Inspection of
Davidson & Company LLP

Issued by the
Public Company Accounting Oversight Board

June 14, 2007

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

PCAOB RELEASE NO. 104-2007-067
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.
The Public Company Accounting Oversight Board ("PCAOB" or "the Board") has conducted an inspection of the registered public accounting firm Davidson & Company LLP1 ("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.

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1/ The Firm issued the audit reports of its issuer clients under the name of Davidson & Company.

2/ The Board does not make public any of a firm's comments that address a nonpublic portion of the report. 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 notes that it routinely grants confidential treatment, if requested, for any of a firm's comments that identify factually inaccurate statements in the draft that the Board corrects in the final report.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted fieldwork for the inspection at various times from September 12, 2005 to October 18, 2005.4/ The fieldwork included procedures 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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of offices</td>
<td>1 (Vancouver, British Columbia, Canada)</td>
</tr>
<tr>
<td>Ownership structure</td>
<td>Limited liability partnership</td>
</tr>
<tr>
<td>Number of partners</td>
<td>4</td>
</tr>
<tr>
<td>Number of professional staff6/</td>
<td>59</td>
</tr>
<tr>
<td>Number of issuer audit clients6/</td>
<td>16</td>
</tr>
</tbody>
</table>

Board inspections are designed to identify and address weaknesses and deficiencies related to how a firm conducts audits. 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.

4/ The Board's inspection was conducted in cooperation with the Canadian Public Accountability Board.

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 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.\(^7\) 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 scope of the inspection procedures performed included reviews of aspects of the performance of six of the Firm's audits of the financial statements of issuers. Those audits and aspects were selected according to the Board's criteria, and the Firm was not allowed an opportunity to limit or influence the selection process.

The inspection team identified matters that it considered to be audit deficiencies.\(^8\) The deficiencies identified in three of the audits reviewed included deficiencies of such 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. Those deficiencies included –

\(^7\) 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 reports that information to the SEC, which has jurisdiction to determine proper accounting in issuers' financial statements.

\(^8\) 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 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.
(1) the inappropriate determination to serve as principal auditor when substantially all portions of the financial statements were audited by another auditor;

(2) the failure to perform and document adequate substantive procedures to test inventory existence; and

(3) the failure to perform and document procedures related to the use of the work of specialists.

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
PARTS II AND III OF THIS REPORT ARE NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT
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 Board provided the Firm an opportunity to review and comment on a draft of this report. The Firm provided a written response.

Pursuant to section 104(f) of the Act 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. The Board routinely grants confidential treatment, if requested, for any of a firm’s comments that identify factually inaccurate statements in the draft that the Board corrects in the final 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. In any version of this report that the Board makes publicly available, any portions of the Firm's response that address nonpublic portions of the report are omitted.
March 29, 2007

Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC
20006 USA

Attention: Mr. George H. Diacont, Director

Dear Sir:

Re: Response to Part I of the Draft Report on Inspection of Davidson & Company LLP

We are pleased to provide our response to the Public Company Accounting Oversight Board ("PCAOB") draft report dated February 28, 2007 regarding the Report on Inspection of Davidson & Company LLP (the "Report").

Davidson & Company LLP (the "Firm") supports the PCAOB's goal of using the inspection process for improving audit quality. We are making and will continue to make improvements in our audit methodology, quality control processes and engagement execution and will continue to provide our full cooperation with the PCAOB as it continues its ongoing inspection process.

We wish to recognize that the sufficiency of competent evidential matter required to support an audit opinion is determined through the use of an auditor's professional judgment in light of the particular circumstances. While we may have differing views on specific issues relative to the scope of audit procedures and documentation necessary to comply with applicable professional standards, we recognize that judgments are involved in both the performance of an audit and the subsequent inspection process and view the PCAOB's comments as positive and helpful. Furthermore, while the Firm is committed to conducting the highest quality audits, the Report recognizes that the inspection process is designed to identify deficiencies and is not necessarily reflective of a firm's practice in general. Therefore, the format of a report produced by this process does not lend itself to a portrayal of the overall high quality of our audit practice.

