



KPMG LLP (Canada) 2017 Transparency Report



Letter from the Canadian Managing Partner, Audit

KPMG LLP is committed to providing our clients with the highest quality of professional services, and to providing those services in an ethical and responsible manner. This means compliance not only with the requirements of Canadian regulators, but also those regulators outside of Canada in jurisdictions where our clients' securities are listed. We have worked very hard to develop rigorous quality control standards and processes, as are reflected in this Transparency Report. We take great pride in the quality of the professional services we provide to our clients.

This 2017 Transparency Report, which covers the period October 1, 2016 through September 30, 2017, describes the numerous steps which KPMG LLP takes to comply with its legal, regulatory and professional responsibilities. This 2017 Transparency Report sets out the structure, governance, process and approach to audit quality control utilized by KPMG LLP in serving our clients and fulfilling our responsibilities. It reflects our approach to continuously improving our audit quality control processes and procedures (our "Audit Quality Framework") through frequent monitoring and inspection, as well as through ongoing professional training and development. With the 2017 Transparency Report, we aim to help regulators, clients and future clients further understand our ongoing responsibility to provide the highest quality standards in our audit practice.



Kristen Carscallen
Canadian Managing Partner, Audit
KPMG LLP

Table of contents

Who we are	4
Our structure and governance	5
System of quality control	8
Financial information	33
Partner remuneration	34
International network arrangement	35
Public interest entity audit clients	38



Who we are

Our business

KPMG Canada¹ is a professional services firm that operates through three functional service lines — Audit, Tax, and Advisory — and is organized along 9 industry groups: Consumer and Industrial Businesses; Energy and Natural Resources; Financial Services; High Growth Markets; Private Equity; Public Sector; Real Estate, Building and Construction; Mining; and Information, Communications and Entertainment. We have over 6500 people located in 40 office locations, including over 700 partners. Full details of the services offered by KPMG Canada can be found on our website at www.kpmg.ca.

Our strategy

KPMG's vision is to become the Clear Choice – to our people, our clients and our communities. KPMG Canada's strategy to achieve this vision is set by its Board of Directors (the "Board") and Management Committee. Our strategy is to drive a relentless focus on quality and excellent service, take a long-term sustainable view, act as a multi-disciplinary firm, collaborating seamlessly, invest together in our chosen global growth priorities, continuously improve quality, consistency and efficiency, maintain a passionate focus on our clients, deploy globally our highly talented people, bring insights and innovative ideas and build public trust. It is the quality of our relationships, and our skill at continuously building and enhancing them, that differentiates KPMG Canada in the marketplace.

¹ Throughout this document, "KPMG Canada" (as well as "we", "our" and "us") refers collectively to KPMG LLP, a Canadian limited liability partnership established under the laws of Ontario, and its affiliates. KPMG LLP is the Canadian member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"). KPMG International, a Swiss entity, provides no client services.



Our structure and governance

Legal structure

KPMG Canada is a Canadian limited liability partnership formed under the laws of Ontario. It is wholly owned by its partners.

KPMG Canada is affiliated with KPMG International Cooperative ("KPMG International"). KPMG International is a Swiss cooperative, which is a legal entity formed under Swiss law. It is the entity with which all member firms of the KPMG network are affiliated. Further details about KPMG International and its business activities, including our relationship with KPMG International, are available in Appendix 1 to the 2017 KPMG International Transparency Report, which can be found online at the following link:

<https://home.kpmg.com/xx/en/home/about/governance/transparency-report.html>

KPMG Canada is part of a global network of professional services firms providing Audit, Tax, and Advisory services to a wide variety of public and private sector organizations. KPMG International's structure is designed to support consistency of service quality and adherence to agreed values wherever its member firms operate.

Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations, including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability, and being able to adopt global strategies, share resources (incoming and outgoing), service multi-national clients, manage risk, and deploy global methodologies and tools.

Each member firm takes responsibility for its management and the quality of its work.

Member firms commit to a common set of KPMG Values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

Name, ownership and legal relationships

KPMG is the registered trademark of KPMG International, and is the name by which KPMG member firms are commonly known. The rights of member firms to use the KPMG name and marks are contained within agreements with KPMG International.

Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities.

Member firms may consist of more than one separate legal entity. If that is the case, each separate legal entity will be responsible only for its own obligations and liabilities, unless it has expressly agreed otherwise.

Governance structure

KPMG Canada has two principal governing documents: a Partnership Agreement and Operating Procedures. Together, these documents establish the structure and principal procedures of governance for KPMG Canada. The key governance and management bodies of KPMG Canada are the Management Committee and the Board.

Management committee

The Management Committee consists of the Chief Executive Officer and Senior Partner, the Managing Partners, and such additional partners as may be determined from time to time by the Chief Executive Officer and Senior Partner. The Management Committee has the overall responsibility for managing KPMG Canada, including the quality, strength and profitability of the firm's operations. Members of the Management Committee are appointed for an indefinite term until removal by the Chief Executive Officer and Senior Partner.

The board

KPMG Canada's business, property and affairs are managed under the direction of the Board. The Board is responsible for the firm's stewardship, including oversight of strategic planning, risk management and succession planning, as well as the appointment of the Chair and the Deputy Chair of the Board.

The Board is comprised of the Chief Executive Officer and Senior Partner and 17 individual partners. Except for the Chief Executive Officer and Senior Partner, upon the appointment of any member of the Board to the Management Committee, such person shall automatically cease to be a member of the Board. With the exception of the Chief Executive Officer and Senior Partner whose initial term is 5 years, members of the Board are appointed for a 3 year term, and are nominated by the Nominating Committee. Board members are eligible for election for two full consecutive terms only.

Key governance committees

The Board has 6 main committees that deal with key aspects of the governance of KPMG Canada. These are the Succession Committee, the Operations & Finance Committee, the Partner Compensation Committee, the Communications & Governance Committee, the Partner Rights Committee and the Partnership Admission Committee.

Succession Committee – The role and responsibility of the Succession Committee is to review the processes and procedures regarding the development of future leaders, including client service leaders, industry leaders and firm management. The Succession

Committee is comprised of five members, or such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Succession Committee meets a minimum of one time per year, and may call special meetings as required.

Operations & Finance Committee – The role and responsibility of the Operations & Finance Committee is to review the strategic direction set by the Management Committee and to ensure the annual business plan and the financial plan of the firm reflect these strategies. The Operations & Finance Committee is comprised of five members, or such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Operations & Finance Committee meets a minimum of one time per year, and may call special meetings as required.

Partner Compensation Committee – The role and responsibility of the Partner Compensation Committee is to review the Management Committee's annual recommendations for compensation to all partners, the Management Committee, and the Chief Executive Officer and Senior Partner, in accordance with the Partnership Agreement and Operating Procedures. The Partner Compensation Committee is comprised of five members, or such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Partner Compensation Committee meets a minimum of one time per year, and may call special meetings as required.

Communications & Governance Committee – The role and responsibility of the Communications & Governance Committee is to provide direction and oversee KPMG Canada's approach to governance matters, including recommendation to the Board of appropriate governance processes and structures, reviewing the requirements for committees of the Board, and monitoring compliance with recognized governance guidelines. The Communications & Governance Committee is comprised of five members, or such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Communications & Governance Committee meets a minimum of one time per year, and may call special meetings as required.

Partner Rights Committee – The role and responsibility of the Partner Rights Committee is to assist the Board by reviewing appeals by partners related to such matters as compensation, termination and disciplinary actions. The Partner Rights Committee is comprised of five members, who are appointed by the Board for a one year term. The Partner Rights Committee meets a minimum of one time per year, and may call special meetings as required.

Partnership Admission Committee – The role and responsibility of the Partnership Admission Committee is to review the recommendation of the Management Committee for the admission of internal candidates to the partnership, after giving due consideration to the process undertaken and the needs of the firm to admit new partners in relation to succession planning, demographics, diversity and growth. The Partnership Admission Committee is comprised of five members, or

such other number of members as shall be specified by the Board, who are appointed by the Board for a one year term. The Partnership Admission Committee meets a minimum of one time per year, and may call special meetings as required.

Chief executive officer and senior partner

The Chief Executive Officer and Senior Partner is a member of the Board and the Chair of the Management Committee. The Chief Executive Officer and Senior Partner is responsible for the direction of the activities and policies of KPMG Canada, appoints the members of the Management Committee, and recommends to the Board the allocation of profits to members of the Management Committee. The initial term of the Chief Executive Officer and Senior Partner is 5 years, with eligibility for reappointment for one additional term of 3 years.



System of quality control

Overview

A robust and consistent system of quality control is an essential requirement in performing high quality services.

KPMG International has quality control policies that apply to all KPMG member firms.

These are included in KPMG's Global Quality & Risk Management Manual ("Global Q&RM Manual") available to all personnel. These policies and associated procedures are designed to assist member firms in complying with relevant professional standards, regulatory and legal requirements, and in issuing audit reports that are appropriate in the circumstances as well as help member firm personnel act with integrity and objectivity and perform their work with diligence.

These policies and procedures are based on the International Standard on Quality Control 1 ("ISQC 1") issued by the International Auditing and Assurance Standards Board ("IAASB"), and on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA"). Both of these are relevant to member firms that perform statutory audits and other assurance and related services engagements.

KPMG Canada implements KPMG International policies and procedures.² Amendments to risk and quality policies, including ethics and independence policies, are included in quality and risk management alerts and are communicated by email. KPMG Canada is required to implement the changes specified in the email alerts and this is checked through internal monitoring.

Quality control and risk management are the responsibility of all KPMG Canada personnel. This responsibility includes the need to understand and adhere to KPMG Canada policies and associated procedures in carrying out our day-to-day activities.

