

ALLIED

# Audit Committee Terms of Reference

December 2020

# Audit Committee Terms of Reference

## 1. PURPOSE

- 1.1 The overall purpose of the Audit Committee (the “Committee”) of Allied is to monitor Allied’s system of internal financial controls, to evaluate and report on the integrity of the financial statements including the MD&A and related Press Releases of Allied, to enhance the independence of Allied’s external auditor and to oversee the accounting and financial reporting processes and audits of financial statements of Allied.

## 2. COMPOSITION, PROCEDURES AND ORGANIZATION

- 2.1 The Committee shall consist of at least three members of the board of trustees of Allied (the “Board”), each of whom shall be, in the determination of the Board, “independent” as that term is defined by Multilateral Instrument 52-110 Audit Committees, as amended from time to time, and the majority of whom shall be resident Canadians. The definition of “independent” is set out in Exhibit A hereto.
- 2.2 All members of the Committee shall be, in the determination of the Board, “financially literate”, as that term is defined by Multilateral Instrument 52-110 Audit Committees, as amended from time to time. The definition of “financially literate” is set out in Exhibit A hereto.
- 2.3 The Board, at its organizational meeting held in conjunction with each annual meeting of unit holders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee. Any member of the Committee ceasing to be a trustee shall cease to be a member of the Committee.
- 2.4 Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from amongst their number.
- 2.5 The Committee shall have access to such officers and employees of Allied and to Allied’s external auditor and its legal counsel, and to such information respecting Allied as it considers to be necessary or advisable in order to perform its duties.
- 2.6 Notice of every meeting shall be given to the external auditor, who shall, at the expense of Allied, be entitled to attend and to be heard thereat.
- 2.7 Meetings of the Committee shall be conducted as follows:
- a. the Committee shall meet on a regular basis, at such times and at such locations as the chair of the Committee shall determine;
  - b. the external auditor or any member of the Committee may call a meeting of the Committee;
  - c. any trustee of Allied may request the chair of the Committee to call a meet-

ing of the Committee and may attend such meeting to inform the Committee of a specific matter of concern to such trustee, and may participate in such meeting to the extent permitted by the chair of the Committee; and

d. the external auditor and management employees shall, when required by the Committee, attend any meeting of the Committee.

2.8 The external auditor shall be entitled to communicate directly with the chair of the Committee and may meet separately with the Committee. The Committee, through its chair, may contact directly any employee of Allied as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper practices or transactions.

2.9 Compensation to members of the Committee shall be limited to trustee's fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from Allied (other than as members of the Board and Board committee members).

2.10 The Committee is authorized, at Allied's expense, to retain independent counsel and other advisors as it determines necessary to carry out its duties and to set their compensation.

### **3. DUTIES**

#### **General**

3.1 The overall duties of the Committee shall be to:

- a. assist the Board in the discharge of its duties relating to Allied's accounting policies and practices, reporting practices and internal controls;
- b. establish and maintain a direct line of communication with Allied's external auditor and assess its performance;
- c. oversee the co-ordination of the activities of the external auditor;
- d. ensure that the management of Allied has designed, implemented and is maintaining an effective system of internal controls;
- e. monitor the credibility and objectivity of Allied's financial reports;
- f. report regularly to the Board on the fulfilment of the Committee's duties;
- g. assist the Board in the discharge of its duties relating to Allied's compliance with legal and regulatory requirements; and
- h. assist the Board in the discharge of its duties relating to risk assessment and risk management.

### **Oversight of External Auditor**

- 3.2 The Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for Allied, including the resolution of disagreements between management and the external auditor regarding financial reporting, and in carrying out such oversight the Committee's duties shall include:
- a. recommending to the Board a firm of external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for Allied and recommending the compensation of the external auditor;
  - b. reviewing, where there is to be a change of external auditor, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, and the planned steps for an orderly transition;
  - c. reviewing all reportable events, including disagreements, unresolved issues and consultations, as defined in National Instrument 51-102 Continuous Disclosure Obligations, as amended from time to time, on a routine basis, whether or not there is to be a change of external auditor;
  - d. reviewing the engagement letters of the external auditor, both for audit and non-audit services;
  - e. reviewing the performance, including the fee, scope and timing of the audit and other related services and any non-audit services provided by the external auditor; and
  - f. reviewing and approving the nature of and fees for any non-audit services performed for Allied by the external auditor and consider whether the nature and extent of such services could detract from the firm's independence in carrying out the audit function.

