

EXPORT DEVELOPMENT CANADA

**TERMS OF REFERENCE RESPECTING
THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

I. COMPOSITION AND OPERATION OF THE AUDIT COMMITTEE

1. The Audit Committee is composed of up to six directors who are independent of management and the corporation and are not selected from among persons employed in the Public Service of Canada. Committee members and the Chairperson are appointed by the Board of Directors
2. The members' terms of appointment provide for both continuity of memberships and the contribution of fresh perspective. Each member is financially literate, or shall become financially literate within a reasonable period of time after appointment to the committee. At least one member has accounting or related financial management expertise.
3. The Committee shall regulate its own proceedings and develop its own procedures, provided that:
 - (a) the Committee shall meet at least four times a year on a quarterly basis;
 - (b) three members of the Committee will be a quorum for the conduct of its business; and
 - (c) There shall be an opportunity at each meeting for the Committee to meet with the Vice-President, Internal Audit and Evaluation (the "Corporate Auditor"), the Office of the Auditor General (the "External Auditor") and management in separate executive sessions to discuss any matters any one thereof or the Committee may want to discuss on an in camera basis.
4. The Secretary of EDC is the Secretary of the Committee. The Secretary shall:
 - (a) give, or cause to be given, all notices and agenda of meetings required to be given to members of the Committee;
 - (b) distribute or cause to be distributed, normally prior to the meetings of the Committee, all reports and/or related documents which are prepared for consideration by the Committee;
 - (c) prepare, or cause to be prepared, minutes of proceedings at meetings of the Committee; and

- (d) have such other duties as may be assigned from time to time by the Committee.
- 5. The External Auditor shall be expected to be, and the Executive Vice-President and Chief Financial Officer and the Corporate Auditor shall be, available to assist the Committee at the request of the Committee. The External Auditor is entitled to receive notice of every meeting of the Audit Committee and to attend and be heard at each meeting. The External Auditor or a member of the Audit Committee may call a meeting of the Committee.

II. PURPOSE

Management has primary responsibility for the corporation's standards of integrity and behaviour, its reporting of financial information, and its internal control systems. The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to:

- 1. the financial reporting practices and performance measurement of the Corporation;
- 2. the financial and management control and information systems and management practices of the Corporation, including system controls and security;
- 3. the safeguarding of assets of the Corporation;
- 4. the effective, efficient and economical management of the Corporation's resources;
- 5. corporate financing;
- 6. the Corporation's Code of Business Ethics and Code of Conduct;
- 7. audits with respect to the Pension Plan for Employees of Export Development Canada and the Supplementary Retirement Plan for Certain Employees of Export Development Canada (the "Pension Plans");
- 8. all internal and external audit work and processes, including audits of the design and implementation of the Corporation's Environmental Review Directive and the Special Examinations; and
- 9. dividend payments, if any, to be made by the Corporation.

III. TERMS OF REFERENCE OF THE AUDIT COMMITTEE

A. General Responsibilities

1. The Committee will provide open avenues of communication among management, the Corporate Auditor, the External Auditor and the Board of Directors.
2. The Committee will report Committee actions to the Board of Directors and will make appropriate recommendations to the Board.
3. The Committee will have the authority to investigate issues within the Committee's terms of reference and, with the approval of the Board of Directors, may retain or require EDC to retain independent advisors to provide advice to the Committee.
4. The Committee will have such other responsibilities as may be required under applicable law or by the Board of Directors from time to time.

B. Review And Liaison Responsibilities

The Committee will promote an overall corporate tone for ethical behaviour thus emphasizing the value it places on financial integrity. The Committee will establish a clear understanding with the Corporate Auditor and the External Auditor and with management that the Corporate Auditor and External Auditor have an accountability to the Board and the Audit Committee.

