

**CONSOLIDATED HCI HOLDINGS CORPORATION**

**Annual Information Form  
For the Year Ended September 30, 2014**

Dated: December 12, 2014

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**CONSOLIDATED HCI HOLDINGS CORPORATION**  
**("CHCI" or "the Company")**  
**Annual Information Form**  
**For the year ended September 30, 2014**

**DATE OF INFORMATION**

All information contained in this Annual Information Form ("AIF") is as of September 30, 2014, unless otherwise stated.

All documents incorporated by reference in this AIF and additional information relating to the Company are available on SEDAR at [www.sedar.com](http://www.sedar.com).

**1. INCORPORATION**

**(1) Incorporation or Organization of the Issuer**

- A. CHCI, 100 Strada Drive, Unit 3, Woodbridge, Ontario, L4L 5V7, was continued under the laws of Canada pursuant to the Canada Business Corporations Act on September 21, 1977.
- B. Articles of Amendment were filed January 29, 1979, wherein the articles of CHCI were amended by:
- (i) changing the authorized capital of the Corporation to 2,000,000 common shares without nominal or par value and 1,500,000 First Preference Shares without nominal or par value; and
  - (ii) increasing the number of directors from five to six.
- C. Articles of Amendment were filed March 11, 1980, wherein the articles of CHCI were amended by:
- (i) changing the authorized capital of CHCI to 1,500,000 First Preference Shares without nominal or par value, an unlimited number of Class A shares without nominal or par value and an unlimited number of Class B shares without nominal or par value; and
  - (ii) by redesignating, changing, and dividing the outstanding common shares without nominal or par value in the capital of the Corporation into Class A shares without nominal or par value and Class B shares without nominal or par value on the basis of one-third of a Class A share and one Class B share for each one of such outstanding shares.
- D. Articles of Amendment were filed December 19, 1980, wherein the articles of CHCI were amended by:
- (i) dividing the outstanding Class A shares on the basis of three Class A shares for each one of such outstanding Class A shares;
  - (ii) dividing the outstanding Class B shares on the basis of three Class B shares for each one of such outstanding Class B shares; and
  - (iii) providing that the Class A shares and Class B shares shall have all the rights ascribed thereto under the Articles of CHCI except that the holders of Class A shares shall be entitled to receive, if, as and when declared by the Board of Directors of CHCI, out of the moneys of CHCI properly applicable to the payment of dividends, non-cumulative, preferential cash

dividends at the rate of \$0.36 per share per annum payable quarterly on such dates as the Board of Directors may from time to time determine rather than at the rate of \$1.00 per share per annum as previously provided for in the articles of CHCI.

- E. Articles of Amendment were filed February 8, 1982, wherein the articles of CHCI were amended by changing the number of directors of CHCI from a fixed number of six to a minimum number of five and a maximum number of nine.
- F. Articles of Amendment were filed March 18, 1983, wherein the articles of CHCI were amended by redesignating the Class A shares without nominal or par value in the capital of CHCI as Class A (non-voting) shares without nominal or par value.
- G. Articles of Amendment were filed June 28, 1985, wherein the articles of CHCI were amended by increasing the number of directors to a minimum of five and a maximum of ten directors.
- H. Articles of Amendment were filed December 23, 1986, wherein the articles of CHCI were amended by:
  - (i) consolidating the issued and outstanding Class A shares and Class B shares of CHCI on the basis of one Class A share for each seven issued and outstanding Class A shares of CHCI and one Class B share for each seven issued and outstanding Class B shares of CHCI; and
  - (ii) changing the name of CHCI to Consolidated HCI Holdings Corporation.
- I. Articles of Amendment were filed March 25, 2003, wherein the articles of CHCI were amended by:
  - (i) redesignating each one issued and outstanding Class A share as one Class B share;
  - (ii) decreasing the authorized capital of CHCI by cancelling the Class A shares and the First Preferred shares;
  - (iii) declaring that the authorized capital of CHCI, after giving effect to the foregoing, shall consist of an unlimited number of Class B shares; and
  - (iv) deleting all of the existing share conditions attaching to the Class A non-voting shares, the Class B voting shares and First Preferred shares.

## **(2) Subsidiaries**

CHCI has no active subsidiaries.

