

CHARTER OF THE AUDIT AND FINANCE COMMITTEE OF THE BOARD OF DIRECTORS OF THE TORONTO PORT AUTHORITY

DEFINITIONS AND INTERPRETATION

1. DEFINITIONS

In this Charter:

- (a) “Audit Chair” means the chair of the Audit Committee;
- (b) “Audit Committee” means the audit and finance committee of the Board;
- (c) “Board” means the board of directors of the Port Authority;
- (d) “Charter” means this charter of the audit & finance committee of the Board;
- (e) “CMA” means the Canada Marine Act;
- (f) “Director” means a member of the Board;
- (g) “External Auditor” means the external auditor appointed by the Board in accordance with the CMA and the Port Authorities Management Regulations; and
- (h) “Port Authority” means the Toronto Port Authority.

2. INTERPRETATION

The provisions of this Charter are subject to the provisions of the Port Authority’s Letters Patent, by-laws and to the applicable provisions of the CMA, its regulations and other applicable legislation, all as amended from time to time.

CONSTITUTION AND FUNCTIONING OF THE AUDIT COMMITTEE

3. CONTINUATION OF THE AUDIT AND FINANCE COMMITTEE

The Audit Committee is hereby continued with the constitution, function and responsibilities set forth in this Charter.

4. PURPOSE

The primary purpose of the Audit Committee is to assist the Board in its oversight of:

- (a) the integrity of the Port Authority’s financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
- (b) the Port Authority’s compliance with legal and regulatory requirements;
- (c) the External Auditor’s qualifications, independence and performance;

- (d) the performance of the Port Authority's internal audit function; and
- (e) all other matters relating to the Port Authority's financial reporting systems and risk management.

5. APPOINTMENT AND REMOVAL OF MEMBERS OF THE AUDIT COMMITTEE

- (a) Board Appoints Members. The members of the Audit Committee shall be appointed by the Board.
- (b) Annual Appointments. The appointment of members of the Audit Committee shall take place annually at the first meeting of the Board after the Annual Meeting, provided that if the appointment of members of the Audit Committee is not so made, the Directors who are then serving as members of the Audit Committee shall continue as members of the Audit Committee until their successors are appointed.
- (c) Vacancies. The Board may appoint a member to fill a vacancy which occurs in the Audit Committee.
- (d) Removal of Member. Any member of the Audit Committee may be removed from the Audit Committee by a resolution of the Board.

6. NUMBER OF MEMBERS

The Audit Committee shall consist of three or more Directors or if there are fewer than three members of the Board then the Audit Committee shall consist of all Board members.

7. FINANCIAL LITERACY

- (a) Financial Literacy Requirement. Each member of the Audit Committee shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Audit Committee.
- (b) Definition of Financial Literacy. "Financially literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Port Authority's financial statements.

AUDIT COMMITTEE CHAIR

8. BOARD TO APPOINT AUDIT CHAIR

The Board shall appoint the Audit Chair from among the members of the Audit Committee or, if it fails to do so, the members of the Audit Committee shall appoint the Audit Chair from among its members.

9. AUDIT CHAIR TO BE APPOINTED ANNUALLY

The appointment of the Audit Chair shall take place annually at the first meeting of the Board after the Annual Meeting, provided that if the appointment of the Audit Chair is not so made, the Director who is then serving as Audit Chair shall continue as Audit Chair until his or her successor is appointed.

AUDIT COMMITTEE MEETINGS

10. QUORUM

A quorum of the Audit Committee shall be a majority of the members.

11. SECRETARY

The Audit Chair shall designate from time to time a person who may, but need not, be a member of the Audit Committee, to be Secretary of the Audit Committee. If no other person is designated, the Secretary of the Audit Committee shall be the Secretary of the Board. The Secretary of the Audit Committee shall attend and be the secretary of all meetings of the Audit Committee and shall enter or cause to be entered into records kept for that purpose minutes of all such proceedings.

12. TIME AND PLACE OF MEETINGS

The time and place of the meetings of the Audit Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Audit Committee; provided, however, the Audit Committee shall meet at least quarterly.

13. IN-CAMERA MEETINGS

As part of each meeting of the Audit Committee, the members of the Audit Committee shall meet separately without any other person being present.

14. RIGHT TO VOTE

Each member of the Audit Committee shall have the right to vote on matters that come before the Audit Committee.

15. INVITEES

The Audit Committee may invite Directors, officers and employees of the Port Authority or any other person to attend meetings of the Audit Committee to assist in the discussion and examination of the matters under consideration by the Audit Committee. The External Auditor shall receive notice of each meeting of the Audit Committee and shall be entitled to attend any such meeting at the Port Authority's expense.