As noted in the Report, the PCAOB inspection of the Firm was carried out in cooperation with the Canadian Public Accountability Board ("CPAB"), which was formed in 2003 to carry out inspections of Canadian accounting firms. The Firm, along with all major accounting firms in Canada, have been subject to annual CPAB inspections commencing in 2004. Generally, the matters raised in the Report are matters that were also raised and responded to by the Firm in CPAB's 2005 report which was previously provided in final form to the Firm by CPAB.
All of the matters described in the Report were important and as such were addressed during our audits. Although we do not always agree with the general characterization of the work we performed or the related existing audit documentation, each of the specific matters noted in Part I — Inspection Procedures and Certain Observations of the Report have been addressed by appropriate action. Accordingly, we have the following comments regarding the matters described in the Report:

Issuer A

With regards to Issuer A, the Firm has been the principal auditor since 1993 when Issuer A initially listed in Canada on what is now known as the TSX-Venture Exchange. While Issuer A continued to maintain reporting issuer status in Canada, it also achieved reporting issuer status with the United States Securities and Exchange Commission under Form 20-F for a period of time before falling delinquent in its filings, subsequently submitting the appropriate documents in order to reactivate its Form 20-F status in 2003.

Since 1997, a CPA firm has been the auditor of Issuer A’s wholly-owned subsidiary that represents approximately 99 percent of Issuer A’s assets and 100 percent of Issuer A’s revenues. One of the primary drivers for this arrangement relates to the fact that while the Firm was registered with both PCAOB and CPAB, this CPA firm was only registered with PCAOB thereby precluding them from acting as principal auditors of Canadian reporting issuers and ultimately Issuer A. Additional support for this arrangement are identified as part of the discussion below.

In accordance with the Firm’s policies and procedures with respect to reliance on a subsidiary auditor, certain additional audit steps were considered by the Firm in establishing the nature, extent and timing of procedures to be performed. Since the recommendations of PCAOB Auditing Standard No. 3, Audit Documentation ("PCAOB No. 3") were not effective for Issuer A’s fiscal year ended June 30, 2004, the Firm looked to AU Section 543, Part of Audit Performed by Other Independent Auditors ("AU 543") for guidance with respect to the procedures to be performed in relying on a subsidiary auditor.

In determining the Firm’s ability to act as the principal auditor, several factors were considered including, but not limited to, the following: i) the materiality of the portion of the financial statements audited by the Firm compared to the portion of the financial statements audited by the subsidiary auditor; ii) the Firm’s in-depth knowledge of Issuer A and its overall operations (which remained relatively consistent compared to recent years) as well as its financial statements over these years compared to the importance of the component audited by the Firm in relation to the enterprise as a whole; iii) the consolidated materiality of Issuer A and primarily the fact that it has been consistently higher than the materiality level used by the subsidiary auditor in the conduct of its audit; iv) the importance of a solid understanding of the auditing,
accounting and regulatory issues as it relates to companies registered with Canadian regulators and those registered under Form 20-F which the Firm believes it possesses; and v) the Firm’s comfort and familiarity with the audit practices and procedures of the subsidiary auditor that has been achieved over this long-term relationship, particularly in regards to the exceptional similarities between the nature, extent and timing of procedures utilized by the subsidiary auditor and the methodology utilized by the Firm. These considerations were a definitive reason for the reliance on a subsidiary auditor approach taken by the Firm as the Firm had established a comprehensive, ongoing relationship with the subsidiary auditor to the point that the overall approach and substantially all of the procedures performed by the subsidiary auditor reflected those that would be performed by the Firm had the Firm been the principal auditor for the wholly-owned subsidiary.