1. The Committee will enquire about significant risks and exposures related to matters within the scope of the Committee's terms of reference with management, the Corporate Auditor and the External Auditor and will assess management's steps to manage these risks and exposures.
2. The Committee will review the performance measures established by management, and review results against these measures.
3. The Committee will review and approve, in consultation with the Corporate Auditor and the External Auditor, the audit scope and plans made by the Corporate Auditor and the External Auditor. The Committee will review and approve the wording of the External Auditor's engagement letter prior to the letter being signed on behalf of the Corporation.
4. Having regard to the requirement of the Financial Administration Act that the External Auditor rely on the work of Corporate Auditor to the extent considered practicable by the External Auditor, the Committee will ensure that the Corporate Auditor and the External Auditor coordinate the external and internal audit work with the objective of achieving a high level of reliance by the External Auditor on the work of the Internal Auditor for the purposes of the Annual Audit and Special

Examinations. The purpose of this coordination is to ensure completeness of coverage, avoid redundancy, and use audit resources effectively.

5. The Committee will satisfy itself that the Corporate Auditor and the External Auditor employ highly competent staff who possess the breadth and depth of experience necessary to enable them to carry out their work in accordance with generally accepted auditing standards, a basic condition for the Committee's reliance on their work.
6. The Committee will review and approve proposed action by management to remove or appoint the Corporate Auditor.
7. The Committee will review:
 - (a) the appropriateness of the Corporation's financial and management control and information systems and management practices, including system controls and security;
 - (b) the funding strategy of the Corporation and its financing activities to ensure compliance with Board Resolutions and Department of Finance Authorities;
 - (c)
 - (i) compliance by the Corporation with its Code of Business Ethics; and
 - (ii) reports on measures taken by the Corporation to inform employees as to their obligations under the Corporate Code of Conduct and the annual process whereby employees confirm their undertaking to comply with the said Code;
 - (d) any significant findings and recommendations made by the Corporate Auditor or the External Auditor, together with management's responses and follow-up action; and
 - (e) any difficulties encountered by the Corporate Auditor or the External Auditor while conducting audits, including any restrictions on the scope of audit work or access to required information.
8. Following completion of the annual attest audit of the Corporation's financial statements, the Committee will review with management and the External Auditor and advise the Board of Directors with respect to:
 - (a) the Corporation's annual financial statements and related notes, with a view to obtaining assurance that they fairly present the financial position and results of the Corporation, and will review any proposed related press release to be issued by the Corporation;

- (b) the management discussion and analysis section of the Corporation's annual report;
 - (c) the External Auditor's report on the financial statements, including the External Auditor's qualitative report on the appropriateness of accounting principles, financial disclosures and underlying estimates;
 - (d) any proposed changes in accounting policies, financial statement presentation or in the financial statement notes;
 - (e) regulatory matters and legal claims or potential claims that may have a material effect on the financial statements; and
 - (f) such other matters concerning the audit procedures or findings that Generally Accepted Auditing Standards require the auditors to discuss with the Audit Committee.
9. The Committee will review and advise the Board of Directors with respect to the Special Examination plans, including a statement of the criteria to be applied in the examination, and reports prepared by the Special Examiner. Any disagreement between the examiner and the Audit Committee or Board of Directors with respect to a plan may be resolved by the Minister.
10. The Committee will review and advise the Board of Directors with respect to the External Auditor's plan, including a statement of the criteria to be applied in the audit, for auditing the design and implementation of the Environmental Review Directive and audit reports prepared by the External Auditor.
11. The Committee will consider and review with management and the Corporate Auditor:
- (a) any changes to the scope of an approved internal audit plan that the Committee or the Corporate Auditor considers advisable;
 - (b) the appropriateness of the Internal Audit and Evaluation Department's budget and staffing;
 - (c) the Internal Audit and Evaluation Department's mandate, charter, plans, activities, and organizational structure; and
 - (d) the effectiveness of the internal audit activity, including compliance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

