Prior to public disclosure, the Committee in consultation with management, and where appropriate, the external auditors will review and recommend to the Board for approval:

- a) the annual audited financial statements and interim unaudited financial statements of the Corporation;

- b) the interim and annual management's discussion and analysis of financial condition and results of operations (MD&A) of the Corporation;
- c) earnings press releases and earnings guidance, if any;
- d) management's Statement on Financial Reporting; and
- e) all other material financial public disclosure documents of the Corporation including prospectuses, press releases with financial results and the Annual Information Form.

#### External Auditors

The external auditors will report directly to the Committee and the Committee will:

- a) recommend to the Board, for shareholder approval the external auditors and determine the compensation of the external auditors;
- b) oversee the work of the external auditors and review and approve the annual audit plan of the external auditors, including the scope of the audit to be performed. The Committee will discuss with the external auditors and management, the adequacy and effectiveness of the disclosure controls and internal controls of the Corporation and elicit recommendations for the improvement of such controls or particular areas where new or more detailed controls or procedures are desirable;
- c) meet with the external auditors without management present and ask the external auditors to report any significant disagreements with management regarding financial reporting, the resolution of such disagreements and any restrictions imposed by management on the scope and extent of the audit examinations conducted by the external auditors;
- d) pre-approve all audit, audit-related and non-audit services to be provided to the Corporation or any of its subsidiaries, by the external auditors ( and its affiliates), in accordance with applicable securities laws;
- e) annually review the qualification, expertise and resources and the overall performance of the external audit team and, if necessary, recommend to the Board the termination of the external auditors or the rotation of the audit partner in charge;
- f) annually assess and confirm the independence of the external auditors and require the external auditors to deliver an annual report to the Committee regarding its independence, such report to include disclosure regarding all engagements (and fees related thereto) by the Corporation and relationships which may impact the objectivity and independence of the external auditors;
- g) require the external auditors to deliver an annual acknowledgement in writing to the Committee that the shareholders, as represented by the Board and the Committee, are its primary client;
- h) review post-audit or management letters, containing recommendations of the external auditors and management's response;
- i) review reports of the external auditors; and
- j) pre-approve the hiring of employees and former employees of current and former auditors in accordance with applicable securities laws.

Notwithstanding section d) above, the Committee may delegate the pre approval of non-audit services to any one member of the Committee, provided, however, a report is made to the Committee on any pre-approval of such services at the Committee's first scheduled meeting

following the pre-approval.

#### Whistleblower, Ethics and Internal Controls Complaint Procedure

The Committee will ensure that the Corporation has in place adequate procedures for:

- a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal controls, auditing matters or conflicts of interest; and
- b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

The CEO or CFO will report to the Committee, and the Committee will review such reports, on any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls.

#### Accounting and Financial Matters

The Committee will review:

- a) with management and the external auditors, the Corporation's major accounting policies, including the impact of alternative accounting policies and key management estimates and judgments that could materially affect the financial results and whether they should be disclosed in the MD&A;
- b) emerging accounting issues and their potential impact on the Corporation's financial reporting;
- c) significant judgments, assumptions and estimates made by management in preparing financial statements'
- d) the evaluation by the external auditors of management's internal control systems, and managements responses to any identified weaknesses'
- e) the evaluation by management of the adequacy and effectiveness in the design and operation of the Corporation's disclosure controls and internal controls for financial reporting;
- f) audits designed to report on management's representations on the effectiveness and efficiency of selected projects, processes, programs or departments; and
- g) management's approach for safeguarding corporate assets and information systems, the adequacy of staffing of key financial functions and their plans for improvements.

#### Credit Worthiness, Treasury Plans and Financial Policy

The Committee will review with management:

- a) the Corporation's financial policies and compliance with such policies;
- b) the credit worthiness of the Corporation;
- c) the liquidity of the Corporation; and
- d) important treasury matters including financing plans.

## Legal/regulatory Matters and Ethics

The Committee will review:

- a) with management, the external auditors and, if appropriate, legal counsel, any litigation, claim or other contingency, including any tax assessment, that could have a material effect upon the financial position or operating results of the Corporation;
- b) annually, management's relationships and compliance with regulators, and the accuracy and timeliness of filing with regulatory authorities; and
- c) annually, the ethics policy, management's approach to business ethics and corporate conduct and the program used by management to monitor compliance with the policy.

## Risk Management

The Committee will:

- a) consider reports on the annual enterprise business risk assessment and updates thereto;
- b) consider reports on the business continuity disaster recover plan(s) for the Corporation;
- c) consider reports on the insurance coverage of the Corporation;
- d) consider reports on financial risk management including derivative exposure and policies;
- e) monitor, on behalf of the Board, the Corporation's compliance with environmental legislation; and
- f) review other risk management matters as from time to time the Committee may consider suitable or the Board may specifically direct.

