

**PFB CORPORATION**  
**AUDIT COMMITTEE MANDATE**

**A. Objectives of the Audit Committee**

1. The Audit Committee will assist the directors to discharge their duties and responsibilities in the area of financial reporting and risk management and, in particular to review, comment on and generally oversee:
  - (a) the financial reporting process;
  - (b) the audit process;
  - (c) the system of internal control;
  - (d) management of financial risks; and
  - (e) the process of monitoring regulatory compliance, particularly in the area of financial disclosures.
2. The Committee will maintain effective working relationships among the Board, management and the external auditors.

**B. Composition of Committee**

1. The Audit Committee will consist only of Directors who meet the definition of “independent director” promulgated by security regulatory authorities. All members of the Committee will be “financially literate” as may be determined from time to time by regulatory authorities but in general having a working familiarity with basic finance and accounting practice.
2. The Committee shall consist of not fewer than three Directors and a majority of Committee members shall constitute a quorum.
3. Members of the Committee shall be appointed annually by the Board of Directors at the first meeting of Directors following the Annual Meeting of Shareholders. Members of the Audit Committee shall serve at the pleasure of the Board of Directors.
4. The Board of Directors shall choose a Committee member to act as Chair and the Committee shall appoint a secretary which may be the Secretary of the Corporation but need not be a member of the Committee.
5. Members of the Committee shall be entitled to receive such remuneration for serving on the Committee and attending meetings as the Board of Directors may determine from time to time.

**C. Financial Disclosure Functions**

1. All publicly disclosed financial information will be reviewed by the Audit Committee and approved by the Board prior to its release.
2. The Chair of the Audit Committee will meet separately with the Chief Financial Officer prior to each Audit Committee meeting to set the agenda for the meeting and to discuss any issues which may be forthcoming.
3. The Chair of the Audit Committee will meet separately with the external auditor prior to each Audit Committee Meeting to discuss the agenda and any issues which may be forthcoming.

4. Prior to the release of any financial statements, the Audit Committee will meet with the Chief Financial Officer and the External Auditor to review the annual and quarterly financial statements, the management discussion and analysis and related press release. The Audit Committee will also meet in camera. In each case the Committee will review and make a recommendation for approval thereof to the Board of Directors:
  - (a) 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;
  - (b) the existence and substance of significant accruals, estimates, or accounting judgements, and the level of conservatism;
  - (c) unusual or extraordinary items, transactions with related parties, and adequacy of disclosures;
  - (d) asset and liability carrying values;
  - (e) income tax status and related reserves;
  - (f) qualifications contained in letters of representation;
  - (g) assurances of compliance with covenants in trust deeds or loan agreements;
  - (h) identification of business risks, uncertainties, commitments, and contingent liabilities;
  - (i) the adequacy of explanations for significant financial variances between years.
5. The Audit Committee will review the Corporation's Annual Information Form and make a recommendation for approval thereof to the Board of Directors.

**D. External Audit Process:**

1. The Audit Committee will oversee the external audit process including:
  - (a) the selection and appointment of an auditing firm (to be confirmed by the Corporation's shareholders) to conduct the annual audit of the Corporation's annual financial statements and conduct reviews of the Corporation's quarterly financial statements, if engaged to perform reviews, including related notes and management's discussion and analysis in each case;
  - (b) assessing the independence of appointed auditing firm and with respect to any non-audit services provided by the auditing firm, approve in advance any such services and the fees charged by the firm for such services and assess the impact on the independence of the auditor;
  - (c) reviewing the external audit plan including, objectives, scope, materiality, timing, estimated fees, locations to be visited and areas of audit risk;
  - (d) reviewing audit reports and reviews and findings, including corresponding management responses;
  - (e) recommending approval of the annual audit fee to the Board of Directors;
  - (f) private discussions regarding the quality of financial personnel, the level of co-operation received, unresolved material differences of opinion or disputes.
2. The Committee will review and approve hiring policies regarding persons who have been associated with the auditors.

#### **E. Internal Financial Controls**

The Audit Committee will have responsibility to:

1. Review the operation of the Company's pension and employee and officer bonus programs and the reporting of such programs to governmental, regulatory authorities and shareholders.
2. Review the effectiveness of control and control systems utilized by the Corporation in connection with financial reporting and other identified business risks.
3. Review incidents of fraud, illegal acts and conflicts of interest and recommend to the Board systems and processes designed to detect and reduce vulnerability to fraud, illegal acts and conflicts of interest.
4. Review documents filed with securities commissions, including the Corporation's annual report.
5. Review material valuation issues.
6. Review the effectiveness of computerized accounting systems, the adequacy of protections against damage and disruption and security of confidential information through information systems reporting.
7. Review current and outstanding litigation.
8. Review cases where management has sought accounting advice on a specific issue from an accounting firm other than the one appointed as auditor.
9. Establish process for handling complaints about accounting, internal control or auditing matters and for the confidential, anonymous submission by employees of concerns relating to accounting or auditing matters.