### **Audits and Financial Reporting**

- 3.3 The duties of the Committee as they relate to audits and financial reporting shall be to:
- a. review the audit plan with the external auditor and management;
  - b. review with the external auditor and management any proposed changes in accounting policies, the presentation of the impact of significant risks and uncertainties, and key estimates and judgments of management that may in any such case be material to financial reporting;
  - c. review the contents of the audit report;

- d. question the external auditor and management regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
- e. review the scope and quality of the audit work performed;
- f. review the adequacy of Allied's financial and auditing personnel;
- g. review the co-operation received by the external auditor from Allied's personnel during the audit, any problems encountered by the external auditor and any restrictions on the external auditor's work;
- h. review the internal resources used;
- i. review the appointments of the chief financial officer, internal auditor (or persons performing the internal audit function) and any key financial executives involved in the financial reporting process;
- j. review and approve Allied's annual audited financial statements and those of its subsidiaries in conjunction with the report of the external auditor thereon including related MD&A and Press Release, and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
- k. review and approve Allied's interim unaudited financial statements including related MD&A and Press Release and auditors' review thereof, and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
- l. establish a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and employees' confidential anonymous submission of concerns regarding accounting and auditing matters;
- m. satisfy itself that adequate procedures are in place for the review of Allied's public disclosure of financial information extracted or derived from Allied's financial statements, and periodically re-assess the adequacy of those controls; and
- n. review the terms of reference, if any, for an internal auditor or internal audit function.

#### **Internal Controls**

- 3.4 The duties of the Committee as they relate to the review of internal controls over financial reporting shall be to, on an annual basis:
  - a. review the processes that support the CEO's and CFO's certification regarding internal controls over financial reporting ("ICFR") and be satisfied that they constitute a reasonable approach and are diligently performed;

- b. review all design or operational weaknesses in ICFR identified in these processes that could have a material impact on the issuer's financial reporting;
- c. review how management assessed each weakness, and decided on whether it should be disclosed in the MD&A or not, and should review the "close call" decisions;
- d. review the completeness and accuracy of the disclosures provided in the MD&A;
- e. review, with advice from legal counsel as necessary, the proposed course of action for CEO and CFO signing of the certificates and consultation with the appropriate securities regulators when unremedied ICFR design weaknesses are disclosed in the MD&A; and
- f. review and approve disclosed remediation plans.

#### **Accounting Policies and Disclosure of Financial Information**

3.5 The duties of the Committee as they relate to accounting and disclosure policies and practices shall be to:

- a. review changes to IFRS which would have a significant impact on Allied's financial reporting as reported to the Committee by management and the external auditor;
- b. review the appropriateness of the accounting policies used in the preparation of Allied's financial statements and consider recommendations for any material change to such policies;
- c. review the status of material contingent liabilities as reported to the Committee by management;
- d. review the status of potentially significant tax problems as reported to the Committee by management;
- e. review any errors or omissions in the current or prior year's financial statements;
- f. review and approve before their release all public disclosure documents containing audited or unaudited financial information, including all annual and interim earnings press releases, annual information forms and management's discussion and analyses; and
- g. oversee and review all financial information and earnings and distributable cash flow guidance provided to analysts and rating agencies.

## **Other**

- 3.6 The other duties of the Committee shall include:
- a. reviewing any inquires, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
  - b. reviewing annual operating and capital budgets;
  - c. reviewing the funding and administration of Allied's compensation and pension plans, if any;
  - d. reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;
  - e. inquiring of management and the external auditor as to any activities that may be or may appear to be illegal or unethical; and
  - f. any other questions or matters referred to it by the Board.

## **4. RULES GOVERNING PROCEDURE**

- 4.1 The following rules govern the procedure of the Committee:

- a. Definitions. In these rules:

*"Allied"* means Allied Properties Real Estate Investment Trust;

*"Member"* means a member of the Audit Committee of the board of trustees of Allied;

*"Committee"* means the Audit Committee of Allied; and

*"Tax Act"* means the Income Tax Act (Canada) and the regulations thereunder, as amended from time to time.

- b. *Place of Meetings.* Meetings of the Committee may be held at any place within Canada. A meeting of the Committee held entirely by means of a conference telephone or other communications equipment shall be deemed to be held at the place where the principal office of Allied is located.
- c. *Calling of Meetings.* A meeting of the Committee may be called at any time by any Member.
- d. *Notice of Meetings.*
- i. Notice of any meeting of the Committee specifying the time and place for the holding of such meeting shall be given in accordance with subsection (j) hereof to every Member not less than forty-eight (48) hours before the time of the meeting and shall be accompanied by an agenda of the matters to be considered at such meeting.

- ii. Notice of an adjourned meeting of the Committee is not required to be given if all of the Members were present at the original time and place of the adjourned meeting is announced at the original meeting. If less than all of the Members were present at the original meeting, notice of the rescheduled meeting is required to be provided, but such rescheduled meeting may be held on less than 48-hour notice.
- iii. Meetings of the Committee may be held at any time without formal notice if all the Members are present or if all the Members who are not present, in writing or by any form of transmitted or recorded communication, waive notice or signify their consent to the meeting being without formal notice. Notice of any meeting or any irregularity in any meeting or in the notice thereof may be waived by any Member either before or after such meeting. Attendance of a Member at a meeting of the Committee is a waiver of notice of the meeting, except where a Member attends a meeting for the express purpose of objecting to the consideration of any matter on the grounds that the meeting is not properly called.
- iv. The accidental omission to give notice of any meeting of the Committee to any Member or the non-receipt of any notice by any Member shall not invalidate any resolution passed or any proceedings taken at any meeting of the Committee.
- e. *Regular Meetings.* The Committee may by resolution fix a day or days in any month or months for the holding of regular meetings at a time and place specified in such resolution. A copy of any resolution of the Committee specifying the time and place for the holding of regular meetings of the Committee shall be sent to each Member at least twenty-four (24) hours before the first of such regular meetings and no other notice shall be required for any of such regular meetings.
- f. *Participating by Telephone or Other Communications Facility.* Any Member may participate in a meeting of the Committee by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and a Member so participating shall be considered to be present in person at that meeting.
- g. *Quorum.* A quorum for any meeting of the Committee shall be at least 50% of the Members, present in person.
- h. *Voting.* Questions arising at any meeting of the Committee shall be decided by a majority of the votes cast. In the case of an equality of votes, the chairman of the meeting shall not have a second or casting vote in addition to his original vote.
- i. *Minutes.* The Secretary of each meeting shall cause to be kept minutes of proceedings thereof and shall cause such minutes to be delivered to all the Members and entered in the records of proceedings of the Committee. Such minutes when signed by the Secretary of the meeting shall be prima facie



