



**KPMG ENTERPRISE**

# Planning Report

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# **UNIVERSITY OF WESTERN ONTARIO PENSION PLANS**

Planning Report

For the year ended December 31, 2012



Dear Joint Pension Board members:

Audit planning is the cornerstone of an effective, efficient and high quality audit. In developing our audit plan, we have worked with management to obtain a common understanding of the issues and related financial reporting risks facing University of Western Ontario Pension Plans and have designed our audit to focus on those areas of risk.

As members of the Joint Pension Board, you have a significant role to play in the oversight of our audit and we welcome any and all observations you may have regarding the decisions reflected in this audit plan.

At KPMG, we are committed to audit quality and outstanding client service. Audit quality is integral to our business and is engrained in our training, our processes and our systems and controls. We believe this audit plan embodies our commitment to audit quality.

We would like to take this opportunity to remind you that KPMG's Audit Committee Institute is committed to providing information, resources and knowledge-sharing opportunities to help those charged with governance strengthen the integrity of their financial reporting process and the quality of their corporate governance practices.

We sincerely hope this Audit Planning Report is of assistance to you, and we look forward to discussing it in detail and answering any questions you may have at the upcoming audit planning meeting.

Handwritten signature of James F. Cassidy.

James Cassidy  
Office Managing Partner



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## I. Audit plan

We have prepared this audit plan to inform you of the planned scope and timing of the audit for the purpose of carrying out and discharging your responsibilities and exercising oversight over our audit of the financial statements.

### **What has changed from last year**

We have set out below a summary of changes that have been taken into consideration in planning the audit for the current period:

#### ***Your organization***

- Addition of Romspen mortgage Investment Fund to Diversified Bond Fund; created a blocker corporation to hold the investment
- Internal management changes completed after audit in prior period

#### ***Regulatory environment***

- None noted for F2012

#### ***Auditing standards***

- None noted for F2012

### **Annual inquiries related to risks of fraud**

Canadian Auditing Standards require that we ask you the following questions in connection with your oversight of management's process for identifying and responding to the risks of fraud:

- How do you provide effective oversight of management's process for identifying and responding to fraud risks, including programs and controls to prevent, detect and deter fraud?
- Are you aware of any instances of actual, suspected or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, how have the allegations been addressed?



## **Audit scope**

The purpose of an audit is to enhance the degree of confidence of the users of the financial statements through the expression of an opinion on whether the financial statements fairly present, in all material respects, the statement of financial position and changes in net financial assets of the University of Western Ontario Pension Plans in accordance with Canadian Accounting Standards for Pension Plans.

In planning our audit, we have considered the level of audit work required to support our opinion, including each of the following matters:

### ***Our responsibilities***

Our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter included in the appendices to this report

### ***Materiality***

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.
- University of Western Ontario Pension Plans
  - For the current period, materiality of \$21,000,000 (2011 - \$16,000,000) has been determined based on the engagement Partner's professional judgment using assets as a benchmark.
  - We will reassess materiality at period-end to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.
  - We will communicate uncorrected misstatements to you which exceed \$1,000,000 of net income or \$2,500,000 for reclassification differences.
- Romspen Blocker Corporation
  - For the current period, materiality of \$800,000 has been estimated based on the engagement Partner's professional judgment using assets as a benchmark.
  - We will reassess materiality at period-end to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.
  - We will communicate uncorrected misstatements to you which exceed \$40,000 of net income or \$200,000 for reclassification differences.
- Should uncorrected misstatements remain, in accordance with professional standards, we will:
  - request that all uncorrected misstatements be corrected.
  - communicate the effect that uncorrected misstatements, individually or in aggregate, may have on our audit opinion.



### **Significant financial reporting captions**

As part of our audit planning, we identify significant financial reporting captions that, by their nature, require audit consideration. By focusing on these captions, we are able to target our procedures and deliver a high quality audit that is both efficient and effective.

The significant financial reporting captions identified during our audit planning are listed below:

#### **Identification of significant captions (Pension Plans)**

##### **Summary of planned audit approach**

- **Investments**

We will update our understanding of the activities over the initiation, authorization, processing, recording and reporting.

We will take a controls based audit approach and perform the following:

- Review ISAE 3402 and SSAE 16 reports for Northern Trust
- Confirm investment balances with custodian statements
- Confirm investment balances with investment manager
- Review year-end reconciliation of investment management statements to Northern Trust
- Review financial statement disclosures

- **Revenue (Investment income, net unrealized and net realized gain/(loss) and receivables**

We will update our understanding of the activities over the initiation, authorization, processing, recording and reporting.

We will take a substantive audit approach and perform the following:

- Perform substantive procedures over investment income and net realized gains/(losses)
- Recalculate net unrealized change in fair value of investments

- **Benefits**

We will update our understanding of the activities over the initiation, authorization, processing, recording and reporting.

We will take a substantive audit approach and perform the following:

- Perform a substantive test of details over payments
- Confirm lump sum payments, periodic pension payments and transfers to/from RIF with custodian
- Cut-off testing over benefit payments



## Identification of significant captions (Romspen)

### Summary of planned audit approach

- **Investments**

We will update our understanding of the activities over the initiation, authorization, processing, recording and reporting.

We will take a substantive based audit approach and perform the following:

- Obtain the audited financial statements of Romspen Mortgage Investment Fund (April 2013)
- Confirm investment balances with custodian and investment manager
- Obtain an understanding of the method for recording fair value adjustments by Romspen
- Review year-end reconciliation of investment management statements to custodian
- Review financial statement disclosure, in particular, Level 3 investment disclosure





***Service team and multidisciplinary resources***

We will continue to make every effort to meet your needs and exceed expectations by:

- utilizing professionals who understand the key issues being addressed by management
- keeping pace with changes in the industry and at the Plans
- anticipating issues and adequately planning all aspects of our service
- being available and responsive.

***Service team***

**Jim Cassidy**  
Lead Audit Engagement Partner

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Audit Engagement Manager

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**Leanne Hodgson**  
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## Fees and assumptions

In determining the fees for our services, we have considered the nature, extent and timing of our planned audit procedures as described above. Our fee analysis has been reviewed and agreed upon by management.