## **2. GENERAL DEVELOPMENT OF THE BUSINESS**

CHCI is a real estate development company. Prior to 1986, CHCI had been operated for a number of years as a closed end investment company. However, effective January 1, 1986, through a reverse take-over, the former shareholders of 512111 Ontario Limited, a real estate and development company, acquired 95% of the Class A shares and 49% of the Class B shares of CHCI and CHCI was transformed primarily into a real estate and development company.

CHCI's real estate activities have consisted of residential and industrial land development, building and rentals, commercial development and rentals and participation in two Toronto homebuilders. These activities had been carried out through East Woodbridge Developments, a 100% beneficially owned partnership, which was dissolved on January 31, 2005. East Woodbridge Developments is the name of the division of CHCI that continued to carry on these same activities after the partnership dissolution.

The general goal of CHCI had been to position itself to continue to build a portfolio of investment properties to supply a permanent basis of long-term income and financial stability while adding to land inventory as opportunities presented themselves and continuing to look for opportunities to expand its home-building operations. The Company's residential land inventory and industrial land holdings have now been depleted

and the Company is no longer seeking new development opportunities or the purchase of investment properties. As at September 30, 2013 the Company had completed and closed all its remaining housing inventory and there are no plans to continue with its house building operations.

In 2007 and 2011 the Company sold substantially all of its investment property portfolio. The Company's last remaining investment properties consist of its 50% interests in a 197,272 square foot building located at 7700 Keele Street in Vaughan, Ontario, acquired at a cost of \$4.6 million in 2005 and an adjacent 1.25 acre development property acquired at a cost of \$0.8 million in 2010. The Company has been developing the building for mixed industrial/commercial uses and the adjacent development property for lease to a fast food operation in a 2,465 square foot building on the site.

As at September 30, 2011, the Company had achieved a 49% level of occupancy in its Vaughan, Ontario industrial/commercial building.

During 2012, a new lease commenced for a further 30,903 square feet of space to a national chain of fitness clubs for a twenty-year term with a ten-year renewal option, bringing the building to a 65% occupancy level and the Company lost one tenant occupying 5,641 square feet due to bankruptcy reducing the occupancy level to 61% at September 30, 2012.

On November 1, 2012, a new lease commenced for a further 8,000 square feet of space to an office furniture dealer for a term of five years and four months with a five-year renewal option. Also during the first quarter of 2013, a tenant occupying 11,405 square feet vacated its premises on December 9, 2012 before the expiry of its lease.

On April 1, 2013, a new lease commenced for a further 8,915 square feet of space to an artificial flower retail outlet for a ten-year term to commence April 1, 2013 with a five-year renewal option.

On August 1, 2013, a new lease commenced for a further 5,000 square feet of space to a stone and tile showroom and warehouse for a five-year term with a 5-year renewal option.

With the new tenancies and termination detailed above, the Company achieved an occupancy level of 68% in its industrial/commercial building at September 30, 2013. There was no change at September 30, 2014.

During the fourth quarter of 2011, the Company entered into an agreement to lease one of its investment properties referred to above to an international chain for use as a fast food restaurant with drive-through for a fifteen-year term with two five-year renewal options. The tenant had originally been expected to commence operations on the site by July 2012 on the completion of the landlord's site work and the tenant's fixturing period but due to unforeseen delays involving the expropriation referred to below, the planning and design process and municipal and regional approvals, this was delayed. During 2013 and 2014 approvals were received allowing the landlord to complete its site work and the tenant its leasehold work. The tenancy commenced with the tenant opening for business on September 12, 2014.

On June 13, 2013, in connection with its redevelopment along the Highway 7 corridor, The Regional Municipality of York ("the Region") expropriated two parcels of land totalling 0.452 acres (at the Company's share - 0.226 acres) of land forming part the Company's investment properties. Compensation for the two parcels totalled \$0.2 million (the Company's share - \$0.1 million) net of a \$0.4 million (the Company's share - \$0.2 million) soil remediation offset for one of the parcels. The Company had the right to appeal the amount of compensation and the remediation offset without affecting the amount guaranteed, with the Region paying the costs of the appeal. The Company launched its appeal during 2014 and, with respect to one of the parcels of 0.303 acres (at the Company's share - 0.15 acres), accepted the Region's valuation and the refund of the soil remediation offset referred to above. The settlement and related refund are subject to the approval of The York Regional Council and the refund will be recorded by the Company on receipt which is expected to be in the second quarter of 2015. With respect to the other parcel of 0.149 acres (at the Company's share - 0.0745 acres), the appeal remains in process.

