

**Inspection of
Petrie Raymond, Chartered Accountants – L.L.P.
(Headquartered in Montreal, Canada)**

**Issued by the
Public Company Accounting Oversight Board**

December 21, 2009

**THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT
PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002**



Notes Concerning this Report

1. Portions of this report may describe deficiencies or potential deficiencies in the systems, policies, procedures, practices, or conduct of the firm that is the subject of this report. The express inclusion of certain deficiencies and potential deficiencies, however, should not be construed to support any negative inference that any other aspect of the firm's systems, policies, procedures, practices, or conduct is approved or condoned by the Board or judged by the Board to comply with laws, rules, and professional standards.
2. Any references in this report to violations or potential violations of law, rules, or professional standards should be understood in the supervisory context in which this report was prepared. Any such references are not a result of an adversarial adjudicative process and do not constitute conclusive findings of fact or of violations for purposes of imposing legal liability. Similarly, any description herein of a firm's cooperation in addressing issues constructively should not be construed, and is not construed by the Board, as an admission, for purposes of potential legal liability, of any violation.
3. Board inspections encompass, among other things, whether the firm has failed to identify departures from U.S. Generally Accepted Accounting Principles ("GAAP") or Securities and Exchange Commission ("SEC" or "Commission") disclosure requirements in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the related GAAP or disclosure departures. The Board, however, has no authority to prescribe the form or content of an issuer's financial statements. That authority, and the authority to make binding determinations concerning an issuer's compliance with GAAP or Commission disclosure requirements, rests with the Commission. Any description, in this report, of perceived departures from GAAP or Commission disclosure requirements should not be understood as an indication that the Commission has considered or made any determination regarding these issues unless otherwise expressly stated.



INSPECTION OF PETRIE RAYMOND, CHARTERED ACCOUNTANTS – L.L.P.

The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Petrie Raymond, Chartered Accountants – L.L.P.^{1/} ("the Firm"). The Board is issuing this report of that inspection in accordance with the requirements of the Sarbanes-Oxley Act of 2002 ("the Act").

The Board is making portions of the report publicly available. Specifically, the Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report.^{2/}

The Board has elsewhere described in detail its approach to making inspection-related information publicly available consistent with legal restrictions.^{3/} A substantial portion of the Board's criticisms of a firm (specifically criticisms of the firm's quality control system), and the Board's dialogue with the firm about those criticisms, occurs out of public view, unless the firm fails to make progress to the Board's satisfaction in addressing those criticisms. In addition, the Board generally does not disclose otherwise nonpublic information, learned through inspections, about the firm or its clients. Accordingly, information in those categories generally does not appear in the publicly available portion of an inspection report.

^{1/} The Firm has issued audit reports under the name of Petrie Raymond.

^{2/} The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

^{3/} See Statement Concerning the Issuance of Inspection Reports, PCAOB Release No. 104-2004-001 (August 26, 2004).

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from August 18, 2008 to August 22, 2008.^{4/} These procedures were tailored to the nature of the Firm, certain aspects of which the inspection team understood at the outset of the inspection to be as follows:

| | |
|--|---|
| Number of offices | 1 (Montreal, Canada) |
| Ownership structure | Limited liability partnership (Société en nom collectif à responsabilité limitée) |
| Number of partners | 11 |
| Number of professional staff ^{5/} | 49 |
| Number of issuer audit clients ^{6/} | 2 |

^{4/} The Board's inspection was conducted in cooperation with the Canadian Public Accountability Board ("CPAB").

^{5/} "Professional staff" includes all personnel of the Firm, except partners or shareholders and administrative support personnel. The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers or are "associated persons" (as defined in the Act) of the Firm.

^{6/} The number of issuer audit clients shown here is based on the Firm's self-reporting and the inspection team's review of certain information for inspection planning purposes. It does not reflect any Board determination concerning which, or how many, of the Firm's audit clients are "issuers" as defined in the Act. In some circumstances, a Board inspection may include a review of a firm's audit of financial statements of an issuer that ceased to be an audit client before the inspection, and any such former clients are not included in the number shown here.

