

# **TSODILO RESOURCES LIMITED – CORPORATE GOVERNANCE OVERVIEW**

(extract from Management Information Circular dated August 17, 2020)

## **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

### **Introduction**

This statement of corporate governance practices is made with reference to National Policy 58-201, Corporate Governance Guidelines and National Instrument 58-101, Disclosure of Corporate Governance Practices (hereinafter collectively the “**Governance Guidelines**”) which are initiatives of the Canadian Securities Administrators (“**CSA**”).

The Corporate Governance Committee has closely monitored the various changes and proposed changes in the regulatory environment and, where applicable, amended its governance practices to align with these changes that are currently in effect.

In accordance with the Governance Guidelines, the Company has disclosed its system of corporate governance in this Circular. The following text sets forth the steps taken by the Company in order to comply with the Governance Guidelines and its system of corporate governance now in force.

### **Board Governance**

The Board has adopted a mandate which acknowledges its responsibility for the overall stewardship of the conduct of the business of the Company and the activities of management. Management is responsible for the day-to-day conduct of the business of the Company. The Board’s fundamental objectives are to enhance and preserve long-term shareholder value, and to ensure the Company meets its obligations on an ongoing basis and that the Company operates in a reliable and safe manner. In performing its functions, the Board considers the legitimate interests that its other stakeholders, such as employees, customers and communities, may have in the Company. In overseeing the conduct of the business, the Board, through the Chief Executive Officer, sets the standards of conduct for the Company.

The Board operates by delegating certain of its authorities to management and by reserving certain powers to itself. The Board retains the responsibility for managing its own affairs including selecting its Chairman, nominating candidates for election to the Board and constituting committees of the Board. Subject to the Articles and By-Laws of the Company and applicable law, the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

To assist the Board in its responsibilities, the Board has established three standing committees: The Audit Committee, the CCOM and the Corporate Governance Committee. Each committee has a written mandate and reviews its mandate annually.

### **Composition of the Board**

The Board and its committees participate in all decision-making processes in the management of the Company and has adopted the following statement of corporate governance practices.

#### *Responsibilities*

The Board acknowledges its responsibility for the stewardship of the Company, and specifically for:

- (i) Adoption of a strategic planning process

The Board provides input and guidance on and reviews and approves the strategic planning and business objectives developed by senior management of the Company and oversees management’s implementation of the strategic plan.

(ii) Identification of principal risks, and implementing risk-management systems

The Board considers on an ongoing basis the principal risks of the Company's business in the diamond mining industry, particularly having regard to sensitivity to diamond prices, political risks given the location of the Company's operations, environmental and operational risks, based on regular business reports prepared by the Company's senior management. In addition, the Audit Committee by its review of the activities and findings of the Company's external auditors is aware of the principal risks to the Company's businesses and reports thereon to the Board on a regular basis.

(iii) Succession planning and monitoring senior management

The Board is responsible for the assessment of the performance of, and the development of a succession plan for, the Chief Executive Officer of the Company, who is in turn charged with those same responsibilities for the balance of the Company's senior management team.

(iv) Communications policy

The Board is committed to maintaining an effective communications policy for the benefit of all shareholders. In addition to its timely and continuous disclosure obligations under applicable law, the Company ensures that senior management is available to respond to questions and comments from shareholders. With the approval of the Board, management has a designee of the Company, as the principal individual responsible for receiving shareholder inquiries and dealing with shareholders' concerns. Such designee is available to respond to shareholder questions and comments, and endeavours to respond promptly and appropriately to all requests and/or inquiries. If material business issues result from communications between shareholders and senior management, it is the policy of the Company that such matters be reported to the Board.

(v) Integrity of internal control and management information system

The Audit Committee reviews with management and the Company's external auditors the ongoing sufficiency and integrity of the Company's internal control, financial reporting and management information systems.

The Board has considered the relationship and status of each director. As of the date hereof, the Board currently consists of five (5) directors of which four (4) are independent. Messrs. Bruington, Kelafant, Marole, and Scowcroft do not have any material business relationships with the Company and are therefore considered independent under the Governance Guidelines and otherwise independent under the National Instrument 52-110, Audit Committees (NI52-110) for the purpose of sitting on the Company's Audit Committee. Mr. Bruchs is not independent in that he provided services to the Company for remuneration or compensation in 2018.