Our fees are estimated as follows:

Description	Current year budget	Prior year actual
Audit of the annual financial statements (Plans)	\$ 37,000	\$ 35,000
Audit of the annual financial statements (Romspen)	\$ 9,250*	\$ -

\*includes fee for preparation of tax return of \$750

## Timing

The following are the key dates of the audit:

Key deliverables and expected dates	
Deliverables	Date(s)
Present the Audit Planning Report to the Joint Pension Board	February 4, 2013
Conduct year-end field work	April 1 - 12th, 2013
Present the Audit Findings Report to the Joint Pension Board (including Romspen)	May 13th, 2013
Present the Audit Findings Report (RIF Plan) to the Board of Governors	June 4 <sup>th</sup> , 2013
Provide audit opinion on financial statements	Upon Joint Pension Board//Board of Governors approval



## II. Appendices

- Engagement letter amendment (University of Western Ontario Pension Plans)
- Engagement letter (Romspen)
- KPMG's Audit Committee Priorities 2013



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Ms. Jane O'Brien  
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Ms. Krys Chelchowski  
Chair of the Joint Pension Board  
c/o University of Western Ontario  
Health Sciences Building #200G  
London, ON N6A 5B9

January 16, 2013

Dear Ms. O'Brien and Ms. Chelchowski

Except as specified herein, all provisions of the most recent Engagement Letter between KPMG and University of Western Ontario ("the Entity") dated January 26, 2011 and amended April 2, 2012 continue in effect from period to period unless amended or terminated in writing.

This letter amends the following terms of our engagement to audit the financial statements of the funds of the University of Western Ontario Pension Plans including: The University of Western Ontario Pension Plan for the Members of the Academic Staff, Pension Plan for the Members of the Administrative Staff, Retirement Income Funds Program and the Master Trust for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Funds Program ("the Plans"):

#### **FEES**

- The Entity and KPMG agree to a fee based on actual hours incurred at mutually agreed-upon rates for the audit. We update Appendix A of the previous engagement letter and agree that the estimated fee is \$37,000.

#### **TERMS AND CONDITIONS**

This letter amends the following Terms and Conditions of our engagement:

##### *Use of Member Firms and Third Party Service Providers*

- Personal and/or confidential information (e.g., entries into KPMG's time and billing system and into KPMG's conflicts database) collected by KPMG during the course of this engagement may be used, processed and stored outside of Canada by KPMG, KPMG International member firms performing services hereunder or third party service providers. KPMG represents to the Entity that each KPMG International member firm and third party service provider providing services hereunder has agreed or shall agree to conditions of confidentiality with respect to the Entity's information. Further, KPMG is responsible to the Entity for causing third party service providers to comply with such conditions of confidentiality, and KPMG shall be responsible to the Entity for their failure to comply and failure of each KPMG International member firm providing services hereunder to comply with its obligations of confidentiality owed to KPMG. Any services performed by third party service providers shall be performed in accordance with



the terms of this Engagement Letter, but KPMG shall remain responsible to the Entity for the performance of such services and services performed by each KPMG International member firm providing services hereunder. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws.

#### *Personal Information Consents and Notices*

- Any collection, use or disclosure of personal information is subject to KPMG's Privacy Policy available at [www.kpmg.ca](http://www.kpmg.ca). KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement.
- The Entity represents and warrants that: (i) it will obtain any consents reasonably required to allow KPMG to collect, use and disclose personal information in the course of the engagement, and (ii) it has provided notice of the potential processing of such personal information outside of Canada (as described in paragraph 5 of the Terms and Conditions for Assurance Engagements dated May 2010). KPMG's Privacy Officer noted in KPMG's Privacy Policy is able to answer any individual's questions about the collection of personal information required for KPMG to deliver services hereunder.
- The Entity consents to KPMG sending to the Entity, its officers, directors and employees, as applicable, electronic messages (including emails) relating to KPMG products and services and other matters of interest to the Entity.
- The Entity, its officers, directors or employees may withdraw such consent by contacting KPMG's National Office located at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5, Attention: Unsubscribe; or [info@kpmg.ca](mailto:info@kpmg.ca).

#### *Fees and other Arrangements*

- To the extent that KPMG partners and employees are on the Entity's premises, the Entity will take all reasonable precautions for the safety of KPMG partners and employees at the Entity's premises.

#### *Alternative Dispute Resolution*

- The parties hereby agree that they will first attempt to settle any dispute arising out of or relating to this Engagement Letter or the services provided hereunder through good faith negotiations in the spirit of mutual cooperation between representatives of each of the parties with authority to resolve the dispute. In the event that the parties are unable to settle or resolve their dispute through negotiation within 30 days of the dispute first arising or such longer period as the parties may mutually agree upon, such dispute shall, as promptly as is reasonably practicable, be subject to mediation pursuant to the National Mediation Rules of the ADR Institute of Canada, Inc. All disputes remaining unsettled for more than 60 days following the



parties first meeting with a mediator or such longer period as the parties may mutually agree upon shall, as promptly as is reasonably practicable, be subject to arbitration pursuant to the National Arbitration Rules of the ADR Institute of Canada, Inc. (the "Arbitration Rules"). Such arbitration shall be final, conclusive and binding upon the parties, and the parties shall have no right of appeal or judicial review of the decision. The parties hereby waive any such right of appeal which may otherwise be provided for in any provincial arbitration statute made applicable under the Arbitration Rules. The place of mediation and arbitration shall be the city in Canada in which the principal KPMG office that performed the engagement is located.

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We are available to discuss these amendments to the terms of our engagement with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign the copy in the space provided and return it to us.

Yours very truly,

James F. Cassidy

Office Managing Partner, responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body

Direct: (519) 660 2177

[jfcassidy@kpmg.ca](mailto:jfcassidy@kpmg.ca)

\*\*\*\*\*



The terms of the engagement for the University of Western Ontario Pension Plans set out are as agreed:

Jane O'Brien \_\_\_\_\_  
Associate Vice President, Human Resources

Date (dd/mm/yy) \_\_\_\_\_

Krys Chelchowski \_\_\_\_\_  
Chair, Joint Pension Board

Date (dd/mm/yy) \_\_\_\_\_

## Appendix I – Expected Form of Report

### INDEPENDENT AUDITORS' REPORT

To the Administrator

We have audited the accompanying financial statements of the fund of the University of Western Ontario Pension Plans including: The University of Western Ontario Pension Plan for the Members of the Academic Staff, Pension Plan for the Members of the Administrative Staff, Retirement Income Funds Program and the Master Trust for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Funds Program, which comprise the statement of net assets as at December 31, 2012, the statement of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario).