On June 1, 2009, the maturing original financing on the Vaughan, Ontario industrial/commercial building was replaced with a 20-year mortgage loan from the Business Development Bank of Canada, CHCI's share of which was \$4.75 million. The loan bears interest at the Business Development Bank of Canada's base rate for commercial and industrial loans and matures in 2029. At September 30, 2012, the base rate was 5.00%. Effective February 28, 2013 the interest rate was reduced to 4.00%. The loan agreement required a principal payment of \$0.04 million on December 28, 2009 and payments of \$0.04 million plus interest per month thereafter until maturity. The Company has provided the lender with a guarantee of 50% of all amounts due under the loan. A condition of the mortgage loan on the Company's Vaughan, Ontario industrial/commercial building is that the co-tenancy maintain a long-term debt to tangible equity ratio of 3:1. As at September 30, 2014, this condition has been met.

Other than the land addition to the Company's Vaughan, Ontario investment properties referred to above, no new purchases were made from 2010 to 2014.

### **3. NARRATIVE DESCRIPTION OF THE BUSINESS**

CHCI is a Canadian-owned real estate development company conducting business in the Province of Ontario. Until 2006 CHCI was a builder and lessor/manager of industrial and commercial properties. By the end of 2006, the Company had sold all of its industrial and substantially all its residential land inventory. As of September 30, 2012, the Company had sold all but two of its investment properties. The Company's last remaining rental properties are managed by a co-investor in those properties. Through various co-tenancies, CHCI remained involved in house building until 2013. As at September 30, 2013 the Company had completed and closed all its remaining housing inventory.

The real estate operations in Ontario are conducted under the name of East Woodbridge Developments, a division of CHCI, which, until its dissolution on January 31, 2005, was a 100% beneficially owned partnership. As of September 30, 2014, CHCI has three executive officers and employs one employee in East Woodbridge Developments.

With the sale of substantially all of its residential land inventory, industrial land holdings and all but two of its Investment properties, CHCI has generated significant amounts of cash. This cash has largely been invested in term deposits and relatively short-term syndicated mortgage loans and was used to pay the dividends described under the heading "Dividends."

CHCI has investments in syndicated mortgage loans, which total \$0.5 million at September 30, 2014. These loans are secured by real property developments of other land developers and builders. For further information related to these investments please refer to the section entitled "Investment in syndicated mortgage loans" in CHCI's Management's Discussion and Analysis ("MD&A") for its year ended September 30, 2014.

#### **East Woodbridge Developments**

##### *Residential Construction*

CHCI's share of revenue from housing sales as recorded by its co-tenancies for 2013 decreased to \$1.6 million from the \$6.5 million recorded in 2012. This revenue decrease was primarily the result of there being fewer units sold. Since 2010, the Company has acquired no new lots and no new projects were started as existing inventory was being completed and sold. As at September 30, 2013 all remaining housing inventory had been completed and closed.

The gross margin percentage on housing sales is a function of the projects sold. Margins vary widely from project to project and are influenced by many factors including market demand in the project's location, the proximity of competing product, the mix of product in the project, the cost of land, the stage in a project when construction cost increases hit the market and the length of time it takes for a project to sell out resulting in higher carrying costs.

Although the Company had no housing sales in 2014, adjustments for cost estimates made in three projects, which had previously sold out, resulted in the Company recording 2014 losses of \$0.04 million in its house building segment.

#### *Residential Land, Industrial Land Development and Rentals*

As explained above, the Company sold all of its remaining land holdings and all but two of its investment properties by the end of 2012.

#### *Investment Properties*

East Woodbridge Developments' share of the property in its investment properties segment as at September 30, 2014 is as follows:

	<b>% Share</b>	<b>Land Area in Acres</b>	<b>Building Area Square Footage (leasable)</b>
<b>INDUSTRIAL-COMMERCIAL PROPERTY</b>			
7700 Keele St., Vaughan	50.0	6.790	100,000
<b>FAST FOOD OUTLET</b>			
2267 Hwy # 7, Vaughan	50.0	0.625	1,233

#### **Risk Factors**

Please refer to the section entitled "RISK MANAGEMENT" in CHCI's 2014 MD&A referred to above.