The jurisdiction of the Chairman of the Board includes reviewing the performance of the Board and each of its committees and recruitment and nomination of new directors to the Board. Further, the Company believes that the nature of the relationships of its related directors would not adversely affect their independence or ability to act in the best interest of the Company.

The Chairman of the Board annually reviews the membership and chairs of the Board committees, as well as the mandates and activities of each committee, and makes such recommendations to the Board arising out of such review, as he deems appropriate. The Company believes that the Board members are qualified as directors and represent the various disciplines necessary for the proper governance of the Company.

## Other Public Corporation Directorships

The following table discloses other directorships held by each of the directors standing for election in other reporting issuers (or equivalent in foreign jurisdictions) as at December 31, 2019:

Director	Public Company Board Membership
NA	NA

## Ethical Business Conduct

The Board has adopted a formal written Code of Conduct and a Corporate Disclosure Policy (collectively referred to as “**Codes of Conduct**”) for its directors, officers and employees.

Individuals governed by the Codes of Conduct are required to disclose in writing all business, commercial or financial interests or activities which might reasonably be regarded as creating an actual or potential conflict with their duties. Individuals must avoid all situations in which their personal interests’ conflict or might conflict with their duties to the Company or with the economic interest of the Company.

Directors, officers and employees are encouraged to report violation of the Codes of Conduct on a confidential and, if preferred, anonymous basis, in accordance with the complaints procedure set out in the Codes of Conduct or the Company’s whistleblower “Speakout” procedures. The Corporate Governance Committee may request special treatment for any complaint, including the involvement of the Company’s external auditors or outside counsel or other advisors. All complaints are required to be in writing by the person(s) designated to investigate the complaint, who shall report forthwith to their supervisor or the Chair of the Corporate Governance Committee. The Company has also established a fraud reporting and investigation “Speakout” policy to encourage employees, officers and directors to raise concerns regarding questionable accounting, internal controls, auditing or other fraudulent matters, on a confidential basis free from discrimination, retaliation or harassment.

## Board Committees other than the Audit Committee

Other than the Audit Committee, the Board has established two standing committees; namely, the Compensation Committee, and the Corporate Governance Committee.

### *Compensation Committee*

The Compensation Committee consists of 3 directors, all of whom are independent within the meaning of the Governance Guidelines. The Compensation Committee currently includes: Messrs. Thomas S. Bruington (Chairman), Jonathan R. Kelafant and Blackie Marole.

The principal purpose of the Compensation Committee is to implement and oversee human resources and compensation policies approved by the Board of Directors of the Company. The duties and responsibilities of the committee include, without limitation, the following:

- ◇ to recommend to the Board human resources and compensation policies and guidelines for application to the Company;
- ◇ to ensure that the Company has in place programs to attract and develop management of the highest caliber and a process to provide for the orderly succession of management; and
- ◇ to review and approve corporate goals and objectives relevant to the compensation of the Chief Executive Officer and, in light of those goals and objectives, to recommend to the Board the annual salary, bonus and other benefits, direct and indirect, of the Chief Executive Officer and to approve compensation for all other designated officers of the Company, after considering the

recommendations of the Chief Executive Officer, all within the human resources and compensation policies and guidelines approved by the Board.

#### *Corporate Governance Committee*

The Corporate Governance Committee (the “**CGC**”) consists of three (3) directors, of which all are independent within the meaning of the Governance Guidelines. The CGC currently consists of Messrs. Mark Scowcroft (Chairman), Thomas S. Bruington and Blackie Marole.