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario); this includes determining that the basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the net assets of the University of Western Ontario Pension Plans including: The University of Western Ontario Pension Plan for the Members of the Academic Staff, Pension Plan for the Members of the Administrative Staff, Retirement Income Funds Program and the Master Trust for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Funds Program, as at December 31, 2012, and its changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of the Regulations to the Pension Benefits Act (Ontario).

### *Basis of Accounting and Restriction on Use*

Without modifying our opinion, we draw your attention to note \_\_\_ to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the University of Western Ontario Pension Plans including: The University of Western Ontario Pension Plan for the Members of the Academic Staff, Pension Plan for the Members of the Administrative Staff, Retirement Income Funds Program and the Master Trust for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Funds Program to meet the requirements of the Financial Services Commission of Ontario. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Administrator of the University of Western Ontario Pension Plans including: The University of Western Ontario Pension Plan for the Members of the Academic Staff, Pension Plan for the Members of the Administrative Staff, Retirement Income Funds Program and the Master Trust for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Funds Program, and should not be used by parties other than the Administrator or the Financial Services Commission of Ontario.



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Mr. Stephen Jarrett  
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Ms. Krys Chelchowski  
Chair of the Joint Pension Board  
c/o University of Western Ontario  
Health Sciences Building #200G  
London, ON N6A 5B9

January 28, 2013

Dear Sir/Madame,

The purpose of this letter is to outline the terms of our engagement to audit the financial statements of 2333635 Ontario Inc. (“the Entity”), for the period from the date of incorporation on June 28, 2012 to December 31, 2012.

The terms of the engagement outlined in this letter will continue in effect from period to period, unless amended or terminated in writing. The attached Terms and Conditions form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the “Engagement Letter”).

#### **FINANCIAL REPORTING FRAMEWORK FOR THE FINANCIAL STATEMENTS**

The financial statements will be prepared and presented in accordance with Canadian accounting standards for private enterprises (hereinafter referred to as the “financial reporting framework”).

The financial statements will include an adequate description of the financial reporting framework.

#### **MANAGEMENT'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

Management acknowledges and understands that they are responsible for:

- (a) the preparation and fair presentation of the financial statements in accordance with the financial reporting framework referred to above
- (b) the preparation and presentation of the interim financial statements in accordance with the financial reporting framework referred to above
- (c) determining that the basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances
- (d) ensuring that all transactions have been recorded and are reflected in the financial statements
- (e) such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud

- (f) providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters
- (g) providing us with additional information that we may request from management for the purpose of the audit
- (h) providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain audit evidence
- (i) providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that professional standards require that we disclaim an audit opinion when management does not provide certain written representations required

An audit does not relieve management or those charged with governance of their responsibilities.

#### **AUDITORS' RESPONSIBILITIES REGARDING THE AUDIT OF THE FINANCIAL STATEMENTS**

Our function as auditors of the Entity is:

- to express an opinion on whether the Entity's financial statements, prepared by management with the oversight of those charged with governance, are, in all material respects, in accordance with the financial reporting framework referred to above
- to report on the financial statements

We will conduct the audit of the Entity's financial statements in accordance with Canadian generally accepted auditing standards and relevant ethical requirements, including those pertaining to independence (hereinafter referred to as applicable "professional standards").

We will plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

Accordingly, we will, among other things:

- identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the Entity and its environment, including the Entity's internal control. In making those risk assessments, we consider internal control relevant to the Entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control
- obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks



- form an opinion on the Entity's financial statements based on conclusions drawn from the audit evidence obtained;
- communicate matters required by professional standards, to the extent that such matters come to our attention, to the appropriate level of management, those charged with governance and/or the board of directors. Refer to Appendix C for a listing of such matters and the form and timing of such communication

#### **AUDITORS' DELIVERABLES**

The expected form and content of our audit report(s) is provided in Appendix B. However, there may be circumstances in which a report may differ from its expected form and content.

#### **INCOME TAX COMPLIANCE AND ADVISORY SERVICES**

This letter details the tax compliance services for the 2012 taxation year and future years and the general tax advisory services for the 2012 calendar year and future years to be provided to 2333635 Ontario Inc. (“the Entity”). If there are tax services to be delivered outside the scope of those described in this letter, we will require a separate engagement letter for those services.

#### ***Tax compliance services***

We will prepare federal and provincial income and other tax returns and supporting schedules for the Entity. We will not audit or independently verify the data you provide for the preparation of the returns. However, we may ask for clarification of some of the information. We will also determine the estimated income and other tax installments for the Entity for the following taxation year.

Our engagement, with respect to tax compliance and general tax advisory services, cannot be relied on to uncover errors or irregularities in the underlying information incorporated in the tax returns, should any exist. However, we will inform you of any such matters that come to our attention. Because management has ultimate responsibility for the tax returns including any significant judgments made, please have the appropriate corporate officer review the returns before signing and filing them.

All returns are subject to examination by the taxing authorities. In preparing the returns, we rely on your representations and that you understand and have complied with the documentation requirements for all expenses and deductions. You should retain originals of all documents and records as, in the event of an examination, you may be asked to produce documents, records or other evidence to substantiate the items of income and deduction shown on the tax returns. KPMG does not retain copies of any documentation shown on the tax returns. If an examination occurs, we will be available, on request, to assist you. Such additional services are not included in the fees specified in this letter.



