

# NORTHWEST ARM CAPITAL INC.

## AUDIT COMMITTEE CHARTER

(adopted by BoD July 27, 2016)

### 1.0 PURPOSE

1.1 The Audit Committee ("**Committee**") is a standing committee of the board of directors (the "**Board**") of Northwest Arm Capital Inc. (the "**Corporation**") charged with assisting the Board in fulfilling its financial oversight responsibilities by reviewing the financial reports and other financial information provided by the Corporation to regulatory authorities and shareholders, the Corporation's systems of internal controls regarding finance and accounting and the Corporation's auditing, accounting and financial reporting processes. Consistent with this function, the Committee will encourage continuous improvement of, and should foster adherence to, the Corporation's policies, procedures and practices at all levels. The Committee's primary duties and responsibilities are to:

- serve as an independent and objective party to oversee the Corporation's accounting and financial reporting processes, internal control system, and external audits of its financial statements;
- review and appraise the performance of the Corporation's external auditors; and
- provide an open avenue of communication among the Corporation's auditors, financial and senior management, and the Board.

### 2.0 COMMITTEE MEMBERSHIP

2.1 The Board shall annually appoint a minimum of three (3) directors to the Committee, a majority of whom shall not be executive officers, employees or control persons of the Corporation or any of its associates or affiliates.

2.2 If the Corporation ceases to be a "venture issuer" (as that term is defined in National Instrument 52-110 – *Audit Committees* ("**NI 52-110**")), then all of the members of the Committee shall be financially literate and independent (as those terms is defined in NI 52-110).

2.3 If the Corporation ceases to be a "venture issuer" (as that term is defined in NI 52-110), then all members of the Committee shall be financially literate. All members of the Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices. For the purposes of this Charter, the definition of "financially literate" is 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 presumably be expected to be raised by the Corporation's financial statements.

2.4 Members of the Committee shall typically be appointed at the first meeting of the Board held following each annual meeting of the shareholders of the Corporation.

2.5 A member may resign or be removed from the Committee at any time and thereafter shall be replaced by the Board. A member of the Committee will automatically cease to be a member at such time as that individual ceases to be a director of the Corporation.

### **3.0 CHAIR OF THE COMMITTEE**

**3.1** The Board shall in each year appoint a chair of the Committee ("**Chair**") from among the members of the Committee. In the Chair's absence, or if the position is vacant, the Committee may select another member to act as interim Chair.

**3.2** The Chair shall be responsible to ensure the Committee meets regularly and performs its duties as set out herein, and to report to the Board on the activities of the Committee.

### **4.0 RESPONSIBILITIES AND DUTIES**

**4.1** The Committee is responsible to:

#### ***Financial Statement and Disclosure Matters***

- (a) review the annual audited financial statements, and shall report thereon to the Board;
- (b) review the interim unaudited financial statements and, if satisfactory, approve such interim unaudited financial statements;
- (c) satisfy itself that the Corporation's annual audited financial statements are fairly presented in accordance with applicable Canadian generally accepted accounting principles and recommend to the Board whether the annual financial statements should be approved and included in the Corporation's annual report, if any;
- (d) satisfy itself that the information contained in the Corporation's interim financial statements, management discussion and analysis ("**MD&A**"), and any other financial publication or disclosure of financial information extracted or derived from the Corporation's financial statements does not include any untrue statement of any material fact or omit to state a material fact that is required or necessary to avoid making a statement that is misleading in light of the circumstances under which it was made;
- (e) review the Corporation's financial statements, MD&A and, if applicable, annual and interim earnings press releases referring to financial information before the information is publicly disclosed, and ensure that adequate procedures are in place for the review of any other public disclosure derived from the Corporation's financial statements, and periodically assess the adequacy of those procedures;
- (f) discuss with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy of the Corporation's internal controls and any special steps adopted in light of material control deficiencies;
- (g) review and discuss reports from the external auditor on:
  - (i) all critical accounting policies and practices to be used;
  - (ii) all alternative treatments of financial information within applicable Canadian generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor; and

- (iii) other material written communications between the external auditor and management, such as any management letter or schedule of unadjusted differences;

***Oversight of the Corporation's External Auditors***

- (h) make recommendations to the Board regarding the selection and compensation of the external auditor to be put forth for appointment at each annual meeting of the Corporation;
- (i) satisfy itself that the external auditor reports directly to the Committee;
- (j) oversee the work of the external auditor engaged to prepare or issue an auditor's report or perform other audit, review, or attest services for the Corporation, including the resolution of any disagreements between management and the external auditor regarding financial reporting;
- (k) obtain and review a report from the external auditor at least annually regarding:
  - (i) the external auditor's internal quality-control procedures;
  - (ii) any material issues raised by the most recent internal quality control review, or peer review, of the external audit 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 firm;
  - (iii) any steps taken to deal with any such issues; and
  - (iv) all relationships between the external auditor and the Corporation, including non-audit services;
- (l) evaluate the qualifications, performance and independence of the external auditor, including considering whether the external auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management, and to present its conclusions with respect to the external auditor to the Board;
- (m) satisfy itself of the rotation of the audit partners and consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the external auditing firm on a regular basis;
- (n) meet with the external auditor and financial management of the Corporation to review the scope of the proposed audit for the current year and the audit procedures to be used;
- (o) satisfy itself that the audit function has been effectively carried out and that any matter which the external auditor wishes to bring to the attention of the Board has been addressed and that there are no unresolved differences between management and the external auditor;
- (p) pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by its external auditor, subject to the de minimis exceptions for non-audit services described in NI 52-110, section 2.4, which are approved by the Committee prior to the completion of the audit. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of permitted non-audit services,

provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Committee at its next scheduled meeting;

- (q) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation;

#### ***Financial Reporting and Risk Management***

- (r) review the audit plan of the external auditor for the current year, and review advice from the external auditors relating to management and internal controls and the Corporation's responses to the suggestions made therein;
- (s) discuss with management the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's risk assessment and risk management policies;
- (t) satisfy itself that the Corporation has implemented appropriate systems of internal control over financial reporting, the safeguarding of the Corporation's assets and other "risk management" functions affecting the Corporation's assets, management and financial and business operations, and that these systems are operating effectively;

#### ***Compliance Oversight Responsibilities***

- (u) establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters;
- (v) establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (w) discuss with management and the external auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Corporation's financial statements or accounting policies;
- (x) discuss with the Corporation's general counsel or outside counsel, as appropriate, legal matters that may have a material impact on the financial statements, or the Corporation's compliance policies; and
- (y) satisfy itself that all regulatory compliance issues have been identified and addressed and identifying those that require further work.

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

## **5.0 GENERAL RESPONSIBILITIES**

**5.1** The Committee shall:

- (a) make regular reports to the Board;

- (b) have the right, for the purpose of performing their duties:
  - (i) to inspect all the books and records of the Corporation and its subsidiaries;
  - (ii) to discuss such accounts and records and any matters relating to the financial position of the Corporation with the officers and auditor of the Corporation and its subsidiaries; and
  - (iii) to commission reports or supplemental information relating thereto;
- (c) permit the Board to refer to the Committee such matters and questions relating to the financial position of the Corporation and its affiliates or the reporting related thereto as the Board may from time to time see fit; and
- (d) perform any other activities consistent with this Charter, the Corporation's By-Laws and governing law, as the Committee or the Board deems necessary or appropriate.

## **6.0 MEETINGS**

- 6.1** The Chair will appoint a secretary who will keep minutes of all meetings ("**Secretary**"). The Secretary does not have to be a member of the Committee or a director and can be changed by simple notice from the Chair.
- 6.2** No business shall be transacted by the Committee unless a quorum of the Committee is present or the business is transacted by resolution in writing signed by all members of the Committee. A majority of the Committee shall constitute a quorum, provided that if the number of members of the Committee is an even number, one half of the number of members plus one shall constitute a quorum.
- 6.3** The Committee shall meet as often as it deems necessary to carry out its responsibilities but not less frequently than quarterly.
- 6.4** The time, place, and procedure of the meetings of the Committee shall be determined by the Committee, unless otherwise provided for in the By-Laws of the Corporation or otherwise determined by resolution of the Board.
- 6.5** Meetings may be held in person, by teleconferencing, or by videoconferencing.
- 6.6** Any decision made by the Committee shall be determined by a majority vote of the members of the Committee present. A member will be deemed to have consented to any resolution passed or action taken at a meeting of the Committee unless the member dissents.
- 6.7** Minutes of the Committee will be kept by the Secretary. The approved minutes of the Committee shall be circulated to the Board forthwith and shall be duly entered in the books of the Corporation.

## **7.0 ACCESS TO MANAGEMENT AND OUTSIDE ADVISORS**

- 7.1** The Committee shall have full, free, and unrestricted access to management and employees and to the relevant books and records of the Corporation.
- 7.2** The Committee may invite such other persons (e.g. the CEO, CFO, Controller) to its meetings as it deems necessary.

**7.3** The Committee shall have the authority to:

- (a) retain independent legal, accounting, or other relevant advisors as it may deem necessary or appropriate to discharge its responsibilities;
- (b) set and pay the compensation of any such advisors, at the expense of the Corporation; and
- (c) communicate directly with the internal and external auditor.

**7.4** Any advisors retained shall report directly to the Committee.

## **8.0 REPORTING REQUIREMENTS**

**8.1** The Committee shall make regular reports to the Board, through the Chair, following meetings of the Committee.

## **9.0 ANNUAL REVIEW AND ASSESSMENT**

**9.1** The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval.

**9.2** The Committee shall review its own performance annually and report to the Board.

## **10.0 REMUNERATION**

**10.1** The members of the Committee shall be entitled to receive such remuneration for acting as a member of the Committee as the Board may from time to time determine.