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits.^{7/} To achieve that goal, Board inspections include reviews of certain aspects of selected audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, an inspection may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, respects in which an issuer's financial statements do not present fairly the financial position, results of operations, or cash flows of the issuer in conformity with GAAP.^{8/} It is not the purpose of an inspection, however, to review all of a firm's audits or to identify every respect in which a reviewed audit is deficient. Accordingly, a Board inspection report should not be understood to provide any assurance that the firm's audits, or its issuer clients' financial statements, are free of any deficiencies not specifically described in an inspection report.

A. Review of Audit Engagements

The inspection procedures included a review of aspects of the Firm's auditing of financial statements of two issuers. The scope of this review was determined according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the scope.

The inspection team identified what it considered to be audit deficiencies.^{9/} The deficiencies identified in both of the audits reviewed included deficiencies of such

^{7/} This focus necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools.

^{8/} When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with GAAP, the Board's practice is to report that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

^{9/} PCAOB standards require a firm to take appropriate actions to assess the importance of audit deficiencies identified after the date of the audit report to the firm's present ability to support its previously expressed opinions. See AU 390, *Consideration*

significance that it appeared to the inspection team that the Firm did not obtain sufficient competent evidential matter to support its opinion on the issuer's financial statements.^{10/} Those deficiencies were the failure, in two audits, to audit the completeness and accuracy of the issuers' U.S. GAAP reconciliation disclosures.

B. Review of Quality Control System

In addition to evaluating the quality of the audit work performed on specific audits, the inspection included review of certain of the Firm's practices, policies, and procedures related to audit quality. This review addressed practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. As described above, any defects in, or criticisms of, the Firm's quality control system are discussed in the nonpublic portion of this report and will remain nonpublic unless the Firm fails to address them to the Board's satisfaction within 12 months of the date of this report.

END OF PART I

of Omitted Procedures After the Report Date, and AU 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T). Failure to comply with these PCAOB standards could be a basis for Board disciplinary sanctions.

^{10/} In some cases, an inspection team's observation that a firm failed to perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if a firm claims to have performed the procedure. PCAOB Auditing Standard No. 3, *Audit Documentation* ("AS No. 3"), provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. See AS No. 3, paragraph 9; Appendix A to AS No. 3, paragraph A28. For purposes of the inspection, an observation that the Firm did not perform a procedure, obtain evidence, or reach an appropriate conclusion may be based on the absence of such documentation and the absence of persuasive other evidence.



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PORTIONS OF THE REST OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED
FROM THIS PUBLIC DOCUMENT

PART II

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B. Issues Related to Quality Controls

The inspection of the Firm included consideration of aspects of the Firm's system of quality control. Assessment of a firm's quality control system rests both on review of a firm's stated quality control policies and procedures and on inferences that can be drawn from respects in which a firm's system has failed to assure quality in the actual performance of engagements.^{11/} On the basis of the information reported by the inspection team, the Board has the following concerns about aspects of the Firm's system of quality control.

1. Design of Quality Control System^{12/}

^{11/} A firm's failure to comply with the requirements of PCAOB standards when performing an audit may be an indication of a potentially significant defect in a firm's quality control system even if that failure did not result in an insufficiently supported audit opinion.

