



AUDIT COMMITTEE CHARTER

APPROVED BY THE BOARD OF DIRECTORS ON JANUARY 16, 2006

PURPOSE AND MANDATE

1. The Audit Committee (the 'Committee') for Defence Construction (1951) Limited is mandated by the Board of Directors to assist the Board in fulfilling its oversight responsibilities with respect to the Corporation's:
 - a. Annual financial statements and reporting of financial information;
 - b. Internal controls systems;
 - c. Financial accounting principles and policies;
 - d. Internal and external audit processes;
 - e. Compliance programs as mandated by the *Financial Administration Act*; and
 - f. Standards of ethics, integrity and behaviour.

GUIDING PRINCIPLES

2. The following principles outline the operation of the Committee and its relationship with the Board of Directors, the Corporation's auditors and management:
 - a. Management has the primary responsibility for the Corporation's standards of ethics, integrity and behaviour; its reporting of financial information and the internal control systems;
 - b. The Corporation's auditors possess substantial expertise and have significant professional responsibilities;
 - c. The Committee understands the nature of the auditors' work and responsibilities and holds them accountable for fulfilling their responsibilities;
 - d. The Committee establishes a clear understanding with management and with the Corporation's auditors about their accountability to the Board of Directors and the Audit Committee as representatives of the Corporation's shareholders;
 - e. The Committee maintains free and open communications with management and the Corporation's auditors;
 - f. The Committee is empowered to investigate any aspect of the Corporation's business and activities with full access to all books, records, facilities and employees of the Corporation; and



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- g. The Committee may retain outside counsel or other experts for its purposes.

COMMITTEE MEMBERSHIP AND COMPOSITION

3. The Committee shall consist of three members of the Board of Directors. In order to provide for both the continuity of membership and regular contribution of new perspectives, the Board of Directors will regularly review membership on the Committee.
4. The Chairperson of the Board will recommend the membership of the Committee to the Board of Directors after consultation with the CEO. One member shall be designated as the Chairperson.
5. All members must be financially literate, or become so in a reasonable amount of time, as determined by the Board of Directors in its business judgement.
6. The Chair shall have accounting or related financial management expertise.
7. In accordance with Government of Canada policy all members of this Committee shall be independent of the Corporation's management.
8. All members shall receive appropriate training and information necessary to fulfil the Committee's responsibilities.
9. The Office of the Auditor General of Canada, in its legislated role as external auditor of the Corporation, has the right to attend all meetings and will be encouraged to do so.

MEETINGS

10. The Committee shall meet twice per year or more frequently as circumstances require.
11. The Committee may have in attendance at meetings members of management or others, as it may deem necessary, to provide information and assist in carrying out its duties.
12. Notice of meetings shall normally be provided to all members of the Audit Committee, management and auditors 30 days in advance of each meeting.

DUTIES AND RESPONSIBILITIES

13. Duties and Responsibilities of the Audit Committee with respect to the Corporation's external auditor:



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- a. The Auditor General of Canada is mandated to act as external auditor for the Corporation and will conduct annual financial audits and Special Examinations, as prescribed by the *Financial Administration Act*;
 - b. The external auditor will report to, and take direction from the Committee on behalf of the Board of Directors;
 - c. The Committee will provide the opportunity for the external auditor to meet with the full Board of Directors, with or without management, as deemed necessary and appropriate by the auditor;
 - d. The Committee shall review the annual audit plan and reports of the external auditor;
 - e. The Committee will accept and assess reports made by the external auditor with respect to legal and ethical standards of practice, risk assessment practices, internal control systems, financial reporting and the review of the Corporation's annual report to Parliament; and
 - f. On a regular basis, the Committee will follow-up on the Corporation's implementation of recommendations arising from audit observations.
14. Duties and Responsibilities of the Audit Committee with respect to the Corporation's internal auditor:
- a. With the administrative assistance of management, the Committee will select, for approval by the Board, an internal auditor;
 - b. The internal auditor will report to, and take direction from the Committee on behalf of the Board of Directors;
 - c. The Committee shall recommend to the Board the replacement or dismissal of the internal auditor;
 - d. The Committee shall confirm the independence of the internal auditors from the Corporation, shareholders and management;
 - e. The Committee shall provide the internal auditor with the opportunity to meet privately with the Audit Committee, if required;
 - f. The Committee shall review the long-term internal audit plan and its scope, and the degree of coordination of this plan with the external auditor;
 - g. In conjunction with management, the committee will periodically review internal audit activities, staffing, and budget; and
 - h. The Committee shall regularly review the status of management's implementation of those recommendations arising from audit observations.



