

# **PARETO CORPORATION**

## *Audit Committee*

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Charter**

#### **PURPOSE**

The Audit Committee is established to assist the Board in fulfilling applicable public company obligations respecting audit committees and its oversight responsibilities with respect to financial reporting including responsibility to:

- oversee the work of the Company's external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company;
- oversee the integrity of the Company's financial statements and financial reporting process, including the audit process and the Company's internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the external auditors;
- oversee the work of the Company's financial management and external auditors in these areas; and
- provide an open avenue of communication between the external auditors, the Board, Management, employees of the Company and the Company.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

The function of the Committee is oversight. It is not the duty or responsibility of the Committee or its members (i) to plan or conduct audits, (ii) to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles or (iii) to conduct other types of auditing or accounting reviews or similar procedures or investigations. The Committee and its Chair are members of the Board, appointed to the Committee to provide broad oversight of the financial and related risk and control related activities of the Company and are specifically not accountable or responsible for the day to day operation or performance of such activities.

Management is responsible for the preparation, presentation and integrity of the Company's financial statements. Management is also responsible for maintaining appropriate accounting and financial reporting principles and policies and systems of risk assessment and internal controls and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, recorded and reported and to assure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with accounting standards and applicable laws and regulations. The external auditors are responsible for planning and carrying out an audit of the Company's annual financial statements in accordance with generally accepted auditing standards to provide reasonable assurance that, among other things, such financial statements are in accordance with generally accepted accounting principles.

#### **PROCEDURES, POWERS AND DUTIES**

In addition to the procedures and powers set out in the resolution of the Board establishing this Committee, the Committee shall have the following procedures, powers and duties:

##### **1. General**

(a) *Composition* – The Committee shall be composed of a minimum of three members. Each member of the Committee shall be an independent director and none of the members shall have participated in the preparation of the financial statements of the Company at any time over the past three years.

All members of the Committee must be financially literate or must become financially literate within a reasonable period of time after their appointment to the Committee.

(b) *Appointment and Replacement of Committee Members* - Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a director. The Board may fill vacancies on the Committee by appointing another director to the Committee. The Board shall fill any vacancy if the membership of the Committee is less than three directors. Whenever there is a vacancy on a Committee, the remaining members may exercise all its power as long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be appointed by the Board annually and each member of the Committee shall remain on the Committee until the next annual meeting of unitholders after his or her appointment or until his or her successor shall be duly appointed and qualified.

(c) *Committee Chair* - The Chair of the Committee shall be designated by the full Board. The Chair of the Committee shall be responsible for leadership of the Committee, including preparing the agenda, presiding over the meetings, making committee assignments and reporting to the Board.

(d) *Conflicts of Interest* - If a Committee member faces a potential or actual conflict of interest relating to a matter before the Committee, that member shall be responsible for alerting the Committee Chair. If the Committee Chair faces a potential or actual conflict of interest, the Committee Chair shall advise the Chair of the Board. If the Committee Chair, or the Chair of the Board, as the case may be, concurs that a potential or actual conflict of interest exists, the member faced with such conflict shall disclose to the Committee the member's interest and shall not participate in consideration of the matter and shall not vote on the matter.

(e) *Compensation of Committee Members* - The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine. No member of the Committee shall receive from the Company any compensation other than the fees to which he or she is entitled as a director or a member of a committee of the Board.

(f) *Separate Executive Meetings* - The Committee shall meet periodically with the Chief Financial Officer and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately and such persons shall have access to the Committee to bring forward matters requiring its attention. However, the Committee shall also meet periodically without Management present.

(g) *Meetings of the Committee* -

(i) *Procedures for Meetings* - The time at which and place where the meetings of a Committee shall be held and the calling of Committee meetings and the procedure in all things at such meetings shall be determined by the Committee.

(ii) *Calling of Meetings* - The Committee shall meet as often as it deems appropriate to discharge its responsibilities. Notice of the time and place of every meeting shall be given in writing, by any means of transmitted or recorded communication, including facsimile, telex, telegram or other electronic means that produces a written copy, to each member of a Committee at least 24 hours prior to the time fixed for such meeting. However, a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of

the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called. Whenever practicable, the agenda for the meeting and the meeting materials shall be provided to members before each Committee meeting in sufficient time to provide adequate opportunity for their review.

(iii) *Quorum* – A majority of members constitute a quorum for the transaction of Committee business.

(iv) *Chair of Meetings* - If the Chair of a Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present shall be chosen by the Committee to preside at the meeting.

(v) *Secretary of Meeting* - The Chair of the Committee shall designate a person who need not be a member of the Committee to act as secretary. The agenda of each Committee meeting will be prepared by the secretary of the Committee and, whenever reasonably practicable, circulated to each member prior to each meeting.

