

VELAN INC.
AUDIT COMMITTEE CHARTER

1. ESTABLISHMENT OF THE COMMITTEE

1.1 Establishment of Audit Committee Confirmed – The establishment of the audit committee of the Board is hereby confirmed with the purpose, constitution and responsibilities set forth herein.

1.2 Certain Definitions – In this Charter:

- (a) "Board" means the Board of Directors of the Corporation;
- (b) "Chair" means the Chairperson of the Committee;
- (c) "Charter" means this written charter of the Committee and any such charter for the Committee that the Board resolves from time to time shall be the charter of the Committee, as amended from time to time;
- (d) "Committee" means the Audit Committee of the Board;
- (e) "Corporation" means Velan Inc.;
- (f) "Director" means a member of the Board;
- (g) "MD&A" means Management's Discussion & Analysis as contemplated in National Instrument 51-102; and
- (h) "External Auditor" means the Corporation's Independent Auditor.

1.3 Interpretation – The provisions of this Charter are subject to the provisions of the by-laws of the Corporation and to the applicable provisions of applicable legislation.

2. PURPOSE

2.1 Purpose – The primary purpose of the Committee is to assist Board oversight of:

- (a) the integrity of the Corporation's financial statements;
- (b) the Corporation's compliance with legal and regulatory requirements;
- (c) the External Auditor's qualifications and independence; and
- (d) the performance of the External Auditor.

3. CONSTITUTION AND FUNCTIONING OF THE COMMITTEE

3.1 Number of Members – The Committee shall consist of not fewer than three members, each of whom shall be a Director.

3.2 Appointment and Removal of Members of the Committee

- (a) *Board Appointed Members.* The members of the Committee shall be appointed by the Board, having considered the recommendation of the Nominating Committee of the Board.
- (b) *Annual Appointments.* The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the appointment of members of the Committee is not so made, the Directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.
- (c) *Vacancies.* The Board may appoint a member to fill a vacancy that occurs in the Committee between annual elections of Directors.
- (d) *Removal of Member.* Any member of the Committee may be removed from the Committee by a resolution of the Board.

3.3 Independence of Members – Except as provided in the applicable regulatory requirements, each member of the Committee shall be independent for the purposes of all applicable regulatory requirements.

3.4 Financial Literacy

- (a) *Financial Literacy Requirement.* Each member of the Committee shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee.
- (b) *Definition of Financial Literacy.* "Financially literate" means 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.

3.5 Audit Committee Financial Expert

- (a) *Attributes of an Audit Committee Financial Expert.* To the extent possible, the Board will appoint to the Committee Directors who as a group have the following attributes:
 - (i) an understanding of Canadian generally accepted accounting principles and financial statements;

- (ii) ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
 - (iii) 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;
 - (iv) an understanding of internal controls and procedures for financial reporting; and
 - (v) an understanding of Audit Committee functions.
- (b) *Experience of the Audit Committee Financial Expert.* To the extent possible, the Board will appoint to the Committee at least one Director who acquired the attributes in (a) above through:
- (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions (or such other qualification as the Board interprets such qualification in its business judgment);
 - (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
 - (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
 - (iv) other relevant experience.

4. **COMMITTEE CHAIR**

4.1 Board to Appoint Chair – The Board shall appoint the Chair from the members of the Committee (or, if it fails to do so, the members of the Committee shall appoint the Chair of the Committee from among its members).

4.2 Chair to be Appointed Annually – The designation of the Committee's Chair shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the designation of Chair is not so made, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

5. COMMITTEE MEETINGS

5.1 Quorum – A quorum of the Committee shall be a majority of its members.

5.2 Secretary – Subject to the by-laws of the Corporation, the Chair shall designate from time to time a person who may, but need not, be a member of the Committee, to be Secretary of the Committee.

5.3 Time and Place of Meetings - The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee; provided, however, the Committee shall meet at least quarterly.