^{12/} In addition to the points described in the text, the Board notes that the Firm does not have procedures that meet the requirements of PCAOB Rule 3400T(b), which requires registered firms to comply with the quality control standards described in section 1000.08(o) of the American Institute of Certified Public Accountants ("AICPA") SEC Practice Section Reference Manual, which in turn requires that a firm have policies and procedures in place to comply with Appendix L, section 1000.46 of that manual. Specifically, the Firm does not have (1) procedures to verify the completeness and accuracy of independence representations made by the Firm's partners and managers and (2) an independence training program to provide reasonable assurance that professionals understand the Firm's independence policies and SEC independence rules and regulations. Because the Firm was not a member of the SEC Practice Section of the AICPA and therefore is not subject to the Appendix L, section 1000.46 requirement in the Board's interim standards, the Board is not here addressing these independence quality controls in terms of a criticism of, or a potential defect in, the Firm's quality control systems for purposes of PCAOB Rule 4009 (discussed in Part III below). Nevertheless, the Board notes the important role that these independence quality controls can play in ensuring that an audit is performed in compliance with

a. Audit Policies, Procedures and Methodologies, Including Training

The Firm's system of quality control appears not to provide sufficient assurance that the staff and partners of the Firm possess the necessary competencies and proficiency to perform audits of issuers. Specifically, the Firm does not have a system in place to ensure that individuals assigned to issuer clients have the technical training and proficiency required in the circumstances and that they participate in continuing professional education and other development activities related to generally accepted accounting principles in the United States, PCAOB auditing standards, and SEC reporting requirements, rules, and regulations.

b. Monitoring

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct monitoring procedures for all of the elements of quality control. Specifically, the Firm's monitoring policies and procedures do not address the performance of procedures to provide reasonable assurance that quality control policies and procedures regarding (1) independence, integrity and objectivity, (2) personnel management, and (3) acceptance and continuance of clients and engagements are suitably designed and being effectively applied. The Firm also does not appear to perform monitoring procedures on a timely basis as the Firm had not completed its monitoring procedures for the year prior to the year under inspection as of the date of the inspection.

2. Audit Performance

A firm's system of quality control should provide reasonable assurance that the work performed on an audit engagement will meet applicable professional standards and regulatory requirements. On the basis of the information reported by the inspection team, including the audit performance deficiencies described in Part II.A and any other deficiencies identified below, the Board has concerns that the Firm's system of quality control fails to provide such reasonable assurance in at least the following respects^{13/} –

PCAOB standards, and encourages the Firm to implement these independence quality controls as outlined in Appendix L, section 1000.46.

^{13/} In addition to the points described in the text, the Board notes that the concurring partner review procedure used by the Firm for the issuers inspected did not

a. Technical Competence, Due Care, and Professional Skepticism

The Firm's system of quality control appears not to do enough to ensure technical competence and the exercise of due care or professional skepticism.

b. Fraud Procedures

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform all of the required procedures in accordance with the provisions of AU 316, *Consideration of Fraud in a Financial Statement Audit*. Specifically, the Firm did not perform audit procedures to test journal entries and other adjustments for evidence of possible material misstatements due to fraud, failed to conduct a brainstorming session by members of the engagement team to discuss fraud risk, failed to incorporate an element of unpredictability in the selection of audit procedures to be performed, failed to review accounting estimates for biases that could result in material misstatement due to fraud and failed to identify and assess the impact of any fraud risk factors. [Issuer A]

c. Engagement Completion Document

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will prepare an engagement completion document in accordance with AS No. 3, which is necessary to demonstrate that the work performed by engagement personnel addresses the significant findings and issues of the engagement. [Issuer A]

result in the identification of the deficiencies noted by the inspection team. Because the Firm was not a member of the SEC Practice Section of the AICPA and therefore is not subject to the concurring partner review requirement in the Board's interim standards, the Board is not here addressing the concurring partner review procedures in terms of a criticism of, or a potential defect in, the Firm's quality control systems for purposes of PCAOB Rule 4009 (discussed in Part III below). Nevertheless, the Board notes the important role that an effective concurring partner review can play in ensuring that an audit is performed in compliance with PCAOB standards, and encourages the Firm to obtain a meaningful concurring partner review by a qualified reviewer in connection with audits of issuers. A meaningful concurring partner review procedure would likely have identified the deficiencies described in this report before the Firm issued the reports.