The principal purposes of the CGC is to provide a focus on corporate governance that will enhance corporate performance, and to ensure on behalf of the Board and shareholders that the Company’s corporate governance system is effective in the discharge of its obligations to the Company’s stakeholders. The duties and responsibilities of the CGC include, without limitation, the following:

- ◇ to develop and monitor the Company’s overall approach to corporate governance issues and, subject to approval by the Board, to implement and administer a system of corporate governance which reflects superior standards of corporate governance practices;
- ◇ to report annually to the Company’s shareholders, through the Company’s annual management proxy circular or annual report to shareholders, on the Company’s system of corporate governance and the operation of its system of governance;
- ◇ to analyze and report annually to the Board the relationship of each director to the Company as to whether such director is a related director or an unrelated director; and
- ◇ to advise the Board or any of the committees of the Board of any corporate governance issues which the CGC determines ought to be considered by the Board or any such committee.

#### **Board Committee Appointments**

The Board appoints the members of the committees for the ensuing year at its organizational meeting held in conjunction with each annual general meeting of the shareholders of the Company. The Board may at any time remove or replace any member of a committee and may fill any vacancy in a committee.

#### **Orientation and Continuing Education**

The Company currently has an informal orientation program for new members of the Board. The Board regularly invites senior operating management to attend at Board meetings to report on their respective business unit activities, and Board meetings are periodically organized to include tours of the Company’s facilities which permit the Board to participate in a detailed first hand review of the Company’s activities. In addition, there are periodic events organized by the Company where the Board can interact with senior management.

#### **Nomination of Directors**

The Board is largely responsible for identifying new candidates for nomination to the Board. The process by which candidates are identified is through recommendations presented to the Board, which establishes and discusses qualifications based on corporate law and regulatory requirements as well as education and experience related to the business of the Company.

#### **Compensation**

It is the responsibility of the Compensation Committee to determine the level of compensation in respect of the Company’s senior executives with a view to providing such executives with a competitive compensation package having regard to performance. The Compensation Committee reviews and recommends the compensation of the Chief Executive Officer of the Company on a regular basis, at least once a year. The Compensation Committee also reviews the recommendations submitted by the Chief Executive Officer with respect to the compensation of other senior officers of the Company.

In establishing compensation for executive officers, the Compensation Committee takes into consideration individual performance, responsibilities, length of service and levels of compensation provided by industry competitors. Such compensation is composed primarily of three components; namely, base salary, the granting of stock options and the awarding of performance bonuses. The Compensation Committee recommends guidelines for the Stock Option Plan and, in consultation with the Chief Executive Officer, reviews the options granted to the Company's executives and board members. Performance bonuses are considered from time to time having regard to the Company's objectives. No definitive and pre-determined bonus arrangement was entered into in the preceding fiscal year.

### **Assessments**

The Board and its individual directors are assessed on an informal basis continually as to their effectiveness and contribution. The Chairman of the Board encourages discussion amongst the members of the Board as to evaluation of the effectiveness of the Board as a whole and of each individual director. All directors are free to make suggestions for improvement of the practice of the Board at any time and are encouraged to do so.

## **AUDIT COMMITTEE DISCLOSURE**

The Audit Committee of the Company is comprised of three (3) directors. The current members of the Committee are: Messrs. Jonathan R. Kelafant (Chairman), Mark Scowcroft and Blackie Marole all of whom are "financially literate" and Messrs. Kelafant, Scowcroft and Marole are "independent" for the purposes of National Instrument NI 52-110.

The Audit Committee oversees the accounting and financial reporting processes of the Company and its subsidiaries and all audits and external reviews of the financial statements of the Company, on behalf of the Board, and has general responsibility for oversight of internal controls, and accounting and auditing activities of the Company and its subsidiaries. All auditing services and non-audit services to be provided to the Company by the Company's auditors are pre-approved by the Audit Committee. The Audit Committee reviews, on a continuous basis, any reports prepared by the Company's external auditors relating to the Company's accounting policies and procedures, as well as internal control procedures and systems.

The Audit Committee is also responsible for examining all financial information, including annual and quarterly financial statements, prepared for securities commissions and similar regulatory bodies prior to filing or delivery of the same. The Audit Committee also oversees the annual audit process, the quarterly review engagements, the Company's internal accounting controls, any complaints and concerns regarding accounting, internal control or audit matters and the resolution of issues identified by the Company's external auditors. The Audit Committee recommends to the Board the firm of independent auditors to be nominated for appointment by the shareholders.