***General tax advisory services***

Our advice generally falls under one of the following situations:

- 1) On an ongoing basis, we will provide advisory services of a general nature relating to various income, capital, payroll and indirect tax matters as they arise. This type of service generally arises on a periodic basis as a result of preliminary inquiries made by you. In rendering these services, it is important to recognize that the advice provided is dependent on the detail of the information provided and the environment in which it is rendered. When professional judgment suggests written confirmation of the facts and advice is necessary, we will draft the appropriate correspondence to ensure the appropriate standard of care is met by all parties.
- 2) Periodically, you will seek detailed advice from us in connection with a specific transaction or undertaking you are contemplating. In such a situation, our advice will be based on the information provided to us. It is the responsibility of the Entity to ensure we are provided with all the information necessary in order for us to render the advice sought. Our tax advice will most likely be communicated to you, or your designate, in writing.

Our tax advisory services, both written and oral, will be based on the facts and assumptions submitted to us. We will not independently verify this information. Inaccuracy or incompleteness of the information could have a material effect on our conclusions.

To be of greatest assistance to the Entity we should be advised in advance of any proposed transactions. If such matters exceed the scope of this engagement letter, we will issue additional engagement letters to confirm the particular scope and terms.

**FEES**

Appendix A to this letter lists our fees for professional services to be performed under this Engagement Letter.

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We are available to provide a wide range of services beyond those outlined above. Additional services are subject to separate terms and arrangements.



We are proud to provide you with the services outlined above and we appreciate your confidence in our work. We shall be pleased to discuss this letter with you at any time. If the arrangements and terms are acceptable, please sign the duplicate of this letter in the space provided and return it to us.

Yours very truly,

*KPMG LLP*

**James F. Cassidy**

Office Managing Partner responsible for the engagement and its performance, and for the report that is issued on behalf of KPMG LLP, and who, where required, has the appropriate authority from a professional, legal or regulatory body

**Direct: (519) 660 2177**

**jfcassidy@kpmg.ca**

IJJ/EM:mf

Enclosure

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The terms of the engagement set out are as agreed:

Stephen Jarrett \_\_\_\_\_  
Director

Date (dd/mm/yy) \_\_\_\_\_

Krys Chelchowski \_\_\_\_\_  
Chair, Joint Pension Board

Date (dd/mm/yy) \_\_\_\_\_



### **Appendix A – Fees for professional services**

The Entity and KPMG agree to a fee based on actual hours incurred at mutually agreed-upon rates. The estimated fee for the audit of the financial statements is \$8,500.

As a result of our discussions with you, we estimate that our fees for income tax compliance services will be \$ 750.



## Appendix B – Expected Form of Report

# DRAFT INDEPENDENT AUDITORS' REPORT

To the Director of 2333635 Ontario Inc.

We have audited the accompanying financial statements of 2333635 Ontario Inc., which comprise the balance sheet as at December 31, 2012, the statements of operations, retained earnings and cash flows for the period from the date of incorporation on June 28, 2012 to December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of 2333635 Ontario Inc. as at December 31, 2012, and its results of operations and its cash flows for the six month period then ended in accordance with Canadian accounting standards for private enterprises.

Chartered Accountants, Licensed Public Accountants

Date

London, Canada





## **Appendix C – Matters to communicate**

Matters required to be communicated under professional standards to the appropriate level of management include:

### ***Engagement partner***

- identity and role of the engagement partner

### ***Fraud and non-compliance with laws and regulations***

- any identified fraud or any information obtained that indicates that a fraud may exist
- any identified non-compliance with laws or regulations or suspected non-compliance, including illegal acts

### ***Control deficiencies***

- any significant deficiencies in the Entity's internal control that we intend to communicate to those charged with governance unless it would be inappropriate to communicate directly to management in the circumstances
- other deficiencies in internal control that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention

### ***Misstatements***

- any accumulated misstatements, other than those that are clearly trivial. Furthermore, we request that management correct all misstatements communicated



## **Appendix C – Matters to communicate (continued)**

Matters required to be communicated, on a timely basis, under professional standards to those charged with governance include:

### ***Engagement partner***

- identity and role of the engagement partner

### ***Audit approach***

- an overview of the planned scope and timing of the audit

### ***Fraud and non-compliance with laws and regulations***

- any identified fraud or suspected fraud that may exist involving management, employees who have significant roles in internal control, or others where the fraud results in a material misstatement in the financial statements
- any matters related to fraud that are, in our judgment, relevant to your responsibilities
- any identified non-compliance with laws or regulations or suspected non-compliance, including illegal acts, other than when the identified or suspected non-compliance or illegal act is clearly inconsequential

### ***Control deficiencies***

- any significant deficiencies, in writing, in the Entity's internal control

### ***Misstatements***

- if a misstatement is found in the opening balances that could materially affect the current period's financial statements
- any accumulated uncorrected misstatements (amounts or disclosures) other than those that are clearly trivial, including the effect of uncorrected misstatements related to prior periods. Furthermore, we request all uncorrected misstatements be corrected

### ***Accounting practices***

- our views about significant qualitative aspects of the accounting practices including accounting policies, accounting estimates and financial statement disclosures

### ***Significant difficulties***

- any significant difficulties that we encountered during the audit. For example, if we conclude that management's refusal to allow us to send a confirmation request is unreasonable or when we are unable to obtain relevant and reliable audit evidence from alternative audit procedures

### ***Significant matters***

- significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management (e.g. management's consultation with other accountants, major issues discussed with management prior to retention or any disagreements with



management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the financial statements or report thereon)

- other significant matters arising from the audit , if any, that, in our professional judgment, are significant to the oversight of the financial reporting process, including those significant matters arising from the audit in connection with the Entity's related parties

***Management representations and other written communications***

- copies of written representations requested from management

***Going concern***

- events or conditions identified that may cast significant doubt on the Entity's ability to continue as a going concern

***Reporting***

- any expected modifications to the audit report and the circumstances that led to the modification
- any expected emphasis of matter or other matter paragraphs in the audit report and the circumstances that led to the additional paragraphs
- management refuses to remove a scope limitation in the audit

***Other information***

- our responsibilities with respect to other information in documents containing audited financial statements
- any revision necessary to, or material misstatement of fact included in, financial and non-financial information which is included, either by law, regulation or custom, in a document containing the audited financial statements and our audit report thereon (“other information”) that we identified when reading such information, which management refuses to correct

Note: Significant findings from the audit will be communicated in writing if, in our professional judgment, oral communication would not be adequate.