## Other

The Committee will review:

- a) the proposed disclosure concerning the Committee to be included in the Corporation's disclosure documents to verify, among other things, that it is in compliance with applicable securities law requirements;
- b) significant related party transactions and actual and potential conflicts of interest relating thereto to verify their propriety and that disclosure is appropriate; and
- c) at least once annually, evaluate the adequacy of these Terms of Reference and the Committee's performance, and report its evaluation and any recommendations for change to the Board via the Corporate Governance Committee.

The Committee will also have such other duties and responsibilities as are delegated to it and review such other matters as, from time to time, are referred to it by the Board.

## 5. AUTHORITY

The Committee, in fulfilling its mandate, will have the authority to:

- after informing the Board Chair and the CEO, engage and set compensation for independent counsel and other advisors;

- Communicate directly with the Chief Financial Officer, the External Auditors and General Counsel; and
- after informing the Board Chair and the CEO, access appropriate funding as determined by the Committee to carry out its duties.

#### *Composition and Experience of Audit Committee*

The Audit Committee is composed of Edwin Cohen, a private investor; William B. Pattison, President of Pattison Information Inc. and Charles Allen, President of Darmajac Holdings Limited.

Mr. Cohen has been a director of Canlan since June of 1999. Prior to retirement he worked as a financial service consultant for over 30 years. He holds a bachelor of commerce degree from the University of Manitoba.

Mr. Pattison has been a director of Canlan since May of 1986. He holds a bachelor of commerce degree from Cornell University and an MBA from Harvard University.

Mr. Allen has been a director of Canlan since November 2006. He has over 30 years of business experience and achieved a Chartered Accountant designation in 1974. He also holds a Bachelor of Arts degree from the University of Toronto.

All three members of the Audit Committee meet the independence criteria set out in National Instrument 52-110 - *Audit Committees* ("52-110"). All three members of the Audit Committee are "financially literate" as that term is defined in 52-110.

[Mr. Allen was appointed to the Audit Committee in 2008 and](#) also appointed [as](#) chair of the Audit Committee in 2008.

### **Compensation Committee**

The Compensation [Committee](#) is composed of Frank D. Barker, a director of Bartrac Holdings Ltd. and Bartrac Investments Ltd., and a partner of Kinetic Capital Partners, Geoffrey J. Barker a director of Bartrac Holdings Ltd. and Bartrac Investments Ltd. and vice president of properties and development of Bartrac Holdings Ltd., and Edwin Cohen, a private investor. The Compensation Committee is a standing committee appointed by the board of directors to make recommendations to the board of directors concerning the compensation paid to the senior management, to administer benefit plans and to develop and monitor a succession plan.

### **Governance and Nominating Committee**

The Governance and Nominating Committee is composed of Edwin Cohen (chairman), a private investor, Frank D. Barker, a director of Bartrac Holdings Ltd. and Bartrac Investments Ltd. and partner of Kinetic Capital Partners and Geoffrey J. Barker a director of Bartrac Holdings Ltd. and Bartrac Investments Ltd. and vice president of properties and development of Bartrac Holdings Ltd. The Governance and Nominating Committee is a standing committee appointed by the board of directors to develop a set of corporate governance guidelines, to assist the board of directors in developing a long term plan for compensation of the board of directors, identify qualified candidates for membership on the board of directors and to recommend to the board of directors nominees for election at each annual general meeting.

### **Committee Chair Responsibilities**

The Chair of each Committee shall perform its duties and responsibilities as set out in the Committee's Mandate or otherwise delegated to the Chair by the Committee. In addition, the Chair of each Committee shall:

- designate the secretary of the Committee;
- work with the Chairman of the Board and the President & CEO to establish the frequency of committee meetings and the agendas for meetings;
- ensure the appropriate flow of information to Committee members and review the adequacy and timing of materials;
- attend and preside at all Committee meetings;
- as appropriate and in consultation with the Committee, retain, oversee and terminate independent advisers to assist the Committee or its members in fulfillment of their responsibilities;
- lead the Committee in annually reviewing and assessing the adequacy of its Mandate and evaluating its effectiveness in fulfilling its Mandate;

- encourage an atmosphere of openness and trust and maintain a cohesive group without losing diversity of opinion and objectivity;
- facilitate a candid and full discussion of all key matters that come before the Committee;
- report to the Board with respect to the activities of the Committee and any recommendations deemed desirable by the Committee; and
- communicate the Committee's conclusions and decisions to the Chief Executive Officer and senior management for implementation.