#### **4. SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The Company's consolidated financial statements for the years ended September 30, 2014 and September 30, 2013 were prepared based on International Financial Reporting Standards ("IFRS") effective at the year ends indicated. The following financial information for 2014, 2013 and 2012 is based on IFRS whereas information pertaining to years prior to 2012 is based on Canadian generally accepted accounting principles in effect before the adoption of IFRS. Annual and quarterly revenue amounts prior to 2014 have been amended to remove fair value gains of the Company's investment properties, to conform with 2014 presentation.

(1)

#### Consolidated HCI Holdings Corporation September 30 (in \$000s except per share amounts)

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Total revenue	\$1,777	\$3,643	\$ 8,537	\$14,850	\$18,337
Net earnings (loss) for the year					
Continuing operations	\$(168)	\$6,917	\$ 7,993	\$ 4,043	\$ 4,012
Discontinued operations	-	-	-	-	201
	\$(168)	\$6,917	\$ 7,993	\$ 4,043	\$ 4,213
Basic and fully diluted earnings (loss) per share	\$(0.01)	\$0.34	\$0.39	\$ 0.20	\$ 0.20
Total assets	\$57,739	\$57,710	\$51,307	\$59,625	\$71,506
Long-term debt	\$3,344	\$3,578	\$ 3,817	\$ 4,052	\$ 5,253
Cash dividends	\$ -	\$ -	\$15,432	\$15,432	\$20,576

(2)

**Quarterly Reporting**  
(unaudited in \$000s except per share amounts)

	<b>Sep 14</b>	<b>Jun 14</b>	<b>Mar 14</b>	<b>Dec 13</b>	Sep 13	Jun 13	Mar 13	Dec 12
Revenue	<b>\$166</b>	<b>\$444</b>	<b>\$402</b>	<b>\$765</b>	\$769	\$1,409	\$782	\$683
Net earnings (loss)	<b>\$(642)</b>	<b>\$88</b>	<b>\$51</b>	<b>\$335</b>	\$61	\$721	\$6,061	\$74
Basic and diluted earnings (loss) per share	<b>\$(0.03)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 0.02</b>	\$ 0.01	\$0.03	\$0.30	\$ -

(Due to the impact of rounding, the sum of quarterly earnings per share may not equal the total for the year.)

(3) As CHCI was growth oriented, it had a policy of not paying out dividends. Instead, surplus funds were reinvested in CHCI. With the sales, commencing in 2007, of substantially all of its land and investment property assets and the winding down of its house building operations, the Company paid cash dividends in 2012, 2011, 2010, 2008 and 2007 of \$15 million, \$15 million, \$21 million, \$21 million and \$175 million, respectively, as described under the heading "Dividends."

## **5. MANAGEMENT'S DISCUSSION AND ANALYSIS**

Please refer to CHCI's MD&A for its year ended September 30, 2014.

## **6. DIVIDENDS**

CHCI declared a special dividend of \$0.75 per Class B share to shareholders of record at the close of business on February 23, 2012 and the dividend was paid on March 5, 2012.

CHCI declared a special dividend of \$0.75 per Class B share to shareholders of record at the close of business on February 21, 2011 and the dividend was paid on March 4, 2011.

CHCI declared a special dividend of \$1.00 per Class B Share to shareholders of record at the close of business on December 29, 2009 and the dividend was paid on January 13, 2010.

No dividends were paid by CHCI in the year ended September 30, 2009.

CHCI declared a special dividend of \$1.00 per Class B Share to shareholders of record at the close of business on May 20, 2008 and the dividend was paid on May 28, 2008.

CHCI declared a special dividend of \$8.50 per Class B Share to shareholders of record at the close of business on June 15, 2007 and the dividend was paid on July 4, 2007.

The payment of any further dividends will be determined by the Board of Directors having regard to the performance of CHCI and its financial requirements.



## 7. MARKET FOR SECURITIES

The Class B shares of CHCI trade on the Toronto Stock Exchange under the trading symbol CXA.B.