### **Appendix C – Matters to communicate (continued)**

Matters required to be communicated under professional standards to the board of directors include:

#### ***Fraud and non-compliance with laws and regulations***

- any identified non-compliance with laws or regulations or suspected non-compliance where we suspect that management or those charged with governance are involved



## TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS

The Terms and Conditions are an integral part of the accompanying engagement letter from KPMG that identifies the engagement to which they relate (and collectively form the "Engagement Letter"). The Engagement Letter supersedes all written or oral representations on this matter.

### 1. SEVERABILITY.

If any of the provisions of this Engagement Letter are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and be binding on the parties to the fullest extent permitted by law.

### 2. GOVERNING LAW.

This Engagement Letter shall be subject to and governed by the laws of the province where KPMG's principal office performing this engagement is located (without regard to such province's rules on conflicts of law) and all disputes arising hereunder or related thereto shall be subject to the exclusive jurisdiction of the courts of such province of Canada.

### 3. LLP STATUS.

KPMG LLP is a registered limited liability Partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial legislation. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or by any other person under that other partner's direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the relevant professional bodies. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.

### 4. DOCUMENTS AND INFORMATION.

Management's cooperation in providing us with documents and related information and agreed-upon assistance on a timely basis is an important factor in being able to issue our report. KPMG shall be entitled to share all information provided by the Entity with all other member firms of KPMG International Cooperative ("KPMG International") performing services hereunder. All work papers, files and other internal materials created or produced by KPMG during the engagement and all copyright and intellectual property rights in our work papers are the property of KPMG.

### 5. USE OF MEMBER FIRMS AND THIRD PARTY SERVICE PROVIDERS.

Personal and/or confidential information (e.g. entries into KPMG's time and billing system and into KPMG's conflicts database) collected by KPMG during the course of this engagement may be used, processed and stored outside of Canada by KPMG, KPMG International member firms performing services hereunder or third party service providers. KPMG represents to the Entity that each KPMG International member firm and third party service provider providing services hereunder has agreed or shall agree to conditions of confidentiality with respect to the Entity's information. Further, KPMG is responsible to the Entity for causing third party service providers to comply with such conditions of confidentiality, and KPMG shall be responsible to the Entity for their failure to comply and failure of each KPMG International member firm providing services hereunder to comply with its obligations of confidentiality owed to KPMG. Any services performed by third party service providers shall be performed in accordance with the terms of this Engagement Letter, but KPMG shall remain responsible to the Entity for the performance of such services and services performed by each KPMG International member firm providing services hereunder. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws.

### 6. PERSONAL INFORMATION CONSENTS AND NOTICES.

Any collection, use or disclosure of personal information is subject to KPMG's Privacy Policy available at [www.kpmg.ca](http://www.kpmg.ca). KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement.

The Entity represents and warrants that: (i) it will obtain any consents reasonably required to allow KPMG to collect, use and disclose personal

information in the course of the engagement, and (ii) it has provided notice of the potential processing of such personal information outside of Canada (as described in paragraph 5 above). KPMG's Privacy Officer noted in KPMG's Privacy Policy is able to answer any individual's questions about the collection of personal information required for KPMG to deliver services hereunder.

The Entity consents to KPMG sending to the Entity, its officers, directors and employees, as applicable, electronic messages (including emails) relating to KPMG products and services and other matters of interest to the Entity. The Entity, its officers, directors or employees may withdraw such consent by contacting KPMG's National Office located at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5, Attention: [Unsubscribe](mailto:Unsubscribe); or [info@kpmg.ca](mailto:info@kpmg.ca).

### 7. OFFERS OF EMPLOYMENT.

In order to allow issues of independence to be addressed, management agrees that prior to extending an offer of employment to any KPMG partner, employee or contractor, the matter is communicated to the engagement partner or associate partner.

### 8. [INTENTIONALLY DELETED]

### 9. FEE AND OTHER ARRANGEMENTS.

KPMG's estimated fee is based on the quality of the Entity's accounting records, the agreed-upon level of preparation and assistance from the Entity's personnel, and adherence to the agreed-upon timetable. KPMG's estimated fee also assumes that the Entity's financial statements are in accordance with the applicable financial reporting framework and that there are no significant new or changed accounting policies or issues, or financial reporting, internal control over financial reporting or other reporting issues. KPMG will inform the Entity on a timely basis if these factors are not in place.

Additional time may be incurred for such matters as significant issues, significant unusual and/or complex transactions, informing management about new professional standards, and any related accounting advice. Where these matters arise and require research, consultation and work beyond that included in the estimated fee, the Entity and KPMG agree to revise the estimated fee. No significant additional work will proceed without management's concurrence, and, if applicable, without the concurrence of those charged with governance. Upon completion of these services KPMG will review with the Entity any fees and expenses incurred in excess of KPMG's estimate, following which KPMG will render the final billing. Routine administrative expenses such as long distance telephone calls, photocopies, fax charges, printing of statements and reports, postage and delivery and secretarial and report department assistance will be charged on the basis of a percentage of KPMG's professional costs. Other disbursements for items such as travel, accommodation and meals will be charged based on KPMG's actual disbursements.

KPMG's invoices are due and payable upon receipt. Amounts overdue are subject to interest. In order to avoid the possible implication that unpaid fees might be viewed as creating a threat to KPMG's independence, it is important that KPMG's bills be paid promptly when rendered. If a situation arises in which it may appear that KPMG's independence is threatened because of significant unpaid bills, KPMG may be prohibited from signing the report and, if applicable, any consent.

Fees for any other services will be billed separately from the services described in this engagement letter and may be subject to written terms and conditions supplemental to those in this letter.

Canadian Public Accountability Board (CPAB) participation fees, when applicable, are charged to the Entity based on the annual fees levied by CPAB.

To the extent that KPMG partners and employees are on the Entity's premises, the Entity will take all reasonable precautions for the safety of KPMG partners and employees at the Entity's premises.