### **Audit Committee Charter**

Please see Schedule "A" for the text of the charter of the audit committee.

### **Relevant Education and Experience**

#### *Jonathan R. Kelafant - Chairman*

Earned a MSc. From George Washington University and is a member of the American Association of Petroleum Geologists. He has over 25 years of experience in developing oil and gas projects, notably shale projects, in the USA as well as overseas and is currently Vice-President of Advanced Resources in Washington D.C.

#### *Blackie Marole*

An Economist by profession, Mr Marole spent 21 years of his career in the Botswana civil service where he reached the highest post in the Ministry of Energy, Water and Minerals Resources as its Permanent

Secretary.

Mr Marole has provided oversight as Director and Chairman of the following national and international Boards: African Energy Resources; Associated Fund Administrators (AFA); Alternate Director and Chairman, Botswana Diamond Valuing Company; Alternate Director, Director and Chairman, Debswana Diamond Company; Director Diamond Manufacturing Botswana; Alternate Director, Diamond Trading Company; Alternate Director for Debswana Pension Fund Board of Trustees; Chairman of Botswana Power Corporation; Chairman of Water Utilities Corporation; Alternate Director BCL; Chairman of Water Apportionment Board; Chairman Teemane Manufacturing Company; Director De Beers Centenary AG/De Beers Consolidated Mines; Director BCL Limited; Director Botswana Ash; Director De Beers Prospecting (Pty) Ltd; Director De Beers Botswana (Pty) Ltd; Chairman Barclays Bank of Botswana; Director CIC Energy among others.

Mr. Marole holds a Master of Arts Degree in Economics from Williams College, Massachusetts, United States. He also holds Bachelor of Arts Degree in Economics from the University of Botswana, and an Economic Institute Diploma with the University of Colorado. Mr. Marole was appointed director in 2017.

#### *Mark Scowcroft*

Mark Scowcroft has 30 years of experience in managing and investing in mineral resource projects. in Botswana, beginning his career in 1989 as a geologist with De Beers Prospecting Botswana (Pty) Limited, after graduating in 1988 from the Royal School of Mines, Imperial College, London with a B.Sc. (Honours) degree in Mining Geology. In 1995, he left De Beers to pursue a career as an independent diamond exploration consultant spearheaded effort to re-evaluate the geology and economic potential of known kimberlites in the Orapa Kimberlite Field.

### **Audit Committee Oversight**

At no time since the commencement of the Company's most recently completed fiscal year did the Audit Committee make a recommendation to nominate or compensate an external auditor that was not adopted by the Board.

### **Reliance on Certain Exemptions**

At no time since the commencement of the Company's most recently completed fiscal year did the Company rely on:

- (a) the exemption in section 2.4 (De Minimis Non-audit Services) of National Instrument 52-110 - Audit Committees of the Canadian Securities Administrators ("NI 52-110"); or
- (b) an exemption from the requirements of MI 52-110 granted under Part 8 (Exemptions) of MI 52-110.

### **Pre-Approval Policies and Procedures**

The Audit Committee approves all audit engagements and must pre-approve the provision by the external auditors of all non-audit services, including fees and terms for all audit engagements and non-audit engagements, and in such regard the Audit Committee may establish the types of non-audit services the external auditors shall be prohibited from providing and shall establish the types of audit, audit related and non-audit services for which the Audit Committee will retain the external auditors. The Audit Committee may delegate to one or more of its members the authority to pre-approve non-audit services, provided that any such delegated pre-approval shall be exercised in accordance with the types of particular non-audit services authorized by the Audit Committee to be provided by the external auditor and the exercise of such delegated pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting following such pre-approval.

## External Auditor Service Fees (By Category)

The following table discloses the fees and estimated fees to the Company by its external auditor during the last two fiscal years ended December 31. Amounts set forth below are in CAD.