KPMG Canada has a system of quality controls for our Audit practice that is designed to meet not only the requirements of Canadian law, securities regulators' rules, and professional standards, but also to reflect our drive and determination to deliver independent, unbiased advice and opinions. Our training, our processes, and our systems and controls are all designed to achieve this objective. Our systems encompass the firm's organizational structure and the policies and procedures established to ensure compliance with applicable Canadian legislation, professional standards, firm policies, and US Public Company Accounting Oversight Board ("PCAOB") and US Securities and Exchange Commission ("SEC") rules where relevant.

The system of quality control applies to all KPMG Canada personnel wherever they are based. While many KPMG Canada quality control processes are cross-functional and apply equally to Tax and Advisory work, the focus of this section is on explaining what we do to achieve the highest quality in the Audit work performed by our firm.

² All references to 'KPMG policies' or 'our policies' refer to KPMG International policies and to the additional KPMG Canada policies together.

Audit quality framework

At KPMG Canada, audit quality is not just about reaching the right opinion, but how that opinion is reached. It is about the processes, thought and integrity behind the auditor’s report. The outcome of a quality audit is the delivery of an appropriate and independent opinion in compliance with the relevant professional standards, as well applicable legal and regulatory requirements.

To help our Audit professionals concentrate on the fundamental skills and behaviours required to deliver a quality audit, KPMG International developed the Audit Quality Framework. The Audit Quality Framework introduces a common language that is adopted by all KPMG member firms, including KPMG Canada, to describe what the KPMG network believes drives audit quality, and to highlight how every Audit professional at each KPMG member firm contributes to the delivery of audit quality.



‘Tone at the top’ sits at the core of the Audit Quality Framework’s seven drivers of audit quality and helps ensure that the right behaviours permeate across the entire KPMG network. All of the other drivers are presented within a virtuous circle because each driver is intended to reinforce the others. Each of these seven drivers is described in more detail in the following sections of this report.

Tone at the top

The culture of KPMG International and member firms is underpinned by a strong set of Values and supporting policies and processes, and enables the right attitudes and behaviours to permeate throughout the KPMG network. At KPMG Canada we promote a culture in which consultation is encouraged and recognized as a strength.

Tone at the top means that KPMG Canada leadership demonstrates commitment to quality, ethics, and integrity, and communicates its commitment to clients, stakeholders, and society at large.

Integrity is a critical characteristic that stakeholders expect and rely on. It is also the key KPMG Value – above all, we act with integrity. Integrity means constantly striving to uphold the highest professional standards, providing sound advice to our clients and rigorously maintaining independence.

Our Values, which have been explicitly codified for a number of years, are embedded into the working practices and a values-based compliance culture at KPMG Canada. Our Values form the foundation of our culture and set the tone at the top. They also form the foundation of our approach to audit and shape how we work together.

We communicate our Values clearly to our people and embed them into our people processes — recruitment, performance development and reward. Our Values are set out in the following chart.

KPMG values

We lead by example.	At all levels we act in a way that exemplifies what we expect of each other and our clients.
We work together.	We bring out the best in each other and create strong and successful working relationships.
We respect the individual.	We respect people for who they are and for their knowledge, skills and experience as individuals and team members.
We seek the facts and provide insight.	By challenging assumptions and pursuing facts, we strengthen our reputation to provide insight as trusted and objective business advisers.
We are open and honest in our communication.	We share information, insight and advice frequently and constructively and manage tough situations with courage and candour.
We are committed to our communities.	We act as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment.
Above all, we act with integrity.	We are constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

Code of conduct

Building on the KPMG Values is the KPMG International Global Code of Conduct. Member firms, including KPMG Canada, are required to adopt, as a minimum, the Global Code of Conduct.

KPMG Canada's Code of Conduct incorporates the KPMG values and defines the standard of ethical conduct that is required from all KPMG people. It sets out our ethical principles and helps partners and employees at KPMG Canada to understand and uphold those principles. In addition, the Code of Conduct emphasizes that each partner and employee is personally responsible for following the legal, professional, and ethical standards that apply to his or her job function and level of responsibility. The Code of Conduct includes provisions that require KPMG personnel to:

- comply with all applicable laws, regulations and KPMG Canada policies;
- report any illegal acts, whether committed by KPMG Canada personnel, clients or other third parties;
- report breaches of KPMG policies;

- uphold the highest levels of client confidentiality; and
- not offer, promise, make, solicit or accept bribes (whether directly or through an intermediary).

All KPMG Canada personnel are required to:

- confirm their understanding of, and compliance with, the Code of Conduct upon joining the firm, and annually thereafter; and
- complete training on the Code of Conduct upon joining the firm and on a biennial basis thereafter.

Our personnel are encouraged to raise their concerns when they see behaviors or actions that are inconsistent with our Values or professional responsibilities and required to do so when they see breaches of KPMG policies, laws and regulations, and professional standards.

We have procedures and established channels of communication so that our personnel can report ethical and quality issues and individuals who report in good faith will not suffer any adverse impact regardless of whether the concern is ultimately substantiated.

An Ethics and Compliance Hotline is available for KPMG Canada personnel to confidentially report concerns. Staffed by an independent third-party provider, the hotline is an important addition to the other mechanisms already available to help KPMG Canada people in reporting concerns about possible illegal, unethical or improper conduct at the firm. We encourage use of this facility as an alternative means for reporting concerns when the normal channels of communication have proven ineffective or are impractical under the circumstances. Normal channels would include the person's performance manager or a higher-level manager, human resource manager, Business Unit Professional Practice Partner, or Department of Professional Practice ("DPP"). Callers may choose to identify themselves or remain

anonymous. Callers' reports are handled confidentially, and no retaliation or retribution of any kind is permitted against anyone who, in good faith, submits a concern or participates in an investigation.

In addition, the KPMG International hotline is a mechanism for KPMG Canada personnel, clients, and other external parties to confidentially report concerns they have relating to certain areas of activity by KPMG International, KPMG member firms or the senior leadership or employees of a KPMG member firm.

At KPMG Canada, we regularly monitor the extent to which our people feel we live our Values through the Global People Survey.

Leadership responsibilities for quality and risk management

KPMG Canada demonstrates commitment to quality, ethics and integrity, and communicates our focus on quality to clients, stakeholders and society. Our leadership plays a critical role in setting the right tone and leading by example — demonstrating an unwavering commitment to the highest standards of professional excellence and championing and supporting major initiatives.

Our leadership team is committed to building a culture based on quality, integrity and ethics, demonstrated through their actions – written and video communications, presentations to teams and one-to-one discussions.

Canadian managing partner, audit

Our Canadian Managing Partner (“CMP”), Audit, who reports to the Chief Executive Officer and Senior Partner of the firm, has ultimate responsibility for our Audit practice, which includes our system of audit quality control. Our Partner in Charge of Assurance and Financial Reporting, who reports to the CMP, Audit, has overall responsibility for accounting and auditing standards and their interpretation, promoting technical excellence and quality service delivery through training and accreditation, investment in technical support, development of accounting and auditing specialist networks, and effective consultation processes.

Our Canadian Managing Partner, Quality and Risk Management works closely with the CMP, Audit to initiate, shape and lead our initiatives to enhance the quality and effectiveness of our Audit practice, and to provide ongoing support to our Audit activities across the country.

Audit quality and professional practice network

The Audit Quality and Professional Practice Network consists of more than 130 partners, senior managers, and other professionals who support the firm’s Audit professionals in meeting their responsibilities in the areas of auditing and attestation, accounting and financial reporting, securities (including Canadian and SEC reporting matters), and continuous improvement in audit quality.

DPP

DPP develops firm standards and guidance relating to accounting, auditing, securities and quality matters. DPP provides technical guidance to engagement teams on engagement-specific issues; develops and disseminates topic-specific guidance on emerging technical, professional and quality issues; and assists with firm and individual issues pertaining to compliance with regulatory and professional standards. Through liaisons with the KPMG International Standards Group (“ISG”), as well as active participation in standards-setting processes in Canada, DPP professionals develop and represent KPMG Canada’s positions on current topics being addressed by regulatory and other standards-setting bodies. DPP professionals actively liaise with the ISG, located in London, on international accounting and auditing standards matters, and with professionals in the US member firm’s Department of Professional Practice, located in New York, on accounting and auditing standards matters related to the Financial Accounting Standards Board, the PCAOB, the Emerging Issues Task Force, and the Auditing Standards Board of the American Institute of Certified Public Accountants.

Professional practice partners

The Audit practice is supported by a network of Professional Practice Partners. These senior partners provide professional practice and quality leadership and direct adherence to firm policies and professional standards within their respective offices and regions. The roles of our Professional Practice Partners are to: (1) support and advise the partners on client-related matters, (2) assimilate information pertaining to the professional risks of the firm, (3) provide reasonable assurance that firm policies and professional standards are followed, and (4) continuously review and seek to improve firm quality, policies and processes.

Local Audit Quality groups and our Accounting and Audit Technical Topic Teams in the various geographies support the activities of our Professional Practice Partners by assisting teams in conjunction with DPP in resolving accounting and auditing matters and enhancing audit quality.

Audit quality council

The Audit Quality Council is chaired by the Partner in Charge of Assurance and Financial Reporting. Our commitment to continuous improvement in audit quality is overseen by the Audit Quality Council. The Audit Quality Council focuses primarily on Reporting Issuer considerations. The Audit Quality Council oversees the:

- Accumulation and analysis of information relative to audit quality matters on a timely and consistent basis (e.g., from internal and external inspections, DPP consultations, litigation and regulatory matters)
- Analysis of such information and identification of common themes and related root causes
- Development of appropriately focused remedial actions in response to those root causes
- Timely implementation, execution and effectiveness of the remedial action plans

Engagement quality control review partners

The Engagement Quality Control Review (“EQCR”) Partner is responsible for performing objective reviews of financial statements, auditors’ reports, and certain audit documentation. These individuals are the firm’s top technical partners and are knowledgeable and experienced in accounting and reporting matters and auditing standards.