Although the Firm strongly believed that it had an intimate understanding of the nature, extent and timing of the procedures to be performed by the subsidiary auditor, professional standards, as well as the Firm’s policies and procedures, directed Issuer A’s engagement team to consider the procedure outlined in AU 543.05(c). As a result, the Firm performed procedures consisting of obtaining a complete copy of the audit file of the subsidiary auditor, prior to the subsidiary auditor signing off on the wholly-owned subsidiary’s financial statements, and reviewing the file to satisfy the Firm that the nature, extent and timing of the procedures performed by the subsidiary auditor provided support for the reasonableness of the accounts for the purposes of inclusion in the consolidated financial statements on which the Firm expressed an audit opinion. Based on these procedures, the Firm was satisfied that there were no issues with respect to reliance on the audit opinion of the subsidiary auditor.

Despite the Firm’s unwavering belief that the approach and resulting procedures performed with respect to reliance on the subsidiary auditor was satisfactory, the Report documented two issues with respect to Issuer A: i) the Firm did not establish or provide guidance on the nature, timing or extent of procedures performed by the subsidiary auditor; and ii) the Firm did not supervise the work of or re-perform any of the audit procedures performed by the subsidiary auditor.

Upon learning of these two issues from the PCAOB inspection team, the Firm took immediate action to ascertain if there was any reason to consider withdrawing the Firm’s audit opinion. Specifically, the Firm’s appropriate actions were two-fold: i) the Firm considered the requirements of AU 390, Consideration of Omitted Procedures After the Report Date (“AU 390”) with respect to the audit for the fiscal year ended June 30, 2004; and ii) the Firm applied the comments from the fiscal year ended June 30, 2004 and incorporated them into the audit for the fiscal year ended June 30, 2005 as, coincidentally, the Firm was commencing its procedures with respect to the audit of Issuer A’s fiscal year ended June 30, 2005 at the time of learning of the comments from the PCAOB inspection team.
With regards to the first action taken by the Firm, the Firm reviewed the considerations stated in AU 390 with respect to the fiscal year ended June 30, 2004. Although the Firm did review the subsidiary auditor’s working paper file as part of the audit procedures for the fiscal year ended June 30, 2004, the Firm believed that the two issues identified by PCAOB warranted further attention.

- Regarding the first issue, given the fact that there is a time sensitive component to establishing or providing guidance (i.e. it is more difficult to perform at a later date), the Firm performed an intensive review of the nature extent and timing of the procedures performed by the subsidiary auditor regardless of having already performed a review of the subsidiary auditor’s working paper file during the conduct of the audit of the fiscal year ended June 30, 2004. The Firm again focused on the important areas of the file including, but not limited to, the following: i) the assessments made in the planning stage with respect to fraud, materiality, internal controls, risk assessment and identification of significant audit and accounting issues; ii) the correlation between the planning of these procedures and the timing and extent of the procedures to be performed; and iii) the ultimate performance and results of the testing. Based on this intensified review, the Firm again concluded that the approach taken by the subsidiary auditor would, in the opinion of the Firm, not have been altered in any significant fashion from the approach the Firm would employ had the Firm been the principal auditor for the wholly-owned subsidiary.

- Regarding the second issue, based on the Firm’s intensive review noted above, the Firm once again did not identify any areas where the supervision of work appeared to be an issue and again concluded that the decision not to re-perform tests, while mentioned in AU 543 as a possible step to take as a principal auditor, did not pose a significant risk to the Firm as the principal auditor. Other considerations in reaching this conclusion again consisted of: i) the long-standing relationship between the Firm and the subsidiary auditor and the similarities in audit methodology which were previously identified as part of the considerations that the Firm noted in its decision to accept the role of principal auditor; ii) the comfort and history that the Firm had with the subsidiary auditor’s engagement team (and its continuity on the engagement); and iii) the absence of a history of errors or issues in previous years.

With regards to the second action taken by the Firm, the Firm first ensured that the specific procedures outlined in PCAOB No. 3 were individually addressed and integrated into the development of the nature, extent and timing of the procedures to be performed and that the documentation clearly reflected the establishment of the Firm’s guidance to the subsidiary auditor. Furthermore, the Firm re-performed tests conducted during the audit of the fiscal year ended June 30, 2005 which did not yield any discordances from the results determined by the subsidiary auditor which the Firm believes speaks to the strength of the general conduct of the
subsidiary auditors in both years given that the same engagement team serviced the wholly-owned subsidiary in both years. Based on this work performed, the Firm again concluded that the approach taken by the Firm for the audit of the fiscal year ended June 30, 2004 with respect to the level of supervision and the decision not to re-perform tests would, in the opinion of the Firm, not have been altered in any significant fashion from the approach the Firm would employ had the Firm been the principal auditor for the wholly-owned subsidiary.