Financial Year Ending	Audit Fees <sup>(1)</sup>	Audit Related Fees	Tax Fees <sup>(1)</sup>	All Other Fees
December 31, 2020	\$60,000	--	\$5,000	--
December 31, 2019	\$71,500	--	-	--

<sup>(1)</sup> The aggregate fees billed for services for Tsodilo Resources Limited and Botswana subsidiaries Newdico (Pty) Ltd, Gcwihaba Resources (Pty) Ltd and Bosoto (Pty) Ltd as well as South African subsidiary Idada 361 (Pty) Ltd.

## Other

The Company is relying on the exemption provided in section 6.1 of NI 52-110 as the Company is a “venture issuer” and is exempt from the requirements of Part 3 (*Composition of the Audit Committee*) and Part 5 (*Reporting Obligations*).

## OTHER BUSINESS

As at the date hereof, management of the Company knows of no other matters which will be brought before the Meeting, other than those referred to in the accompanying notice of meeting. Should any other matters properly be brought before the Meeting, the Common Shares represented by the proxies solicited hereby will be voted on those matters in accordance with the best judgment of the persons voting such proxies.

## ADDITIONAL INFORMATION

Additional information relating to the Company is available on the SEDAR website under the Company’s profile at [www.sedar.com](http://www.sedar.com). Financial information related to the Company is contained in the Company’s consolidated audited financial statements and related management’s discussion and analysis for the year ended December 31, 2019. Copies of the Company’s consolidated audited financial statements for the year ended December 31, 2019 may be obtained free of charge by writing to the Corporate Secretary of the Company at 161 Bay Street, Box 508, Toronto, Ontario M5J 2S1.

## CERTIFICATE

The contents and the sending of this Circular have been approved by the Board.

**DATED** this 17<sup>th</sup> day of August, 2020

**BY ORDER OF THE BOARD OF DIRECTORS**

“s”

James M. Bruchs,  
Chairman & CEO

## SCHEDULE "A"

### TSODILO RESOURCES LIMITED CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

#### NAME

There shall be a committee of the board of directors (the "Board") of **Tsodilo Resources Limited** (the "Company") known as the Audit Committee.

#### PURPOSE OF AUDIT COMMITTEE

The Audit Committee has been established to assist the Board in fulfilling its oversight responsibilities with respect to the following principal areas:

- (a) the Company's external audit function; including the qualifications, independence, appointment and oversight of the work of the external auditors;
- (b) the Company's accounting and financial reporting requirements;
- (c) the Company's reporting of financial information to the public;
- (d) the Company's compliance with law and regulatory requirements;
- (e) the Company's risks and risk management policies;
- (f) the Company's system of internal controls and management information systems; and
- (g) such other functions as are delegated to it by the Board.

Specifically, with respect to the Company's external audit function, the Audit Committee assists the Board in fulfilling its oversight responsibilities relating to: the quality and integrity of the Company's financial statements; the independent auditors' qualifications; and the performance of the Company's independent auditors.

#### MEMBERSHIP

The Audit Committee shall consist of as many members as the Board shall determine but, in any event not fewer than three directors appointed by the Board as provided for in the By-laws of the Company. Each member of the Audit Committee shall continue to be a member until a successor is appointed, unless the member resigns, is removed or ceases to be a director of the Company. The Board, following consideration of the recommendation of the Corporate Governance Committee, may fill a vacancy which occurs in the Audit Committee at any time.

Members of the Audit Committee shall be selected based upon the following and in accordance with applicable laws, rules and regulations:

- (a) **Financially Literate.** Each member shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Audit Committee. For these purposes, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity



of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

#### CHAIR AND SECRETARY

The Chair of the Audit Committee shall be designated by the Board. If the Chair is not present at a meeting of the Audit Committee, the members of the Audit Committee may designate an interim Chair for the meeting by majority vote of the members present. The Secretary of the Company shall be the Secretary of the Audit Committee, provided that if the Secretary is not present, the Chair of the meeting may appoint a secretary for the meeting with the consent of the Audit Committee members who are present. A member of the Audit Committee may be designated as the liaison member to report on the deliberations of the Audit Committees of affiliated companies (if applicable).

