1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8433
www.pcaobus.org

Report on

2013 Inspection of K. R. Margetson Ltd.
(Headquartered in Vancouver, Canada)

Issued by the

Public Company Accounting Oversight Board

December 18, 2014

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. 104-2015-054A
(Includes portions of Part II of the full report that were not included in PCAOB Release No. 104-2015-054)

PCAOB Release No. 104-2015-054A

2013 INSPECTION OF K. R. MARGETSON LTD.

In 2013, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm K. R. Margetson Ltd. ("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 inspection process is designed, and inspections are performed, to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. The inspection process included reviews of aspects of selected issuer audits completed by the inspected firm. The reviews were intended to identify whether deficiencies existed in those aspects of the audits, and whether such deficiencies indicated weaknesses or defects in the firm's system of quality control over audits. In addition, the inspection included reviews of policies and procedures related to certain quality control processes of the firm that could be expected to affect audit quality.

The issuer audits and aspects of those audits inspected were selected based on a number of risk-related and other factors. Due to the selection process, the deficiencies included in this report are not necessarily representative of the Firm's issuer audit practice.

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.[1]

[1] In its *Statement Concerning the Issuance of Inspection Reports*, PCAOB Release No. 104-2004-001 (August 26, 2004), the Board described its approach to making inspection-related information publicly available consistent with legal restrictions. As described there, if the nonpublic portions of any inspection report discuss criticisms of or potential defects in a firm's system of quality control, those discussions also could eventually be made public, but only to the extent a firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from February 5, 2013 to February 8, 2013. 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 (Vancouver, Canada)
Ownership structure	Corporation
Number of partners	1
Number of professional staff[2]	3
Number of issuer audit clients[3]	9

[2] "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.

[3] 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. For information about audit reports issued by the Firm, see Item 4.1 of the Firm's annual reports on PCAOB Form 2, available at www.pcaobus.org.

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 inspection team identified what it considered to be audit deficiencies. The deficiencies identified in both of the audits reviewed included deficiencies of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion on the issuer's financial statements. Those deficiencies were –

Issuer A

(1) the Firm's failure to identify, or address appropriately, a departure from U.S. Generally Accepted Accounting Principles ("GAAP") that related to potentially material misstatements in the audited financial statements concerning the consolidation of subsidiaries as of a different year end than the issuer's reporting year end;

(2) the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material omission from the audited financial statements concerning disclosures related to goodwill;

(3) the failure to perform sufficient procedures to test revenue;

(4) the failure to perform sufficient procedures to test the valuation of assets acquired and liabilities assumed in business combinations, including the failure to perform required procedures in using the work of a specialist; and

(5) basing its opinion in part on the work and report of another auditor in circumstances where it was inappropriate to do so.

Issuer B

the failure to perform sufficient procedures to test the existence and valuation of an asset and a related obligation.

Two of the deficiencies described above related to auditing an aspect of an issuer's financial statements that the issuer revised in a restatement subsequent to the primary inspection procedures.[4]

B. Auditing Standards

Each deficiency described above relates to several applicable standards that govern the conduct of audits.

AU 230, *Due Professional Care in the Performance of Work* ("AU 230"), requires the independent auditor to plan and perform his or her work with due professional care. AU 230 and PCAOB Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13"), specify that due professional care requires the exercise of professional skepticism. This is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13 requires the auditor to design and implement audit responses that address the identified risks of material misstatement, and PCAOB Auditing Standard No. 15, *Audit Evidence* ("AS No. 15"), requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in support of the related conclusions.

Each deficiency described in Part I.A of this report involves, in the inspection team's view, a failure to comply with one or more of the provisions cited above and also a failure to perform, or perform sufficiently, certain specific audit procedures that are required by other applicable auditing standards. The table below lists the other specific auditing standards that are primarily implicated by the deficiencies identified in Part I.A of this report.[5]

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[4] The Board inspection process did not include review of any additional audit work related to the restatement.

[5] This table does not necessarily include reference to every auditing standard that may have been implicated by the deficiencies included in Part I.A.