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15. Duties and Responsibilities of the Audit Committee with respect to financial statements and reporting:
- a. The Committee will require that management provide adequate information to evaluate the acceptability of financial accounting principles used by the Corporation;
 - b. The Committee shall review and discuss, with management and the external auditor, prior to releasing the annual report and at the completion of the annual audit examination, the Corporation's financial statements, the external auditor's audit of those statements and its report thereon, its accuracy and completeness, any significant changes required in the scope of the external auditor's audit plan, any serious difficulties or disputes with management encountered during the course of the audit, and other matters related to the conduct of the audit which are to be communicated to the Audit Committee;
 - c. The Committee will report to the Board and recommend approval of the annual financial statements;
 - d. The Committee shall review any legal matters that may have a material impact on the financial statements with the Corporation's legal counsel, management or the external auditor; and
 - e. On a regular basis, the Committee shall review and regularly discuss with management and the external auditor the Corporation's financial status and its consistency with plans.
16. Duties and Responsibilities of the Audit Committee with respect to the Corporation's risks and uncertainties, including contingent liabilities:
- a. The Committee may require management, the internal auditor, and the external auditor, to provide information about significant risks or exposures and review the steps management has taken to minimize such risks or exposures to the Corporation;
 - b. The Committee shall consider and review management's analysis and evaluation of significant financial reporting issues and the extent to which such issues affect the Corporation's financial statements; and
 - c. The Committee shall review the adequacy of management's internal financial and business process controls.
17. Duties and Responsibilities of the Audit Committee with respect to the Corporation's management control practices:
- a. The Committee shall consider and review with management and auditors, both the adequacy of the Corporation's internal controls, and any significant findings and recommendations of the auditors together with management's proposed responsive actions;



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- b. The Committee shall inquire about 'management letters' and other reports to management from the Corporation's auditors; and
 - c. The Committee shall review, with management and the Corporation's auditors, views on the risk of fraudulent activities and control processes.
18. Duties and Responsibilities of the Audit Committee with respect to Access and Communications:
- a. The Committee, as required, may meet separately and privately with the Corporation's auditors and with the Corporations Chief Financial Officer and Controller to ascertain if any restrictions have been placed on the scope of their activities, and to discuss any other matters that the Committee or these groups believe should be discussed privately with the Committee.
19. Duties and Responsibilities of the Audit Committee with respect to reporting:
- a. The Committee will review this charter regularly and recommend changes, as necessary, to the Board of Directors; and
 - b. The Committee shall report on its activities and audit plans to the Board of Directors on a regular basis and make recommendations to the Board of Directors with respect to matters within the purview and functioning of the Committee, as necessary or appropriate.
20. Duties and Responsibilities of the Audit Committee with respect to ethics:
- On a regular basis, the Committee will review management's monitoring of the Corporation's compliance with expected standards of ethical conduct and behaviour, and ensure that management has the proper review system in place to ensure that the Corporation's financial statements, reports and other related information disseminated to Parliament and the public, satisfy legal requirements.

RESOURCES AND AUTHORITY OF THE COMMITTEE

21. The Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of special or independent counsel, accountants or other experts, as it deems appropriate, without seeking approval of the Board of Directors or management.

CHARTER APPROVAL

22. This revised Charter was approved by the Board of Directors at its meeting on January 16, 2006 and replaces the original charter approved on January 12, 2004.