#### MEETINGS

The Chair of the Audit Committee, in consultation with the Audit Committee members, shall determine the schedule and frequency of the Audit Committee meetings provided that the Audit Committee will meet at least four times in each fiscal year and at least once in every fiscal quarter. The Audit Committee shall have the authority to convene additional meetings as circumstances require.

Notice of every meeting shall be given to the external and internal auditors of the Company, and meetings shall be convened whenever requested by the external auditors or any member of the Audit Committee in accordance with applicable law. The Audit Committee shall meet separately and periodically with management, legal counsel and the external auditors. The Audit Committee shall meet separately with the external auditors at every meeting of the Audit Committee at which external auditors are present.

#### MEETING AGENDAS

Agendas for meetings of the Audit Committee shall be developed by the Chair of the Audit Committee in consultation with the management and the corporate secretary, and shall be circulated to Audit Committee members as far in advance of each Audit Committee meeting as is reasonable.

#### RESOURCES AND AUTHORITY

The Audit Committee shall have the resources and the authority to discharge its responsibilities, including the authority, in its sole discretion, to engage, at the expense of the Company, outside consultants, independent legal counsel and other advisors and experts as it determines necessary to carry out the duties of management, without seeking the approval of the Board or management. The Audit Committee shall have the authority to conduct any investigation necessary and appropriate to fulfilling its responsibilities, and has direct access to and the authority to communicate directly with the internal and external auditors, the general counsel of the Company and other officers and employees of the Company.

The members of the Audit Committee shall have the right for the purpose of performing their duties to inspect all the books and records of the Company and its subsidiaries and to discuss such accounts and records and any matters relating to the financial position, risk management and internal controls of the Company with the officers and external and internal auditors of the Company and its subsidiaries. Any member of the Audit Committee may require the external or internal auditors to attend any or every meeting of the Audit Committee.

## RESPONSIBILITIES

The Company's management is responsible for preparing the Company's financial statements and the external auditors are responsible for auditing those financial statements. The Audit Committee is responsible for overseeing the conduct of those activities by the Company's management and external auditors, and overseeing the activities of the internal auditors.

The specific responsibilities of the Audit Committee shall include those listed below. The enumerated responsibilities are not meant to restrict the Audit Committee from examining any matters related to its purpose.

### 1. Financial Reporting Process and Financial Statements

The Audit Committee shall:

- (a) in consultation with the external auditors and the internal auditors, review the integrity of the Company's financial reporting process, both internal and external, and any major issues as to the adequacy of the internal controls and any special audit steps adopted in light of material control deficiencies;
- (b) review all material transactions and material contracts entered into between (i) the Company or any subsidiary of the Company, and (ii) any subsidiary, director, officer, insider or related party of the Company, other than officer or employee compensation arrangements approved or recommended by the Compensation Committee, or director remuneration approved or recommended by the Corporate Governance Committee, or transactions in the ordinary course of business;
- (b) review and discuss with management and the external auditors: (i) the preparation of Company's annual audited consolidated financial statements and its interim unaudited consolidated financial statements; (ii) whether the financial statements present fairly (in accordance with Canadian generally accepted accounting principles) in all material respects the financial condition, results of operations and cash flows of the Company as of and for the periods presented; (iii) any matters required to be discussed with the external auditors according to Canadian generally accepted auditing standards; (iv) an annual report by the external auditors describing: (A) all critical accounting policies and practices used by the Company; (B) all material alternative accounting treatments of financial information within generally accepted accounting principles that have been discussed with management of the Company, including the ramifications of the use such alternative treatments and disclosures and the treatment preferred by the external auditors; and (C) other material written communications between the external auditors and management;
- (c) following completion of the annual audit, review with each of: (i) management; (ii) the external auditors; and (iii) the internal auditors, any significant issues, concerns or difficulties encountered during the course of the audit;
- (d) resolve disagreements between management and the external auditors regarding financial reporting;
- (e) review the interim quarterly and annual financial statements and annual and interim press releases prior to the release of earnings information; and
- (f) review and be satisfied that adequate procedures are in place for the review of the public disclosure of financial information by the Company extracted or derived from the

Company's financial statements, other than the disclosure referred to in (f), and periodically assess the adequacy of those procedures.

