



# **FRONTLINE TECHNOLOGIES INC.**

## **Annual Information Form**

**(As of December 31, 2011)**

April 30, 2012

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### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Caution regarding forward-looking statements: This Annual Information Form contains certain forward-looking statements that reflect Management’s expectations, estimates, forecasts and projections about future performance, opportunities for growth and the Corporation’s future plans and intentions. Forward-looking statements are typically identified by words such as “believe”, “expect”, “may”, “intend” and “plan.” Forward-looking statements involve significant risk, uncertainties and assumptions that could cause actual results to differ materially from those contemplated by these forward-looking statements. Some of the factors that could cause such differences include: the regulations governing the securities industry, competition for global trading solutions and intelligent order routing systems, customer dependence, ability to attract and retain key employees, technological changes, uncertainty of the ability to protect proprietary technology and product and service liability. The preceding list is not exhaustive of all possible factors. Other factors could also affect the Corporation’s results. For a more detailed discussion of these factors refer to the section titled “*Risk Factors*” in this form. All factors should be considered carefully when making decisions with respect to the Corporation and undue reliance should not be placed on the Corporation’s forward-looking statements. The Corporation does not undertake to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

## CORPORATE STRUCTURE

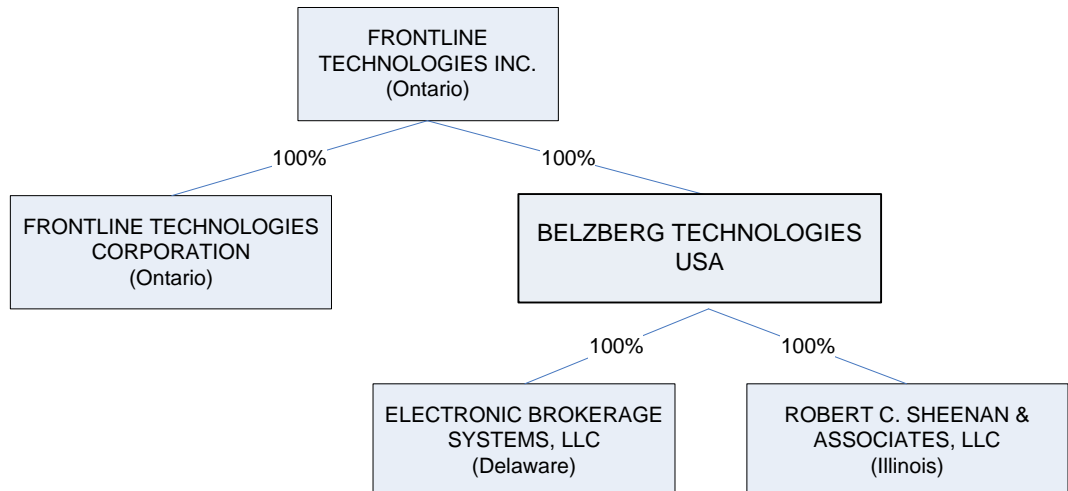
### ***Name, Address and Formation***

Frontline Technologies Inc., formerly known as Belzberg Technologies Inc. (the “Corporation” or “Frontline”) was incorporated pursuant to the *Business Corporations Act* (Ontario) by certificate and articles of incorporation dated November 30, 1993 under the name Belzberg Financial Markets International Inc. to acquire the shares of Belzberg Financial Market & News Inc., which was incorporated January 18, 1993 under the laws of Ontario. By articles of amendment dated June 13, 1994, the name of the Corporation was changed to Belzberg Financial Markets & News International Inc. By articles of amendment dated July 14, 2000, the Common Shares of the Corporation were subdivided on a five-for-one basis and the name of the Corporation was changed to its present name. Pursuant to articles of amalgamation dated January 1, 2003, the Corporation was amalgamated with its wholly owned subsidiary, Belzberg Financial Markets & News Inc., and continued under its present name. In 2011, the Corporation announced a strategy to refocus on its technology business and a definitive agreement was made to acquire Frontline Technologies Corporation (“FTC”) by the Corporation. The transaction closed on April 13, 2011. At the same time on April 13, 2011, the Corporation changed its name from Belzberg Technologies Inc. to Frontline Technologies Inc.

Frontline Technologies Inc. executive and principal offices are located at 25 Adelaide Street East, Suite 600, Toronto, Ontario, M5C 3A1. The registered office of Frontline is located at 25 Adelaide Street East, Suite 600, Toronto, Ontario, M5C 3A1.

### ***Intercorporate Relationships***

The following diagram illustrates the Corporation’s material subsidiaries and equity interests and their respective governing jurisdictions as at December 31, 2011:



In this form, unless otherwise specified or the context otherwise requires, references to "we", "our", "Frontline" and the "Corporation" includes a reference to our material subsidiaries as reflected above.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

### ***Events in the Corporation's History***

In 2001, the Corporation acquired a broker-dealer that provides the execution of exchange-traded equity and index options on the Chicago Board Options Exchange.

In 2002, the Corporation's wholly owned subsidiary, Electronic Brokerage Systems, LLC, became a member of both the National Securities Clearing Corporation ("NSCC") and the New York Stock Exchange ("NYSE"). These memberships allowed the Corporation to become self-clearing.

In 2008, the Corporation was approved by the Financial Industry Regulatory Authority to provide full clearing services.

### ***Development of our business in 2011***

The Corporation announced a strategy to refocus on its technology business and a definitive agreement was made to acquire Frontline Technologies Corporation ("FTC") by the Corporation. The transaction closed on April 13, 2011. At the same time on April 13, 2011, the Corporation changed its name from Belzberg Technologies Inc. to Frontline Technologies Inc.

On February 23, 2011, the Corporation announced that it had entered into an agreement to refer most of the clients of its US execution businesses operated under its wholly-owned subsidiaries, Electronic Brokerage Systems, LLC ("EBS") and R.C. Sheehan and Associates, LLC ("RCS"), to BNY ConvergeEx Execution Solutions LLC and LiquidPoint LLC (collectively "ConvergeEx"). The Corporation has classified these subsidiaries as discontinued operations and its assets held for sale. During the second quarter of 2011, the Corporation successfully referred all of the clients of RCS to ConvergeEx, however, no customers of EBS were referred. During the third quarter, the Corporation entered into an agreement amending the terms of the original agreement entered into on February 23, 2011. Under the amended terms, ConvergeEx paid to the Corporation US\$1.8 million in full satisfaction of all its obligations under the Agreement. The Corporation was released from all of its obligations under the agreement except for certain restrictive covenants including those relating to the referred clients of RCS and certain representations made with respect to the referred clients of RCS. EBS and RCS have been classified in the Consolidated Financial Statements as discontinued and held for sale.