### 10. LEGAL PROCESSES.

The Entity on its own behalf hereby acknowledges and agrees to cause its subsidiaries and affiliates to hereby acknowledge that KPMG may from time to time receive requests or orders from the Canadian Public Accountability Board or from professional, securities or other regulatory, judicial or governmental authorities (both in Canada and abroad) to



## TERMS AND CONDITIONS FOR ASSURANCE ENGAGEMENTS

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provide them with information and copies of documents in KPMG's files including working papers and other work-product relating to the affairs of the Entity, its subsidiaries and affiliates. Except where prohibited by law, if a request or order is directly related to an inspection or investigation of KPMG's audit of the Entity, KPMG will advise the Entity of the request or order. The Entity hereby acknowledges that KPMG will provide these documents and information without further reference to, or authority from, the Entity, its subsidiaries and affiliates.

When such an authority requests access to KPMG's working papers and other work-product relating to the Entity's affairs, KPMG will, on a reasonable efforts basis, refuse access to any document over which the Entity has expressly informed KPMG at the time of delivery that the Entity asserts privilege, except where disclosure of documents is required by law. The Entity must mark any document over which it asserts privilege as "privileged". If and only if the authority requires such access to privileged documents pursuant to the laws of a jurisdiction in which express consent is required for such disclosure, then the Entity hereby provides its consent. Where privileged Entity documents are disclosed, KPMG is directed to advise the authority that the Entity is permitting disclosure only to the extent required by law and for the limited purpose of the authority's exercise of statutory authority. KPMG is directed to advise the authority that the Entity does not intend to waive privilege for any other purpose and that the Entity expects its documents to be held by the authority as privileged and confidential material (held securely, limited distribution, etc.). For greater certainty, the Entity and KPMG hereby agree that this acknowledgement (and, if required, consent) does not negate or constitute a waiver of privilege for any purpose and the Entity expressly relies upon the privilege protections afforded under statute and otherwise under law.

The Entity agrees to reimburse KPMG, upon request, at standard billing rates for KPMG's professional time and expenses, including reasonable legal fees, incurred in dealing with the matters described above.

### **11. KPMG INTERNATIONAL MEMBER FIRMS.**

The Entity agrees that any claims that may arise out of this engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International Cooperative ("KPMG International") member firms participating in this engagement or such third party service providers referred to in Section 5 above.

### **12. CONNECTING TO THE ENTITY'S IT NETWORK.**

KPMG personnel are authorized to connect their computers to the Entity's IT Network, subject to any restrictions communicated to KPMG from time to time. Connection to the Entity's IT Network or the Internet via the Network, while at the Entity's premises, will be for the express purpose of conducting normal business activities, primarily relating to facilitating the completion of work referred to in this letter.

### **13. DELIVERABLES OR COMMUNICATIONS.**

KPMG may issue other deliverables or communications as part of the services described in this Engagement Letter. Such deliverables or communications may not be included in, summarized in, quoted from or otherwise used or referred to, in whole or in part, in any documents or public oral statement.

KPMG expressly does not consent to the use of any communication, report, statement or opinion prepared by us on the interim financial statements and such communication, report, statement or opinion may not be included in, summarized in, quoted from or otherwise used in any document or public oral statement.

### **14. ALTERNATIVE DISPUTE RESOLUTION.**

The parties hereby agree that they will first attempt to settle any dispute arising out of or relating to this Engagement Letter or the services provided hereunder through good faith negotiations in the spirit of mutual cooperation between representatives of each of the parties with authority to resolve the dispute. In the event that the parties are unable to settle or resolve their dispute through negotiation within 30 days of the dispute first arising or such longer period as the parties may mutually agree upon, such dispute shall, as promptly as is reasonably practicable, be subject to mediation pursuant to the National Mediation Rules of the ADR Institute of Canada, Inc. All disputes remaining unsettled for more than 60 days following the parties first meeting with a mediator or such longer period as the parties may mutually agree upon shall, as promptly as is reasonably practicable, be subject to arbitration pursuant to the National Arbitration

Rules of the ADR Institute of Canada, Inc. (the "Arbitration Rules"). Such arbitration shall be final, conclusive and binding upon the parties, and the parties shall have no right of appeal or judicial review of the decision. The parties hereby waive any such right of appeal which may otherwise be provided for in any provincial arbitration statute made applicable under the Arbitration Rules. The place of mediation and arbitration shall be the city in Canada in which the principal KPMG office that performed the engagement is located. The language of the mediation and arbitration shall be English.





## Terms and conditions for Advisory and Tax Services

### 1. TERMS AND CONDITIONS.

a. The Terms and Conditions are an integral part of the accompanying Proposal or Engagement Letter from KPMG that identifies the engagement to which they relate.

b. In the event of conflict between the Proposal or Engagement Letter and the Terms and Conditions, the Terms and Conditions shall prevail unless specific reference to a provision of the Terms and Conditions being varied is made in the Proposal or Engagement Letter. Other capitalized words in the Terms and Conditions shall have the meanings given to them in the Proposal or Engagement Letter.

### 2. SERVICES.

KPMG will use reasonable efforts to complete the performance of the services within any agreed-upon time-frame. It is understood and agreed that KPMG's services may include advice and recommendations, but all decisions in connection with the implementation of such advice and recommendations, shall be the responsibility of, and made by, Client. KPMG will not perform management functions or make management decisions for Client. Nothing in the Terms and Conditions shall be construed as precluding or limiting in any way the right of KPMG to provide services of any kind or nature whatsoever to any person or entity as KPMG in its sole discretion deems appropriate.