## **2. External Auditors**

The Audit Committee shall:

- (a) require the external auditors to report directly to the Audit Committee;
- (b) be directly responsible for the selection, nomination, compensation, retention, termination and oversight of the work of the Company's external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, and in such regard recommend to the Board the external auditors to be nominated for approval by the shareholders;
- (c) approve all audit engagements and must pre-approve the provision by the external auditors of all non-audit services, including fees and terms for all audit engagements and non-audit engagements, and in such regard the Audit Committee may establish the types of non-audit services the external auditors shall be prohibited from providing and shall establish the types of audit, audit related and non-audit services for which the Audit Committee will retain the external auditors. The Audit Committee may delegate to one or more of its members the authority to pre-approve non-audit services, provided that any such delegated pre-approval shall be exercised in accordance with the types of particular non-audit services authorized by the Audit Committee to be provided by the external auditor and the exercise of such delegated pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting following such pre-approval;
- (d) review and approve the Company's policies for the hiring of partners and employees and former partners and employees of the external auditors;
- (e) consider, assess and report to the Board with regard to the independence and performance of the external auditors; and
- (f) request and review the audit plan of the external auditors as well as a report by the external auditors to be submitted at least annually regarding: (i) the external auditing firm's internal quality-control procedures; (ii) any material issues raised by the external auditor's own most recent internal quality-control review or peer review of the auditing firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues.

## **3. Accounting Systems and Internal Controls**

The Audit Committee shall:

- (a) oversee management's design and implementation of and reporting on internal controls. The Audit Committee shall also receive and review reports from management, the internal auditors and the external auditors on an annual basis with regard to the reliability and effective operation of the Company's accounting system and internal controls;
- (b) review annually the activities, organization and qualifications of the internal auditors and discuss with the external auditors the responsibilities, budget and staffing of the internal audit function; and

- (c) review annually the Company's Code of Business Conduct and its effectiveness and enforcement.

#### **4. Legal and Regulatory Requirements**

The Audit Committee shall:

- (a) receive and review timely analysis by management of significant issues relating to public disclosure and reporting;
- (b) review, prior to finalization, periodic public disclosure documents containing financial information, including the Management's Discussion and Analysis and Annual Information Form;
- (c) prepare the report of the Audit Committee required to be included in the Company's periodic filings;
- (d) review with the Company's General Counsel legal compliance matters, significant litigation and other legal matters that could have a significant impact on the Company's financial statements; and
- (e) assist the Board in the oversight of compliance with legal and regulatory requirements and review with legal counsel the adequacy and effectiveness of the Company's procedures to ensure compliance with legal and regulatory responsibilities.

#### **5. Additional Responsibilities**

The Audit Committee shall:

- (a) discuss policies with the external auditor, internal auditor and management with respect to risk assessment and risk management;
- (b) establish procedures and policies for the following
  - (i) the receipt, retention, treatment and resolution of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
  - (ii) the confidential, anonymous submission by directors or employees of the Company of concerns regarding questionable accounting or auditing matters or any potential violations of legal or regulatory provisions;
- (c) prepare and review with the Board an annual performance evaluation of the Audit Committee;
- (d) report regularly to the Board, including with regard to matters such as the quality or integrity of the Company's financial statements, compliance with legal or regulatory requirements, the performance of the internal audit function, and the performance and independence of the external auditors; and
- (e) review and reassess the adequacy of the Audit Committee's Charter on an annual basis.

## **6. Limitation on the Oversight Role of the Audit Committee**

Nothing in this Charter is intended, or may be construed, to impose on any member of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all members of the Board are subject.

Each member of the Audit Committee shall be entitled, to the fullest extent permitted by law, to rely on the integrity of those persons and organizations within and outside the Company from whom he or she receives financial and other information, and the accuracy of the information provided to the Company by such persons or organizations.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles in Canada and applicable rules and regulations. These are the responsibility of management and the external auditors.

Approved by the Board of Directors, September 1, 2004.

"Christopher Jennings"

Christopher M. H. Jennings, Chairman