At the Annual and Special General Meeting held on May 27, 2011, the shareholders approved a resolution whereby the stated capital of the Common shares and the Class A Restricted shares were each reduced to \$1.00.

On September 20, 2011, the Corporation was notified by the Toronto Stock Exchange (the "TSX") that the TSX was reviewing the eligibility for continued listing on the TSX of the Corporation's

common shares as the Corporation had not met the requirement that the market value of its freely-tradable, publicly held securities be greater than \$2.0 million.

On January 19, 2012 Frontline announced that it had made a tactical and strategic decision to list its common shares on the TSX Venture Exchange (the "TSXV") and to voluntarily de-list from the Toronto Stock Exchange (the "TSX") by February 16, 2012. On Monday, February 6, 2012, the common shares of the Corporation began trading on the TSX Venture Exchange. The common shares of the Corporation, previously traded on the Toronto Stock Exchange, were delisted from the Toronto Stock Exchange at the close of trading on February 3, 2012. The common shares of Frontline trade under the symbol FLC.V.

As part of this new strategic direction, the Corporation also announced on February 23, 2011, that it had entered into an agreement to refer most of the clients of its US execution businesses operated under its wholly-owned subsidiaries, Electronic Brokerage Systems LLC ("EBS") and Robert C Sheehan & Associates, LLC ("RCS"), to ConvergeEx. During the second quarter, the Corporation successfully referred the clients of RCS to ConvergeEx. The clients of EBS were not referred to ConvergeEx. During the third quarter, the Corporation entered into an agreement amending the terms of the original agreement. Under the amended terms, ConvergeEx paid to the Corporation US\$1.8 million in full satisfaction of all its obligations under the Agreement. The Corporation was released from all of its obligations under the agreement except for certain restrictive covenants including those relating to the referred clients of RCS and certain representations made with respect to the referred clients of RCS. The operating results and cash flows of EBS and RCS are presented as discontinued operations. The assets and liabilities of EBS and the residual assets of RCS are presented as assets held for sale with the exception of unrestricted cash.

It was the Corporation's intention to pay a special distribution to the holders of its existing common shares within a year of the closing of the Frontline Transaction however; payment of this dividend is and will be subject to the Corporation being in a financial position to pay the dividend. The amount of the distribution, if any, will be equivalent to the amount by which the working capital of the Corporation as of closing of the Frontline transaction exceeds \$2.75 million plus the total proceeds received for the referral of the US execution clients of EBS and RCS, less any costs related thereto or to the sale or wind-up of the businesses of EBS and RCS which cannot be reasonably estimated at this time. The Board of Directors and management of the Corporation are assessing the Corporation's ability to pay the special distribution to the holders of its common shares and on the holders of its common shares.

Market conditions were very difficult for the Corporation in 2011. The general economic downturn and contraction in the financial services industry led to a net loss of clients. Trading volumes were down across all segments in which the Corporation operates. New client revenues were insufficient to compensate for the loss of revenues resulting from price cuts, client downsizing or client elimination. With the acquisition of FTC in 2011, the Corporation now operates in two reportable segments, Trading technologies and Outsourced network services.

Net revenues in the Trading technologies segment decreased by 17.9% to \$4.4 million for the year ended December 31, 2011 from \$5.4 million for the year ended December 31, 2010. The acquisition of FTC added \$2.4 million for the year ended December 31, 2011 to the Outsourced network services segment. Overall, Net revenue from continuing operations increased by 26.1% to \$6.8 million for the year ended December 31, 2011 from \$5.4 million for the year ended December 31, 2010. The Corporation recorded a loss for the year from continuing operations of \$9.3 million or (\$.46) per share compared to a loss of \$6.3 million or (\$.45) per share for the year ended December 31, 2010. Included in the 2011 loss from continuing operations is a \$1.5 million asset impairment charge related to the write-down of software.

Results of discontinued operations include the results of EBS and RCS. The income from discontinued operations for the year ended December 31, 2011 was \$1.3 million which includes

the gain on the referral of the clients of RCS of \$1.8 million. The loss for the year ended December 31, 2010 was \$464,000. Discontinued operations basic and diluted earnings per common and Class A restricted share for the year ended December 31, 2011 was \$0.07 per share compared to a loss per share of (\$0.03) for the year ended December 31, 2010.

In 2011, the Corporation continued its cost restructuring, including headcount, market data, telecommunications and occupancy, given the continuing lower revenues. Expenses from continuing operations declined by 3.8% to \$10.0 million for the year ended December 31, 2011 from \$10.4 million for the year ended December 31, 2010. Expenses from discontinued operations declined by 50% to \$5.0 million for the year ended December 31, 2011 from \$10.1 million for the year ended December 31, 2010. In our Trading technology segment and our discontinued operation combined, we reduced our headcount in 2011 by 48% as compared to our average headcount in 2010. The headcount in the Outsourced network services increased by 35 as a result of the FTC acquisition. Our compensation expense increased by 44.6% and was attributable to the FTC acquisition and severance costs incurred during the year. Our telecommunications and datafeed expenses increased by 4.4% and was attributable to the acquisition of FTC offset by reductions in costs in the Trading technologies segment. Our administrative expenses increased by 31.8% and were attributable to the acquisition of FTC and restructuring costs.

The Corporation's year-end financial position included cash and cash equivalents of \$4.3 million (2010 - \$8.3 million).

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### ***Overview***

We supply tools and services to professional traders. Our clients use Frontline products and services for execution management, market connectivity and/or execution services in equities, options and futures for all major markets in Canada and the US. Our products are easy to use, effective, flexible and low cost.

The Frontline Trading System provides a comprehensive solution to the needs of our customers to manage their orders from inception to execution and confirmation.

In addition to trading software, we provide network connectivity and the software to route and execute orders on exchanges, ECNs and through market makers and 3<sup>rd</sup> party algorithms. In addition, our wholly-owned U.S. broker-dealers offers execution services for equities and options. Our customers include both brokerage houses and their institutional clients. Our trading software and our network provide our customers with direct access to the exchanges, allowing them to trade equities, options and futures on those exchanges. Our products enable traders to execute and manage large volumes of transactions with great reliability and security and low cost of execution.