d. Auditor Communications

The Firm's system of quality control appears not to provide sufficient assurance that all of the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented. Specifically, the Firm's communications with the audit committee did not include discussions regarding management's estimates and accounting judgments or all uncorrected misstatements. Additionally, the Firm's independence letter to the audit committee did not address the independence matter discussed in Part II.C below. [Issuer A]

e. Appropriate Procedures

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct all testing appropriate to a particular audit. The information reported by the inspection team suggests an apparent pattern of failures to perform the appropriate procedures related to the testing of the disclosures of differences between Canadian GAAP and U.S. GAAP. [Issuers A and B]

3. Independence

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with independence requirements. As described in Part II.C below, the inspection team reported information indicating that the Firm may not have been independent of an issuer audit client within the meaning of the Commission's independence requirements. [Issuer A]

4. Monitoring and Addressing Identified Weaknesses

The Firm's system of quality control appears to lack a monitoring element sufficient to provide the Firm with reasonable assurance that the Firm's policies and procedures for engagement performance are suitably designed and effectively applied. The Firm's monitoring appears to have been deficient with respect to at least five types of previously identified weakness [including] that the Firm's procedures appeared not to provide sufficient assurance that the Firm (1) performed all required fraud procedures; (2) prepared an engagement completion document; (3) ensured that all of the required communications to the audit committee, or equivalent, occur and are appropriately documented; (4) ensured that those involved in audits of U.S. issuers receive adequate training in U.S. accounting and auditing requirements; and (5) audited an issuer's U.S.

GAAP reconciliation footnote disclosure. An appropriate approach to monitoring would have resulted in the Firm avoiding these deficiencies in audits performed after they were brought to the Firm's attention, yet similar deficiencies were noted in this inspection.

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PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.^{14/}

^{14/} In any version of an inspection report that the Board makes publicly available, any portions of a firm's response that address nonpublic portions of the report are omitted. In some cases, the result may be that none of a firm's response is made publicly available.

**PETRIE
RAYMOND**

COMPTABLES AGRÉÉS - S.E.N.C.R.L.

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November 11, 2009

Mr. George H. Diacont, Director
Division of Registration and Inspections
Public Company Accounting Oversight Board (PCAOB)
1666 K. Street, N.W.
Washington, DC
U.S.A. 20006

Re: Response to draft inspection report

Sir:

We have carefully read the draft inspection report outlining the results of the inspection of our Firm which was conducted from August 18 to 22, 2008.

Please find attached our responses to these comments which we kindly ask you to consider prior to preparing your final report.

Sincerely,



Jean-Pierre Raby, CA
Partner responsible for good professional practice



André Bernier, CA
Executive Partner

B. ISSUES RELATED TO QUALITY CONTROLS

1. Design of Quality Control System

a) *Audit policies, Procedures and Methodologies, Including Training*

PCAOB comment

The Firm's system of quality control appears not to provide sufficient assurance that the staff and partners of the Firm possess the necessary competencies and proficiency to perform audits of issuers. Specifically: the Firm does not have a system in place to ensure that individuals assigned to issuer clients have the technical training and proficiency required in the circumstances and that they participate in continuing professional education and other development activities related to generally accepted accounting principles in the United States (GAAP US), PCAOB auditing standards, and SEC reporting requirements, rules, and regulations

Petrie Raymond's answer

The Firm has modified its Quality Control Procedures Manual to include specific procedures applying to issuers which are registered with the SEC as follows:

Issuers registered with the Security Exchange Commission (SEC)

When the issuer mandates a CPA to prepare information/documentation which will support the financial statements or notes attached hereto, the Firm will mandate a US auditing firm, member of the PCAOB, to perform audit procedures on the work performed by the CPA. The Firm will then perform the procedures listed on our questionnaire "Reliance on another auditor" on the mandated firm's work (the firm GHP Horwath was mandated in 2008). The mandated firm will also serve as a consultant; ensuring that disclosure on new development is complete and accurate.