#### **F. Authority, Resources, Meetings and Reports**

1. The members of the Committee shall have the right, for the purpose of discharging the powers and responsibilities of the Committee, to inspect any relevant records of the Corporation and its subsidiaries.
2. The Committee shall have adequate resources to discharge its responsibilities with the right to incur costs of up to \$10,000 per annum (not including audit fees) without further approval by the Board. The Committee may retain such persons to assist it as the Committee deems necessary.
3. The Committee shall meet not less than four times per year.
4. The Board of Directors shall be kept informed of the Committee's activities by a report presented at the Board meeting following each Audit Committee meeting.
5. The Committee shall keep minutes of its meetings in which shall be recorded all actions taken by the Committee which minutes shall be made available to the Board of Directors.

#### **G. Discharge of Duties**

In contributing to the Committee's discharging of its duties under this mandate, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this mandate is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the Company's business activities are being conducted effectively and that the financial reporting objectives are being met and to enable the Committee to report thereon to the Board.

## **H. Agenda for Meetings**

The following outlines a program for regular meetings of the Audit Committee. Prospectuses, acquisitions or takeovers will require meetings over and above the following annual program.

### **After the first quarter (prior to release of first quarter results)**

- Obtain information on any changes in financial reporting requirements;
- Review first quarter financial statements, management discussion and draft press release;
- Receive external auditor's review letter and comments (if appropriate);
- Review Audit Committee terms of reference and recommend changes;
- Review the management letter of the external auditors related to the last annual audit and the Company's responses to the recommendations made;
- Obtain information on how Company officers monitor the effectiveness of the Company's internal controls; review any significant changes planned regarding systems or controls within the next year;
- Review reports from Company officers outlining any areas of concern and significant changes in financial or other risks facing the Company;
- Review final audit fee for previous year;
- Review draft of Annual Information Form;
- Receive reports on any other areas which have a likelihood of financial impact including litigation, environmental claims, insurance claims and employee health and safety claims.

### **After the second quarter (prior to release of second quarter results)**

- Review second quarter financial statements, management discussion and draft press release;
- Receive external auditor's review letter and comments (if appropriate);
- Review external Audit Planning Memorandum;
- Review and approve external auditors' budget and engagement letter; and
- Receive reports on any other areas which have a likelihood of financial impact including litigation, environmental claims, insurance claims and employee health and safety claims.

### **After the third quarter (prior to release of third quarter results)**

- Review third quarter financial statements, management discussion and draft press release;
- Receive external auditor's review letter and comments (if appropriate);
- Review reports from Company officers outlining any areas of concern and significant changes in financial or other risks facing the Company;
- Review accounting changes and "draft" skeleton year end financial statements and draft notes and assess, on a preliminary basis, the reasonableness of the financial statements in light of presentations by officer(s) of the Company;
- Review all significant accounting policies, particularly when choices are available;
- Obtain reports of financings and other significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration;

- Review a report provided by Company officers of related party transactions; and
- Receive reports on any other areas which have a likelihood of financial impact including litigation, environmental claims, insurance claims and employee health and safety claims.

**After the fourth quarter (prior to release of annual financial statements)**

- Review in detail (with Company's officers and the auditors) and make a recommendation to the Board concerning annual audited financial statements and auditors report thereon;
- Review draft press release;
- Review draft annual report for consistency between financial statements and other material therein, and management's discussion;
- Review performance of external auditors and relationship with management;
- Discuss in private with Company officers the level and timeliness of service provided by the auditors and whether they recommend the reappointment of the auditors;
- Recommend to the Board of Directors appointment of external auditors for the coming year;
- Review designated officers' expenses and perquisite summaries;
- Review performance of pension plans; and
- Receive reports on any other areas which have a likelihood of financial impact including litigation, environmental claims, insurance claims and employee health and safety claims.

**Standard Agenda Items**

- Questions for management and auditors;
- Questions for private discussion with external auditors (members of management not present);
- Questions for private discussion with management (external auditors not present); and
- Date of next meeting.

**Meeting(s) to be Called as Required**

- Review the contents of any prospectus prior to its release;
- If there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition; and
- Review any new appointment to the position of chief financial officer or to any other key executive position with financial reporting responsibilities.

**Annual Meeting Cycle**

Detailed questions, background material, alternatives for decisions, etc. covering each agenda item will be developed for distribution to participants prior to the meeting.