## ***Our Products***

### ***The Frontline Trading System***

The Frontline Trading System consists of our Transactions Gateway and Execution Management System, together with various other front-end and back-end applications. Our Trading System provides a comprehensive solution to the needs of our customers for a system that can manage an order from its inception to its execution and confirmation.

### ***The Transactions Gateway***

Our network connectivity and Transactions Gateway software allow traders to access every major and regional stock exchange and all options exchanges in Canada and the U.S. Designed to facilitate a wide range of applications, our Transactions Gateway transparently translates the format, or protocol, of incoming transaction messages that can be routed to user-specified destinations. Upon completion of the transaction, messages from the destination are retranslated into the appropriate originating protocol, thus enabling seamless and reliable real-time, bi-directional information exchange. The open and flexible architecture of our Transactions Gateway allows for a high degree of inter-operability between state-of-the-art front-end applications and legacy back-office systems. Our Transactions Gateway software is also capable of receiving orders from third party systems, since it supports most of the standard business protocols used in the financial industry, such as FIX, CMS, STAMP, SETS, XML and SWIFT.

The network connects to exchanges, ECNs, market makers, 3<sup>rd</sup> party algorithms, client order entry software and shared network facilities. Third parties provide the hardware, such as computers and routers. The market data provided is a combination of third party market data and data provided by us.

Our Transactions Gateway currently supports protocol translation and order routing to most major equity and options trading centres in Canada and the United States.

### ***The Execution Management System***

Our Execution Management System is a versatile order-processing and management software that works in concert with our Transactions Gateway. It is multi-market and multi-asset class, operating equally well for equities, option and futures in Canada and the US. Our Execution Management System provides traders with a suite of front-end software tools for single order entry trading, basket trading, market making, market sweeping and managing orders. In addition to supporting the direct needs of traders at participating brokers, institutions that are customers of participating brokers use our front-end software for direct market access.

Our core trading tools are augmented by a set of complementary software products that satisfy functions required by traders or other individuals whose jobs are related to trading or managing stock or option positions in a financial institution. Examples of these products are (i) real-time inventory management, (ii) straight-through-processing of trading tickets into the back office accounting system, and (iii) order management software that handles inbound flow of orders from third party systems.

## **Execution Services**

Our subsidiaries, EBS and RCS are broker-dealers registered with the Securities and Exchange Commission (the "SEC"). These subsidiaries are classified as discontinued and are held for sale See "Government Regulations".

EBS is an agency only broker-dealer in the electronic routing, and NYSE floor execution and execution of orders for other broker-dealers and clients. As a member of the NYSE, CBOE, ISE, NASDAQ, NASDAQ BX, Chicago Futures Exchange ("CFE"), Chicago Stock Exchange ("CHX"), National Stock Exchange ("NSX"), NYSE Arca and INET, Electronic Brokerage Systems, LLC provides extensive connectivity in North American equity and option markets. Electronic Brokerage Systems, LLC is also a member of the National Securities Clearing Corporation ("NSCC"), Depository Trust Clearing Corporation ("DTCC"), SEC, Financial Industry Regulatory Authority ("FINRA"), and the Options Clearing Corporation ("OCC"). Its primary activity is the electronic execution of trades on behalf of other broker-dealers.

RCS ceased operations in 2011 when the Corporation successfully referred its clients to ConvergEx.

Before conducting business with a prospective customer, the Corporation's compliance department reviews the prospective customer's experience in the securities industry, financial condition and personal background, including a background check with a risk reporting agency.

EBS does not carry on business in Ontario or deal with the public in Ontario. Any trades originating in Ontario are originated through a registered dealer in Ontario who uses the services of EBS to complete the trade through a US stock exchange or NASDAQ.

## **Revenue**

We generate revenue from:

- Transaction based fees for providing trading software and clearing services, used for equity and options trading, on a per share/option or per trade basis
  - Subscription fees for providing trading software and services, used for equity and options trading, on a flat monthly fee per user, per terminal or other contracted basis
  - Commission income for the execution of exchange traded equity and index options from our electronic execution business
  - Development and installation of software for equity and options trading
  - Other revenue from the distribution of financial information and other services
- Revenue generating customers are brokerage houses and institutional clients of brokerage houses.
- Fully managed IT outsourcing services.
  - Hosted solutions
  - Cloud computing
  - Network services
  - Disaster recovery services

We operate in Canada and the U.S.

### ***Marketing***

We sell our products and services using our own dedicated and experienced sales force with contacts in the securities industry. Our sales force is located in Chicago, Toronto and Montreal.

### ***Human Resources***

As of December 31, 2011, we employed 72 fulltime employees; 63 in continuing operations and 9 in discontinued operations. None of our employees are covered by a collective bargaining agreement.

### ***Technical and Customer Support and Software Development***

As at December 31, 2011, a staff of 39 employees was engaged in technical and customer support and software development activities.

### ***Customers***

We currently have in excess of 100 customers in the financial services industry. We do not have long-term contracts with any of our customers.

### ***Government Regulation***

Through EBS and RCS, we are members of the NYSE, CBOE, Amex, NASDAQ, NYSE ARCA Options Exchange, the Boston Exchange, the CHX, the ISE, the CFE, the NSCC, the DTCC, the OCC and FINRA.

The U.S. securities industry is subject to extensive regulation under both federal and state laws. The SEC, FINRA and other self regulated organizations ("SROs"), such as the various stock exchanges, and other regulatory bodies, such as state securities commissions, require strict compliance with their rules and regulations. The SEC is the federal agency responsible for the administration of the federal securities laws. Regulation of broker-dealers has been primarily delegated to SROs, principally the FINRA and securities exchanges. The FINRA has been designated by the SEC as the SRO responsible for broker-dealers. The SROs conduct periodic examinations of member broker-dealers in accordance with rules they have adopted and amended from time to time, subject to approval by the SEC. Securities firms are also subject to regulation by state securities administrators in those states in which they conduct business.