EQCR Partners review selected audit documentation to assist the engagement team in determining whether sufficient appropriate audit evidence has been obtained, the appropriateness of the financial statements and related disclosures, the key conclusions of the engagement team with respect to the audit, and the auditors’ reports to be issued. Completion of an EQCR is documented when the EQCR Partner is satisfied that all significant questions raised have been satisfactorily resolved.

Association with the right clients

Acceptance and continuance of clients and engagements

Rigorous client and engagement acceptance and continuance policies and processes help protect KPMG’s reputation, support our brand, and are an

important part of our ability to provide high quality professional services. Accordingly, KPMG International has established policies and procedures which all member firms are required to implement in order to decide whether to accept or continue a client relationship, and whether to perform a specific engagement for that client.

Canadian securities regulators’ rules and similar SEC rules for SEC-registered companies, as well as Provincial Institutes of Chartered Professional Accountants, require that the audit committee pre-approve services rendered by the issuer’s principal auditor. Engagements performed by the firm are subject to written contracts or engagement letters that define the terms and conditions of the engagement. For engagements involving the audit of an issuer’s financial statements, the Audit Committee Chair and the Chief Executive Officer or Chief Financial Officer execute the agreement. For other engagements, after pre-approval in accordance with the policies of the audit committee, a member of the client’s management with the authority to engage KPMG Canada generally executes the agreement. It is the responsibility of the lead audit engagement partner (“LAEP”) to ensure that the audit committee of each public company audit client has pre-approved all services.

To facilitate compliance with all applicable pre-approval requirements, KPMG Canada uses Sentinel, a web-based tool that is mandatory for all KPMG member firms worldwide, prior to accepting an engagement. This tool helps engagement partners and managers to determine whether pre-approval is required and, if so, allows for the electronic submission of a request for pre-approval to the appropriate LAEP. Reports from Sentinel enable the LAEP to monitor engagements and fees billed, thus facilitating compliance with any audit committee requirements.

Client and engagement acceptance process

Client evaluation

KPMG Canada undertakes an evaluation of every prospective client. This involves an assessment of its principals, its business, and other service-related matters. This also involves obtaining and analyzing “know your client information” on the prospective client,

its key management, and significant beneficial owners. A key focus is on the integrity of management at a prospective client, and the evaluation includes breaches of law and regulation, anti-bribery and corruption, and ethical business practices, including human rights, among the factors to consider. A second partner, as well as the evaluating partner, approves each prospective client evaluation. Where the client is considered to be 'high risk' the Risk Management Partner or experienced delegate is involved in approving the evaluation.

Engagement evaluation

Each prospective engagement is also evaluated to identify potential risks in relation to the engagement. A range of factors is considered as part of this evaluation, including potential independence and conflict of interest issues (using Sentinel, KPMG's conflicts and independence checking system), as well as factors specific to the type of engagement. For Audit services, these include the competence of the client's financial management team and the skills and experience of personnel assigned to staff the engagement. The evaluation is made in consultation with other senior member firm personnel and includes review by Risk Management leadership as required.

Where Audit services are to be provided for the first time, the prospective engagement team is required to perform additional independence evaluation procedures, including a review of any non-audit services provided to the client and of other relevant business and personal relationships.

Similar independence evaluations are performed when an existing audit client becomes a public interest entity or additional independence restrictions apply following a change in the circumstances of the client.

We follow specific procedures to identify and evaluate threats to independence for prospective audit clients that are public interest entities.

Depending on the overall risk assessment of the prospective client and engagement, additional safeguards may be introduced to help mitigate the identified risks. Any potential independence or conflict of interest issues are required to be documented and resolved prior to acceptance.

A prospective client or engagement will be declined if a potential independence or conflict issue cannot be resolved satisfactorily in accordance with professional standards and our policies, or if there are other quality and risk issues that cannot be appropriately mitigated.

Prospective audit engagement evaluations require approval of the Professional Practice Partner and the Business Unit Partner in Charge. New SEC audit engagements require additional approvals by the Ethics and Independence partner.

Continuance process

KPMG Canada undertakes an annual re-evaluation of all its audit clients. The re-evaluation identifies any issues in relation to continuing association and any mitigating procedures that need to be put in place (this may include the assignment of additional professionals such as an EQCR or the need to involve additional specialists on the audit).

Recurring or long running non-audit engagements are also subject to re-evaluation.

In addition, clients and engagements are required to be re-evaluated if there is an indication that there may be a change in their risk profile.

Withdrawal

Where we obtain information that indicates that we should withdraw from an engagement or from a client relationship, we consult internally and identify any required legal and regulatory steps. We also communicate as necessary with those charged with governance and any other appropriate authority.

Client portfolio management

KPMG Canada's leadership allocates engagement partners who have the appropriate competence, capabilities, time and authority to perform the role. Each partner's client portfolio is regularly reviewed to ensure that risks are being appropriately managed.

Clear standards and robust audit tools

All KPMG Canada professionals are expected to adhere to KPMG International and KPMG Canada policies and procedures (including independence policies), and are provided a range of tools and guidance to support them in meeting these expectations. The policies and procedures we set for Audit engagements incorporate the relevant requirements of accounting, auditing, ethical and quality control standards, and other relevant laws and regulations.

Audit methodology and tools

Significant resources are dedicated to keeping our standards and tools complete and up to date. The global audit methodology, developed by the Global Service Centre (“GSC”), is based on the requirements of the International Standards on Auditing (“ISAs”) and/or the PCAOB. The global audit methodology is set out in KPMG International’s Audit Manual (“KAM”) and includes additional requirements that go beyond the ISAs, which KPMG International believes enhance the quality of the audit. KPMG member firms may add local requirements and/or guidance in KAM to comply with additional professional, legal or regulatory requirements.

The global audit methodology is supported by KPMG Clara, KPMG International’s smart audit tool, which provides KPMG Canada auditors with the methodology, guidance, and industry knowledge needed to perform high-quality audits.

KPMG Clara’s activity-based workflow provides engagement teams with ready access to relevant information at the right time throughout the audit, thereby enhancing effectiveness and efficiency and delivering value to stakeholders.

KAM contains examples and guidance for, among other things, procedures intended to identify and assess the risk of material misstatement and procedures to respond to those assessed risks.

The global audit methodology encourages use of specialists when appropriate, and also requires involvement of relevant specialists in the core audit engagement team when certain criteria are met, or where the audit team considers it appropriate or necessary.

KAM includes the implementation of quality control procedures at the engagement level that provides us with reasonable assurance that our engagements comply with the relevant professional, legal, regulatory, and KPMG International policy requirements.

The policies and procedures set out in KAM are specific to audits and supplement the policies and procedures set out in the Global Q&RM Manual that is applicable to all KPMG member firms, functions and personnel.

Data & Analytics (D&A) and KPMG Clara

Technology and innovation are changing the way we execute our audit engagements, empowering our people to deliver greater quality and value. Making data and analytics (D&A) a core part of the KPMG audit is critical to our mission of driving audit quality.

KPMG Clara, the KPMG smart audit platform, was launched in mid-2017. It puts technology and D&A right at the heart of our approach, bringing advanced capabilities and knowledge together in one environment.

KPMG Clara will integrate all of KPMG’s advanced capabilities and knowledge, and empower our people to work in smarter ways, unlocking the power of innovation to help deliver a robust and leading-edge audit. It is our gateway to continued audit innovation, and incremental additions will be made over time.

Further details on innovation in audit tools and technology are set out in the KPMG International Annual Review.



Independence, integrity, ethics and objectivity

Overview

KPMG International has detailed independence policies and procedures, incorporating the requirements of the IESBA Code of Ethics. These are set out in KPMG's Global Q&RM Manual. Automated tools facilitate compliance with these requirements.

These policies are supplemented by other processes to ensure compliance with the standards issued by the Provincial Institutes of Chartered Professional Accountants, SEC, PCAOB, American Institute of Certified Public Accountants ("AICPA") and other applicable regulatory standards. These policies and processes cover areas such as firm independence (covering, for example, treasury and procurement functions), personal independence, firm financial relationships, post-employment relationships, partner rotation, and approval of Audit and non-Audit services.

KPMG Canada has a designated Ethics & Independence Partner ("EIP") supported by a core team of specialists to help ensure that we apply robust and consistent independence policies, procedures and tools. Member firm's EIP's are supported by the KPMG Global Independence Group.

KPMG Canada personnel are required to consult with the EIP on certain matters as defined in the Global Q&RM Manual.

Ethics and independence policies are communicated through the issue of bulletins and an annual training program. If applicable, amendments to the ethics and independence policies during the course of the year are communicated through the use of e-mail practice alerts and are incorporated in regular Risk Management communications. Implementation of required changes are checked through internal monitoring programs.

To help ensure ethical conduct, including integrity and independence, our firm and its personnel must be free from prohibited financial interests in, and prohibited business relationships with, audit clients, their management, directors, and significant owners. KPMG Canada practices risk prevention by managing and controlling risk, which includes our disciplinary policy.

KPMG's quality and risk management policies for Canada are documented in the KPMG Canada Quality and Risk Management Manual (the "KPMG Canada Q&RM Manual"), which provides both the policies and guidance to implement them. It is based on the Global Q&RM Manual.

The KPMG Canada Q&RM Manual maintains quality and risk management policies that conform to, or exceed KPMG International's policies, along with consideration of requirements of the Provincial Institutes/Ordre of Chartered Professional Accountants in Canada and, where applicable, the rules of the SEC and the PCAOB.

The KPMG Canada Q&RM Manual is designed to provide policies and guidance to all KPMG Canada professionals to enhance the quality of service provided to our clients. Quality and Risk Management policies set out in the manual are to be complied with by all KPMG Canada personnel regardless of function or industry.

Personal financial independence

KPMG International policies require that each member firm and its professionals are free from prohibited financial interests in, and prohibited relationships with, KPMG's audit clients, their management, directors, and significant owners. These policies also extend the IESBA Code of Ethics restrictions on ownership of audit client securities to every KPMG member firm partner in respect of any audit client of any member firm.