Continuing professional education and other development activities

The staff assigned to audits of SEC issuers will have to attend development courses on an annual basis. To that effect, the Firm has acquired the following development courses from the American Institute of Certified Public Accountants (AICPA) which will be given to the staff in the Fall 2009 prior to the beginning of the audits of SEC issuers:

- Self study CD Rom on Independence
- Self study CD Rom on Professional Ethics: Complying with SEC and
- PCAOB Rules
- Public Company Audit Update: PCAOB Developments (hard copy documents)
- SEC Reporting (hard copy documents)

B. ISSUES RELATED TO QUALITY CONTROLS (CONT'D)**1. Design of Quality Control System (cont'd)*****b) Monitoring*****PCAOB comment**

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct monitoring procedures for all of the elements of quality control.

Specifically, the Firm's monitoring policies and procedures do not address the performance of procedures to provide reasonable assurance that quality control policies and procedures regarding (1) independence, integrity and objectivity, (2) personnel management, and (3) acceptance and continuance of clients and engagements are suitably designed and being effectively applied. The Firm also does not appear to perform monitoring procedures on a timely basis as the Firm had not completed its monitoring procedures for the year prior to the year under inspection as of the date of the inspection.

Petrie Raymond's answer

The Firm has modified its Quality Control Procedures Manual in September 2009 and its audit programs in May 2009 in order to address, among other things, acceptance and continuance of clients and engagements. We also have given development courses on independence rules, documentation, and deficiencies in audits.

Several changes were also made in order to transmit to the entire personnel a quality culture and to communicate our attachment to quality.

The partner responsible of good professional practice in conjunction with the Quality Control Manager is now:

- Making comments on all the latest updates in CICA's handbook;
- Communicating on a quarterly basis (or more often if necessary) most common errors found in the financial statements and recommending the necessary adjustments;
- Communicating the results of the Quality Control Monitoring reports and any recommendations hereafter;
- Communicating the results of the inspection reports of the Ordre des Comptables Agréés du Québec (OCAQ) and their recommendations;
- Communicating the results of the CPAB's inspection reports and their recommendations.

We have finalized the monitoring procedures for the year 2007 as well as performed the monitoring of 2008 and 2009. These reports will be presented to the partners at their next meeting in November 2009.

The results of the inspection of PCAOB will also be communicated as well as its recommendations to the partners and appropriate staff.

B. ISSUES RELATED TO QUALITY CONTROLS (CONT'D)**2. Audit Performance****a) *Technical Competence, Due Care, and Professional Scepticism*****PCAOB comment**

The Firm's system of quality control appears not to do enough to ensure technical competence and the exercise of due care or professional scepticism.

Petrie Raymond's answer

The Quality Control Procedures Manual as well as the Firm's culture stresses the importance given to technical competencies, due care and professional scepticism. We extend ourselves to appropriately supervise our staff to assure that audit work is performed with due care and professionalism.

We are aware that the audit work performed on the US GAAP reconciliation was lacking documentation. However, the variance that were identified seemed reasonable to the partner in charge in view of the fact that the accounting treatment of the mining companies in the US is entirely different from the accounting treatment applied in Canada (in the US the exploration costs are mostly expensed, whereas in Canada, they are mostly capitalized). Therefore, the reconciliation was supposed to show a large difference and as such it did not raise any interrogation from the partner in charge or the reviewing partner (both very experienced individuals in the mining industry) as it was only confirming their expectation.

However, we have given, since then, several courses to staff and partners in order to stress the importance of documentation and we have developed additional programs to facilitate the documentation process. We have also decided to use a US Firm for our SEC issuers to perform audit procedures on US GAAP reconciliation note.

b) *Fraud Procedures***PCAOB comment**

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will perform all of the required procedures in accordance with the provisions of AU 316, Consideration of Fraud in a Financial Statement Audit. Specifically, the Firm did not perform audit procedures to test journal entries and other adjustments for evidence of possible material misstatements due to fraud, failed to conduct a brainstorming session by members of the engagement team to discuss fraud risk, failed to incorporate an element of unpredictability in the selection of audit procedures to be performed, failed to review accounting estimates for biases that could result in material misstatement due to fraud and failed to identify and assess the impact of any fraud risk factors. [Issuer A]

B. ISSUES RELATED TO QUALITY CONTROLS (CONT'D)**2. Audit Performance (cont'd)****b) Fraud Procedures (cont'd)****Petrie Raymond's answer**

We have read Section AU 316 and it is similar in all of its aspects to section 5135 of CICA's Handbook.