As a matter of public policy, regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of investors participating in those markets, not protecting creditors or stockholders of broker-dealers. Companies that operate

in the securities industry are subject to regulation concerning many aspects of their business, including trade practices, capital structure, record retention and the conduct of directors, officers and employees. Failure to comply with any of these laws, rules or regulations could result in censure, fine, the issuance of cease-and-desist orders or the suspension or disqualification of our directors, officers or employees. Neither we nor any of our directors, officers or employees are currently subject to any cease-and-desist orders, suspensions or disqualifications under the rules of any of these regulatory organizations. An adverse ruling in the future against us or our directors, officers or employees, including censure or suspension, could result in us, our directors, officers and other employees being required to pay a substantial fine or settlement, and could result in their suspension or expulsion.

As a registered broker-dealer, EBS is subject to the SEC's uniform net capital rule. The net capital rule is designed to measure the general integrity and liquidity of a broker-dealer and requires that at least a minimum part of its assets be kept in a relatively liquid form. Under this rule, EBS is required to maintain net capital of US\$250,000. As at December 31, 2011, EBS had net capital of US\$3.0 million and a net capital requirement of US\$ 250,000.

EBS is currently required by the Options Clearing Corporation ("OCC") to maintain a minimum net capital of US\$2.0 million. The Corporation was in compliance of this requirement at April 30, 2012.

## ***Competition***

The market for global trading solutions, market connectivity, trade management solutions and outsourced network services is intensely competitive, fragmented and rapidly changing. Many of the Corporation's competitors have longer operating histories, significantly greater financial, technical, product development and marketing resources, greater name recognition and larger customer bases than the Corporation. It is, therefore, impossible to guarantee that the products developed by other entities will not cause the Corporation's products and technologies to become uncompetitive. The Corporation faces competition from NYSE Euronext Inc., IRESS Market Technology Canada LP, Penson Worldwide Inc., Fidessa Group PLC, Wedbush Securities Inc., Interactive Brokers LLC, ConvergEx and other competitors.

The Corporation must continue to overcome significant and increasing competition in order to continue its growth and productivity.

## ***Intellectual Property***

We protect our proprietary technology through a combination of contractual confidentiality provisions, trade secrets and patent, copyright and trademark laws.

As part of our confidentiality procedures, we generally require our employees, clients and potential business partners to enter into confidentiality and nondisclosure agreements before we will disclose any sensitive aspects of our products, technology or business plans. In addition, we require employees to agree to surrender to us any proprietary information, inventions or other intellectual property they generate or come to possess while employed by us. These efforts afford only limited protection.

There has been a substantial amount of litigation in the software industry regarding intellectual property rights. It is possible that in the future, third parties may claim that we, or our current or potential future products, infringe on their intellectual property. We expect that software product

developers will increasingly be subject to infringement claims as the number of products and competitors in our industry grows and the functionality of products in different industries increasingly overlaps.

## **Facilities**

The following sets forth information concerning our facilities, all of which are leased:

<b>Location</b>	<b>Principal Use</b>	<b>Expiration Date of Lease</b>	<b>Approximate Number of Square Feet</b>
25 Adelaide Street East Toronto, Ontario	Technical, administrative and executive offices	June 30, 2013	8,704
360 St. Jacques West Montreal, Quebec	Marketing, service and support offices	September 15, 2012	1,400
55 Broad Street New York, New York	Subleased	January 31, 2013	9,468
180 West Adams. Chicago, Illinois	Marketing, service and support offices	August 31, 2014	3,600

## **Risk Factors**

### **Risks and Uncertainties**

An investment in the securities of the Corporation will involve a number of potential risks. The following risk factors should be carefully considered.

#### **Lack of Profitable Operations**

Fiscal 2011 was a challenging year for the Corporation as revenues and margins declined resulting in an operating loss. There is no assurance that the Corporation will be profitable in the future.

#### **Dependency on Securities Trading Activities**

The Corporation's revenue could decrease if there is a decline in securities trading activity. Because most of the Corporation's current customers are financial institutions or securities brokerage firms, and because the Corporation relies on transaction-based billing, the Corporation's revenue is sensitive to changes in the amount of securities trading activity. A decline in securities trading activity may result from:

- loss of confidence in the reliability or security of online systems;
- changes in government regulation of the securities industry or on-line trading activities; or
- a downturn in the stock market.

## **Customer Dependence**

The Corporation is dependent on a limited number of customers for a substantial amount of its revenue. The loss of a significant customer would have a material adverse effect on revenue and results of operations. For the year ended December 31, 2011, three customers accounted for approximately 33% of net revenue (December 31, 2010 – three customers for approximately 38%). The Corporation's dependence on a limited number of customers for a substantial amount of its revenue could lead to fluctuations in its operating results.

Any of the Corporation's customers could stop using its products or services in the future. As a result, a customer that generates substantial revenue for the Corporation in one period may not be a source of revenue in subsequent periods. The loss of a significant customer would have a material and adverse effect on the Corporation's revenue and results of operations.

The Corporation's revenue depends on arrangements with its customers, all of which can be cancelled either immediately or on 30 days notice. If customers choose to cancel or cease to use the Corporation's services, the Corporation's future operating results may suffer.

## **Execution and Clearing Risk**

The Corporation's execution and clearing activities require that the Corporation execute transactions in accordance with customer instructions and accurately record and process the resulting transactions. Any failure, error or delay in executing, recording and processing transactions, whether due to human error or failure of the Corporation's information or communication systems could cause substantial losses for the Corporation's clients and possibly the Corporation if it has to purchase or sell securities at a loss to cover any of the above instances.

Clearing activities include settling each transaction with both the contra broker, and the customer or the customer's clearing firm. The default by any one of these entities could expose the Corporation to credit and market risk.

## **Credit and Market Risk**

The Corporation is subject to risk of non-payment of accounts receivable. At December 31, 2011, amounts due from two customers accounted for approximately 22% of total accounts receivable (December 31, 2010 – two customers accounted for approximately 21% of total accounts receivable).

EBS is a registered broker-dealer, providing agency only trading and clearing services. The Corporation does not act as a market-maker with respect to any securities or otherwise act as a principal in any securities transactions. The Corporation has counterparty credit exposure to its clients which may result in exposure to market risks in addition to accounts receivable credit risks. A default on the part of a client could result in the Corporation holding securities. The Corporation's normal procedures in such circumstances require the immediate liquidation of the securities; however, there is no certainty that the securities could be liquidated in a timely manner or without incurring a loss.