Our professionals are responsible for making appropriate inquiries to ensure that they do not have any personal financial, business or family interests that are restricted for independence purposes.

In common with other KPMG member firms, we use a web-based independence tracking system ("KICS") to assist our professionals in complying with personal independence investment policies. This system contains an inventory of publicly available investments.

Partners and client-facing personnel who are at a manager level or above are required to use the KICS system prior to entering into an investment to identify whether they are able to do so. They are also required to maintain a record of all of their investments in KICS, which automatically notifies them if their investments subsequently become restricted and they must dispose of that investment within five business days of the

notification. Our firm monitors compliance with this requirement by performing regular audits of a sample of partners and client-facing personnel at a manager level or above.

Examples of KPMG Canada's personal independence policies include:

- Each professional is responsible for maintaining his or her personal independence.
- No partner or 'covered person' (any staff member who has any involvement in the audit or any management group staff member who provides non-audit services to the client except where clearly insignificant) may have a direct or material indirect investment in audit clients and their affiliates.
- Certain other financial relationships (e.g., loans, credit cards, and brokerage accounts) and certain business relationships with certain audit clients or their affiliates are either prohibited or subject to limitations.
- Close family members of current KPMG Canada partners and employees on engagement teams may not hold certain accounting and financial reporting roles within audit clients and their affiliates.
- Former KPMG Canada professionals may join certain public company audit clients in a financial reporting oversight role only after an appropriate waiting period.
- KPMG Canada professionals are required to promptly report any discussions or contacts between them and an audit client regarding possible employment in an accounting or financial reporting oversight role, and to cease to have any involvement in the audit engagement.
- If a KPMG Canada professional accepts employment with an audit client, the ongoing engagement team must give active consideration to the appropriateness or necessity to modify the audit procedures to adjust for the risk of circumvention by the former firm member.

Independence training and confirmations

KPMG Canada provides all relevant personnel (including all partners and client service professionals) with independence training appropriate to their level and function on an annual basis. New personnel who are required to complete this training must do so by the earlier of (a) thirty days after joining KPMG Canada or (b) before providing any services to, or becoming a member of the chain of command for, any audit client, including any of its related entities or affiliates.

The firm requires all partners, members of the management group, and other professional staff to affirm their independence through our annual independence training and declaration of compliance. This declaration is signed upon hire, every year thereafter, and at time of promotion to partner. In addition, the declaration is used to confirm the individual's compliance with, and understanding of, KPMG Canada's independence policies. The firm's Risk Management group reviews and resolves questions and apparent violations that may be reported on the declaration. A compliance team from the DPP performs periodic testing of compliance with our independence policies.

The firm's policies also address disciplinary actions in the event of individual non-compliance with its independence policies. Such actions vary based on the event and may include dismissal, depending on the severity of the violation.

Independence clearance process

KPMG Canada follows specific procedures to identify and evaluate threats to independence related to prospective audit clients that are public interest entities. These procedures, also referred to as the 'independence clearance process', must be completed prior to accepting an audit engagement for these entities.

Firm financial independence

KPMG Canada also uses KICS to record its own investments in SEC entities and affiliates (including funds), locally listed companies and funds, direct and material indirect investments held in pensions, and employee benefit plans (including non-public entities and funds).

Additionally, KPMG Canada is required to record in KICS all borrowing and capital financing relationships, and custodial, trust and brokerage accounts that hold member firm assets.

On an annual basis, KPMG Canada confirms compliance with independence requirements as part of the Risk Compliance Program ("RCP").

Audit partner rotation

KPMG International partner rotation policies are consistent with the IESBA Code of Ethics and require all member firms to comply with any stricter applicable rotation requirements.

KPMG Canada Audit partners are subject to periodic rotation of their responsibilities for audit clients under applicable laws, regulations, independence rules and KPMG International Policy. Partners are subject to Canadian requirements and, where relevant, SEC rules relating to the rotation of audit engagement partners.

Under these rules, the LAEP and the EQCR Partner assigned to a public company audit engagement must rotate after serving in either of these roles for seven years (five years for SEC registrants). They are then subject to a five-year time-out period after rotation. All other audit partners who are subject to the rotation requirements (e.g., LAEP's on significant subsidiaries and other audit partners at the issuer level) must rotate after seven years and are subject to a two-year time-out period.

KPMG Canada monitors the rotation of audit engagement leaders (and any other key roles, such as the EQCR Partner) and develops transition plans to enable the allocation of partners with the necessary competence and capability to deliver a consistent quality of service to clients. The partner rotation monitoring is subject to compliance testing.

Non-audit services

Our firm has policies regarding the scope of non-audit services that can be provided to audit clients. Additionally, KPMG Canada policies require the consideration by the LAEP of the threats arising from the provision of non-audit services and the safeguards available to address those threats.

We are required to establish and maintain a process to review and approve all new and modified services that are developed by KPMG Canada. The EIP is involved in the review of potential independence issues, and the Global Independence Group is involved in the case of services developed which are intended to be delivered to audit or assurance clients in more than one jurisdiction.

In addition to identifying potential conflicts of interest, Sentinel™ facilitates compliance with these policies. Certain information on all prospective engagements including service descriptions and fees must be entered into Sentinel™ as part of the engagement acceptance process. Using Sentinel™, LAEP's are required to: maintain group structures for their publicly-traded and certain other audit clients and their affiliates, and identify and evaluate any independence threats that may arise from the provision of a proposed non-Audit service and the safeguards available to address those threats. Sentinel™ enables the LAEP for those entities for which group structures are maintained to review and approve, or deny, any proposed service for those entities worldwide.

Fee dependency

KPMG Canada's policies recognize that self-interest or intimidation threats may arise when the fees from a specific audit client represent a large proportion of our total fees as a firm. In particular, our policies require that in the event that the total fees from a public interest entity audit client and its related entities were to represent more than 10% of our total fees as a firm for two consecutive years, this would be disclosed to those charged with governance at the audit client and a senior partner from another KPMG member firm would be appointed as the EQCR reviewer.

No audit client accounted for more than 10 percent of the total fees received by KPMG Canada over the last two years.

Business relationships/suppliers

Our firm has policies and procedures in place that are designed to ensure its business and supplier relationships are maintained in accordance with all applicable laws, regulations and professional standards.

Business acquisitions and investments

If KPMG Canada is in the process of considering the acquisition of, or investment in, a business, it is required to perform sufficient due diligence procedures on the prospective target to identify and address any potential independence and risk management issues prior to closing the transaction. Specific consultation requirements are applied to enable independence and other issues to be addressed when integrating the business into KPMG Canada and the wider KPMG network.

Conflicts of interest

Conflicts of interest can arise in situations where KPMG personnel have a personal connection with the client which may interfere, or be perceived to interfere, with their ability to remain objective, or where they are personally in possession of confidential information relating to another party to a transaction.

All KPMG member firms and personnel are responsible for identifying and managing conflicts of interest, which are circumstances or situations that have, or may be perceived by a fully informed, reasonable observer to have, an impact on a member firm or its personnel in their ability to be objective or otherwise act without bias.

All KPMG member firms must use Sentinel™ for potential conflict identification so that they can be addressed in accordance with legal and professional requirements.

When we become aware of a potential conflict of interest, the engagement partner discusses the situation with the DPP and/or the Office of General Counsel. Generally, before agreeing to pursue the engagement, the parties involved in the professional service are notified of the potential conflict of interest and, if the conflict can be appropriately managed or resolved, the engagement is further evaluated using the firm's normal engagement acceptance process.

It may be necessary to apply specific procedures to manage the potential for a conflict of interest so that the confidentiality of our clients' affairs is maintained. Such procedures may, for example, include establishing formal ethical dividers between engagement teams serving different clients and making arrangements to monitor the operation of such dividers.

Escalation and dispute resolution procedures are in place for situations in which agreement cannot be reached on how to manage a conflict. If a potential conflict cannot be appropriately mitigated, the engagement is declined or terminated.

Breaches of independence policy

All KPMG Canada personnel are required to report an independence breach as soon as they become aware of it. In the event of a failure to comply with our independence policies, whether identified in the compliance review, self-declared or otherwise, professionals are subject to an independence disciplinary review.

KPMG Canada has a documented disciplinary policy in relation to breaches of independence policies. The disciplinary policy is communicated to all professionals and applies to all breaches of independence rules, incorporating incremental sanctions reflecting the seriousness of any violations. Any breaches of auditor independence regulations are reported to those charged with governance at the audit client, on the basis agreed with them.

Matters arising are factored into our promotion and compensation decisions and, in the case of engagement leaders and managers, are reflected in their individual quality and risk metrics.

Compliance with laws, regulations, and anti-bribery and corruption

Compliance with laws, regulation and professional standards is a key aspect for all KPMG Canada personnel. In particular, we have zero tolerance of bribery and corruption.

We prohibit involvement in any type of bribery – even if such conduct is legal or permitted under applicable local law or practice. We also do not tolerate bribery by third-parties, including by our clients, suppliers or public officials.

Recruitment

KPMG Canada strives to be an employer of choice by creating an environment where our people can fulfill their potential and feel proud and motivated to give their best.

Our recruiting strategies are focused on drawing entry-level talent from a broad talent base, including working

with established universities, colleges and business schools, but also working with secondary schools, helping build relationships with a younger, diverse talent pool at an early age.

KPMG Canada also recruits significant numbers at an experienced hire and partner level.

All candidates submit an application and may only be employed following a variety of selection processes, which may include application screening, competency-based interviews, and qualification/ reference checks. Where individuals are recruited for senior positions, a formal independence discussion is conducted with them by the Ethics and Independence Partner or a delegate. KPMG Canada does not accept any confidential information belonging to the candidate's former firm/employer.

The Partner hire process is rigorous and thorough, involving appropriate members of leadership. Our criteria for Partner hires are consistent with our commitment our Values. These are strongly aligned to KPMG's behavioral capabilities and are based on consistent principles.