(vi) *Minutes* – The secretary of the Committee shall prepare and maintain minutes of the proceedings of the Committee. Minutes shall be kept in minute books provided for that purpose. The minutes of Committee meetings shall accurately record the discussions of and decisions made by the Committee, including all recommendations to be made by the Committee to the Board and shall be distributed to all Committee members.

(h) *Professional Assistance* - The Committee may require the external auditors and internal auditors to perform such supplemental reviews or audits as the Committee may deem desirable. In addition, the Committee may retain such special legal, accounting, financial or other consultants as the Committee may reasonably determine to be necessary to carry out the Committee's duties at the Company's expense.

(i) *Reliance* - Absent actual knowledge to the contrary each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by Management and the external auditors as to any information technology, internal audit and other non-audit services provided by the external auditors to the Company.

(j) *Reporting to the Board* - The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

(k) *Powers of the Committee* -

(i) *Access* – The Committee is entitled to full access to all books, records, facilities, and personnel of the Company. The Committee may require such officers, directors and employees of the Company and others as it may see fit from time to time to provide any information about the Company and its subsidiaries it may deem appropriate and to attend and assist at meetings of the Committee.

(ii) *Delegation* - The Committee may delegate from time to time to any

person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

(iii) *Adoption of Policies and Procedures* - The Committee may adopt policies and procedures for carrying out its responsibilities.

## **AUDIT RESPONSIBILITIES OF THE COMMITTEE**

### **Selection and Oversight of the External Auditors**

2. The external auditors are ultimately accountable to the Committee and the Board as the representatives of the shareholders of the Company and shall report directly to the Committee and the Committee shall so instruct the external auditors. The Committee shall also have authority to communicate directly with the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Company for shareholder approval and shall have authority to recommend the termination of the external auditors, and authority to make recommendations regarding the interim filing of vacancies due to auditor resignation. If a change in external auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire on the qualifications of the proposed auditors before making its recommendation to the Board. The Board is responsible for selecting the external auditor for shareholder approval and appointment.

3. The Committee shall approve in advance the terms of engagement and the compensation to be paid by the Company to the external auditors with respect to the conduct of the annual audit.

4. The Committee shall review the independence of the external auditors and shall make recommendations to the Board on appropriate actions to be taken which the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee shall:

- (a) actively engage in a dialogue with the external auditors about all relationships or services that may impact the objectivity and independence of the external auditors;
- (b) require that the external auditors submit to it on a periodic basis, and at least annually, a formal written statement delineating all relationships between the Company, on the one hand, and the external auditors and their affiliates on the other hand;
- (c) consider whether there should be a regular rotation of the external audit firm itself;
- (d) consider the auditor independence standards promulgated by applicable auditing regulatory and professional bodies, and obtain confirmation of compliance with such standards, including compliance with prohibitions on the provision of certain non-audit services by the external auditors to the Company and its affiliates; and
- (e) review and approve the disclosure in the AIF of the fees paid in the financial year to the external auditors by category.

5. All non-audit services to be provided to the Company or any of its affiliates by the external auditors or any of their affiliates shall be subject to pre-approval by the Committee. The Committee may approve policies and procedures for the pre-approval of non-audit services to be rendered by the external auditors, which policies and procedures (i) shall include reasonable detail with respect to the services covered, (ii) shall require that the Committee be informed of each non-audit service and (iii) shall not include

delegation of the Committee's responsibilities to Management.

6. The Committee shall approve the hiring by the Company of partners, employees and former partners and employees of the external auditors and former external auditors.

7. The Committee shall require the external auditors to provide to the Committee, and the Committee shall review and discuss with the external auditors, all reports which the external auditors are required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the external auditors, and any other reports which the Committee may require. Such reports shall include:

(a) a description of the external auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues; and

(b) a report describing (i) all critical accounting policies and practices used in the preparation of the Company's financial statements, (ii) all alternative treatments of financial information within generally accepted accounting principles related to material items that have been discussed with Management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors (iii) other material written communication between the external auditors and Management, such as any management letter or schedule of unadjusted differences; and (iv) disagreements between Management and/or the internal auditors and the external auditors regarding financial reporting.

8. The Committee shall be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing an audit report, or other audit, review or attest services for the Company. The Committee is responsible for resolving disagreements between Management and the external auditors regarding financial reporting.

#### **Oversight of Internal Audit Function**

9. The Committee shall determine the appropriate internal audit function for the Company and oversee its processes, reports and the terms of compensation for any individuals engaged in such function, if any.