## **Regulatory and Compliance Risk**

The securities brokerage industry is subject to extensive government regulation under both federal and state laws in the United States of America. If EBS fails to comply with these

regulations, it may be subject to fines, censure, disciplinary or other action by regulatory organizations.

EBS must comply with rules of the SEC and FINRA state securities commissions and other regulatory bodies charged with safeguarding the integrity of the securities markets and other financial markets and protecting the interests of investors participating in these markets. As a registered broker-dealer, EBS and its employees are subject to numerous regulations covering the securities business, including marketing practices, securities lending, handling funds and securities held by them on behalf of customers, capital structure, including net capital requirements, record keeping and conduct of directors, officers and employees. The size, scope and nature of securities regulations have increased over the past several years and are expected to continue to increase in the future. The increase in regulations will increase the compliance risk and may require the investment of additional resources and systems.

Any failure to comply with these regulations could subject EBS to censure, fines, the issuance of cease-and-desist orders or the suspension, and/or disqualification of its officers, directors or employees.

### **Maintenance of Capital Levels by Regulators and Clearing Organizations**

The SEC, NYSE, FINRA, OCC and various other regulatory agencies and clearing organizations have stringent rules with respect to the maintenance of specific levels of net capital by broker-dealers.

Net capital is the net worth of a broker-dealer (assets minus liabilities), less deductions for certain types of assets. Failure to maintain the required net capital could result in suspension or revocation of registration by the SEC and suspension or expulsion by one or more of the NYSE, FINRA and OCC, and could ultimately lead to the Corporation's liquidation. If such net capital rules are changed or expanded, the Corporation's ability to withdraw capital from the US Broker Dealer Subsidiaries could be restricted, which could limit the Corporation's ability to fund its working capital requirements or capital asset expenditures required.

### **Innovation Risk**

Rapidly changing technology and new product introductions characterize the markets for the Corporation's products. Accordingly, the Corporation believes that its future success will depend on its ability to enhance existing products and to develop and introduce in a timely fashion new products that achieve market acceptance. The Corporation cannot assure that it will be able to identify, develop, assemble and market or support its products successfully or that it will be able to respond effectively to technological changes or product announcements of the Corporation's competitors.

The Corporation's future financial performance will depend in part on continued growth in the number of organizations demanding trading systems, market connectivity, clearing and execution services. Many of the Corporation's potential customers have made significant investments in internally developed systems and many new entrants and existing competitors are investing in new products and technology. The Corporation's products could be replaced by new products or other innovations in the industry.

### **Competition**

The market for global trading solutions, market connectivity, trade management solutions and outsourced network services is intensely competitive, fragmented and rapidly changing. Many of the Corporation's competitors have longer operating histories, significantly greater financial, technical, product development and marketing resources, greater name recognition and larger

customer bases than the Corporation. It is, therefore, impossible to guarantee that the products developed by other entities will not cause the Corporation's products and technologies to become uncompetitive. The Corporation faces competition from NYSE Euronext Inc., IRESS Market Technology Canada LP, Penson Worldwide Inc., Fidessa Group PLC, Wedbush Securities Inc., Interactive Brokers LLC, ConvergEx and other competitors.

The Corporation must continue to overcome significant and increasing competition in order to continue its growth and productivity.

### **Uncertainty of the Ability to Protect Proprietary Technology**

The Corporation's success will depend, in part, to a significant extent on its ability to protect its proprietary software and its other proprietary rights from copying, infringement or use by unauthorized parties and to operate without infringing on the exclusive rights of third parties.

The Corporation may be unable to adequately protect its proprietary rights. In addition, the Corporation may decide to not seek the protection of its proprietary rights in some circumstances on the basis that the costs of initiating or maintaining these protections would exceed the expected benefits of the protection. The Corporation's failure to protect its proprietary rights may significantly impair its competitive position.

To protect its proprietary rights, the Corporation relies primarily on a combination of patent, copyright, trade secret and trademark laws, confidentiality agreements with employees and third parties, and protective contractual provisions such as those contained in agreements with consultants, vendors and customers, although the Corporation has not signed these types of agreements in every case. Despite the Corporation's efforts to protect its proprietary rights, unauthorized parties may copy aspects of the Corporation's products and obtain and use information that the Corporation regards as proprietary. Other parties may breach confidentiality agreements and other protective contracts the Corporation has entered into. The Corporation may not become aware of, or have adequate remedies in the event of, these types of breaches or unauthorized activities. In addition, any claims relating to the infringement of third-party proprietary rights, even if not successful or meritorious, could result in costly litigation, divert resources and management's attention or require the Corporation to enter into royalty or license agreements which are not advantageous to it.

The patents, copyrights, trade secrets and trademarks granted to the Corporation may not make its products more competitive. Any patents, copyrights, trade secrets and trademarks may be contested by third parties and the patents, copyrights, trade secrets and trademarks of others may be detrimental to the Corporation's commercial activities. Other entities may independently develop products similar to the Corporation's products, imitate any of the Corporation's products or manufacture products designed to circumvent the exclusive rights granted to the Corporation. The Corporation may also be required to obtain licenses under patents or other exclusive rights from third parties. There is no guarantee that any license required under these patents or other exclusive rights will be offered upon conditions acceptable to the Corporation.

### **Reliance on Third Party Software and Systems**

The Corporation has contracted with a third party provider to provide a major portion of the software and systems necessary for the Corporation's clearing operations. Any major interruption in the Corporation's ability to process its transactions through the third party system would harm the Corporation's relationships with its clients and impact its growth. The Corporation also licenses many additional, generally available or custom software packages. Failures in any of these applications could harm the Corporation's business operations.

## **Encryption Technology**

The Corporation's product contains encryption technology whose export is restricted by law, which may slow the Corporation's growth or result in significant costs. The United States and Canadian governments generally limit the export of encryption technology, which the Corporation's product incorporates. A variety of cryptographic products generally require export approvals from certain United States government agencies in the case of exports from the United States and from Canadian government agencies in the case of exports from Canada, although there are currently no restrictions on exports of these products from Canada into the United States.

If any export approval that the Corporation receives is revoked or modified, if the Corporation's software is unlawfully exported or if the United States government or the Canadian government adopts new legislation or regulations restricting export of software and encryption technology, the Corporation may not be able to distribute its products to potential customers, which will cause a decline in its sales.