5.4 In Camera Meetings – As part of each meeting of the Committee at which the Committee recommends that the Board approve the annual audited financial statements or at which the Committee approves the quarterly financial statements, the Committee shall meet separately with each of:

- (a) management; and
- (b) the External Auditor, if they are in attendance.

5.5 Right to Vote – Each member of the Committee shall have the right to vote on matters that come before the Committee.

5.6 Invitees – The Committee may invite Directors, officers and employees of the Corporation or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee.

6. AUTHORITY OF COMMITTEE

6.1 Retaining and Compensating Advisors - The Committee shall have the authority to engage independent counsel and other advisors as the Committee may deem appropriate in its sole discretion and to set and pay the compensation for any such advisors. The Committee shall not be required to obtain the approval of the Board in order to retain or compensate such counsel or advisors.

6.2 Recommendations to the Board – The Committee shall have the authority to make recommendations to the Board, but shall have no decision-making authority other than as specifically contemplated in this Charter.

7. REMUNERATION OF COMMITTEE MEMBERS

7.1 Remuneration of Committee Members – Members of the Committee and the Chair shall receive such remuneration for their service on the Committee as the Board may determine from time to time.

7.2 Directors' Fees – No member of the Committee may earn fees from the Corporation or any of its subsidiaries other than directors' fees (which fees may include cash and/or shares or options

or other in-kind consideration ordinarily available to directors, as well as all of the regular benefits that other directors receive). For greater certainty, no member of the Committee shall accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation other than as remuneration for acting in his or her capacity as a member of the Board or any committee, or as a part-time Chair or Vice-Chair of the Board or any Committee.

8. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

8.1 Review and Approval of Financial Information

- (a) *Annual Financial Statements.* The Committee shall review and discuss with management and the External Auditor, the Corporation's audited annual financial statements and related MD&A together with the report of the External Auditor thereon and, if appropriate, recommends to the Board that it approves the audited annual financial statements.
- (b) *Interim Financial Statements.* The Committee shall review and discuss with management and recommends to the Board that it approves, the Corporation's interim unaudited financial statements and related MD&A.
- (c) *Material Public Financial Disclosure.* The Committee shall, to the extent practicable, discuss and examine with management and the External Auditor:
 - (i) the types of information to be disclosed and the type of presentation to be made in connection with earnings press releases;
 - (ii) financial information and earnings guidance (if any) provided to analysts and rating agencies; and
 - (iii) press releases containing financial information.
- (d) *Disclosure Procedures for Review.* The Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements (other than financial statements, MD&A and earnings press releases, which are dealt with elsewhere in this Charter) and shall periodically assess the adequacy of those procedures.
- (e) *Accounting Treatment.* The Committee shall review and discuss with management and the External Auditor:
 - (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;

- (ii) analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
- (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the Corporation's financial statements;
- (iv) the management certifications of the financial statements as required under applicable securities laws in Canada or otherwise; and
- (v) pension plan financial statements, if any.

8.2 External Auditor

- (a) *Authority with Respect to External Auditor.* The External Auditor shall report directly to the Committee. The Committee shall be directly responsible for the oversight of the work of the External Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. In the discharge of this responsibility, the Committee shall:
 - (i) have responsibility for recommending to the Board the person or firm to be proposed to the Corporation's shareholders for appointment as External Auditor for the above-described purposes as well as the responsibility for recommending such External Auditor's compensation and determining at any time whether the Board should recommend to the Corporation's shareholders whether the incumbent External Auditor should be removed from office;
 - (ii) review the terms of the External Auditor's engagement, discuss the audit fees with the External Auditor and be responsible for approving such audit fees; and
 - (iii) require the External Auditor to confirm in its engagement letter each year that the External Auditor is accountable to the Board and the Committee as representatives of shareholders.
- (b) *Independence.* The Committee shall satisfy itself as to the independence of the External Auditor. As part of this process the Committee shall:
 - (i) unless and until the Committee adopts pre-approval policies and procedures and subject to subsection (d) (i) (B) , approve any non-audit services to be provided by the External Auditor; and
 - (ii) review and approve the policy setting out the restrictions on the Corporation hiring partners, employees and former partners and employees of the Corporation's current or former External Auditor.