PCAOB Auditing Standards	Issuer
AS No. 14, *Evaluating Audit Results*	A
AU 328, *Auditing Fair Value Measurements and Disclosures*	A
AU 336, *Using the Work of a Specialist*	A
AU 543, *Part of Audit Performed by Other Independent Auditors*	A

C. Review of Quality Control System

In addition to evaluating the quality of the audit work performed, 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. 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.

D. General Information Concerning PCAOB Inspections

Board inspections are designed to identify whether weaknesses and deficiencies exist related to how a firm conducts audits and addresses any such weaknesses and deficiencies. 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. The scope of the inspection procedures is determined according to the Board's criteria, and the firm is not allowed an opportunity to limit or influence the scope. The focus on weaknesses and deficiencies 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. Further, the inclusion in an inspection report of certain deficiencies and potential deficiencies should not be construed as an indication that the Board has made any determination about other aspects of the firm's systems, policies, procedures, practices, or conduct not included within the report.

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, or, as applicable, International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").[6] 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 or reporting on internal control, are free of any deficiencies not specifically described in an inspection report.

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 and 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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[6] 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 applicable accounting principles, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

Inclusion of a deficiency in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Under PCAOB standards, when audit deficiencies are discovered after the date of the audit report, a firm must take appropriate action to assess the importance of the deficiencies to the firm's present ability to support its previously expressed audit opinions.[7] Depending upon the circumstances, compliance with these standards may require the firm to perform additional procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on previously expressed audit opinions. A Board inspection does not typically include review of a firm's actions to address deficiencies identified in that inspection, but the Board expects that firms are attempting to take appropriate action, and firms frequently represent that they have taken, are taking, or will take, action. If, through subsequent inspections or other processes, the Board determines that the firm failed to take appropriate action, that failure may be grounds for a Board disciplinary sanction.

END OF PART I

[7] See AU 390, *Consideration of Omitted Procedures After the Report Date* ("AU 390"), and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* ("AU 561") (both included among the PCAOB's interim auditing standards, pursuant to PCAOB Rule 3200T).

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.[8] QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of clients and engagements; (4) engagement performance; and (5) monitoring.

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 identified deficiencies in audit performance. These deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion may indicate a defect in a firm's quality control system.[9] Defects in a firm's quality control system may also be identified through inspection procedures that are specifically focused on aspects of the firm's system of quality control.

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[8] This report's description of quality control issues is based on the inspection team's observations during the primary inspection procedures. Any changes or improvements that the Firm may have made in its system of quality control since that time may not be reflected in this report, but will be taken into account by the Board during the 12-month remediation process following the issuance of this report.

[9] Not every audit deficiency suggests a possible defect in a firm's quality control system, and this report does not discuss every audit deficiency the inspection team identified.

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 summarized in Part I.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 –

a. Testing Appropriate to the Audit

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, specifically with respect to the following issues:

(i) Year End of Subsidiaries

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to potentially material misstatements in the audited financial statements concerning the consolidation of subsidiaries as of a different year end than the issuer's year end. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of consolidating information. [Issuer A]

(ii) Revenue

As discussed above, in one of the audits reviewed, the inspection team identified significant deficiencies related to the Firm's testing of revenue. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's auditing of revenue. [Issuer A]

(iii) Business Combinations

As discussed above, in one of the audits reviewed, the inspection team identified significant deficiencies related to the Firm's testing of business combinations. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's testing of business combinations. [Issuer A]

(iv) Goodwill Disclosures

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's failure to identify, or to address appropriately, a departure from GAAP that related to a potentially material omission from the audited financial statements concerning disclosures related to goodwill. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's testing of disclosures. [Issuer A]

(v) Use of the Work and Report of Another Auditor

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's use of the work and report of another auditor. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's use of the work and reports of other auditors. [Issuer A]