The Corporation may need to incur significant costs and divert resources to develop replacement technologies or may need to adopt inferior substitute technologies to satisfy these export restrictions. These replacement or substitute technologies may not be the preferred security technologies of the Corporation's customers, in which case, the Corporation's business may not grow. In addition, the Corporation may suffer similar consequences if the laws of any other country limit the ability of third parties to sell encryption technologies to the Corporation.

## **Product and Service Liability**

The Corporation may be exposed to product and service liability in the event that use of the Corporation's trading system or execution and clearing services results, or is alleged to have resulted, in adverse effects. To manage this risk, the Corporation endeavors to enter into contracts with its customers which include exculpatory clauses. However, there is no certainty that these clauses will be upheld in the event of a legal challenge and the Corporation has presently, and may have in the future, customers for whom it provides services and products and with whom it has not entered into written agreements which include these clauses.

The Corporation's clearing and brokerage operation could expose the Corporation to legal liability for errors in performing clearing and brokerage functions and improper activities of the Corporation's customers. These errors could result in over or under trading in securities or trading in error. Clients may seek compensation from the Corporation to cover these errors. The Corporation could also be exposed to settlement risk and may result in holding securities. The Corporation's normal procedures in such circumstances require the immediate liquidation of the securities, however, there is no certainty that the securities could be liquidated in a timely manner or that such liquidation could be effected without incurring a loss.

## **Litigation**

The Corporation is exposed to litigation risk arising for allegations of negligence in the normal course of its operations or as a result of contractual disputes. In 2009, the Corporation and a customer of the Corporation were jointly named as defendants in the Litigation which was filed by a client of the customer in relation to alleged deficiencies in services and software provided. As a result of the alleged deficiencies, along with direct claims asserted against the Corporation's customer, the plaintiffs are seeking to recover damages from trading losses, commissions levied, loss of opportunity, loss of profit, loss of fees, audit costs and loss of goodwill and damage to business reputation in the amount of \$4.5 million plus unspecified special damages. As the suit

names both the Corporation and its customer, the Corporation has no basis to estimate its portion of the claim. The Corporation does not believe that it is liable for these claims and has engaged legal counsel to vigorously defend the claim. The Corporation has no direct contractual relationship with the party who filed the suit. In addition, the Corporation's contract with its customer limits the Corporation's liability for the services and software provided. The Corporation has no certainty regarding the likelihood of a successful conclusion of the suit, of the timing of resolution, of the enforceability of the limitation of liability or the costs required to defend against these allegations, all of which could create a material exposure for the Corporation.

### ***Description of Capital Structure***

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of Class A Restricted Shares. As at April 30, 2012, there were 14,647,863 Common Shares and 7,881,826 Class A Restricted Shares issued and outstanding.

The holders of Common Shares are entitled to such dividends, as and when declared by the board of directors of the Corporation, to one vote per share at meetings of shareholders and, upon liquidation, to receive such assets of the Corporation as are distributable to holders of Common Shares. The holders of Class A Restricted Shares have equal rights, privileges, and entitles the holder to one vote at all meetings of shareholders

### ***Dividend Policy***

To date, we have not paid a dividend. The declaration, amount and date of distribution of any dividends in the future will be decided by the Board of Directors from time to time based upon and subject to our earnings, financial requirements and other conditions prevailing at the time.

## MARKET FOR SECURITIES

The Common Shares are listed on the TSX Venture Exchange under the symbol “FLC.V”.

The following table sets out the price range and volume traded for the Common Shares for each month of the most recently completed financial year:

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Volume Traded</b>
January	\$0.40	\$0.28	170,800
February	\$0.50	\$0.38	356,300
March	\$0.43	\$0.34	662,400
April	\$0.43	\$0.32	342,600
May	\$0.39	\$0.36	91,500
June	\$0.37	\$0.34	150,200
July	\$0.34	\$0.25	111,100
August	\$0.25	\$0.15	67,600
September	\$0.20	\$0.10	202,500
October	\$0.15	\$0.10	2,322,500
November	\$0.15	\$0.12	119,200
December	\$0.15	\$0.10	183,000

## TRANSFER AGENTS AND REGISTRARS

The Corporation’s registrar and transfer agent is Valiant Trust Company, Toronto, Canada.

## DIRECTORS AND OFFICERS

The following table sets out the name and municipality of residence of each director and executive officer of the Corporation as at December 31, 2011, their respective positions and offices held with the Corporation, their respective principal occupations and the respective years from which they served as a director of the Corporation, if applicable:

Name & Municipality of Residence	Position with Corporation	Principal Occupation	Director Since
Keith Harris <sup>(1)</sup> Toronto, Ontario	Director	Corporate Director	2011
Deborah Robinson <sup>(2)</sup> Toronto, Ontario	Director	President of Bay Street HR and VP/Chief People officer of Equity Financial Trust	2011
Stephen Sadler <sup>(1)</sup> Toronto, Ontario	Director	Chairman and CEO of Enghouse Systems Limited	1997
Justin Hughes <sup>(1)</sup> San Francisco, California	Director	Partner, Philadelphia Financial, San Francisco, CA.	2008
Hoss Astaraki Richmond Hill, Ontario	Chairman and Chief Executive Officer	Officer of the Corporation	2011
John Culbert Toronto, Ontario	CFO and Corporate Secretary	Officer of the Corporation	N/A

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

Under the by-laws of the Corporation, directors of the Corporation are elected annually. Each director holds office until the next annual meeting or until the successor of such director is duly elected or appointed, unless such office is vacated earlier in accordance with the by-laws.

Except as disclosed below under "*Management*", during the last five years, the directors and officers of the Corporation noted above have held the occupation or have been associated with the companies or firms listed opposite their respective names.

As at April 30, 2012, the directors and executive officers of the Corporation, as a group, beneficially own, directly or indirectly, or exercise control or direction over, 788,102 Class A Restricted shares representing 10% of the issued and outstanding Class A Restricted shares outstanding and 3.5% of the total outstanding share capital.

## **Management**

Frontline's management team and board of directors consist of the following:

**Hoss Astaraki** is the founder and CEO of Frontline Technologies Inc. He is responsible for the strategic development, innovation and application of new technology & telecommunication, as well as ensuring all regulatory requirements are met with the technology he introduces to the professional, financial, and investment banking communities in Canada. Under his leadership, the Frontline Technologies team has met the overall business-technology, communications and corporate needs of financial industry leaders. Previous to his entrepreneurial commitment Hoss held positions in the IT sector with such firms such as IBM and Research Capital Corporation; he has been an IT professional for over 15 years, seven of which have been in Management roles.

