Key Audit Matters

Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in our audit of the [consolidated] financial statements of the current period.

The description of each key audit matter shall include a reference to the related disclosures, if any, and shall address: why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and how the matter was addressed in the audit.

Example 1 – Evaluation of the estimated market value of finished goods inventory

As discussed in Note 2 to the consolidated financial statements, the Company assesses its finished goods inventory to identify excess or obsolete inventory and potential declines in its value. Finished goods inventory as of December 31, 2020 was $49.5 million.

We identified the evaluation of the estimated market value of finished goods inventory as a key audit matter. Due to the nature of evidence available, there was a high degree of subjectivity in evaluating the effect of the Company's sales initiatives intended to sell inventory subject to limited forecast demand. The primary procedures we performed to address this key audit matter included the following:

- We tested certain internal controls over the Company's process to assess excess or obsolete inventory, including controls related to the determination of the estimated market value and the estimated effect of specifically identified sales initiatives.
- We challenged the feasibility of the estimated effect of the Company's sales initiatives through an evaluation of the historical results of similarly structured sales initiatives.
- We performed an assessment of physical inventory disposals to determine whether inventory write-downs were taken in the correct period.
- We also performed inquiries with product line managers and examined product roadmaps to determine whether new product launches would have an adverse effect on the anticipated outcome of the sales initiatives.

Example 2 – Goodwill *{Source: CPA Canada Audit & Assurance Alert December 2018}*

Under IFRSs, the Company is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of $XX as of December 31, 20X1 is material to the financial statements and management's assessment process is complex and highly judgmental and is based on assumptions, specifically […], which are affected by expected future market or economic conditions, particularly those in [geographic area] and cause a high degree of estimation uncertainty.

Our audit procedures included, among others, using the work of a valuation expert to assist us in evaluating the methodologies, assumptions and data used by the Company, in particular those assumptions relating to the forecasted revenue growth and profit margins for [business line]. We also focused on the adequacy of the Company's disclosures about those significant assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill and cause the high degree of estimation uncertainty.

The Company's disclosures about goodwill are included in Note [X], which specifically explains that small changes in the significant assumptions used could give rise to an impairment of the goodwill balance in the future.

Effective Dates:

Investments funds (81-106) – Excluded

TSX - Dec 2020 year-ends

NEO, CSE, TSX-V - Dec 2022 year-ends