(vi) Existence and Valuation of a Mineral Asset and a Related Obligation

As discussed above, in one of the audits reviewed, the inspection team identified a significant deficiency related to the Firm's testing of the existence and valuation of a mineral asset and a related obligation. This information provides cause for concern regarding the Firm's quality control policies and procedures related to the Firm's testing of the existence and valuation of mineral assets and related obligations. [Issuer B]

b. Engagement Quality Review

Questions exist about the effectiveness of the Firm's system of quality control with respect to the execution of engagement quality reviews in compliance with PCAOB Auditing Standard No. 7, *Engagement Quality Review* ("AS No. 7"). An engagement quality review performed with due care in compliance with AS No. 7 should have detected, and resulted in the Firm addressing, the deficiency related to testing the existence and valuation of a mineral asset and a related obligation described in Part II.A. [Issuer B] In addition, in one of the engagements reviewed, the Firm failed to obtain the required engagement quality review for the audit and failed to obtain engagement quality reviews with respect to reviews of interim financial information. [Issuer A]

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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.[10]

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[10] 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 some cases, the result may be that none of a firm's response is made publicly available. 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.

K. R. MARGETSON LTD.

Chartered Accountants

#210, 905 West Pender Street
Vancouver BC
V6C 1L6
Canada

Tel: 604.641.4450
Direct line: 604.398.5392
Toll free fax: 1.855.603.3228

A. Insufficiently supported audit opinion

1. Year-end of subsidiaries

The deficiency noted ignores financial statement Note 2 – Fiscal year-end reporting. That note explains the fact that some of the subsidiaries had a different year end (December 31) from that of the Issuer (March 31): "The consolidation of these entities for financial reporting purposes for the Company's March 31 year-end has been performed without any adjustments for timing differences between these two reporting dates in accordance Regulation S-X Rule 3A-02 (the '93 day rule'). Intervening events which materially affect the financial position or results of operations have been recognized."

I would therefore submit that the Firm identified and addressed this issue.

Whether it was a departure from GAAP is a more complex issue. It is acknowledged that in the opinion of the SEC this rule did not apply because the acquisition of the subsidiaries was accounted for as a reverse merger, and that the reporting entity (the legal subsidiary) had a December year. Ergo, this is the year end that must be used. Please note that the SEC did not dispute the validity of the '93 day rule or suggest that it was a departure from GAAP. Rather, they disputed whether it could be applied in this instance. With respect, it was and remains my position that this rule may be applied in this instance. The 93 day rule clearly states that it applies to "registrants". It does not refer to the accounting entity. As the issuer was the registrant – not the subsidiary, it is my opinion that Regulation S-X Rule 3A-02 could be used and that it was not a departure from GAAP.

The fact that the Company acquiesced to the SEC and restated it previously reported financial statements does not mean that it agreed with the ruling nor does it validate the SEC's opinion. It merely acknowledges the power of a bureaucracy and the futility in trying to express a contrary opinion.

2. Revenue

The deficiency first mentions the largest subsidiary audited by the Firm and in the next paragraph mentions eight other subsidiaries. It is noted that the first instance deals with 17% of the issuer's revenue and 18% for the other. The eight other subsidiaries had various types of revenue, with a good portion coming from intercompany sales (which would be eliminated on consolidation). Accordingly, I will deal only with the largest subsidiary as the comments are too unspecified with respect to the others.

a) Failure to evaluate whether the issuer's recognition was in accordance with the terms of the issuer's contract.

The PCAOB comments correctly note that the firm reviewed the invoices of the issuer's subsidiary. Accordingly, the issue is whether the invoices were agreed to the contract. This issue was noted in the planning memo (working paper 4.6) which states that the audit procedures will involve a review of contracts ("agree to supporting documentation, bank statement and contract"). In reviewing the audit working papers (GG2.A through GG.2F) it obvious that these could only be prepared by reviewing the contract. In actual fact, the deferred revenue section of the audit constituted the major part of the audit procedures performed. . However, it is evident that this step was performed.