**Keith Harris** is a Chartered Accountant with over 20 years experience in the investment banking business. Most recently, he was President and CEO of Stifel Nicolaus Canada Inc., the Canadian broker-dealer subsidiary of Stifel Financial Corp., a financial holding company listed on the New York Stock Exchange. In 2002, he was co-founder and Chief Financial Officer of a Canadian investment bank boutique, Westwind Partners Inc., which was sold to Thomas Weisel Partners Group (TWPG) in 2008. TWPG was bought by Stifel in 2010. Mr. Harris received a B.Comm from the University of Toronto in 1975 and received his CA designation in 1977 with Ernst & Young.

**Deborah Robinson** has been a Director of the Corporation since April 11, 2011 and is Chair of the HR and compensation committee and is currently President of Bay Street HR and VP/Chief People officer of Equity Financial Trust. She is a graduate of the Directors Education Program of the Institute for Corporate Directors and holds the ICD.D designation.

**Stephen Sadler** has been a Director of the Corporation since October 28, 1997. Since April 2000, Mr. Sadler has been the Chairman and CEO of Enghouse Systems Limited, a world leading software engineering company that develops Geographic Information Systems based solutions for Telecommunications and Utility companies and develops live agent and self service systems for a variety of companies. He is also Chairman of Helix Investments Corporation, a venture capital firm, a position which he has held since 1999. Mr. Sadler served in senior management roles at Geac Computer Corporation from 1990 to 1999. Mr. Sadler is currently a director of several high-tech private and public companies, including Open Text Corporation. Mr. Sadler has a Master of Business Administration degree from York University, Chartered Accountant's designation, and Honours Bachelor's degree in Applied Science and Engineering from the University of Toronto.

**Justin Hughes** has been a Director of the Corporation since May 15, 2008. Mr. Hughes is a Managing Member of Philadelphia Financial of San Francisco ("Philadelphia Financial") and Co-Portfolio Manager of the firm's four funds. Mr. Hughes has sixteen years of professional investment experience covering financial services both as a sell-side research analyst and as a buy-side hedge fund analyst. Prior to co-founding Philadelphia Financial, Mr. Hughes was an Investment Analyst covering Financial Services/Brokerage for Hovde Capital, a Washington D.C. based hedge fund specialized in financial services. From 1996 to 2003, Mr. Hughes was a sell-side research analyst, at Jefferies & Co., Robertson Stephens, and Putnam Lovell. Mr. Hughes graduated from the University of California at Irvine, in 1994 with a B.A. degree in Economics and has been a Chartered Financial Analyst since 1998

**John Culbert** has been CFO of the Corporation since November 10, 2011. Mr. Culbert has over 15 years of senior management experience in the Investment Industry as CFO for Sun Life Securities Inc, CFO Ameritrade Canada Inc, and CFO Fidelity Clearing Canada Inc. Mr. Culbert has consulted for private corporations and was formerly an auditor with Deloitte and Touché. Mr. Culbert has a Bachelor of Commerce Honors in Accounting from the University of Ottawa.

## **AUDIT COMMITTEE**

### ***Composition of Audit Committee***

The members of our Audit Committee are Keith Harris (Chair), Stephen Sadler and Justin Hughes. The Board has determined that all of the members of the Audit Committee are independent as well as financially literate.

### ***Relevant Education and Experience***

Mr. Keith Harris is a Chartered Accountant with over 20 years experience in the investment banking business. Mr. Harris received a B.Comm from the University of Toronto in 1975 and received his CA designation in 1977 with Ernst & Young.

Mr. Sadler is Chairman and CEO of Enghouse Systems Inc. He has a Master of Business Administration degree from York University, Chartered Accountant designation and Honours Bachelor Degree in Applied Science and Engineering from the University of Toronto. He has experience as Chief Executive Officer and Chief Financial Officer of both public and private companies. See "Management".

Mr. Hughes is a Managing Member of Philadelphia Financial of San Francisco ("Philadelphia Financial") and Co-Portfolio Manager of the firm's four funds. Mr. Hughes has fourteen sixteen years of professional investment experience covering financial services both as a sell-side research analyst and as a buy-side hedge fund analyst. Mr. Hughes graduated from the University of California at Irvine, in 1994 with a B.A. degree in Economics and has been a Chartered Financial Analyst since 1998.

### ***Audit Committee Charter***

A copy of the charter of the Audit Committee is attached to this annual information form as Appendix A.

## ***Principal Accountant Fees and Services***

KPMG LLP has been the auditor of our Corporation since October 2002.

Fees payable to KPMG LLP for the years ended December 31, 2011 and 2010 were as follows:

Fees	2011	2010
Audit Fees	\$90	\$118
Audit-Related Fees	nil	nil
Tax Fees	\$28	\$29
All Other Fees	nil	18
Total	\$118	\$147

### ***Audit Fees***

These audit fees were for professional services rendered for the audits of our annual consolidated financial statements.

### ***Audit-Related Fees***

These audit-related fees were for assurance and related services that are reasonably related to the performance of the audit of our financial statements and are not reported under the “audit fees” category above.

### ***Tax Fees***

These tax fees were for assistance provided in connection with documentation of the Corporation’s transfer pricing policies, the preparation and filing of Canadian and U.S. tax returns and for services rendered in connection with Canadian Scientific Research and Experimental Development tax program.

### ***All Other Fees***

Fees disclosed in the table above under the item “all other fees” were for services other than the audit fees, audit-related fees and tax fees described above.

### ***Pre-Approval Policies and Procedures***

The Corporation has in place a pre-approval policy which provides for the Audit Committee’s approval of any non-audit services to be rendered by the outside auditors. The Audit Committee is required to consider whether the provision of non-audit services is compatible with maintaining the outside auditors’ independence, including, but not limited to, the nature and scope of the specific non-audit services to be performed and whether the audit process would require the outside auditors to review any advice rendered by the outside auditors in connection with the provision of non-audit services.