Accordingly, we respectively disagree with the conclusion that the Firm had not, at the time that it issued its audit report, obtained sufficient competent evidential matter to support its opinion on the Issuer A’s financial statements. The Firm believes the work was adequate in the context of the audit as a whole and therefore we have a good faith difference of opinion on the application of professional judgment.

As a follow-up note, after discussions with both the PCAOB and CPAB and in order to alleviate any doubt as to compliance with PCAOB No. 3, the Firm assumed the role of principal auditor for the wholly-owned subsidiary for the fiscal year ended June 30, 2005. Furthermore, the subsidiary auditor subsequently registered with CPAB and assumed the role of principal auditor of Issuer A for the fiscal year ended June 30, 2006.

Issuer B

While the Firm acknowledges the findings noted by the PCAOB inspection team, the work papers relating to the audit of the fiscal year ended August 31, 2004 contain all inventory confirmation responses from the warehouses, the original requests of which were sent to the warehouses directly by the Firm. The responses to the inventory confirmation requests contain the warehouse contact information for each location accompanied by confirmation of the inventory held in each location. This audit evidence, coupled with the reconciliation work performed, the cut-off testing completed as at and around the year ended August 31, 2004 as well as the analytical procedures applied, led the Firm to believe that the existence of inventory was adequately tested on an overall basis. However, as mentioned above and in the spirit of fully addressing all of the concerns of the PCAOB inspection, the Firm considered whether it was necessary to perform additional audit procedures in accordance with AU 390 and AU 561, Subsequent Discovery Of Facts Existing at the Date of the Auditor’s Report ("AU 561") so as to ensure that the work performed satisfied the requirements promulgated by AU 331, Inventories.

After considering AU 390 and AU 561, the Firm continues to believe that appropriate action has been taken with regards to the matters relating to Issuer B. In addition, the Firm performed procedures designed to evaluate the performance of the warehouses as at June 30, 2005 that included sending questionnaires to the warehouses regarding their respective control environment, the evidence of which obtained by the Firm as a result of these procedures not only provided the necessary support with respect to the existence of inventory as at August 31, 2005
but also confirmed that there had not been any significant changes in the warehouses control environment in recent years which reaffirmed the Firm’s belief that the overall inventory balance as at August 31, 2004 was reasonable. Accordingly, no new facts came to our attention that caused us to believe that our previously issued reports should be withdrawn.

Issuer C

For each of the findings noted in the Report with respect to Issuer C, based on our internal analysis, we concluded that, in our judgment, the procedures performed were adequate to support our audit opinion; however, the documentation of these procedures was not adequate and we have since corrected those documentation matters. For example, with respect to the assessment of the professional qualifications of both the consultants and the engineering specialists, the Firm reviewed the requirements of AU 336 Using the Work of a Specialist ("AU 336") and obtained evidence speaking to their certification, licensure and experience in the type of work under consideration through the written documentation of the verbal representations from management previously received and the verification with third parties such as peers and others familiar with the consultants and engineering specialists. In addition, we have taken the findings noted in the Report with respect to Issuer C into consideration in the development of improved audit policies and procedures as well as training programs for our audit practice, particularly in the area of AU 336.

In conclusion, we want to reiterate the seriousness with which we view the inspection comments in the Report and note that we are constantly seeking to improve the quality of our audit processes in line with professional standards. We appreciate the opportunity to provide our response to the Report and look forward to continuing to work with the PCAOB on matters of interest to our public company auditing practice.

Yours very truly,

“DAVIDSON & COMPANY LLP”

DAVIDSON & COMPANY LLP