As a result of CPAB's inspection, we have given a course in January 2009 to the entire professional personnel regarding the audit deficiencies. In this course, we have emphasized on the requirements of testing the journal entries for evidence of material misstatements due to fraud and on the team planning meeting.

We have also urged our personnel to use our statistical auditing model in order to make the selection of the audit samples, which will facilitate the incorporation of an element of unpredictability in our testing. We have also urged our staff to document the fraud risk factor by using the specific audit program included in our audit model.

From now on, we will ask our staff to include in their team planning meeting a brain storming session regarding fraud. This message will be sent to all of our professional audit staff and partners in our periodic communication called "Tout en Qualité (All Quality)".

c) Engagement Completion Document**PCAOB comment**

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will prepare an engagement completion document in accordance with AS No. 3, which is necessary to demonstrate that the work performed by engagement personnel addresses the significant findings and issues of the engagement. [Issuer A]

Petrie Raymond's answer

As a result of CPAB's inspections, we gave a course in January 2009 to the entire professional personnel regarding the audit deficiencies.

In this course, we emphasized on the fact that they need to complete an engagement completion document which summarized all the work that have been done, all of the significant findings and all of the issues that they have encountered during their engagement.

After receiving your draft inspection report, we have made the AS Number 3 available on our network. Our final revision program has also been modified to include all significant items to be considered at completion.

The final revision program is closely inspired by two check lists appearing in the Canadian Institute of Chartered Accountants' professional Engagement Manual which addresses the following issues, acceptance, risk assessment, response to risk, reporting, partner conclusions and financial statement presentation.

B. ISSUES RELATED TO QUALITY CONTROLS (CONT'D)**2. Audit Performance (cont'd)****d) Auditor Communications****PCAOB comment**

The Firm's system of quality control appears not to provide sufficient assurance that all of the required auditor communications to the audit committee, or equivalent, occur and are appropriately documented. Specifically, the Firm's communications with the audit committee did not include discussions regarding management's estimates and accounting judgments or all uncorrected misstatements. Additionally, the Firm's independence letter to the audit committee did not address the independence matter discussed in Part II.C below. [Issuer A]

Petrie Raymond's answer

As a result of CPAB's inspection report, we have created a document entitled "Initial Audit Planning" (see copy attached) which incorporates all of the required communications with the audit committee prior to the audit. This plan is sent to the audit committee prior to the beginning of the audit work. We have also created a PowerPoint presentation which incorporates all of the required communication with the audit committee after the end of audit work. As for the latter part of your above comment, we have notified the audit committee that the independence matter that you have mentioned should have been addressed in our previous independence letter.

e) Appropriate Procedures**PCAOB comment**

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will conduct all testing appropriate to a particular audit. The information reported by the inspection team suggests an apparent pattern of failures to perform the appropriate procedures related to the testing of the disclosures of differences between Canadian GAAP and U.S. GAAP. [Issuers A and B]

Petrie Raymond's answer

We are confident that our system of quality control is adequate and usually provides sufficient assurance that the Firm conducts appropriate testing to a particular audit. As such, the person identified as the quality control reviewer on both mandates had a good knowledge of the mandate and had both the technical competency and the experience required to perform the quality control. Because of his knowledge and experience, as explained above, the note looked adequately presented in the financial statements. We do however agree that the file should have been documented further and in order to reinforce the appropriateness of the procedures, we are now using a US firm to help us with the audits of our SEC issuers and, as such, it will ensure that the appropriate procedures are applied consistently with the proper documentation.