The following table sets forth information relating to the trading of the Class B shares for the periods indicated:

<b>Date</b>	<b>High \$</b>	<b>Low \$</b>	<b>Volume (# of shares)</b>
October 2013	1.90	1.86	507
November 2013	2.22	1.95	5,700
December 2013	2.25	1.95	3,640
January 2014	2.39	2.38	1,400
February 2014	2.49	2.11	6,214
March 2014	2.49	2.10	3,811
April 2014	2.48	2.10	5,300
May 2014	2.12	2.15	385
June 2014	-	-	-
July 2014	2.15	2.48	4,071
August 2014	2.15	2.25	2,855
September 2014	2.23	2.23	200

## 8. DIRECTORS AND OFFICERS

Name	Present principal occupation or employment	Year first became a director	Number of Class B shares beneficially owned directly or indirectly or over which control or direction is exercised
Rudolph Peter Bratty Q.C. <sup>(2)(3)(4)</sup> Vaughan, Ontario <i>Director</i>	President of Ruland Realty Limited	1986	2,449,777 <sup>(1)</sup>
John Hunter Craig <sup>(4)</sup> Toronto, Ontario <i>Director and Secretary</i>	Solicitor and Partner, Cassels, Brock & Blackwell LLP	1985	2,500
John Henry Daniels <sup>(2)</sup> Toronto, Ontario <i>Director</i>	Chief Executive Officer of The Daniels Corporation	1990	1,250
Richard Michael Gambin <sup>(2)</sup> Vaughan, Ontario <i>Director</i>	President of Ricgam Investments Ltd. <sup>(5)</sup>	2006	2,985,232 <sup>(1)</sup>
Stanley Goldfarb Toronto, Ontario <i>Director, President &amp; CEO</i>	President, Chief Executive Officer and Treasurer of the Corporation; President of Logpin Investments Limited	1986	3,547,013.5 <sup>(1)</sup>
Marc Muzzo Woodbridge, Ontario <i>Director and Vice President</i>	Director of Marel Contractors	2005	4,526,749.5 <sup>(1)</sup>
Arnold Joseph Resnick Toronto, Ontario <i>Controller and CFO</i>	Controller of the Corporation and Chief Financial Officer since 2006	N/A	NIL

(1) Certain of these shares are held in private companies controlled by the respective individual in certain circumstances together with other family members.

(2) Member of the Audit and Compensation Committee.

(3) Non-Executive Chairman of the Board

(4) Member of the Corporate Governance and Nominating Committee.

(5) Prior thereto, Solicitor and Partner, Gambin RDQ, LLP, Barristers and Solicitors.

The term of each director expires at the next annual meeting of shareholders or until his successor is elected or appointed. CHCI does not have an Executive Committee.

Several of the directors serve as directors of other reporting issuers more particularly described below:

<b>Director</b>	<b>Other Reporting Issuers</b>
Rudolph Bratty	Brampton Brick Limited
John H. Craig	Africa Oil Corp. BlackPearl Resources Inc. Corsa Coal Corp. Denison Mines Corp. Lundin Mining Corporation
Stanley Goldfarb	Firm Capital Mortgage Investment Trust Firm Capital Property Trust
Marc Muzzo	Delavco Residential Properties Corp.

None of the directors or executive officers of CHCI:

- (a) is, as at the date hereof, a director or executive officer of any company, that while that person was acting in that capacity:
- (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
  - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days,
  - (iii) or within a year of that person ceasing to act in that capacity, become a bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, state the fact; or
- (b) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the directors, officer or shareholder:

save and except as follows:

John Craig was a director of Sirocco Mining Inc. ("Sirocco") until November 8, 2013. On October 13, 2014, RB Energy Inc. ("RB Energy") a successor company to Sirocco filed for protection under the Companies' Creditors Arrangement Act ("CCAA"). Although John Craig was never a director, officer or insider of RB Energy, he was a director of Sirocco within the 12 month period prior to RB Energy filing under the CCAA.

## **9. AUDIT COMMITTEE AND EXTERNAL AUDITOR SERVICE FEES**

The Audit Committee of CHCI consisted of three members throughout the year ended September 30, 2014, all of whom were independent and financially literate. They were Rudolph Bratty (Chairman), John Daniels and Richard M. Gambin.

Following is the educational background and business background relevant to the ability of the current and former members of the Audit Committee to perform their duties:

Rudolph Bratty: Member of several audit committees including The Toronto Sun, C.T. Financial, Brampton Brick Limited; President and Chief Executive Officer of Ruland Realty Limited; Chairman of The Erin Mills Development Corporation, both real estate development companies; and holds an LLB.

John Daniels: Chairman of Daniels Corporation, a real estate development company; holds a B. Arch, M.R.A.I.C.

Richard M. Gambin: From 2000 to 2010 as solicitor and Partner, Gambin RDQ, LLP, acted for major financial institutions in land acquisitions, land development and construction financing; currently, President of Ricgam Investments Ltd., a real estate development company; holds a BA (administration and commercial studies) and an LLB.

