PROCESS NARRATIVES

Internal Control Documentation

Contents	Page

Commitments and Contingencies
[Company Name]
[Date]

Background

Commitments are composed of lease obligations for operations (premises, automotive and office equipment).

<u>Capital and Operating Leases</u>

Initiation/Authorization

The initiation process for leases is similar to the purchasing process for all other purchases.

Approval has to be obtained by the department from the Controller before an asset is leased. The Controller will take the request and review it with the VP of Product Development and CFO. At this stage, different rates from different vendors will be obtained and considered. If the lease is approved, a lease agreement will be obtained from the vendor.

Processing/Recording

[The Company] currently uses IAS 17.10 and 17.11 to determine lease classification.
If the lease is considered a capital lease, the asset and associated liability will be recorded to reflect the lease obligation.

All leases are set up as automatic withdrawals from the bank accounts. Therefore, when the Financial Analyst performs the monthly bank reconciliation process, he will prepare a lease expense journal entry.

<u>For capital leases, the monthly entry is set up as:</u>

DR Lease Liability
DR Interest Expense
    CR Cash

<u>For operating leases, the monthly journal entry is:</u>

DR Rent Expense
    CR Cash/AP
Dr. GST Payable

Monitoring:

The leases are informally monitored by the Financial Analyst when he performs the monthly bank reconciliations.

[The Company] compiles their own commitment schedule and ensures compliance with IAS disclosure.

Contingencies
Initiation
Contingencies would be identified by the legal counsel and brought to [the Company's] attention.

Recording
Recording of complex items such as contingencies would be recorded and approved by the Controller and CFO.

Monitoring:
Contact would be made by the legal counsel to inform [the Company] of any contingencies / litigation.

Current Income Tax
[Company Name]
[Date]

Background

[Company Name] is taxable in [number] federal jurisdictions as follows:

1. Country 1
2. Country 2
3. Country 3
4. Country 4

[Company Name] uses outside firms to compile and submit all necessary income tax returns in each of the jurisdictions.

Process

Expense

Routine quarterly entries for current income tax expense are recorded for [Company names]. Current income tax expense is based on an estimate of current year expense provided by the external firm (i.e. based on current effective corporate tax rates and estimated income for the year). [or] Current income tax expense is based on actual installment payments for the current year made by the accounting group. The estimates of the current year expense for these entities is not generally trued up until the year end. True ups are based on an actual estimate of current income tax expense and incorporate final audited financial results. However, the true up is based on determinations of the tax filing positions prior to completion of the actual tax returns. Consequently, final tax positions taken in a tax return may differ from the position taken in determining the final true-up provision. Any such resulting book to filing differences are recorded as income tax expense in the following tax year.

Journal entries to record monthly income tax expense are initiated by the Controller. Journal entries to record monthly income tax expense are authorized by the Controller and are posted into [accounting software] by either the Corporate Analyst or AR clerk. The annual current income tax provision true ups are calculated by the Controller and or Financial Reporting Contractor in Excel. Any journal entries arising from the annual true-up are posted as "top-side" entries by the Controller and or Financial Reporting Contractor as part of the financial statement consolidation process. Actual journal entries to record the current year income tax true up are posted to the respective general ledgers after year end in a manner consistent with the monthly process.

All income tax entries are effectively reviewed by the CFO as part of the quarterly financial reporting process.

Payable/Receivable

Routine monthly entries are also made to record current income tax expense payable or receivable as it relates to the income tax expense recorded per above in addition to actual income tax installments made.

[or] Note that the monthly current income tax expense recorded is based on installments made so there is no additional accounting made.

The income tax payable account is credited (and cash debited) for each current installment made. The journal entries are initiated/authorized by the Controller and posted by either the Corporate Analyst or AR clerk.

The income tax payable/receivable balances are trued up only at year end in connection with the determination of the final tax provision by the Controller and or Financial Reporting Contractor and is subject to the same process as described in the true up of the income tax expense.

Deferred Income Tax
[Company Name]
[Date]

Background

[Company Name] is taxable the following federal jurisdictions as follows:

1. Country 1
2. Country 2
3. Country 3
4. Country 4

Process

Deferred income taxes are only recorded annually as part of the audit of the annual consolidated financial statements. A deferred tax provision is calculated by the Controller and or Financial Reporting Consultant in Excel for each of company incorporating final audited financial results and are reviewed by [Reviewer] as part of the annual audit. The journal entries arising from the calculation of the deferred tax provisions are posted as "top-side" entries by the Controller and or Financial Reporting Consultantas part of the financial statement consolidation process. Actual journal entries to record the current year deferred income tax balances up are posted to the respective entity's general ledger after year end in a manner consistent with the process for recording the current income tax provision year-end true ups (see Current Income Tax Expense narrative).

All deferred tax entries are effectively reviewed by the CFO as part of the annual financial reporting process.