evidence of the decisions of the Committee on the matters considered at the meeting to which such minutes relate. Any Member or former Member shall be entitled, during normal business hours, to inspect the minutes of all meetings of the Committee held while or before he was a member.

- j. Notices.* Any notice, communication or other document to be sent or given to any Member hereunder shall be sufficiently sent and given if delivered personally to the person to whom it is to be given or if delivered to his or her last address as shown in the records of Allied, if mailed by prepaid ordinary mail in a sealed envelope addressed to him or her at his or her last address as shown on the records of Allied or if sent by any means of wire or wireless or any other form of transmitted or recorded communication. A notice, communication or document so delivered shall be deemed to have been sent and given when it is delivered personally or delivered at the address aforesaid. A notice, communication or document so mailed shall be deemed to have been received twenty-four (24) hours after 12:01 a.m. on the day following the day of mailing thereof. A notice sent by any means of wire or wireless or any other form of transmitted or recorded communication shall be deemed to have been given on that date of sending.
- k. Proof of Service.* A certificate of any Member as to facts in relation to the delivery or mailing or service of any notice or other document to any Member shall, in the absence of evidence to the contrary, be proof thereof.
- l. Action without Meeting.* The Members may act with or without a meeting. Any action of the Members may be taken at a meeting by vote or without a meeting by the written consent of all of the Members.

# Exhibit A - Audit Committee Terms of Reference

## Meaning of “Financially Literate”

1. “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 Allied’s financial statements.

## Meaning of “Independence”

1. A member of the Committee is independent if he or she has no direct or indirect material relationship with Allied.
2. For the purposes of paragraph (1), a “material relationship” is a relationship which could, in the view of Allied’s board of trustees, be reasonably expected to interfere with the exercise of a member’s independent judgement.
3. Despite paragraph (2), the following individuals are considered to have a material relationship with Allied:
  - a. an individual who is, or has been within the last three years, an employee or executive officer of Allied;
  - b. an individual whose immediate family member is, or has been within the last three years, an executive officer of Allied;
  - c. an individual who:
    - i. is a partner of a firm that is Allied’s internal or external auditor,
    - ii. is an employee of that firm, or
    - iii. was within the last three years a partner or employee of that firm and personally worked on Allied’s audit within that time;
  - d. an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
    - i. is a partner of a firm that is Allied’s internal or external auditor,
    - ii. is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
    - iii. was within the last three years a partner or employee of that firm and personally worked on Allied’s audit within that time;

- e. an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of Allied's current executive officers serves or served at that same time on the entity's compensation committee; and
  - f. an individual who received, or whose immediate family member who is employed as an executive officer of Allied received, more than \$75,000 in direct compensation from Allied during any 12 month period within the last three years.
4. Despite paragraph (3), an individual will not be considered to have a material relationship with Allied solely because he or she had a relationship identified in paragraph (3)(c) if that relationship ended before March 30, 2004.
  5. For the purposes of paragraphs (3)(c) and (3)(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.
  6. For the purposes of paragraph (3)(f), direct compensation does not include:
    - a. remuneration for acting as a member of the board of trustees or of any board committee of Allied, and
    - b. the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with Allied if the compensation is not contingent in any way on continued service.
  7. Despite paragraph (3), an individual will not be considered to have a material relationship with Allied solely because the individual or his or her immediate family member
    - a. has previously acted as an interim chief executive officer of Allied, or
    - b. acts, or has previously acted, as a chair or vice-chair of the board of trustees or of any board committee of Allied on a part-time basis.
  8. For the purpose of paragraphs 1 through 7, Allied includes a subsidiary entity of Allied and a parent of Allied.
  9. Despite any determination made under paragraphs 1 through 7, an individual who
    - a. has a relationship with Allied pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensatory fee from Allied or any subsidiary entity of Allied, other than as remuneration for acting in his or her capacity as a member of the board of trustees or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or

- b. is an affiliated entity of Allied or any of its subsidiary entities,  
  
is considered to have a material relationship with Allied.
10. For the purposes of paragraph 9, the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by
    - a. an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
    - b. an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to Allied or any subsidiary entity of Allied.
  11. For the purposes of paragraph 9, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with Allied if the compensation is not contingent in any way on continued service."