A copy of the Audit Committee's charter is attached hereto as Schedule 1.

The following table sets forth the aggregate amounts of fees paid and accrued to PricewaterhouseCoopers LLP, CHCI's external auditors, for services rendered for the fiscal years 2014 and 2013:

<b>Year</b>	<b>Audit Fees</b>	<b>Audit Related Fees</b>	<b>Tax Fees</b>
2014	\$51,000	-	\$ 74,950
2013	\$62,568	-	\$142,000

#### **10. TRANSFER AGENT AND REGISTRAR**

Computershare Investor Services Inc.  
9<sup>th</sup> Floor, North Tower  
100 University Avenue  
Toronto, ON M5J 2Y1

## **Schedule 1**

### **CONSOLIDATED HCI HOLDINGS CORPORATION**

#### **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

##### **I. PURPOSE**

The Audit Committee is a committee of the Board of Directors of Consolidated HCI Holdings Corporation (the "Corporation"). The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its financial reporting and controls responsibilities to the shareholders of the Corporation and the investment community. The external auditors will report directly to the Audit Committee. The Audit Committee's primary duties and responsibilities are:

- overseeing the integrity of the Corporation's financial statements and reviewing the financial reports and other financial information provided by the Corporation to any governmental body or the public and other relevant documents;
- recommending the appointment and reviewing and appraising the audit efforts of the Corporation's independent auditor, overseeing the independent auditor's qualifications and independence and providing an open avenue of communication among the independent auditor, financial and senior management and the Board of Directors;
- serving as an independent and objective party to oversee and monitor the Corporation's financial reporting process and internal controls, the Corporation's processes to manage business and financial risk, and its compliance with legal, ethical and regulatory requirements;
- encouraging continuous improvement of, and fostering adherence to, the Corporation's policies, procedures and practices at all levels.

##### **II. COMPOSITION AND MEETINGS**

The Audit Committee shall be comprised of at least three directors. Unless otherwise authorized by the Board of Directors, each Committee member shall be:

- an "unrelated director" as such term is defined in Schedule A; and
- "independent" as such term is defined in Schedule A.

In addition, unless otherwise authorized by the Board of Directors, no director shall be qualified to be a member of the Audit Committee if such director receives (or his/her immediate family member or the entity for which such director is a director, member, partner or principal and which provides consulting, legal, investment banking, financial or other similar services to the Corporation), directly or indirectly, any consulting, advisory, or other compensation from the Corporation other than compensation for serving in his or her capacity as member of the Board and as a member of Board committees.

All members shall, to the satisfaction of the Board of Directors, be "financially literate" as defined in Schedule A, and at least one member shall have accounting or related financial management expertise to qualify as a "financial expert" as defined in Schedule A.

The members of the Committee shall be appointed by the Board at the annual organizational meeting of the Board or until their successors shall be duly appointed and qualified. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances require. The Committee shall meet within 45 days following the end of each of the first three financial quarters to review and discuss the unaudited financial results for the preceding quarter and the related Management Discussion & Analysis and shall meet within 90 days following the end of the fiscal year end to review and discuss the audited financial results for the year and related Management Discussion & Analysis prior to their publishing.

The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their audit related duties, members of the Committee shall have full access to all corporate information and shall be permitted to discuss such information and any other matters relating to the financial position of the Corporation with senior employees, officers and independent auditors of the Corporation.

As part of its job to foster open communication, the Committee should meet at least annually with management and the independent auditor in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately. In addition, the Committee should meet with management quarterly to review the Corporation's financial statements with access to the independent auditor if it so requires.

Quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Committee or such greater number as the Audit Committee shall by resolution determine.

Meetings of the Audit Committee shall be held from time to time and at such place as the Audit Committee or the Chairman of the Committee shall determine upon 48 hours notice to each of members. The notice period may be waived by a quorum of the Committee. Each of the Chairman of the Committee, members of the Committee, Chairman of the Board, independent auditors, Chief Executive Officer, Chief Financial Officer or Secretary shall be entitled to request that the Chairman of the Audit Committee call a meeting which shall be held within 48 hours of receipt of such request.