Failure to evaluate whether there were mutli-deliverable revenue arrangements

While there is no statement that multi-deliverables were assessed there is a very good description of the sales process in wp 5.1 Walkthrough. Walkthrough clearly states that the sale of software is not invoiced until completed (and the key is given to the client.) It is clear that the invoices reflect each deliverable portion. This is what is tested in the deferred revenue section. WP GG.2 clearly shows that the different types of revenue streams and that each was tested. So, although there may be no statement about reviewing the multi-deliverables, the work paper clearly shows that is exactly what was tested. Further, a major adjustment of $315,000 arose as a result of these audit procedures. Accordingly, not only were multi deliverables tested, the audit procedures were obviously effective.

Failure to determine whether revenue was properly recognized in accordance with US GAAP.
It is impossible to know how to respond to this question as it is so devoid in specifics. I would assume that if the answers to parts 1 and 2 carry some weight then this criticism is without foundation.

3. Business combinations

The facts as stated are not corrected. The fact is the issuer engaged a valuation specialist to determine the purchase price of the acquisition. Once purchased, the goodwill and other intangibles were determined by deducting net identifiable assets from the purchase price. So any comments on the work of the specialist are irrelevant. Furthermore, of the four acquisitions, two allocated 100% of the difference to goodwill while the other two allocated a small part of the difference to customer lists, trademarks and trade names. There were working papers prepared which reviewed the determination of that portion to other intangibles, with the comment that it was based on proper accounting procedures.

As for the net assets acquired, they were verified at the year end and if any assets or liabilities were incorrectly stated at the time of purchase, they would have been corrected at the year end. In the course of auditing those companies, should any of the opening assets or liabilities be incorrectly stated, it would have shown up in analyzing changes in profit and loss during the year. The analysis did not show any such change.

What is not mentioned is the important audit procedures in testing the goodwill and other intangibles as to impairment and amortization. This involved a great deal of audit time and involved the application of cash flow modeling which perhaps the PCOAB in confusing with the original purchase. (These were prepared by the client, however, not an outside specialist.)

4. Goodwill disclosures

The Firm agrees that the Goodwill presentation was deficient.

5. Using the report of another auditor

The facts as stated are correct. However, the comments that follow do not properly disclose the audit approach or the procedures that were followed. Specifically, the Firm did not base its opinion solely on the report of the other auditor.

The approach was as follows:

- We contacted the foreign auditor and confirmed with him that he was in good standing with his governing body. We also confirmed that he was a PCAOB registrant, that he was familiar with US GAAP and that he was aware we were going to place reliance on his audit of the subsidiary and include that reliance in our audit of the parent.
- Two of the Firm's staff members travelled to his offices and reviewed his working papers in collaboration with the subsidiary's staff members. The whole process took 2 weeks. We confirmed that the audit procedures conformed with US GAAS and, in fact, requested additional auditing procedures to be undertaken
- We analysed and prepared working papers to convert the financials from foreign GAAP to US GAAP.

So, although the foreign auditor opined that the foreign subsidiary was performed under the other country's auditing standards and the financial statements were presented under the other country's accounting principles, in so far as the consolidated financial statements were concerned, they conformed with PCAOB auditing standards and were presented in US GAAP.

In retrospect, it would have been more correct if the Firm's audit report did not refer to the reliance on another auditor and that we took responsibility for the whole audit. However, this deficiency is one of incorrectly stating the terms of the audit. That is far different than the blanket statement that the Firm based its opinion solely on the report of the other auditor.

6. Existence of a mineral asset

The events are properly described, however, the conclusion by the PCAOB ignores the fact that no asset was as yet purchased; ownership had not yet passed to the issuer. Accordingly, the Firm cannot be deficient in auditing an asset that doesn't exist.

As noted, the issuer signed an agreement, which, upon fulfilling certain obligations, would enable it to acquire an option to acquire mineral claim. Accordingly, the ownership of the mineral claims would not pass to the issuer until (a) it had fulfilled the requirements under the agreement (pay $100,000), (b) exercised its option as provided by the agreement and (c) fulfilled its obligation under that option agreement – which included paying $1,000,000 in exploration expenditures before December 31 (the audit reported was dated October 29, no expenditures had been made and the issuer had essentially no cash at that time – nor seemingly any ability to raise cash.)