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Copies of the Corporation’s financial statements may be obtained by contacting

Frontline Technologies Inc., 25 Adelaide Street East, Suite 600, Toronto, Ontario, M5C 3A1,  
Attention: Hoss Astaraki.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and principal holders of options to purchase securities and interests of insiders in material transactions, if applicable, is contained in the Corporation's information circular in respect of the Corporation's most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in the Corporation's financial statements and Management Discussion and Analysis for the most recently completed financial year. The Corporation's internet address is: [www.frontline.ca](http://www.frontline.ca)

**APPENDIX A**  
**FRONTLINE TECHNOLOGIES INC.**  
**AUDIT COMMITTEE CHARTER**

**I. PURPOSE**

The Audit Committee is a committee of the Board of Directors of Frontline Technologies Inc. (the “**Corporation**”) established to assist the Board of Directors in fulfilling its oversight responsibilities by carrying out the activities described in this Charter in the manner detailed by this Charter.

**II. COMMITTEE MEMBERSHIP**

- (a) The Board of Directors, immediately upon their election by the shareholders of the Corporation, shall appoint an Audit Committee to serve for the forthcoming year. Each member of the Audit Committee shall serve at the pleasure of the Board of Directors until the member resigns, is removed or ceases to be a Director of the Corporation.
- (b) The Board of Directors shall designate a member of the Audit Committee to serve as Chairperson.
- (c) The Audit Committee shall consist of a minimum of three members, all of whom must be independent.
- (d) Each member of the Audit Committee shall:
  - (i) be a member of the Board of Directors of the Corporation;
  - (ii) be independent according to the definition of independence applicable to members of audit committees under Multilateral Instrument 52-110 entitled “Audit Committees” (“**MI 52-110**”) of the Canadian Securities Administrators (excluding British Columbia), unless otherwise approved by the Board of Directors in accordance with MI 52-110; and
  - (iii) have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements, unless otherwise approved by the Board of Directors in accordance with MI 52-110.

**III. MEETINGS**

- (a) Meetings of the Audit Committee shall be held at least four times a year. The meetings will be scheduled to permit timely review of the Corporation’s interim and annual financial statements.
- (b) Additional meetings of the Audit Committee may be called by the Chairperson, any member of the Committee or the external auditors of the Corporation.

**IV. REPORTING**

- (a) The Chairperson will arrange for the preparation of minutes of the meetings of the Audit Committee in sufficient detail to convey the substance of all discussions held. Upon approval of the minutes by the Audit Committee, the minutes shall be circulated to the members of the Board of Directors.
- (b) The Chairperson may report orally to the Board on any matter in his/her view requiring the immediate attention of the Board.

## **V. RESPONSIBILITIES**

In fulfilling its responsibilities, the Audit Committee shall:

- (a) review the Corporation's annual financial statements, interim financial statements, Management's Discussion and Analysis of Operations and Changes in Financial Condition (for both annual and interim) prior to public disclosure of such information by the Corporation;
- (b) review the annual and interim earnings press releases (for both annual and interim); and any other press releases containing financial information related to earnings, prior to public disclosure of such information by the Corporation;
- (c) satisfy itself, on behalf of the Board of Directors, that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements (other than the public disclosure referred to in (a) above) and periodically assess the adequacy of such procedures;
- (d) satisfy itself, on behalf of the Board of Directors, that the Corporation's annual financial statements are fairly presented in accordance with generally accepted accounting principles and otherwise, and recommend to the Board whether the annual financial statements should be approved;
- (e) satisfy itself, on behalf of the Board of Directors, that the Corporation's interim financial statements are fairly presented in accordance with generally accepted accounting principles and otherwise, and recommend to the Board whether the interim financial statements should be approved;
- (f) satisfy itself, on behalf of the Board of Directors, that the information contained in the Corporation's Annual Report to Shareholders and other financial publications such as Management's Discussion and Analysis of Financial Condition and Results of Operations, the Annual Information Form and the information contained therein is fairly presented in all material respects;
- (g) satisfy itself, on behalf of the Board of Directors, that the Corporation has implemented appropriate systems to identify, assess and mitigate significant business risks;
- (h) satisfy itself, on behalf of the Board of Directors, that the Corporation has implemented appropriate systems of internal control over financial reporting (including an internal audit function) and that these are operating effectively;
- (i) satisfy itself, on behalf of the Board of Directors, that the Corporation has implemented appropriate systems of internal control to ensure compliance with legal, regulatory and ethical requirements;
- (j) establish procedures, for the receipt retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls and auditing matters;
- (k) establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- (l) satisfy itself, on behalf of the Board of Directors, that the external audit function has been effectively carried out and that any matter which the independent auditors wish to bring to the attention of the Board has been addressed; and
- (m) at least once per year, meet with the external auditors and management in separate sessions to discuss any matters that the Committee or these groups believe should be discussed with the Audit Committee.

## **VI. RELATIONSHIP WITH AUDITORS**

- (a) The Audit Committee shall recommend to the Board of Directors the external auditor to be nominated for appointment at the Corporation's annual meeting for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.

- (b) The Audit Committee shall satisfy itself, on behalf of the Board of Directors, that the external auditor is “independent” in accordance with applicable laws and requirements.
- (c) The Audit Committee shall recommend to the Board of Directors the compensation of the external auditor.
- (d) The external auditor is required to report directly to the Audit Committee and the Audit Committee has the authority to communicate directly with the external auditor.
- (e) The Audit Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- (f) The Audit Committee shall review and approve the Corporation's hiring policies regarding current and former partners and employees of the current and former external auditor of the Corporation.

#### **VII. PRE-APPROVAL OF NON-AUDIT SERVICES**

- (a) The Audit Committee shall pre-approve all services to be provided to the Corporation or its subsidiaries by the external auditor, other than the professional services rendered by the external auditor for the audit and review of the Corporation's financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements.
- (b) In addition to approval by the Audit Committee as a whole, the pre-approval requirement is also satisfied where:
  - (i) the Audit Committee delegates authority to pre-approve non-audit services to one or more members, which pre-approval must be presented by the member(s) to the full Audit Committee at its next scheduled meeting; or
  - (ii) the Audit Committee adopts specific policies and procedures for the engagement of non-audit services provided that: (i) the pre-approval policies and procedures are detailed as to the particular service, (ii) the Audit Committee is informed of each non-audit service, and (iii) the procedures do not include delegation of the Audit Committee's responsibilities to management.

#### **VIII. AUTHORITY TO ENGAGE EXTERNAL ADVISORS**

The Audit Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set and pay the compensation for such advisors.

#### **IX. CURRENCY OF CHARTER**

This Charter was last revised on December 7, 2005.