12. With respect to the position of Compliance Officer, the Committee will assist the Board in overseeing the activities of the Compliance Officer, by:
 - (a) receiving the reports of the Compliance Officer and bringing to the Board's attention such summary information or other particulars of the Compliance Officer's reports as the Committee shall think fit;
 - (b) setting and periodically reviewing performance standards and procedures for resolving complaints to ensure that the office of the Compliance Officer remains accessible and effective;
 - (c) considering and reviewing with the President the appointment and removal of the Compliance Officer, along with any other issue with respect to the office of the Compliance Officer as the Chairperson of the Audit Committee in consultation with the President may see fit; and
 - (d) advising the Board of the activities it has taken with respect to the office of the Compliance Officer, including oversight of activities of the Compliance Officer.
13. The Committee will review interim financial results with management, the External Auditor and the Corporate Auditor before these financial results are approved by the Board of Directors, and will review any proposed related press release to be issued by the Corporation. The review will emphasize significant estimates, provisions and any changes in accounting policies.
14. The Committee will:
 - (a) review reports with respect to Designated Expenditures as defined in the *Guidelines on Capital and Administrative Expenditures and Budgets* approved by the Board of Directors on May 11, 1999, as such guidelines may be amended from time to time, and make recommendations thereon to the Board of Directors; and
 - (b) subject to direction by the Board of Directors from time to time, approve proposed Designated Expenditures and report thereon to the Board of Directors or, at its discretion, defer the decision to give any such approval to the Board of Directors.
15. With respect to the Pension Plans, the Committee will:
 - (a) review any proposed appointment (other than a re-appointment) of the auditor of the financial statements for the Pension Plans to ensure that such appointment is in the best interests of the Pension Plans and that the proposed appointee is a qualified and appropriate auditor;

- (b) ensure that annual audits of the financial statements of the Pension Plans are conducted; and
 - (c) following completion of the annual audits of the financial statements of the Pension Plans, review with management and the auditor for the Pension Plans:
 - (i) the annual financial statements of the Pension Plans and related notes with a view to obtaining assurance that they fairly present the financial position and results of the Pension Plans;
 - (ii) the report of the auditor on the financial statements of the Pension Plans, including the auditor's qualitative report on the appropriateness of accounting principles, financial disclosures and underlying estimates;
 - (iii) any proposed changes in accounting policies, financial statement presentation or in the financial statement notes; regulatory matters and legal claims or potential claims that may have a material effect on the financial statements; and such other matters concerning the audit procedures or findings that Generally Accepted Auditing Standards require the auditors to discuss with the Audit Committee.
16. The Committee will carry out the following activities with respect to the management of the capital of the Corporation:
- (a) on an annual basis, review the report of management regarding whether or not there is an Eligible Dividend as determined in accordance with the Dividend Methodology Policy as well as any related Management recommendation regarding the maximum amount of any such dividend;
 - (b) on an annual basis, review and approve year end capital adequacy calculations and provide independent assessment of the impact of any dividend payment to EDC's overall financial safety and soundness;
 - (c) on an annual basis, put forward its recommendation to the Board as to whether or not a dividend payment could be made based on the foregoing reviews and assessments; and
 - (d) review internal and independent audit reports on EDC's capital management processes.

C. Periodic Responsibilities

1. On an annual basis the Committee will:
 - (a) review its terms of reference;
 - (b) review the template to be used as the basis for the preparation of the securities disclosure documents that are filed by the Corporation on an annual basis, along with management's report on filing requirements and the status of filings;
 - (c) review for reasonableness the total annual expenditures incurred for travel and business promotion purposes by the President, the Chairperson of the Board of Directors and the Board of Directors; and
 - (d) review the adequacy and cost of the Corporation's insurance coverage.
2. The Committee will conduct a self-assessment of its performance at least every two years, and discuss the results with the Board of Directors. This assessment may be conducted as part of a broader Board related governance assessment.

IV. COMMITTEE TIMETABLE

The Audit Committee will approve a schedule of its activities for the forthcoming year.

V. BOARD DECLARATIONS

The Board declares that:

1. the Audit Committee of the Board of Directors shall continue under the terms of the present resolution;
2. the Resolution Governing the Audit Committee of the Board of Directors passed by the Board on June 14, 2006 is hereby rescinded; and
3. all acts, deeds and things lawfully done under the said resolution are hereby ratified, sanctioned and confirmed.