#### **Oversight and Monitoring of Audits**

10. The Committee shall review with the external auditors and Management the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon Management, any internal audit and general audit approach and scope of proposed audits of the financial statements of the Company, the overall audit plans, the responsibilities of Management and the external auditors, the audit procedures to be used and the timing and estimated budgets of the audits.

11. The Committee shall meet periodically with the internal finance management staff to discuss the progress of their activities and any significant findings stemming from any internal audits and any difficulties or disputes that arise with Management and the adequacy of Management's responses in correcting audit-related deficiencies.

12. The Committee shall discuss with the external auditors any difficulties or disputes that arise with Management or any internal auditors during the course of the audit and the

adequacy of Management's responses in correcting audit-related deficiencies.

13. The Committee shall review with Management the results of any internal and all external audits.

14. The Committee shall take such other reasonable steps as it may deem necessary to satisfy itself that the audit was conducted in a manner consistent with all applicable legal requirements and auditing standards of applicable professional or regulatory bodies.

#### **Oversight and Review of Accounting Principles and Practices**

15. The Committee shall, as it deems necessary, oversee, review and discuss with Management and the external auditors:

(a) the quality, appropriateness and acceptability of the Company's accounting principles and practices used in its financial reporting, changes in the Company's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;

(b) all significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including the effects of alternative methods within generally accepted accounting principles on the financial statements and any "second opinions" sought by Management from an independent auditor with respect to the accounting treatment of a particular item;

(c) disagreements between Management and the external auditors or any internal auditors regarding the application of any accounting principles or practices and resolve such disputes;

(d) any material change to the Company's auditing and accounting principles and practices as recommended by Management, the external auditors or any internal auditors or which may result from proposed changes to applicable generally accepted accounting principles;

(e) the effect of regulatory and accounting initiatives on the Company's financial statements and other financial disclosures;

(f) any reserves, accruals, provisions, estimates or management programs and policies, including factors that affect asset and liability carrying values and the timing of revenue and expense recognition, that may have a material effect upon the financial statements of the Company;

(g) the use of special purpose entities and the business purpose and economic effect of off-balance sheet transactions, arrangements, obligations, guarantees and their impact on the reported financial results of the Company;

(h) any legal matter, claim or contingency that could have a significant impact on the financial statements, the Company's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Company's financial statements;

(i) the treatment for financial reporting purposes of any significant transactions which are not a normal part of the Company's operations;

(j) the use of any "pro forma" or "adjusted" information not in accordance with

generally accepted accounting principles; and

(k) Management's determination of goodwill impairment, if any, as required by applicable accounting standards.

16. The Committee will review and resolve disagreements between Management and the external auditors regarding financial reporting or the application of any accounting principles or practices.

#### **Oversight and Monitoring of Internal Controls**

17. The Committee shall, as it deems necessary, exercise oversight of, review and discuss with Management and the external auditors:

(a) the adequacy and effectiveness of the Company's financial and compliance controls based on recommendations of Management and the external auditors for the improvement of such controls;

(b) any material weaknesses in the internal control environment and

(c) Management's compliance with the Company's processes, procedures and internal controls.

#### **Communications with Others**

18. The Committee shall establish and monitor procedures for the receipt and treatment of complaints received by the Company regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with Management and senior finance officers of the Company responsible for the internal audit function, these procedures and any significant complaints received.

#### **Oversight and Monitoring of the Company's Financial Disclosures**

19. The Committee shall:

(a) review with the external auditors and Management and recommend to the Board for approval the audited financial statements and Management's Discussion and Analysis accompanying such financial statements, the Company's annual report, the financial information of the Company contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Company; and

(b) review with the external auditors and Management and approve each set of interim financial statements and Management's Discussion and Analysis accompanying such financial statements and any other disclosure documents or regulatory filings of the Company containing or accompanying financial information of the Company. Such reviews shall be conducted prior to the release of any summary of the financial results or the filing of such reports with applicable regulators.

20. Prior to their distribution and filing, the Committee shall review and discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies. The Chair of the Committee may perform this review function, on behalf of the Committee, as is required. Such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and the Committee

need not discuss in advance each instance in which the Company gives earning guidance if it has reviewed and approved the Company's policies and procedures with respect to such matters.

21. The Committee shall meet with Management to review and assess the process and systems in place for the review of public disclosure documents that contain audited and unaudited financial information and their effectiveness.

22. As part of the process by which the Committee shall satisfy itself as to the reliability of public disclosure documents that contain audited and unaudited financial information, the Committee shall require each of the Chief Executive Officer and the Chief Financial Officer of the Company to provide a certificate addressed to the Committee certifying in respect of each annual and quarterly report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws.