B. ISSUES RELATED TO QUALITY CONTROLS (CONT'D)**3. Independence****PCAOB comment**

The Firm's system of quality control appears not to provide sufficient assurance that the Firm will comply with independence requirements. As described in Part II.C below, the inspection team reported information indicating that the Firm may not have been independent of an issuer audit client within the meaning of the Commission's independence requirements. [Issuer A]

Petrie Raymond's answer

The Firm's system of quality control did not provide sufficient assurance that the Firm was in compliance with independence requirements. Since then, a mandatory development course has been given to all staff and partner on the rules of independence. We also ordered self study CD Rom from AICPA on Independence to prepare a development course which will be given to all the audit team members who will be involved with SEC issuer's audits. See Part II C below for further comments.

4. Monitoring and Addressing Identified Weaknesses**PCAOB comment**

The Firm's system of quality control appears to lack a monitoring element sufficient to provide the Firm with reasonable assurance that the Firm's policies and procedures for engagement performance are suitably designed and effectively applied. The Firm's monitoring appears to have been deficient with respect to at least five types of previously identified weakness. In the Firm's 2006 CPAB inspection report, CPAB noted that the Firm's procedures appeared not to provide sufficient assurance that the Firm 1) performed all required fraud procedures; 2) prepared an engagement completion document; 3) ensured that all of the required communications to the audit committee, or equivalent, occur and are appropriately documented; 4) ensured that those involved in audits of U.S. issuers receive adequate training in U.S. accounting and auditing requirements; and 5) audited an issuer's U.S. GAAP reconciliation footnote disclosure. An appropriate approach to monitoring would have resulted in the Firm avoiding these deficiencies in audits performed after they were brought to the Firm's attention, yet similar deficiencies were noted in this inspection.

Petrie Raymond's answer

The Firm has modified its Quality Control Procedures Manual in September 2009 and its audit programs in May 2009 in order to address among other things acceptance and continuance of clients and engagements. In addition, both the monitoring questionnaire and the quality control questionnaire have been modified in order to address the procedures related to fraud (appropriate use of the planning procedures with correct forms being filled out, questions have also been added to cover appropriate communication to audit committee at the planning and completion stage of the audit). We have developed specific models which have to be used when auditing public issuer

B. ISSUES RELATED TO QUALITY CONTROLS (CONT'D)**4. Monitoring and Addressing Identified Weaknesses (cont'd)**

As mentioned earlier the Quality Control Procedures Manual has been modified to address the mandatory training for audit staff on public issuers (both US and Canadian – addressing rules for both US and Canadian). In order to ensure that those involved in US issuers receive adequate training in US auditing requirements, we have purchased PCAOB continuing education programs materials that will help us give the adequate training to our personnel.

The Firm has performed its monitoring for both 2008 and 2009 using the new questionnaires. The result of that monitoring process will be communicated to the Firm's Management Committee in November 2009 as well as to partners and to audit professional staff.

We also gave a course in January 2009 to the entire professional personnel regarding the audit deficiencies. In this course, emphasize was put on the following:

- Testing the journal entries for evidence of material misstatements due to fraud;
- We also urged our personnel to document the fraud risk factor by using the specific audit program included in our audit model;
- Documentation of the team planning meeting;
- Preparing an engagement completion document.

From now on, we will ask our personnel to include in their team planning meeting a brain storming session regarding fraud.

For the US accounting part, we are now hiring an independent US firm to audit the US GAAP reconciliation footnote prepared by our client (which is already prepared by another US firm).

Starting January 1st, 2011 Canadian GAAP will be converging toward IFRS and pursuant to that changeover the SEC will accept financial statements prepared in accordance with IFRS without reconciliation to US GAAP. Therefore, we are in the opinion that our use of the independent U.S auditor is sufficient enough to cover the period between now and the date of the changeover.

REDACTED. Comments on Non-public Aspects of Report