AUTHORITY OF COMMITTEE

16. RETAINING AND COMPENSATING ADVISORS

The Audit Committee shall have the authority to engage independent counsel and other advisors in its sole discretion as the Audit Committee may deem appropriate in order to discharge its duties. Provided that the fees of such advisor are reasonably expected to be less than \$200,000 the Audit Committee shall not be required to obtain the approval of the Board in order to retain or compensate such advisor. The retention of any such advisors shall be exempt for the procedures set out in the Port Authority's purchasing/procurement policy. For greater certainty the Audit Committee shall not have the authority to set the remuneration of the External Auditor and such remuneration will be set by the Board.

17. RECOMMENDATIONS TO THE BOARD

The Audit Committee shall have the authority to make recommendations to the Board, but shall have no decision-making authority other than as specifically contemplated in this Charter.

SPECIFIC DUTIES AND RESPONSIBILITIES

18. REVIEW AND APPROVAL OF FINANCIAL INFORMATION

(a) Annual Financial Statements. The Audit Committee shall review and discuss with management and the External Auditor the Port Authority's audited annual financial statements and related management reports, together with the report of the External Auditor thereon and, if appropriate, recommend to the Board that it approve the audited annual financial statements.

(b) Interim Financial Statements. The Audit Committee shall review and discuss with management and, if appropriate, recommend for review by the Board, the Port Authority's unaudited interim financial statements.

(c) General. The Audit Committee shall review and discuss with management and the External Auditor:

(i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Port Authority's selection or application of accounting principles;

(ii) major issues as to the adequacy of the Port Authority's internal controls over financial reporting and any special audit steps adopted in light of material control deficiencies;

(iii) analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements and clarity and transparency of management disclosures;

(iv) the effect on the financial statements of regulatory and accounting initiatives, as well as off-balance sheet structures;

(v) the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented;

- (vi) pension plan financial statements; and
- (vii) other financial statements as required from time to time.

19. EXTERNAL AUDITOR

(a) Authority with Respect to External Auditor. The Audit Committee shall:

(i) have sole responsibility for recommending to the Board the person to be appointed as External Auditor for the above-described purposes as well as the responsibility for recommending such External Auditor's compensation and determining at any time whether the Board should remove the incumbent External Auditor from office;

(ii) review the terms of the External Auditor's engagement, discuss the audit fees with the External Auditor and make recommendations to the Board on the External Auditor's audit fees including whether such fees are sufficient to allow the External Auditor to carry out a quality audit, if requested by the Board; and

(iii) require the External Auditor to confirm in its engagement letter each year that the External Auditor is accountable to the Board and the Audit Committee.

(b) Independence. The Audit Committee shall satisfy itself as to the independence of the External Auditor. As part of this process the Committee shall:

(i) consider the regular rotation of the lead audit partner and consider whether, in order to ensure continuing independence of the External Auditor, the Port Authority should rotate periodically the audit firm that serves as External Auditor;

(ii) require the External Auditor to submit on a periodic basis to the Audit Committee a formal written report delineating all relationships between the External Auditor and the Port Authority;

(iii) actively engage in a dialogue with the External Auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditor and recommend that the Board take appropriate action in response to the External Auditor's report to satisfy itself of the External Auditor's independence;

(iv) unless the Audit Committee adopts pre-approval policies and procedures, approve any non-audit services provided by the External Auditor; and

(v) review and approve the policy setting out the restrictions on the Port Authority hiring partners, employees and former partners and employees of the Port Authority's current or former External Auditor.

(c) Issues Between External Auditor and Management. The Audit Committee shall:

(i) review any problems experienced by the External Auditor in conducting the audit, including any restrictions on the scope of the External Auditor's activities or access to requested information;

- (ii) review any significant disagreements between management and the External Auditor and, to the extent possible, resolve any disagreements between management and the External Auditor; and
- (iii) review with the External Auditor:
 - (A) any accounting adjustments that were proposed by the External Auditor, but were not made by management;
 - (B) any communications between the audit team and audit firm's national office respecting auditing or accounting issues presented by the engagement;
 - (C) any management or internal control letter issued, or proposed to be issued by the External Auditor to the Port Authority; and
 - (D) the performance of the Port Authority's internal audit function or internal auditors.
- (d) Non-Audit Services.
 - (i) The Audit Committee shall either:
 - (A) approve any non-audit services provided by the External Auditor; or
 - (B) adopt specific policies and procedures for the engagement of non-audit services, provided that such pre-approval policies and procedures are detailed as to the particular service, the Audit Committee is informed of each non-audit service and the procedures do not include delegation of the Audit Committee's responsibilities to management.
 - (ii) The Audit Committee shall instruct management to promptly bring to its attention any services performed by the External Auditor which were not recognized by the Port Authority at the time of the engagement as being non-audit services.
- (e) Evaluation of External Auditor. The Audit Committee shall evaluate the External Auditor each year and present its conclusions to the Board. In connection with this evaluation, the Committee shall:
 - (i) review and evaluate the performance of the lead partner of the External Auditor;
 - (ii) obtain the opinions of management with respect to the performance of the External Auditor; and
 - (iii) obtain and review a report by the External Auditor describing:
 - (A) the External Auditor's internal quality-control procedures;
 - (B) any material issues raised by the most recent internal quality-control review, or peer review, of the External Auditor's firm 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 Auditor's firm, and any steps taken to deal with any such issues; and

