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# ISOTECHNIKA PHARMA INC.

## AUDIT COMMITTEE CHARTER

Effective June 18, 2009



# ISOTECHNIKA PHARMA INC.

## AUDIT COMMITTEE CHARTER

The term "**Company**" refers to Isotechnika Pharma Inc., the term "**Board**" refers to the board of directors of the Company.

### **PURPOSE**

The Audit Committee (the "**Committee**") is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to the Company's financial reporting including responsibility to:

- oversee the integrity of the Company's consolidated financial statements and financial reporting process, including the audit process and the Company's internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the Company's external auditors;
- oversee the work of the Company's financial management and external auditors in these areas; and
- provide an open avenue of communication between the external auditors, and the Board and the officers (collectively, "**Management**") of the Company.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

### **COMPOSITION AND PROCEDURES**

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

#### **1. Composition**

The Committee shall consist of no fewer than three (3) members. None of the members of the Committee shall be an officer or employee of the Company or any of its subsidiaries, and each member of the Committee shall be an "independent director" (in accordance with the definition of "independent director" established from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Company's shares are listed for trading).

#### **2. Appointment and Replacement of Committee Members**

Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a director. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three directors. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of shareholders after his or her election or until his or her successor shall be duly elected and qualified.

### **3. Financial literacy**

All members of the Committee must be "financially literate" (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Company's shares are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

### **4. Separate Executive Meetings**

The Committee will endeavour to meet at least once every quarter, if required, and more often as warranted, with the Chief Financial Officer and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

### **5. Professional Assistance**

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at the Company's expense.

### **6. Reliance**

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by the Chief Financial Officer, the Company, senior management and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors to the Company and its subsidiaries.

### **7. Review of Charter**

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of the Company.

### **8. Delegation**

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

### **9. Reporting to the Board**

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

## **SPECIFIC MANDATES OF THE COMMITTEE**

The Committee will:

**I. In Respect of the Company's External Auditors**

- (a) review the performance of the external auditors of the Company who are accountable to the Committee and the Board as the representatives of the shareholders of the Company, including the lead partner of the independent auditor team and make recommendations to the Board as to the reappointment or appointment of the external auditors of the Company to be proposed in the Company's proxy circular for shareholder approval and shall have authority to terminate the external auditors;
- (b) review the reasons for any proposed change in the external auditors of the Company which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;
- (c) approve the terms of engagement and the compensation to be paid by the Company to the Company's external auditors;
- (d) review the independence of the Company's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;
- (e) approve in advance all permitted non-audit services to be provided to the Company or any of its affiliates by the external auditors or any of their affiliates, subject to any *de minimus* exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection;
- (f) review the disclosure with respect to its pre-approval of audit and non-audit services provided by the Company's external auditors;
- (g) approve any hiring by the Company or its subsidiaries of employees or former employees of the Company's external auditors;
- (h) review a written or oral report describing:
  - (i) critical accounting policies and practices to be used in the Company's annual audit,
  - (ii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management and that are significant to the Company's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and
  - (iii) other material written communication between the Company's external auditors and Management, such as any management letter or schedule of unadjusted differences;
- (i) review with the external auditors and Management the general audit approach and scope of proposed audits of the consolidated financial statements of the Company, the objectives, staffing, locations, co-ordination and reliance upon Management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;
- (j) if a review engagement report is requested of the external auditors, review such report before the release of the Company's interim consolidated financial statements;

- (k) discuss with the external auditors any difficulties or disputes that arose with Management during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of Management's responses in correcting audit-related deficiencies;

## **II. In Respect of the Company's Financial Disclosure**

- (a) review with the external auditors and Management:
  - (i) the Company's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of the Company contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Company, the recommendations for approval of each of the foregoing from each of the Executive Chairman of the Board, President and Chief Executive Officer, and Chief Financial Officer of the Company and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - (ii) the Company's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the recommendations for approval of each of the foregoing from each of the Executive Chairman of the Board, President and Chief Executive Officer, and Chief Financial Officer of the Company and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
  - (iii) the quality, appropriateness and acceptability of the Company's accounting principles and practices used in its financial reporting, changes in the Company's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;
  - (iv) all significant financial reporting issues and judgments made in connection with the preparation of the Company's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within generally accepted accounting principles on the consolidated financial statements and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;
  - (v) the effect of regulatory and accounting initiatives on the Company's consolidated financial statements and other financial disclosures;
  - (vi) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of the Company;
  - (vii) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Company and their impact on the reported financial results of the Company;

- (viii) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements, the Company's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Company's consolidated financial statements;
- (ix) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of the Company's operations;
- (x) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles;
- (b) review and resolve disagreements between Management and the Company's external auditors regarding financial reporting or the application of any accounting principles or practices;
- (c) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Company gives earning guidance;
- (d) establish and monitor procedures for the receipt and treatment of complaints received by the Company regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with the Management these procedures and any significant complaints received;
- (e) receive from the Chief Executive Officer and the Chief Financial Officer of the Company a certificate certifying in respect of each annual and interim report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws; and
- (f) review and discuss the Company's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.

### **III. In Respect of Insurance**

- (a) review periodically insurance programs relating to the Company and its investments;

### **IV. In Respect of Internal Controls**

- (a) review the adequacy and effectiveness of the Company's internal accounting and financial controls based on recommendations from Management and the external auditors for the improvement of accounting practices and internal controls;
- (b) oversee compliance with internal controls and the Code of Business Conduct;

**V. In respect of Other Items**

- (a) on an annual basis review and assess committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;
- (b) on an annual basis review the dividend reinvestment plan;
- (c) on an annual basis review the performance of the Board under the Board's Mandate;
- (d) on a quarterly basis review compliance with the Disclosure Policy of the Company; and
- (e) on a quarterly basis review any related-party transactions.

**OVERSIGHT FUNCTION**

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 Company's consolidated financial statements are complete and accurate or are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of Management and the Company's external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Company, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Company's financial information or public disclosure.