### 3. CLIENT RESPONSIBILITIES.

a. Client agrees to cooperate with KPMG in the performance of the services under the Engagement Letter and shall provide or arrange to provide KPMG with timely access to and use of the personnel, facilities, equipment, data and information necessary for KPMG to perform the services under the Engagement Letter. To the extent that KPMG personnel are on Client premises, Client will take all reasonable precautions for the safety of KPMG partners and employees at Client premises. Client shall be responsible for the performance of its employees and agents and for the accuracy and completeness of all data and information provided to KPMG for purposes of the performance by KPMG of its services hereunder. The Proposal or Engagement Letter may set forth additional responsibilities of Client in connection with the engagement. Client acknowledges that Client's failure to perform these obligations could adversely impact KPMG's ability to perform its services.

b. Client agrees that Client, and not KPMG, shall perform the following functions: (i) make all management decisions and perform all management functions; (ii) designate an individual who possesses suitable skill, knowledge and experience, preferably within senior management, to oversee the performance of the services under the Engagement Letter, and to evaluate the adequacy and results of such services; (iii) accept responsibility for the results of such services; and (iv) establish and maintain internal controls over the processes with which such services are concerned, including, without limitation, monitoring ongoing activities.

c. Client acknowledges and agrees that KPMG will, in performing the services, base its conclusions on the facts and assumptions that Client furnishes and that KPMG may use data, material, and other information furnished by or at the request or direction of Client without any independent investigation or verification and that KPMG shall be entitled to rely upon the accuracy and completeness of such data, material and other information. Inaccuracy or incompleteness of such data, material and other information furnished to KPMG could have a material effect on KPMG's conclusions.

d. Client acknowledges that information made available by it, or by others on Client's behalf, or otherwise known to partners or staff of KPMG who are not engaged in the provision of the services hereunder shall not be deemed to have been made available to the individuals within KPMG who are engaged in the provision of the services hereunder. Client undertakes that, if anything occurs after information is provided by Client to KPMG to render such information untrue, unfair or misleading, Client shall promptly notify KPMG.

### 4. REPORTING.

a. During the performance of the services, KPMG may supply oral, draft or interim advice, reports or presentations but in such circumstances KPMG's written advice or final written report shall take precedence. No reliance should be placed by Client on any oral, draft or interim advice, reports or presentations. Where Client wishes to rely on oral advice or oral presentation, Client shall inform KPMG and KPMG will provide documentary confirmation of the advice concerned.

b. Subsequent to the completion of the engagement, KPMG will not update its advice, recommendations or work product for changes or modification to the law and regulations, or to the judicial and administrative interpretations thereof, or for subsequent events or transactions, unless Client separately engages KPMG to do so in writing after such changes or modifications, interpretations, events or transactions occur.

### 5. WORKING PAPERS AND USE OF REPORTS.

KPMG retains all rights in all methodologies, know-how, knowledge, applications and software developed by KPMG either prior to or during the engagement. KPMG also retains all rights (including copyright) in all reports, written advice and other working papers and materials developed by KPMG during the engagement. Unless contemplated by the Engagement Letter, all reports and written advice are intended solely for Client's internal use and, where applicable, government taxation authorities, and may not be edited, distributed, published, made available or relied upon by any other person without KPMG's express written permission. If such permission is given, Client shall not publish any extract or excerpt of KPMG's written advice or report or refer to KPMG without providing the entire advice or report at the same time. Subject to the restrictions of Section 6, KPMG is entitled to use or develop the knowledge, experience and skills of general application gained through performing the engagement.

### 6. CONFIDENTIALITY.

a. Except as described in section 5 above, Client will treat in confidence any KPMG methodologies, know-how, knowledge, application or software identified by KPMG as confidential information of KPMG, and will not use or disclose such confidential information of KPMG to others.

b. KPMG will treat as confidential all proprietary information and personal information obtained from Client in the course of the engagement.

c. The above restrictions shall not apply to any information that: (i) is required by law or professional standards applicable to KPMG to be disclosed; (ii) that is in or hereafter enters the public domain; (iii) that is or hereafter becomes known to Client or KPMG, as the case may be, without breach of any confidentiality obligation; or (iv) that is independently developed by KPMG.

d. KPMG shall be entitled to include a description of the services rendered in the course of the engagement in marketing and research materials and disclose such information to third parties, provided that all such information will be rendered anonymous and not subject to association with Client.

e. KPMG shall be entitled to share all information with all other member firms of KPMG International Cooperative ("KPMG International"). KPMG may also use such information to offer services that may be of interest to Client. KPMG may retain and may disclose to other member firms of KPMG International, subject to terms of this section, such information required for compliance with applicable professional standards or internal policies or for quality reviews or to share best practices.

f. Professional standards require KPMG personnel performing any audit or assurance services for clients to discuss or have available to them all information and materials that may affect the audit or assurance engagement. Client authorizes, if Client is or becomes an assurance Client, KPMG personnel performing services under the engagement to make available to the KPMG assurance engagement team and other KPMG personnel, the findings, observations and recommendations from the engagement and agrees that KPMG may use all such findings, observations and recommendations in KPMG's assurance engagement.

### 7. PERSONAL INFORMATION CONSENTS AND NOTICES.

Any collection, use or disclosure of personal information is subject to KPMG's Privacy Policy available at [www.kpmg.ca](http://www.kpmg.ca). KPMG may be required to collect, use and disclose personal information about individuals during the course of this engagement. Client represents and warrants that: (i) it will obtain from individuals all consents required by law to permit KPMG to collect, use and disclose all personal information reasonably required in the course of the engagement, and (ii) it has provided notice of KPMG's potential processing of information outside of Canada (as described in paragraph 8 below) to all individuals whose



## Terms and conditions for Advisory and Tax Services

personal information is disclosed to KPMG. Client consents to KPMG sending to Client, its officers, directors and employees, as applicable, electronic messages (including emails) relating to KPMG products and services and other matters of interest to Client. Client, its officers, directors or employees may withdraw such consent by contacting KPMG's National Office located at Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5, Attention: [Unsubscribe](#); or [info@kpmg.ca](mailto:info@kpmg.ca).

### 8. USE OF MEMBER FIRMS AND THIRD PARTY SERVICE PROVIDERS.

Personal and/or confidential information collected by KPMG during the course of this engagement (e.g. entries into KPMG's time and billing system and into KPMG's conflicts database) may be used, processed and stored outside of Canada by KPMG, KPMG International member firms providing services hereunder or third party service providers. KPMG represents to Client that each KPMG International member firm and third party service provider providing services hereunder has agreed or shall agree to conditions of confidentiality with respect to Client's information to the same or similar extent as KPMG has agreed pursuant to Section 6. Further, KPMG is responsible to Client for causing third party service providers to comply with such conditions of confidentiality, and KPMG shall be responsible to Client for their failure to comply and failure of each KPMG International member firm providing services hereunder to comply with its obligations of confidentiality owed to KPMG. Any services performed by third party service providers shall be performed in accordance with the terms of this Engagement Letter, including Section 6, but KPMG shall remain responsible to Client for the performance of such services and services performed by each KPMG International member firm providing services hereunder. Such personal and/or confidential information may be subject to disclosure in accordance with the laws applicable in the jurisdiction in which the information is processed or stored, which laws may not provide the same level of protection for such information as will Canadian laws. KPMG's Privacy Officer noted in KPMG's Privacy Policy is able to answer any individual's questions about the collection of personal information required for KPMG to deliver services hereunder.