(C) all relationships between the External Auditor and the Port Authority (for the purposes of assessing the External Auditor's independence).

(f) Review of Management's Evaluation and Response. The Audit Committee shall:

(i) review management's evaluation of the External Auditor's audit performance;

(ii) review the External Auditor's recommendations, and review management's response to and subsequent follow-up on any identified weaknesses;

(iii) receive regular reports from management and receive comments from the External Auditor, if any, on:

(A) the Port Authority's principal financial risks;

(B) the systems implemented to monitor those risks; and

(C) the strategies in place to manage those risks; and

(iv) recommend to the Board whether any new material strategies presented by management should be considered appropriate and approved.

20. OTHER RESPONSIBILITIES

The Audit Committee shall:

(i) review and make recommendations to the Board on Finance Policies and Procedures, such as the Investment Policy, the Purchasing/Procurement Policy and Cheque Signing Policy;

(ii) review and make recommendations to the Board on the annual Budget/Business Plan of the Port Authority;

(iii) review and make recommendations to the Board on any proposed borrowing by the Port Authority, within the restrictions of the CMA and the Port Authority's Letters Patent;

(iv) review and make recommendations to the Board on the Payments-in-Lieu of Taxes "PILTS" requests made by the City of Toronto;

(v) approve capital and operating expenditures in accordance with the Port Authority's Procurement Policy, for consideration by the Board;

(vi) review and make recommendations to the Board on security and security related matters for Port Authority facilities and operations; and

(vii) review and make recommendations to the Board on the five year risk assessment mandated by the CMA.

21. OPERATING AND CAPITAL BUDGETS

The Audit Committee shall review and as appropriate recommend to the Board for approval, operating and capital budgets submitted to it by management.

22. SPECIAL EXAMINATION

The Audit Committee shall review the plan for the examination of the systems and practices of the Port Authority pursuant to a special examination contemplated by the CMA.

If the Audit Committee disagrees with the examiner with respect to the plan referred to above, the Audit Committee shall so advise the Board and shall recommend to the Board whether such disagreement should be referred to the Minister pursuant to the CMA.

23. RISK ASSESSMENT AND RISK MANAGEMENT

The Audit Committee shall discuss the Port Authority's major financial risk exposures and the steps management has taken to monitor and control such exposures.

24. RELATED PARTY TRANSACTIONS

The Audit Committee shall review and recommend to the Board for approval all related party transactions in which the Port Authority is involved or which the Port Authority proposes to enter into.

25. EXPENSE ACCOUNTS

The Audit Committee shall review and make recommendations with respect to:

(a) expense account policies and the process by which the expenses of the Audit Chair and of the President and CEO shall be approved; and

(b) expense account policy, and rules relating to the standardization of the reporting on expense accounts.

26. EXECUTIVE COMPENSATION DISCLOSURE

The Audit Committee shall review and recommend to the Board for approval any public disclosure of information relating to the Port Authority's executive compensation.

OTHER MATTERS

27. ANNUAL PERFORMANCE EVALUATION

On an annual basis, the Audit Committee shall follow the process established by the Board for assessing the performance and effectiveness of the Audit Committee.

28. CHARTER REVIEW

The Audit Committee shall review and assess the adequacy of this Charter annually and recommend to the Board any changes it deems appropriate.

29. REGULAR REPORTING

The Audit Committee shall report to the Board at the Board's next meeting the proceedings at the meetings of the Audit Committee and all recommendations made by the Audit Committee at such meetings.

30. OTHER FUNCTIONS

In addition to the activities described above, the Audit Committee will perform such other functions as may in its opinion be necessary or appropriate under the CMA, other applicable law, the Port Authority's Letters Patent and by-laws, and the resolutions and other directives of the Board.

31. DIRECTORS' FEES

No member of the Audit Committee may earn fees from the Port Authority or any of its subsidiaries other than directors' fees. For greater certainty, no member of the Audit Committee shall accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Port Authority, other than directors' fees.