### **III. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties the Audit Committee shall:

1. Create an agenda for the ensuing year.
2. Review and update this Charter at least annually, as conditions dictate.
3. Describe briefly in the Corporation's annual report and more fully in the Corporation's Management Information Circular the Committee's composition and responsibilities and how they were discharged.
4. Report periodically to the Board of Directors.

#### **Documents/Reports Review**

5. Review with management and the independent auditors, the organization's interim and annual financial statements, management discussion and analysis and any reports or other financial information to be submitted to any governmental body, or the public, including any certification, report, opinion, or review rendered by the independent auditor for the purpose of recommending their approval to the Board of Directors prior to their filing, issue or publication.
6. Review with financial management and the independent auditor the Corporation's financial statements, MD&A's and earnings releases and any filings which contain financial information, to

be filed with regulatory bodies such as securities commissions prior to filing or prior to the release of earnings. The Chair of the Committee may represent the entire Committee for purposes of this review in circumstances where time does not allow the full Committee to be available.

### **Independent Auditor**

7. Recommend to the Board of Directors the selection of the independent auditor, consider the independence and effectiveness and approve the fees and other compensation to be paid to the independent auditor.
8. Monitor the relationship between management and the independent auditor including reviewing any management letters or other reports of the independent auditor and discussing any material differences of opinion between management and the independent auditor.
9. Review and discuss, on an annual basis, with the independent auditor all significant relationships they have with the Corporation to determine their independence and report to the Board of Directors.
10. Review and approve requests for any management consulting engagement to be performed by the independent auditor and be advised of any other study undertaken at the request of management that is beyond the scope of the audit engagement letter and related fees.
11. Review the performance of the independent auditor and approve any proposed discharge and replacement of the independent auditor when circumstances warrant. Consider with management and the independent auditor the rationale for employing accounting/auditing firms other than the principal independent auditor.
12. Periodically consult with the independent auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the organization's financial statements. Particular emphasis should be given to the adequacy of internal controls to expose any payments, transactions, or procedures that might be deemed illegal or otherwise improper.
13. Arrange for the independent auditor to be available to the Audit Committee and the full Board of Directors as needed. Ensure that the auditors report directly to the Audit Committee and are made accountable to the Board and the Audit Committee, as representatives of the shareholders to whom the auditors are ultimately responsible.
14. Oversee the work of the independent auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services.
15. Ensure that the independent auditors are prohibited from providing the following non-audit services and determining which other non-audit services the independent auditors are prohibited from providing:
  - a. bookkeeping or other services related to the accounting records or financial statements of the Corporation;
  - b. financial information systems design and implementation;
  - c. appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
  - d. actuarial services;
  - e. internal audit outsourcing services;
  - f. management functions or human resources;
  - g. broker or dealer, investment adviser or investment banking services;
  - h. legal services and expert services unrelated to the audit; and
  - i. any other services which the Public Company Accounting Oversight Board determines to be impermissible.
16. Approve any permissible non-audit engagements of the independent auditors, in accordance with applicable legislation.

## **Financial Reporting Processes**

17. In consultation with the independent auditor review the integrity of the organization's financial and accounting controls and reporting processes, both internal and external.
18. Consider the independent auditor's judgments about the quality and appropriateness, not just the acceptability, of the Corporation's accounting principles and financial disclosure practices, as applied in its financial reporting, particularly about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates and whether those principles are common practices or are minority practices.
19. Consider and approve, if appropriate, major changes to the Corporation's accounting principles and practices as suggested by management with the concurrence of the independent auditor and ensure that the accountants' reasoning is described in determining the appropriateness of changes in accounting principles and disclosure.

## **Process Improvement**

20. At least annually obtaining and reviewing a report prepared by the independent auditors describing (i) the auditors' internal quality-control procedures; and (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditors, 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 auditors, and any steps taken to deal with any such issues.
21. Establish regular and separate systems of reporting to the Audit Committee by each of management and the independent auditor regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
22. Review the scope and plans of the independent auditor's audit and reviews prior to the audit and reviews being conducted. The Committee may authorize the independent auditor to perform supplemental reviews or audits as the Committee may deem desirable.
23. Following completion of the annual audit and quarterly reviews, review separately with each of management and the independent auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and reviews, including any restrictions on the scope of work or access to required information and the cooperation that the independent auditor received during the course of the audit and reviews.
24. Review any significant disagreements among management and the independent auditor in connection with the preparation of the financial statements.
25. Where there are significant unsettled issues the Committee shall ensure that there is an agreed course of action for the resolution of such matters.
26. Review with the independent auditor and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.
27. Review activities, organizational structure, and qualifications of the chief financial officer and the staff in the financial reporting area and see to it that matters related to succession planning within the Corporation are raised for consideration at the full Board of Directors.