Personal development

It is important that all our professionals have the necessary business and leadership skills in addition to technical skills to be able to perform quality work.

In relation to Audit, we provide opportunities for professionals to develop the skills, behaviours and personal qualities that form the foundations of a successful career in auditing. Courses are available to enhance personal effectiveness and develop technical, leadership and business skills. KPMG Canada professionals are also developed for high performance through access to coaching and mentoring on the job, stretch assignments, and country rotational and global mobility opportunities.

Individual professional development goals are established as part of the annual goal setting process. The firm's professionals meet their continuing professional development ("CPD") requirements and professional development goals through various professional development courses, including local office and national training courses. We have established policies to ensure that all professional members of the firm maintain their technical competence and meet all

regulatory and professional standards. In accordance with these requirements, each audit professional must earn at least 20 hours of CPD credits each year and 120 hours in any three-year period.

To assist individuals in meeting these requirements, as well as the requirements of their Provincial Institute/Ordre, the firm provides continuous learning opportunities. Our training and development programs include course prerequisites, proficiency tests, and varied delivery methods including self-study modules, classroom courses, and web-based seminars in real time. Audit quality is continually emphasized to our professionals through timely training and communication of accounting, auditing and reporting matters. The firm has developed a system to enable firm members to track CPD credits earned on an annual and triennial basis.

Inclusion and diversity programs

KPMG Canada works hard to foster an inclusive culture. Being inclusive enables us to bring together successful teams with the broadest range of skills, experiences and perspectives.

Our leadership and management teams also need to reflect the diversity within our firm and the diversity of our clients. We believe that the established Global Inclusion and Diversity strategy of KPMG International provides the framework to drive the actions that are necessary to promote inclusive leadership at KPMG Canada and across the KPMG network.

Performance & Reward

Evaluation process including quality and compliance metrics

All KPMG Canada professionals, including partners, undergo annual goal-setting and performance evaluations. Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of the appropriate skills and behaviours for their level, technical capabilities and market knowledge. A culture of continuous improvement is encouraged to drive feedback, both positive and developmental, from both junior and senior colleagues, as well as peers. Feedback gathered forms an integral part of performance reviews.

Going beyond performance reviews and compensation, the KPMG Global Behaviors are designed to extend across all our people processes, including recruitment methodologies, recognition approaches and development planning. The behaviors are a constant reference point, articulating to our people what is required for success individually and collectively.

KPMG Canada monitors quality and compliance incidents and maintain quality metrics in assessing overall evaluation, promotion and remuneration of partner and certain personnel. These evaluations are conducted by performance managers and partners who are in a position to assess performance.

Reward

KPMG Canada has compensation and promotion policies that are clear, simple, and linked to the performance review process which, for partners, includes the achievement of key audit quality and compliance metrics. This helps our partners and employees know what is expected of them and what they can expect to receive in return.

Reward decisions are based on consideration of both individual and KPMG Canada's performance. The extent to which our people feel their performance has been reflected in their reward is measured through the Global People Survey, with action plans developed accordingly.

Promotion

The results of performance evaluations directly affect the promotion and remuneration of partners and staff and, in some cases, their continued association with KPMG.

Partner admissions

The KPMG Canada process for admission to partnership is rigorous and thorough, involving appropriate members of our leadership team. Our criteria for admission to the KPMG Canada partnership are consistent with our commitment to professionalism and integrity, quality, and being an employer of choice. These are strongly aligned to KPMG Canada's behavioural capabilities and are based on consistent principles.

The procedure includes a business case and a personal case for the individual candidate. All recommendations for admission to the partnership of KPMG Canada need to be approved by the Board.

Assignment of professionals

KPMG Canada has procedures in place to assign both engagement partners and other professionals to a specific audit engagement by evaluating their skill sets, relevant professional and industry experience, and the nature of the assignment or engagement.

The business unit leader with the approval of the business unit Professional Practice Partner confirms the assignment of an engagement partner to each public company audit client. As part of our process for assigning engagement personnel, each public company and higher risk financial statement audit engagement is assigned an EQCR Partner who performs an independent, impartial review of the financial statements and selected audit work papers. These partners consult with the engagement partner on technical matters and provide objective insight into significant engagement issues. Key considerations include partner experience and capacity, based on an annual partner portfolio review, to perform the engagement in view of the size, complexity and risk profile of the engagement and the type of support to be provided (i.e., the engagement team composition and specialist involvement).

Audit engagement partners are required to be satisfied that their engagement teams have appropriate competencies, training and capabilities, including time, to perform audit engagements in accordance with KAM, professional standards and applicable legal and regulatory requirements. This may include involving specialists from our own firm or from other KPMG member firms.

When considering the appropriate competence and capabilities expected of the engagement team as a whole, the engagement partner's considerations may include the following:

- an understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
- an understanding of professional standards and legal and regulatory requirements;

- appropriate technical skills, including those related to relevant information technology and specialized areas of accounting or auditing;
- knowledge of relevant industries in which the client operates;
- ability to apply professional judgment;
- an understanding of KPMG Canada's quality control policies and procedures; and
- QPR results and results of regulatory inspections.

Insights from our people – Global People Survey (GPS)

KPMG Canada annually invites all its people to participate in an independent Global People Survey which measures their overall level of engagement with the firm. The GPS provides an overall Employee Engagement Index (“EEI”) as well as insights into driving engagement which may be strengths or opportunities. The survey also identifies opportunities to strengthen those levels of engagement. Results can be analyzed by functional or geographic area, grade, role, gender to provide additional insight. Additional insight is provided how we are faring on categories known to impact employee engagement.

The survey also specifically provide leadership with information on employee/and partner attitudes to quality, leadership and tone at the top.

Commitment to technical excellence and quality service delivery

All KPMG Canada professionals with the technical training and support they need. This includes access to specialists and the professional practice departments, which are made up of senior professionals with extensive experience in audit, reporting and risk management, either to provide resources to the engagement team or for consultation. Where the right resource is not available within KPMG Canada, access is provided to a network of highly skilled KPMG professionals in other KPMG member firms.

At the same time, audit policies require professionals to have the appropriate knowledge and experience for their assigned engagements.

Lifetime learning strategy

Our lifetime learning strategy is underpinned by policies requiring all professionals to maintain their technical competence and to comply with applicable regulatory and professional development requirements.

Formal training

Annual training priorities for development and delivery are identified by the Audit Learning and Development steering groups at the global, regional and, where applicable, local levels. Training is delivered using a blend of classroom, e-digital learning and performance support to assist auditors on the job. Audit Learning and Development teams work with subject matter experts and leaders from the GSC, the ISG and member firm Department of Professional Practice (DPP), as appropriate, to ensure the training is of the highest quality, is relevant to performance on the job, and is delivered on a timely basis.

Mentoring and on-the-job training

Learning is not confined to the classroom – rich learning experiences are available when needed through coaching and just-in-time learning, available at the click of a mouse and aligned with job-specific role profiles and learning paths. All classroom courses are reinforced with appropriate performance support to assist auditors on the job.

Licensing and mandatory requirements for IFRS and U.S. GAAP engagements

Licensing

All KPMG Canada professionals comply with applicable professional license rules and satisfy the CPD requirements in the jurisdiction where they practice. Policies and procedures are designed to facilitate compliance with license requirements. We are responsible for ensuring that Audit professionals working on engagements have appropriate audit, accounting and industry knowledge and experience in the relevant financial reporting framework.

In addition, we have specific requirements for partners and managers working on IFRS engagements in countries where IFRS is not the predominant financial reporting framework. Similar policies apply to

engagements performed outside the U.S. to report on financial statements or financial information prepared in accordance with U.S. GAAP and/or audited in accordance with U.S. auditing standards, including reporting on the effectiveness of the entity's internal control over financial reporting (ICOFR). These require that the partner, manager, and EQCR Partner have completed relevant training and that the engagement team, collectively, has sufficient experience to perform the engagement or has implemented appropriate safeguards to address any shortfalls.

Access to specialist networks

KPMG Canada engagement teams have access to a network of local and global specialists as well as specialists in other KPMG member firms. Engagement partners are responsible for ensuring that their engagement teams have the appropriate resources and skills. The need for specialists (e.g. Information Technology, Tax, Treasury, Actuarial, Forensic, Valuation) to be assigned to a specific audit engagement is considered as part of the audit engagement planning process.

Specialists who are members of an audit team and have overall responsibility for specialist involvement on an audit engagement have the competencies, capabilities and objectivity to appropriately fulfill their role. Training on audit concepts is provided to these specialists.

Consultation

KPMG Canada promotes a culture in which consultation is recognized as a strength and that encourages personnel to consult on difficult or contentious matters. To assist audit engagement professionals in addressing difficult or contentious matters, protocols have been established for consultation and documentation of significant accounting and auditing matters, including procedures to facilitate resolution of differences of opinion on engagement issues. In addition, our Global Q&RM Manual includes mandatory consultation requirements where certain matters are identified such as concerns over client integrity.

Appropriate consultation support is provided to audit engagement professionals through our professional practice resources.

Consultation with a team member at a higher level of responsibility than either of the differing parties usually resolves such differences. In other circumstances, the matter may be elevated through the chain of responsibility for resolution by DPP. In all such matters, KPMG Canada's Chief Executive Officer and Senior Partner retains the ultimate authority for resolving differences of opinion.

KPMG Canada's supervision, review, and consultation policies and guidance for Audit work include:

- review and approval of engagement planning and analysis prior to the start of significant fieldwork;
- review of all work papers by another KPMG professional, including review by the engagement partner and engagement manager of specific audit areas;
- review of the completion document by the engagement manager, engagement partner and EQCR reviewer which describes all significant findings and issues resulting from the audit and the audit response;
- assignment of an EQCR Partner to all audit engagements of public interest entities (which include reporting issuers and SEC registrants) and higher risk engagements; and
- provision of policy and guidance in respect of US Generally Accepted Auditing Standards, US Generally Accepted Accounting Principles and IFRS engagements.