- (c) *Issues Between External Auditor and Management.* The Committee shall:
- (i) review any problems or concerns experienced by the External Auditor in conducting the audit, including any restrictions on the scope of the External Auditor's activities or an access to requested information;
 - (ii) review any significant disagreements with management and, to the extent possible, resolve any disagreements between management and the External Auditor; and
 - (iii) review with the External Auditor:
 - (A) any accounting adjustments that were proposed by the External Auditor, but were not made by management;
 - (B) any communications between the audit team and audit firm's national office respecting auditing or accounting issues presented by the engagement; and
 - (C) any management or internal control letter issued, or proposed to be issued by the External Auditor to the Corporation.
- (d) *Non-Audit Services.*
- (i) The Committee shall either:
 - (A) approve any non-audit services provided by the External Auditor or the external auditor of any subsidiary of the Corporation to the Corporation (including its subsidiaries); or
 - (B) adopt specific policies and procedures for the engagement of non-audit services, provided that such pre-approval policies and procedures are detailed as to the particular service, the audit committee is informed of each non-audit service and the procedures do not include delegation of the audit committee's responsibilities to management.
 - (ii) The Committee may delegate to one or more members of the Committee or the Chief Financial Officer the authority to pre-approve non-audit services in satisfaction of the requirement in the previous section, provided that such member or members must present any non-audit services so approved to the full Committee at its first scheduled meeting following such pre-approval.
 - (iii) The Committee shall instruct management to promptly bring to its attention any services performed by the External Auditor that were not recognized by the Corporation at the time of the engagement as being non-audit services.

- (e) *Evaluation of External Auditor.* The Committee shall evaluate the External Auditor each year, and present its conclusions to the Board. In connection with this evaluation, the Committee shall:
 - (i) review and evaluate the performance of the lead partner of the External Auditor;
 - (ii) obtain the opinions of management with respect to the performance of the External Auditor; and
- (f) *Review of Management's Evaluation and Response.* The Committee shall:
 - (i) review management's evaluation of the External Auditor's audit performance;
 - (ii) review the External Auditor's recommendations, and review management's response to and subsequent follow-up on any identified weaknesses;
 - (iii) review management's response to significant internal control recommendations of the External Auditor;
 - (iv) receive regular reports from management and receive comments from the External Auditor, if any, on:
 - (A) the Corporation's principal financial risks;
 - (B) the systems implemented to monitor those risks; and
 - (C) the strategies (including hedging strategies) in place to manage those risks; and
 - (v) recommend to the Board whether any new material strategies presented by management should be considered appropriate and approved.

8.3 Related Party Transactions – The Committee shall review the fees or other payments with respect to related party transactions in which the Corporation is involved on an annual basis. The approval of such transactions is within the mandate of the Corporate Governance and Human Resources Committee.

8.4 Whistle Blowing – The Committee shall put in place procedures for:

- (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
- (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

8.5 Special Outside Advisors – The Committee shall consider and, if determined to be appropriate, approve requests from Directors or committees of the Board for the engagement of

special outside advisors from time to time (in addition to any right that a Director or committee of the Board may have to engage outside advisors under general corporate law).

9. **SUBCOMMITTEES**

9.1 Delegation to Subcommittees – The Committee may form and delegate authority to subcommittees if deemed appropriate by the Committee.

10. **REPORTING TO THE BOARD**

10.1 Regular Reporting - The Committee shall report to the Board following each meeting of the Committee and at such other times as the Chair may determine to be appropriate.

11. **PERFORMANCE EVALUATION**

11.1 Performance Evaluation – The Committee shall follow the process established by the Corporate Governance and Human Resources Committee for all committees of the Board for assessing the performance and effectiveness of the Committee.

12. **CHARTER REVIEW**

12.1 Charter Review – The Committee shall review and assess the adequacy of this Charter on a regular basis and recommend to the Board any changes it deems appropriate.