The issuer issued the shares at the signing of the agreement but it did not make the required payment by the time the audit was completed. (In fact it never made payment.) This agreement - <u>which constitutes the asset</u> - was noted in the working papers as <u>being posted on Edgar.</u> Under the terms of that agreement, the assignor represents and warrants that the claims are 'valid and subsisting in good standing and not in default"…. The shares that were issued were confirmed with the transfer agent.

Conclusion - The existence of the asset, which is represented by the agreement, was verified by audit procedures.

As to valuation, a significant amount of audit evidence was noted in the working papers in the determination of the value of the transaction. That said, <u>it is the agreement that is valued - not the mineral rights.</u> It was noted that just entering into the agreement had some value to the issuer, in that it showed potential investors that the new management team was endeavoring to add value to the Company. Through inquiry with experts in this area, the value was determined to be $20,000. It was noted that based on guidance of ASC 845-10-30-1, fair value of assets received shall be used to measure the cost if it is more clearly evident than the fair value of assets surrendered. It was further noted that there was no value for shares when the agreement was signed (although they started trading at $1 shortly thereafter). In short, the asset – the agreement – was valued at $20,000, representing its marketing value, even though there was little likelihood of the agreement being completed.

Conclusion – the value of the asset was properly determined by audit procedures.

As to the lack of evaluation of the effect on the financial statements of not making the cash requirement, it is true that no analysis was documented. On the other hand, no ownership of an asset (mineral property or option to acquire mineral property) was purchased and as was noted in the working papers, the likelihood of that happening was extremely small. Furthermore, the working papers clearly state that the agreement was not entered was a goal to completion but rather as a marketing tool. Ergo, documentation was not provided because it wasn't needed.

A. Issues related to quality control

As all but one issue involves deficiencies noted in the audit and statement presentation section of the inspection report. . That one issue states that the Firm failed to obtain the required quality review for the audit. However, a careful review of the file reveals the following:

There were 4 team members that worked on the issuer and its various subsidiaries; 2 partners and 2 contract CAs. The partners both had CPA designations as well as CAs. There were 4 main files and 5 smaller files and then a consolidation which involved the all those files plus 7 files where the audit was performed by another auditor. In each instance where one of the partners worked on one of the files directly, the other partner reviewed the file. This was the same for quarterly reviews as well.

As for the issues arising from the audit and presentation section of the inspection report, all but one has been refuted. Issuer B's lone issue is disputed. The one issue of issuer B that is not disputed involves the presentation of Goodwill, where the deficiency is mostly accurate. However, that deficiency was remedied by the issuer and the Firm through filing an amended financial statement shortly after the original filing.

In order to get a more informed understanding of the audit of issuer A, it must be pointed out that this was a complex audit with complex reporting issues. There were 30 notes to the financial statements which covered 33 pages. The audit had the following complex issues:

- a reverse merger, which produced approximately $7 million in goodwill,
- a complex description of the formation of the issuer and its operations,
- consolidation of 16 companies,
- comprehensive income calculations and presentation that involved the translation of 3 major currencies,
- the calculation of non-controlling interest in determining the allocation of net loss attributable to stockholders and comprehensive loss attributable to stockholders – with the allocations done in different proportions,
- presentation issues with pension obligations,
- calculation of deferred tax assets and liabilities, involving a number of jurisdictions and various tax rates.
- issue and exercise of warrants,
- shares issued on acquisitions, and,
- complex issues in determining cash flows and currency translations.

No deficiencies were noted in any of these areas.

Secondly, it must be pointed out that there were 3 PCAOB auditors who reviewed issuer A, one who reviewed issuer B and one auditor who performed oversee duties. The actual inspection process took one full week and the PCAOB then took over 15 months to render its inspection report. When the report was eventually sent out, it arrived at a time when I was out of the country for a period of 5 weeks, effectively giving me only 4 days to respond.

The bottom line is that the inspection produced only one strictly quality control issue, which has been disputed. While best auditing procedures is always the goal, I feel that the process and criticisms must be reviewed with a complete acknowledgement of the size of the engagement and the scope of the process.