Technical support for each engagement team comes from a network of Professional Practice, Canadian securities, and SEC filing review partners. Additional support comes from:

- Technical topic teams assisting engagement teams in resolving technical accounting and auditing/reporting issues and coordinating consultation with the business unit Professional Practice Partner or DPP as required. Technical topic teams identify new and emerging issues in an assigned topical area and share best practices in responding to these issues.
- DPP, which is responsible for conducting technical research, interacting with professional standards-setting groups, and responding to consultation requests.

Technical accounting and auditing support is available to all member firms through the GSC, the ISG, as well as the US Capital Markets Group for SEC foreign registrants.

The GSC develops, maintains and deploys KPMG's global Audit methodology and technology-based tools used by KPMG Audit professionals to facilitate effective and efficient audits.

The ISG works with Global IFRS and ISA topic teams with geographic representation from around the world to promote consistency of interpretation of IFRS and auditing requirements between member firms, identify emerging issues, and develop global guidance on a timely basis.

Further details about the GSC and ISG are available in the KPMG International Transparency Report.

Developing business understanding and industry knowledge

A key part of engagement quality is having a detailed understanding of the client's business and industry. For significant industries, global audit sector leads are appointed to support the provision of relevant industry information to audit professionals. A key element of this industry information is the provision of industry knowledge within KPMG Clara. This knowledge comprises examples of industry audit procedures and other information (such as typical risks and accounting processes). In addition, industry overviews are available which provide general and business information in respect of particular industries, as well as a summary of the industry knowledge provided in KPMG Clara.

Performance of effective and efficient audits

How an audit is conducted is as important as the final result. KPMG Canada personnel are expected to demonstrate certain key behaviours and follow certain policies and procedures in the performance of effective and efficient audits.

KPMG audit process

Our audit workflow is enabled through KPMG Clara, KPMG International's activity-based workflow and smart

audit file. KPMG Clara integrates the KPMG Audit methodology, guidance and industry knowledge and the tools needed to manage audits consistently. The KPMG high quality audit process includes:

- timely partner and manager involvement;
- timely access to the right knowledge – specialists, accredited individuals and relevant industry expertise;
- critical assessment of audit evidence;
- exercise of professional judgment and professional skepticism;
- ongoing mentoring, supervision and review;
- appropriately supported and documented conclusions; and
- robust challenge and review, including EQCR.

Timely partner and manager involvement

To help identify and respond to the significant audit risks applicable to each audit, the engagement team requires an understanding of the client's business, its financial position, and the environment in which it operates.

The engagement partner is responsible for the direction, supervision and performance of the engagement and therefore responsible for the overall quality of the audit engagement.

Involvement and leadership from the engagement partner during the planning process helps set the appropriate scope and tone for the audit, and helps the engagement team obtain maximum benefit from the partner's experience and skill. Timely involvement of the engagement partner at other stages of the engagement allows the engagement partner to identify and appropriately address matters significant to the engagement, including critical areas of judgment, and significant risks.

The engagement partner is responsible for the final audit opinion and reviews key audit documentation. In particular, documentation relating to significant matters arising during the audit and conclusions reached. The engagement manager assists the partner in meeting these responsibilities and in the day-to-day liaison with the client and team, building a deep business understanding that helps the partner and team deliver valued insights.

Critical assessment of evidence with emphasis on professional skepticism

We consider all audit evidence obtained during the course of an audit, including consideration of conflicting or missing evidence. The nature and extent of the audit evidence we gather is responsive to the assessed risks. We critically assess audit evidence obtained from all sources. For the purpose of obtaining sufficient appropriate audit evidence each team member is required to exercise professional judgment and maintain professional skepticism throughout the audit engagement.

Professional skepticism involves a questioning mind and alertness to inconsistencies in evidence. Professional skepticism features prominently throughout auditing standards and receives significant focus from regulators. The KPMG Audit Quality Framework emphasizes the importance of maintaining an attitude of professional skepticism throughout an audit.

The KPMG professional judgment process facilitates good judgment by introducing a structured approval to auditing areas that require significant judgment. It also reinforces the importance of independence and objectivity and emphasizes the importance of having the right mindset – the need to apply professional skepticism.

Our professional judgment process recognizes the need to be aware of, and alert to, biases which may pose threats to good judgment. The structured approach to auditing areas that require significant judgment involves:

- considering alternatives;
- critically assessing audit evidence by challenging management's assumptions and following up on contradictory or inconsistent information; and
- documenting the rationale for conclusions reached on a timely basis as a means of evaluating their completeness and appropriateness.

The use of the professional judgment process is reinforced through coaching and training, acknowledging that judgment is a skill developed over time and with different experiences.

Ongoing mentoring, coaching, supervision and review

We understand that skills build over time and through exposure to different experiences. To invest in the building of the skills and capabilities of KPMG professionals, without compromising on quality, KPMG Canada promotes a continuous learning environment.

The engagement partner, supported by the engagement manager, is responsible for driving a culture of coaching and continuous learning throughout the audit process and setting an example in the performance of the audit to drive a culture of continuous audit quality improvement.

Ongoing mentoring, coaching and supervision during an audit involves:

- engagement partner participation in planning discussions;
- tracking the progress of the audit engagement;
- considering the competence and capabilities of the individual members of the engagement team, including whether they have sufficient time to carry out their work, whether they understand their instructions, and whether the work is being carried out in accordance with the planned approach to the engagement;
- helping engagement team members address any significant matters that arise during the audit and modifying the planned approach appropriately; and
- identifying matters for consultation with more experienced team members during the engagement.

A key part of effective mentoring and supervision is timely review of the work performed so that significant matters are promptly identified and addressed.

Appropriately supported and documented conclusions

KPMG Canada uses KAM and KPMG International's smart audit tool, KPMG Clara, to provide guidance, mechanisms for and documentation of, the supervision and control of the audit engagement. Audit documentation records the performed audit procedures, evidence obtained and conclusions reached on each audit engagement. Our policies require review of documentation by more experienced engagement team members.

KAM recognizes that documentation prepared on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before our report is finalized.

Engagement teams are required to assemble a complete and final set of audit documentation for retention within an appropriate time period, which is ordinarily not more than 60 calendar days from the date of the auditors' report but may be more restrictive under certain applicable regulations.

The key principle that engagement team members are required to consider when preparing audit documentation is whether an experienced auditor, having no previous connection with the engagement, will understand:

- the nature, timing, and extent of audit procedures performed to comply with the ISAs, KAM and;
- applicable legal and regulatory requirements;
- the results of the procedures performed, and the audit evidence obtained;
- significant findings and issues arising during the audit, and actions taken to address them (including additional audit evidence obtained); and
- the basis for the conclusions reached, and significant professional judgments made in reaching those conclusions.

Appropriate involvement of the EQCR partner

EQCR Partners are independent of the engagement team and have the appropriate experience and knowledge to perform an objective review of the more critical decisions and judgments made by the audit team. They are experienced audit professionals who are independent of the engagement team. They offer an objective review of the more critical and judgmental elements of the audit. An EQCR Partner is appointed for the audits of all listed entities and of other engagements identified as high public profile or high risk. The EQCR takes place before the date of the auditor's report and includes, among other matters:

- review of selected audit documentation relating to significant judgments the engagement team made and the conclusions it reached;

- review of the financial statements and proposed auditors' report; and
- evaluation of the conclusions reached in formulating the auditors' report and consideration of whether the proposed report is appropriate.

Although the engagement partner is ultimately responsible for the resolution of financial reporting and auditing matters, the EQCR Partner must be satisfied that all significant questions raised have been resolved before an audit can be considered complete.

KPMG Canada is continually seeking to strengthen and improve the role that the EQCR plays in audits, as this is a fundamental part of our system of audit quality control. In recent years a number of actions have been taken to reinforce this, including:

- issuing leading practice guidance focusing on reviewer competencies and capabilities and on ongoing support provided to EQCR Partners;
- incorporating specific procedures in KPMG Clara to facilitate effective reviews; and
- implementing policies relating to recognition, nomination and development of EQCR Partners, as well as monitoring and assessing the nature, timing and extent of their involvement.

Reporting

Auditing standards largely dictate the format and content of the audit report that includes an opinion on the fair presentation in all material respects of the client's financial statements. Experienced engagement partners form all audit opinions based on the audit performed.

In preparing auditor's reports, engagement partners have access to extensive reporting guidance and technical support through consultation with our DPP, especially when there are significant matters to be reported to users of the auditor's report (e.g., a modification to the opinion or through the inclusion of an emphasis of matter or other matter paragraph as well as key audit matters to be communicated). Effective for December 2016 year-ends onward in compliance with the new IAASB requirements, we have enhanced auditor reporting for those auditors' reports prepared under the ISAs. The changes in auditors' reporting give

users more insight into the audit and improve transparency.

Insightful, open and honest communication

Two-way communication with those charged with governance, often identified as the audit committee, is key to audit quality and a key aspect of reporting and service delivery.

At KPMG Canada, we stress the importance of keeping those charged with governance informed of issues arising throughout the audit and the need to listen to and to understand their views. We achieve this through a combination of reports and presentations, attendance at audit committee or board meetings, and, when appropriate, ongoing informal discussions with management and members of the audit committee.

We deliver insights such as our assessment of the appropriateness of significant accounting practices and policies, accounting estimates and financial statement disclosures, significant deficiencies in the design and operation of financial reporting systems and controls when such deficiencies come to our attention during the course of the audit, and any uncorrected misstatements. We share our industry experience to encourage discussion and debate with the members of the audit committee.