23. The Committee shall review the disclosure with respect to its pre-approval of audit and non-audit services provided by the external auditors.

### **Oversight of Finance Matters**

24. The Committee shall receive and review:

(a) periodic reports on compliance with requirements regarding statutory deductions and remittances, the nature and extent of any non-compliance together with the reasons therefor and Management's plan and timetable to correct any deficiencies;

(b) material policies and practices of the Company respecting cash management and material financing strategies or policies or proposed financing arrangements and objectives of the Company; and

(c) material tax policies and tax planning initiatives, tax payments and reporting and any pending tax audits or assessments.

25. The Committee shall have overview responsibility for the Company's Corporate Disclosure Policy and Committee.

26. The Committee shall meet periodically with Management to review and discuss the Company's major financial risk exposures and the policy steps Management has taken to monitor and control such exposures, including the use of financial derivatives and hedging activities.

27. The Committee shall meet periodically with the Company Secretary to review issues arising out of compliance activities, as well as assess contingent legal and regulatory risks.

### **Committee Reporting**

28. As required by applicable laws or regulations or stock exchange requirements, the Committee shall review and approve the information required to be reported to unitholders and others in its Annual Information Form, and for such purposes, each member of the Committee shall provide information respecting that member's education and experience that relate to his or her responsibilities as a Committee member.

### **Additional Responsibilities**

29. Each new member of the Committee shall receive such training as may be approved by the Chair of the Committee. Training should cover the requirements and obligations of audit committees, issues of accounting principles, auditing standards, risk management and ethical compliance. Each Committee member should attend refresher training annually.

30. The Committee should request and review a report from the Company Secretary at least twice each year as to compliance with the Company's prohibitions against any related party transactions between directors or employees and their families and the Company.

31. The Committee shall review on an annual basis, insurance programs and policies relating to the Company and its investments.

32. The Committee shall review and/or approve any other matter specifically delegated to the Committee by the Board and undertake on behalf of the Board such other activities as may be necessary or desirable to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting.

### **THE CHARTER**

The Committee shall review and reassess the adequacy of this Charter at least annually and otherwise as it deems appropriate and recommend changes to the Board. The performance of the Committee shall be evaluated with reference to this Charter annually.

The Committee shall ensure that this Charter is disclosed on the Company's website and that this Charter or a summary of it which has been approved by the Committee is disclosed in accordance with all applicable securities laws or regulatory requirements in the annual proxy circular or annual report of the Company.

22.

### **COMPOSITION OF THE AUDIT COMMITTEE**

Chair: David H. Atkins

Members: John W. Stevens

J. Kingsley Ward

Each of the members of the Audit Committee is independent and financially literate, as more fully described below.

### **RELEVANT EDUCATION AND EXPERIENCE**

**Chair: David H. Atkins** - Mr. Atkins is an FCA and was formerly an audit partner of Coopers & Lybrand, Chartered Accountants with over thirty-five years of experience. Mr. Atkins has previously and currently sits on the audit committees of other Canadian public companies.

**Members: John W. Stevens** – Mr. Stevens is a chartered accountant and a lawyer and was previously an Associate Professor in Accounting at Queen's University. Mr. Stevens is currently the Chairman of the Audit Committee of the Atlas Cold Storage Income Trust and was previously the Chairman of the Audit Committee of the Moore Wallace Incorporated.

**J. Kingsley Ward**—Mr. Ward has a bachelor of commerce and economics degree and has spent the majority of his career in the financial investment industry. As President of VRG Capital, a division of The Vimy Ridge Group Ltd., Mr. Ward reviews the operations and financials statements of numerous

businesses. Mr. Ward has previously sat on the audit committees of other Canadian public companies.

#### **EXTERNAL AUDITOR SERVICE FEES**

##### **Audit Fees**

In 2005 the Corporation incurred \$100,000 of fees for audit services provided by BDO Dunwoody LLP, the Corporation's independent auditors. In 2004, the Corporation incurred \$89,500 of fees for audit services provided by BDO Dunwoody LLP.

##### **Audit Related Fees**

The Corporation incurred \$1,400 of fees for audit related services rendered by BDO Dunwoody LLP in 2005 (Nil in 2004).

##### **Tax Fees**

The Corporation did not incur any fees for tax services rendered by BDO Dunwoody LLP in 2005 or 2004.

##### **All Other Fees**

The Corporation did not incur any fees for other services rendered by BDO Dunwoody LLP in 2005. In 2004, the Corporation incurred \$18,000 of acquisition related tax due diligence and financial reporting advisory services fees rendered by BDO Dunwoody LLP.

All non-audit services to be provided by the Corporation's auditor must be approved by the Chair of the Audit Committee prior to the commencement of the engagement.