

**AZURE DYNAMICS CORPORATION**  
**(the “Company”)**

**AUDIT COMMITTEE**

**TERMS OF REFERENCE**

**1. COMPOSITION**

- (a) Applicable Canadian corporate and provincial securities legislation, regulation and policies (including Multilateral Instrument 52-110) and the Toronto Stock Exchange rules, regulation and policies (“Applicable Legislation”) require that an audit committee (the “Committee”) be comprised of a minimum of three directors, none of whom (other than a non-executive Chair), may be officers or employees of the Company or any of its affiliates and each of whom shall not have any material relationship with Company, ie., a relationship that could, in the view of the Company’s board of directors, reasonably interfere with the exercise of a member’s independent judgment. Applicable Legislation also requires that all members of the Committee must be “independent” and “financially literate”.
- (b) The Board of Directors of the Company (the “Board”), will appoint the members of the Committee annually at the first meeting of the Board after the annual general meeting of shareholders and shall ensure that the members thereof meet the qualifications and other requirements outlined in (a) above.
- (c) Committee members will be appointed for a one year term and may be reappointed subject to the discretion of the Board having regard to; (i) the desire for continuity and for periodic rotation of Committee members and (ii) Applicable Legislation.
- (d) One of the members who is not an executive officer or full-time employee (other than a non-executive Chair) and who is otherwise qualified under Applicable Legislation shall be appointed Committee Chair by the Board.

**2. AUTHORITY**

- (a) The Board may authorize the Committee to investigate any activity of the Company or any affiliate thereof for which the Committee has responsibility or with respect to

those responsibilities imposed on audit committees herein and by Applicable Legislation. All employees are to co-operate as requested by the Committee.

- (b) The Committee may retain persons having special expertise to assist the Committee in fulfilling its responsibilities, including outside counsel or financial experts and provide for their remuneration.
- (c) The external auditor shall report to the Committee.

### **3. MEETINGS**

- (a) The Committee is to meet at least four times per year. The meetings will be scheduled to permit the review of the scope of the audit as presented by the Company's external auditor before commencement of the audit and timely review of the quarterly and annual financial statements and such other annual filings containing financial information about the Company including the AIF, MD&A (quarterly and annual), quarterly press releases, the management proxy circular and such other disclosure documents applicable to the Company which contain financial data based upon, derived from or to form part of the financial statements of the Company and contemplated by Applicable Legislation.
- (b) Meetings of the Committee shall be validly constituted if a majority of members of the Committee are present in person or by telephone conference. Additional meetings may be held as deemed necessary by the Committee Chair or as requested by any member or the external auditors or any director of the Company not a member of the Committee.
- (c) Any member of the external auditors of the Company is entitled to receive notice of every meeting of the Committee and at the Company's expense, to attend and be heard thereat and, if requested by a member of the Committee, to attend any meeting of the Committee.
- (d) The Committee should require the attendance of the Company's external auditors at least once each year, and at such other times as the Committee deems appropriate in the context of its responsibilities as outlined below. The Company's external auditor shall be requested to review and comment on all disclosure documents issued by the Company containing financial statements or information derived therefrom and which are intended for dissemination to the public including shareholders of the Company.

### **4. REPORTING**

- (a) The minutes of all meetings of the Committee are to be provided to the Board and the Company's external auditor. Oral reports by the Chair on recent matters not yet minuted will be provided to the Board at its next meeting. Minutes of all Committee meetings will be subsequently reviewed and approved by the Committee.
- (b) Supporting schedules and information reviewed by the Committee will be available for examination by any director or the Company's external auditor upon request to the Secretary of the Committee.

## **5. RESPONSIBILITIES**

- The responsibilities of the Committee shall be as follows:
  - (a) to review the Company's quarterly and annual financial statements and any other financial statements of the Company and its affiliates required to be prepared by Applicable Legislation or otherwise for dissemination to the public so as to be satisfied they are fairly presented and in accordance with generally accepted account principles and in accordance with Applicable Legislation and to recommend to the Board whether the quarterly and the annual financial statements and any such other financial statements should be approved by the Board;
  - (b) to review the financial information and financial data contained in the Company's quarterly financial statements, Annual Report to Shareholders and other financial publications of the Company (including the Company's interim and year end management discussions and analysis of financial condition and results of operation, annual information form, proxy information circular, quarterly press releases and material and timely disclosure reports containing any financial data) and the financial information contained in a prospectus of the Company or other document filed with any regulatory authority so as to be satisfied that the financial information and financial data is not significantly erroneous, misleading or incomplete and contains full, true and plain disclosure of all material facts or as otherwise required by Applicable Legislation;
  - (c) to be satisfied that the Company has implemented appropriate systems of internal control over financial reporting and that these are operating effectively;
  - (d) to be satisfied that management of the Company has implemented appropriate systems of internal control to ensure compliance with Applicable Legislation and ethical requirements and particularly to be satisfied that internal controls over financial reporting and disclosure controls and procedures are in

place and that internal controls have been designed and implemented to provide reasonable assurance that the Company's financial statements and other documents required to be mailed to shareholders or filed with regulatory authorities are fairly presented so as to enable the CFO and CEO (and any other officer or director of the Company as may be required by Applicable Legislation) to personally certify the Company's financial statements as required by Applicable Legislation;

(e) to be satisfied that management of the Company and each affiliate thereof have implemented effective systems to identify significant financial and other risks of the business and changes to these risks. The Committee will review reports from management related to these risks.

(f) to recommend to Board the appointment of external auditors nominated at each annual meeting of shareholders and provide oversight with respect to the external audit engagement. The Committee will also recommend to the Board the re-appointment or appointment of the external auditors and the compensation payable to them. The Committee will pre approve all non audit services to be provided to the Company and its subsidiaries by the Company's external auditors, providing that where necessary, this function may be delegated to the Chair of the Committee for approval on the basis that the Chair reports all such approvals to the Committee at its next regularly scheduled meeting.

(g) to be satisfied that any significant or material matters brought to the attention of the Committee by the Company's external auditors or matters where there is significant disagreement between the Company's external auditors and Company officers (including the resolution or proposed resolution thereof), are communicated to the Board;

(h) to be satisfied that all significant matters raised in any report to management by the external auditors are being addressed and dealt with by management in a satisfactory manner and, to the extent they are not, to make a report to the Board;

(i) to be satisfied that the declaration and payment of dividends by the Company, if any, meet applicable legal requirements and Applicable Legislation;

(j) as and when required by Applicable Legislation, to establish procedures (A) for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (B) for the confidential communication anonymous submission to the

Company and a member of the Committee of concerns regarding questionable accounting or auditing matters from employees;

(k) as and when required by Applicable Legislation to be satisfied that disclosure controls and procedures are in place to ensure that material information required to be disclosed by Applicable Legislation is recorded, processed and summarized and reported within the time periods specified in Applicable Legislation;

(l) to ensure that the external auditors report annually on matters of independence;

(m) to ensure that the external auditors prepare an external audit plan which, with any changes thereto, is reviewed by and acceptable to the Committee; and

(n) to review and approve the hiring policies of the Company regarding partners, employees (past or current) of the present and former external auditor of the Company.

- The Chair of the Nominating and Corporate Governance Committee, in consultation with the Chair of the Committee, will periodically review the effectiveness of the Committee and the performance of each Committee member and report to the Board on their conclusions.