KPMG Canada emphasizes open, candid dialogue with audit committees. Some of the items that we discuss include:

- an overview of the planned scope and timing of the audit, which includes communicating significant risks identified;
- accounting policies and alternative treatments, particularly those that are significant;
- quality of the accounting principles applied by the client;
- significant management judgments and accounting estimates;
- significant findings from the audit which may include control deficiencies and audit misstatements;



- an annual written communication that states the engagement team and KPMG Canada has complied with relevant independence requirements, describes all relationship and other matters between KPMG Canada and the audit client that, in our professional judgment, may reasonably be thought to bear on independence, and states related safeguards we have applied to eliminate (or reduce to an appropriate level) identified threats to independence;
- audit adjustments and uncorrected misstatements;
- other information in documents containing audited financial statements;
- disagreements with management;
- consultations with other accountants;
- major issues discussed with management prior to retention;
- difficulties encountered in performing the audit; and
- fees for audit and non-audit services.

For audit clients that are SEC registrants, our audit committee communications are supplemented to meet US requirements.

Audit committee institute

In recognition of the demanding and important role that audit committees play for the capital markets and also of the challenges that they face in meeting their responsibilities, our Audit Committee Institute (“ACI”) aims to help audit committee members enhance their commitment and ability to implement effective audit committee processes. The ACI operates in more than 40 countries across the globe including KPMG Canada

and provides audit committee members with authoritative guidance (such as the ACI Audit Committee Handbook) on matters of interest to audit committees; updates on issues like EU audit reform, changes to accounting standards and other matters of interest to Audit Committees (such as cyber security and corporate culture); and the opportunity to network with their peers during an extensive program of technical updates and awareness seminars.

The ACI's offerings cover the array of challenges facing audit committees and businesses today – from risk management and emerging technologies to strategy and global compliance.

Focus on effectiveness of group audits

The KPMG audit methodology covers the conduct of group audits in detail. We stress the importance of effective two-way communication between the group engagement team and the component auditors, which is a key to audit quality. The group audit engagement partner is required to evaluate the competence of component auditors, irrespective of whether they are KPMG member firms, as part of the engagement acceptance process.

Consistent methodology and tools are used across the KPMG network. LAEP's are provided with information on component auditors within the KPMG network to help them evaluate their competence and capabilities. In addition, for PCAOB engagements, the results of relevant inspections related to the KPMG component member firms are available to the LAEP.

LAEP's may review component auditor engagement documentation in person or obtain electronic access.

Client confidentiality, information security and data privacy

The importance of maintaining client confidentiality is emphasized through a variety of mechanisms including our Code of Conduct, training, and the annual confirmation process that all KPMG professionals are required to complete.

We have a formal document retention policy concerning the retention period for audit documentation and other records relevant to an engagement in accordance with applicable laws, regulations, professional standards and, where relevant, SEC rules and regulations.

Our firm has clear policies on information security that cover a wide range of areas. Data privacy policies are in place governing the handling of personal information, and associated training is required for all KPMG Canada personnel.

Commitment to continuous improvement

We commit to continually improve the quality, consistency and efficiency of our audits. Integrated quality monitoring and compliance programs enable member firms to identify quality deficiencies, to perform root cause analysis, and develop, implement and report remedial action plans both in respect of individual audit engagements and the member firm's system of quality control. KPMG International's integrated quality and monitoring programs include the Quality Performance Review ("QPR") program, the RCP, and the Global Compliance Review ("GCR") program. The quality monitoring and compliance programs are globally administered and consistent in their approach across member firms, including the nature and extent of testing and reporting. KPMG Canada compares the results of its internal monitoring programs with the results of any external inspection programs and takes appropriate action.

Internal monitoring and compliance programs

Our internal monitoring programs evaluate both:

- engagement performance in compliance with the applicable standards, applicable laws and regulations, and KPMG International policies and processes; and
- KPMG Canada's compliance with KPMG International policies and procedures, and the relevance, adequacy, and effective operation of key quality control policies and procedures



The results and lessons from the integrated monitoring programs are communicated internally, and the overall results and lessons from the programs are considered and appropriate action is taken at local, regional and global levels. Our internal monitoring program also contributes to the assessment of whether our system of quality control has been appropriately designed, effectively implemented, and operates effectively.

Two KPMG International developed and administered inspection programs are conducted annually across Audit, Tax, and Advisory functions: QPRs and RCPs.

Additionally, all member firms are covered at least every three years by the cross-functional GCR program. Participation in QPR, RCP and CGR is a condition of ongoing membership in the KPMG network.

Audit QPRs

The QPR program is performed by a small core team of partners who are active practitioners with industry-specific and technical knowledge and are up to date with auditing standard requirements. A small core team improves the consistency and depth of reviews and focuses on listed and related entity audits. Non-listed audits and assurance engagements are performed by partners and senior managers from various offices within our member firm.

The QPR Program assesses engagement level performance and identifies opportunities to improve engagement quality.

Each engagement leader is reviewed at least once in a three year cycle. A risk-based approach is used to select engagements.

KPMG Canada conducts the annual QPR program in accordance with KPMG International QPR instructions. The reviews are performed at the KPMG Canada level and are monitored regionally and globally. Member firm Audit QPR reviews are overseen by a senior experienced lead reviewer independent from the member firm.

Training is provided to review teams and others overseeing the process, with a focus on topics of concern identified by audit oversight regulators and the need to be as rigorous as external reviewers.

Consistent criteria are used to determine engagements ratings and member firm Audit practice evaluations.

Audit engagements selected for review are rated as 'Satisfactory', 'Performance Improvement Needed' or 'Unsatisfactory'.

Findings from the QPR program are disseminated to member firm professionals through written communications, internal training tools, and periodic partner, manager and staff meetings.

These areas are also emphasized in subsequent inspection programs to gauge the extent of continuous improvement.

LAEP's are notified of less than satisfactory engagement (defined as "Performance Improvement Needed" or "Unsatisfactory") ratings on their respective cross-border engagements. Additionally, LAEPs of parent companies/head offices are notified where a subsidiary/affiliate of their client group is audited by a member firm where significant quality issues have been identified during the QPR.

RCPs

KPMG International develops and maintains quality control policies and processes that apply to all member firms. These policies and processes, and their related procedures, include the requirements of ISQC 1. During the annual RCP, KPMG International performs a robust assessment program consisting of documentation of quality controls and procedures, related compliance testing and reporting of exceptions, action plans and conclusions.

The objectives of the RCP are to:

- monitor, document and assess the extent of compliance of KPMG Canada's system of quality control with Global Quality & Risk Management policies and key legal and regulatory requirements relating to the delivery of professional services; and
- provide the basis for KPMG Canada to evaluate that the firm and its personnel comply with relevant professional standards and applicable legal and regulatory requirements.

Where deficiencies are identified, we are required to develop appropriate actions plans

GCRs

Each member firm is subject to a GCR conducted by the KPMG International's GCR team, independent of the member firm, at least once in a 3 year cycle.

The GCR provides independent oversight of our assessment of our system of quality control, including:

- our commitment to quality and risk management (tone at the top) and the extent to which the overall structure, governance and financing support and reinforce this commitment; and
- the completeness and robustness of our RCP.

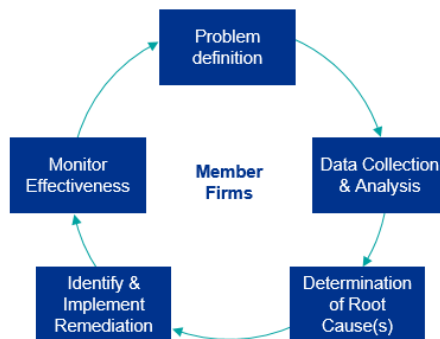
The GCR team performing the reviews is independent of KPMG Canada, objective and knowledgeable of Global Quality and Risk Management policies.

We develop action plans to respond to all GCR findings and agree these with the GCR team. Our progress on action plans is monitored by the GCR central team. Results are reported to the Global Quality & Risk Management Steering Group and, where necessary, to appropriate KPMG International and regional leadership, to help ensure timely remedial actions taken by the member firm.

Root cause analysis

KPMG Canada performs root cause analysis ("RCA") to identify and address audit quality issues in order to prevent them from recurring and help identify good practices as part of continuous improvement.

The Global RCA 5 Step Principles are as follows:



It is the responsibility of member firms to perform RCA and thereby identify and subsequently develop appropriate remediation plans for the audit quality issues identified.

KPMG Canada's CMP, Audit is responsible for the development and implementation of action plans as a result of RCA, including identification of solution owners. The CMP, Quality & Risk Management monitors their implementation.

Recommendations for improvement

At a global level, KPMG International reviews the results of the quality monitoring programs, analyzes member firm root causes and action plans, and develops additional global actions as required.

KPMG International considers network-wide issues arising from internal quality control reviews and external inspections, monitors progress being made in addressing audit quality issues and makes recommendations on audit quality issues.

To date, Global remediation plans developed by KPMG International have been aimed at changing culture and behaviour across the KPMG network and at driving consistent engagement team performance within KPMG member firms. The remediation plans have been implemented through the development of global training, tools and guidance to drive consistency, ensure the fundamentals are right and that best practice is shared across the network.

External feedback and dialogue

The rules of the Canadian Securities Administrators stipulate that only a Canadian public accounting firm that is registered and in good standing with CPAB may sign an auditor's report for a Canadian reporting issuer. CPAB performs periodic inspections of the public accounting firms that audit Canadian reporting issuers, and conducts investigations and disciplinary proceedings. KPMG Canada is subject to an annual inspection by CPAB. CPAB has issued a confidential report to KPMG Canada on the results of its inspections for each of the past ten years. Under CPAB's rules, the recommendations or other comments contained in these confidential reports may not be made public by either CPAB or the inspected firms. KPMG Canada fully intends to implement the recommendations CPAB has made in its reports for improvement. KPMG Canada is committed to conduct the highest quality audits and to prompt and effective response to constructive observations and recommendations. We make continuous improvements in our audit methodology, quality control processes and engagement execution and will maintain our close cooperation with CPAB. The firm's audit registration was renewed in 2017. The 2017 inspection was completed in September 2017 and KPMG Canada received its confidential report on CPAB's inspection findings in January 2018.

