

POLICY 4

CORPORATE GOVERNANCE AND MISCELLANEOUS PROVISIONS

1. Introduction

- 1.1 Boards of directors should be structured and their proceedings conducted in a way calculated to encourage, reinforce, and demonstrate the board's role as an independent and informed monitor of the conduct of the corporation's affairs and the performance of its management. Board structure and practice will, over time, significantly affect the extent to which a board of directors is likely to exercise its powers and discharge its obligations in a manner that effectively advances corporate objectives.
- 1.2 No single governance structure fits all publicly held corporations, and there is considerable diversity of organizational styles. Each CNSX Issuer should develop a governance structure that is appropriate to its nature and circumstances.

2. Corporate Governance

- 2.1 The board of directors of every CNSX Issuer is responsible for, among other things, the following matters:
- (a) strategic planning;
 - (b) principal business risks and risk management;
 - (c) appointing, training and monitoring senior management;
 - (d) executive compensation;
 - (e) succession planning;
 - (f) communications policy; and
 - (g) internal control and management information systems.
- 2.2 Canadian corporate law generally prescribes requirements related to the number or percentage of outside directors. For example, the *Business Corporations Act* (Ontario) requires that an offering corporation have at least three directors, at least one-third of whom are outside directors. The similar provisions of the

Canada Business Corporations Act require that at least two directors be outside directors. An outside director may or may not be an unrelated director, which is a director who has no tie to the corporation other than as a director or as a shareholder who is not a control block holder. Both outside and unrelated directors can bring a fresh perspective to issuers in addition to acting as an independent discipline on management. CNSX considers that a requirement to have a specified number or percentage of outside directors or a specified number or percentage of unrelated directors may not be suitable for all CNSX Issuers. Smaller corporations frequently do not have the resources or the ability to attract talented individuals to serve as outside or unrelated directors. It may also be more important for small issuers to have on the board individuals who have a prior familiarity with the issuer's business rather than those who can bring an independent perspective or discipline. For this reason CNSX does not prescribe requirements dealing with outside or unrelated directors; however CNSX Issuers must comply with applicable corporate law. However, CNSX Issuers are encouraged to examine the appropriateness of including either or both outside or unrelated directors, on their boards of directors.

- 2.3 Every CNSX Issuer, as an integral element of the process for appointing new directors, should provide an orientation and education program or manual for new recruits to the board.
- 2.4 Every board of directors should examine its size and, with a view to determining the impact of the number of directors upon effectiveness, undertake where appropriate, a program to reduce or increase the number of directors to a number which facilitates more effective decision-making.
- 2.5 The board of directors, together with the senior management, such as the Chief Executive Officer or President, should develop position descriptions for the board and for the senior management, involving the definition of the limits to management's responsibilities. In addition, the board should approve or develop the corporate objectives which the senior management is responsible for meeting.
- 2.6 Canadian corporate law generally prescribes a minimum number or percentage of directors sitting on the audit committee of the board of directors that must be outside directors. For example, the *Business Corporations Act* (Ontario) requires that an offering corporation have an audit committee composed of not less than three directors, a majority of whom are not officers or employees of the corporation or any of its affiliates.

- 2.7 Companion Policy to National Instrument 52-110 Audit Committees (“52-110CP”) provides additional guidelines to CNSX Issuers. Part 2 of 52-110CP provides that the objectives of an audit committee are as follows:
- (a) to help directors meet their responsibilities, especially for accountability;
 - (b) to provide better communication between directors and external auditors;
 - (c) to enhance the external auditor’s independence;
 - (d) to increase the credibility and objectivity of financial reports; and
 - (e) to strengthen the role of the outside directors by facilitating in-depth discussions between directors on the audit committee, management and external auditors.
- 2.8 The role of audit committees is continuing to evolve. Boards of directors of CNSX Issuers should adapt the responsibilities of their audit committees to their particular circumstances. No published set of practices can substitute for the active commitment to high standards by every party having responsibility for the corporate disclosure system.
- 2.9 CNSX strongly encourages boards of directors of CNSX Issuers to select independent directors as members of audit committees, to limit membership to such directors whenever possible and that the chairperson of the audit committee should be an independent director.
- 2.10 For reasons similar to those expressed in paragraph 2.2, CNSX does not consider that it is appropriate to prescribe a higher threshold for CNSX Issuers than that prescribed by corporate law or National Instrument 52-110 Audit Committees. However, CNSX endorses the recommendations and guidelines of 52-110CP. CNSX Issuers should consider that placing a greater number or higher percentage of outside or unrelated directors on the audit committee may function as an effective protection of shareholder interests.
- 2.11 The board of directors should implement a system which enables an individual director to engage an outside adviser at the expense of the CNSX Issuer in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board.
- 2.12 Although CNSX does not prescribe corporate governance requirements, investors will expect that all CNSX Issuers are subject to the requirements that generally apply to Canadian corporations unless informed otherwise. Therefore,

non-corporate issuers and issuers incorporated in jurisdictions outside of Canada must state in their listing statement the nature and extent to which their governing legislation or constating documents differ materially from Canadian legislation with respect to the aspects of corporate governance described in this Policy.

3. Directors and Officers

- 3.1 The identity, history and experience of management, including officers and directors, is important information concerning a CNSX Issuer.
- 3.2 Every officer and director of a CNSX Issuer is required to complete a Personal Information Form (Form 3) upon their appointment or election as an officer or director of a CNSX Issuer.
- 3.3 CNSX may collect such personal information about the directors and officers of a CNSX Issuer as CNSX may require and, notwithstanding the qualification for listing of its securities, a CNSX Issuer must remove, or cause the resignation of, any director or officer which CNSX determines is not suitable for the purpose of acting as a director or officer of a CNSX Issuer, failing which CNSX may immediately disqualify for listing the Issuer's securities.
- 3.4 Where a CNSX Issuer has a significant connection to Alberta, CNSX may refuse to accept any director, officer or insider, or revoke, amend or impose conditions in connection with CNSX acceptance of any such application until such time as the CNSX Issuer has complied with a direction from CNSX or CNSX requirement to make application to the Alberta Securities Commission and to become a reporting issuer in Alberta.