## **Ethical and Legal Compliance**

28. Review management's monitoring of the Corporation's system in place to ensure that the



Corporation's financial statements, reports and other financial information disseminated to governmental organizations, and the public satisfy legal requirements.

29. Review, with the organization's counsel, legal and regulatory compliance matters, including corporate securities trading policies, and matters that could have a significant impact on the organization's financial statements.

#### **Risk Management**

30. Make inquiries of management and the independent auditors to identify significant business, political, financial and control risks and exposures and assess the steps management has taken to minimize such risk to the Corporation.
31. Ensure that the disclosure of the process followed by the Board of Directors and its committees, in the oversight of the Corporation's management of principal business risks, is complete and fairly presented.
32. Review management's program of risk assessment and steps taken to address significant risks or exposures, including insurance coverage.

#### **General**

33. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities. The committee shall be empowered to retain independent counsel, accountants and other professionals to assist it in the conduct of any investigation.
34. Perform any other activities consistent with this Charter, the Corporation's By-laws and governing law, as the Committee or the Board of Directors deems necessary or appropriate.

May 18, 2004

## Schedule A

### Unrelated Director – TSX Proposed Corporate Governance Guidelines

An “unrelated director”, in accordance with the proposed *Corporate Governance Guidelines* of the Toronto Stock Exchange, means a director who is:

- (a) not a member of management and is free from any interest and any business, family or other relationship which could reasonably be perceived to materially interfere with the director’s ability to act with a view to the best interests of the Corporation, other than interests and relationships arising solely from holdings in the Corporation;
- (b) not currently, or has not been (and who does not have an immediate family member who is currently or has been) within the last five years, an officer, employee of or material service provider (which includes without limitation, the auditors of the Corporation) to the Corporation or any of its subsidiaries or affiliates; and
- (c) not a director (or similarly situated individual) officer, employee or significant shareholder of an entity that has a material business relationship with the Corporation.

### Independence Requirement of Proposed Multilateral Instrument 52-110

A member of the Audit Committee shall be considered “independent”, in accordance with *Proposed Multilateral Instrument 52-110 - Audit Committees* (“MI 52-110”) if that member has no direct or indirect relationship with the issuer, which could reasonably interfere with the exercise of the member’s independent judgment. The following persons are considered to have a material relationship with the issuer and, as such, can not be a member of the Audit Committee:

- (a) a person who is, or whose immediate family member is, or at any time during the prescribed period has been, an officer or employee of the issuer, its parent, or of any of its subsidiary entities or affiliated entities;
- (b) a person who is, or has been, an affiliated entity of, a partner of, or employed by, a current or former internal or external auditor of the issuer, unless the prescribed period has elapsed since the person’s relationship with the internal or external auditor, or the auditing relationship, has ended;
- (c) a person whose immediate family member is, or has been, an affiliated entity of, a partner of, or employed in a professional capacity by, a current or former internal or external auditor of the issuer, unless the prescribed period has elapsed since the person’s relationship with the internal or external auditor, or the auditing relationship, has ended;
- (d) a person who is, or has been, or whose immediate family member is or has been, employed as an executive officer of any entity if any of the issuer’s current executives serve on the entity’s compensation committee, unless the prescribed period has elapsed since the end of the service or employment;
- (e) a person who accepts, or has accepted at any time during the prescribed period, directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the audit committee, the board of directors, or any other board committee; and
- (f) a person who is an affiliated entity of the issuer or any of its subsidiary entities.

### **Financial Literacy Under Proposed Multilateral Instrument 52-110**

“Financially literate”, in accordance with MI 52-110, means that the director 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 Corporation’s financial statements.

### **Financial Expert Under Proposed Multilateral Instrument 52-110**

A person will qualify as “financial expert”, in accordance with MI 52-110, if he or she possesses the following attributes:

- (a) an understanding of financial statements and generally accepted accounting principles used by the Corporation to prepare its financial statements;
- (b) an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation’s financial statements, or experience actively supervising one or more persons engaged in such activities;
- (d) an understanding of internal controls and procedures for financial reporting; and
- (f) an understanding of audit committee functions.