In March 2014, CPAB issued its *Protocol for Audit Firm Communication of CPAB Inspection Findings with Audit Committees*. KPMG has adopted the protocol, which requires the provision of the CPAB annual public report to each audit committee member of each reporting issuer audit client. In addition, for each engagement file inspected by CPAB, the protocol requires that we provide the following information to the respective audit committee:

- a description of the focus areas selected for inspection by CPAB; and
- significant inspection, if any, findings as reported by CPAB including a description of actions taken by KPMG Canada in response to the findings.

We welcome the increased transparency provided by the CPAB protocol, and value the resulting discussions with audit committees.

KPMG Canada issues audit opinions on the financial statements of registrants with the SEC and is registered with the PCAOB. KPMG Canada has been subject to an annual PCAOB inspection since 2005.

For its 2017 inspection, as in prior inspections of KPMG Canada, the PCAOB selected a cross-section of audit engagements to review. In addition, the PCAOB performed certain procedures relating to KPMG Canada's executive and national offices.

In December 2016, the PCAOB released its report on the 2015 inspection of KPMG Canada. In September 2017, the PCAOB released its Report on the 2016 inspection of KPMG Canada. The PCAOB's Reports are presented in two parts. Part I is a public document containing observations relating to specific engagements reviewed by the PCAOB. Part II is a private document containing the PCAOB's observations regarding KPMG Canada's quality control systems related to audit performance and firm-wide functions. This part of the report will be made public only to the extent that any of the PCAOB's comments and observations have not been adequately addressed within twelve months of the date of the report.

In September 2016, KPMG was notified that the PCAOB has determined that KPMG had addressed the quality control criticisms in the non-public portion of the 2012 and 2013 reports to the PCAOB's satisfaction for purposes of Section 104(g)(2) of the Sarbanes-Oxley Act of 2002 (the "Act"). As a result, under the Act, the PCAOB did not make public any of its comments on the firm's quality control policies included in the non-public portion of the 2012 and 2013 reports. The PCAOB is currently reviewing KPMG's response to the non-public portion of the 201 and 2015 reports.

The following documents are available on PCAOB's website at <http://www.pcaobus.org/>:

- PCAOB Reports Part I for years 2005 to 2016 – The complete, publicly available inspection Reports Part I
- KPMG Canada's Responses to Part I for years 2005 to 2016 - KPMG Canada's response, which provides context to the Reports Part I, as submitted to PCAOB.

None of the external inspections have identified any issues that have a material impact on the conduct of our statutory audit business.

Our firm is also registered with the UK Professional Oversight Board, the Germany Auditor Oversight Commission, the Luxembourg Commission De Surveillance Du Secteur Financier, the Poland Audit Oversight Commission and the Norway Financial Supervisory Authority.

KPMG International has regular two-way communication with the International Forum of Independent Audit Regulators to discuss audit quality findings and actions taken to address such issues at a network level.

Client feedback

We proactively seek feedback from clients through in-person conversation and third-party surveys to monitor their satisfaction with services delivered. We endeavour to take this feedback and make dynamic changes at both the engagement level and firm level to meet clients' needs.

Statement of effectiveness of audit quality controls

The measures and procedures that serve as the basis for the system of quality control for KPMG Canada outlined in this report aim to provide a reasonable degree of assurance that the statutory audits carried out by our firm comply with applicable laws and regulations. Due to its inherent limitations, the system of quality controls is not intended to provide absolute assurance that non-compliance with relevant laws and regulations would be prevented or detected. The CMP, Quality and Risk Management and the CMP, Audit consider:

- the design and operation of the quality control systems as described in this report;
- the findings from the various compliance programs operated by our firm; and
- findings from regulatory inspections and subsequent follow up and/or remedial actions.

Taking all of this evidence together, the CMP, Quality and Risk Management and the CMP, Audit confirm with a reasonable level of assurance that the systems of quality control within our firm have operated effectively in the year to September 30, 2017. Further, the CMP, Quality and Risk Management and the CMP, Audit confirm that an internal review of independence compliance within our firm has been conducted in the year ended September 30, 2017.



Financial information

The following financial information relates to KPMG Canada's fiscal year ended September 30, 2017. All amounts are stated in Canadian dollars.

Financial Statement Audit Revenue from non-EU Audit Clients Listed in the EU: CDN \$29,212,560.

Audit Revenue	\$577,813,000
Tax Revenue	\$464,108,000
Advisory Revenue	\$400,942,000
Other	\$3,103,000
Total Revenue	\$1,445,966,000

Aggregated revenues generated by KPMG audit firms, from EU and EEA Member States resulting from the statutory audit of annual and consolidated financial statements was EUR 2.7 billion during the year ended September 30, 2017. The EU/EEA aggregated statutory audit revenue figures are presented to the best extent calculable and translated at the average exchange rate prevailing in the 12 months ended September 30, 2017.³

³ The financial information set forth represents combined information of the separate KPMG member firms from EU and EEA Member States that perform professional services for clients. The information is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any client revenue.

Partner remuneration

Partners' profit share

Partners are remunerated out of the distributable profits of KPMG Canada (such profits being determined in accordance with KPMG Canada's accounting policies and as approved by the Board) and are personally responsible for funding pensions and most other benefits. The final allocation of profits to partners is made by KPMG Canada after assessing each partner's performance for the year. The Partner Compensation Committee approves this process and oversees its application.

There are two elements to partner remuneration:

- base component - a proportion of KPMG Canada's budgeted profits are allocated to partners as base component; this is effectively partner salary. The amount of base component reflects the role and seniority of each partner; and
- profit related performance component - rewards performance in the year by each partner against individual objectives previously agreed and the overall profits of their part of KPMG Canada and the firm as a whole. Our policies for this variable element of partner remuneration take into account a number of factors including quality of work, excellence in client service, growth in revenue and profitability, leadership and living the values of the firm. Audit partners are not permitted to have objectives related to, or receive any remuneration from, selling non-audit services to their audit clients. In addition, a part of their performance-related component is based on an assessment of their ability to deliver audit quality.

Drawings

During the year, KPMG Canada partners received monthly drawings, and from time to time, additional profit distributions. The level and timing of the additional distributions take into account cash requirements for operating and investing activities. All such drawings and profit distributions to partners represent payments on account of current year profits and are reclaimable from partners until profits have been allocated. Any over-distribution of profits during the year is also recoverable from partners.



International network arrangement

Legal structure

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative, which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

One of the main purposes of KPMG International is to facilitate the provision by member firms of high quality Audit, Tax and Advisory services to their clients. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies and standards of work and conduct by member firms and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity which is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to oblige or bind any member firm.

The name of each audit firm that is a member of the network and the EU/EEA countries in which each network member firm is qualified as a statutory auditor or has its registered office, central administration or principal place of business are available at <https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/12/eu-and-eea-audit-entities-list-30-09-2017.pdf>.

Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations, including quality standards governing how they operate and how they provide services to clients to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global and regional strategies, share resources (incoming and outgoing), service multinational clients, manage risk, and deploy global methodologies and tools.

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG Values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

Professional indemnity insurance

A substantial level of insurance coverage is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a mutual that is available to all KPMG member firms.

Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board, and the Global Management Team.

Global council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit that KPMG International has no share capital and only has members, not shareholders).

Among other things, the Global Council elects the chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 56 member firms that are "members" of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

Global board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International, and approving policies and regulations. It also admits member firms.

The Global Board includes the Chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East, and Africa (EMA)) and a number of senior partners of member firms.

It is led by the Global Chairman who is supported by the Executive Committee, consisting of the Global Chairman, the Chairman of each of the regions and currently four other senior partners of member firms. The list of Global Board members, as at October 1, 2017, is available in the KPMG International Annual Review.

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board ("non-executive" members). A key role of the lead director is to act as liaison between the Global Chairman and the "non-executive" Global Board members.

Global management team

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments.

It is led by the Global Chairman, and includes the Global Chief Operating Officer, the Global Chief Administrative Officer, global function and infrastructure heads and the General Counsel.

The list of Global Management Team members, as at October 1, 2017, is available in the KPMG International Annual Review.

The Global Steering Groups work closely with regional and member firm leadership to:

- establish and communicate appropriate audit and quality/risk management policies;
- enable effective and efficient risk processes to promote audit quality; and
- proactively identify and mitigate critical risks to the network.

The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and the Global Quality & Risk Management Steering Group are detailed in Appendix 2 to the KPMG International Transparency Report.

Each member firm is part of one of three regions (the Americas, ASPAC, and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating or executive officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International's policies and processes within the region.

Further details about KPMG International including the governance arrangements, can be found in Appendix 2 to the KPMG International Transparency Report.

Area quality & risk management leaders

The Global Head of Quality, Risk and Regulatory appoints Area Quality & Risk Management Leaders who:

- assess the effectiveness of a member firm's quality and risk management efforts to identify and mitigate significant risks to the member firm and network, and actively monitor alignment with global quality and risk management strategies and priorities;
- share best practices in quality and risk management; and
- report to the Global Head of Quality, Risk and Regulatory.



Public interest entity audit clients

The list below sets out public interest entity audit clients listed in European Union member countries for which KPMG Canada carried out an audit during its fiscal year ended September 30, 2017. For this purpose, “public interest entities” are defined in Regulation 3 of the European Communities Regulations 2010 (Statutory Audits) (Directive 2006/43/EC) as follows: companies (or other bodies corporate governed by law of a Member State whose transferable securities are admitted to trading on a

regulated market of any Member State; credit institutions; and insurance undertakings.

- Bank of Montreal
- The Bank of Nova Scotia
- Hydro-Quebec
- Serinus Energy Inc.
- Wentworth Resources Ltd.
- Tanker Investments Ltd.

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