### 9. TAXES/BILLING/EXPENSES/FEES.

- a. All fees and other charges do not include any applicable federal, provincial, or other goods and services or sales taxes, or any other taxes or duties whether presently in force or imposed in the future. Any such taxes or duties shall be assumed and paid by Client without deduction from the fees and charges hereunder.
- b. Bills, including, without limitation, a charge on account of all reasonable expenses, including travel, meals, accommodations, long distance, telecommunications, photocopying, delivery, postage, clerical assistance and database research will be rendered on a regular basis as the engagement progresses. Accounts are due when rendered. Interest on overdue accounts is calculated at the rate noted on the invoice commencing 30 days following the date of the invoice.
- c. Without limiting its rights or remedies, KPMG shall have the right to halt or terminate entirely its services until payment is received on past due invoices.
- d. In the event that the engagement is terminated and Client proceeds to complete the transaction or financing within 18 months from the termination date, then the full amount of any Completion Fee shall be payable on closing of the transaction or the completion of financing, regardless of whether KPMG provided further service.

### 10. LIMITATION ON WARRANTIES.

**THIS IS A SERVICES ENGAGEMENT. KPMG WARRANTS THAT IT WILL PERFORM SERVICES HEREUNDER IN GOOD FAITH WITH QUALIFIED PERSONNEL IN A COMPETENT AND WORKMANLIKE MANNER IN ACCORDANCE WITH APPLICABLE INDUSTRY STANDARDS. KPMG DISCLAIMS ALL OTHER WARRANTIES, REPRESENTATIONS OR CONDITIONS, EITHER EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, WARRANTIES, REPRESENTATIONS OR CONDITIONS OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.**

### 11. LIMITATION ON LIABILITY.

- a. Client agrees that KPMG shall not be liable to Client for any actions, damages, claims, liabilities, costs, expenses, or losses in any way arising

out of or relating to the services performed hereunder for an aggregate amount in excess of the fees paid by Client to KPMG under the engagement. On a multi-phase engagement, KPMG's liability shall be based on the amount actually paid to KPMG for the particular phase that gives rise to the liability.

- b. In the event of a claim by any third party against KPMG that arises out of or relates to the services performed hereunder, Client will indemnify KPMG from all such claims, liabilities, damages, costs and expenses, including, without limitation, reasonable legal fees, except to the extent finally determined to have resulted from the intentional, deliberate or fraudulent misconduct of KPMG.

- c. In no event shall KPMG be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, or losses (including, without limitation, lost profits and opportunity costs). In any action, claim, loss or damages arising out of the engagement, Client agrees that KPMG's liability will be several and not joint and several. Client may only claim payment from KPMG of KPMG's proportionate share of the total liability based on degree of fault.

- d. For purposes of this section, the term KPMG shall include its associated and affiliated entities and their respective partners, directors, officers and employees. The provisions of this section shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss, whether in contract, statute, tort (including, without limitation, negligence) or otherwise.

### 12. LEGAL PROCEEDINGS.

- a. Client agrees to notify KPMG promptly of any request received by Client from any court or applicable regulatory authority with respect to the services hereunder, KPMG's advice or report or any related document.

- b. If KPMG is required by law, pursuant to government regulation, subpoena or other legal process or requested by Client to produce documents or personnel as witnesses arising out of the engagement and KPMG is not a party to such proceedings, Client shall reimburse KPMG at standard billing rates for professional time and expenses, including, without limitation, reasonable legal fees, incurred in responding to such requests.

- c. Client acknowledges that KPMG may from time to time receive requests or orders from professional, securities or other regulatory, judicial or governmental authorities (both in Canada and abroad) to provide them with information and copies of documents in KPMG's files including working papers and other work-product relating to Client. Except where prohibited by law, KPMG will advise Client of the request or order. Client hereby acknowledges that KPMG will provide these documents and information without further reference to, or authority from Client.

When such an authority requests access to KPMG's working papers and other work-product relating to Client's affairs, KPMG will, on a reasonable efforts basis, refuse access to any document over which Client has expressly informed KPMG at the time of delivery that the Client asserts privilege, except where disclosure of documents is required by law. Client must mark any document over which it asserts privilege as "privileged". If and only if the authority requires such access to privileged documents pursuant to the laws of a jurisdiction in which express consent is required for such disclosure, then Client hereby provides its consent.

Where privileged Client documents are disclosed, KPMG is directed to advise the authority that Client is permitting disclosure only to the extent required by law and for the limited purpose of the authority's exercise of statutory authority. KPMG is directed to advise the authority that Client does not intend to waive privilege for any other purpose and that Client expects its documents to be held by the authority as privileged and confidential material (held securely, limited distribution, etc.). For greater certainty, Client and KPMG hereby agree that this acknowledgement (and, if required, consent) does not negate or constitute a waiver of privilege for any purpose and Client expressly relies upon the privilege protections afforded under statute and otherwise under law.





## Terms and conditions for Advisory and Tax Services

### 13. LIMITATION PERIOD.

No alternative dispute resolution proceeding arising under or relating to the engagement, may be brought by either party more than one year after the cause of action has accrued or in any event not more than five years after completion of the engagement in the case of an advisory services engagement and not more than eight years after completion of the engagement in the case of a tax services engagement, except that an alternative dispute resolution proceeding for non-payment may be brought by a party not later than one year following the date of the last payment due to such party hereunder. For purposes of this section, the term KPMG shall include its associated and affiliated entities and their respective partners, directors, officers and employees.

### 14. TERMINATION.

Unless terminated sooner in accordance with its terms, the engagement shall terminate on the completion of KPMG's services hereunder, which completion shall be evidenced by the delivery by KPMG to Client of the final invoice in respect of the services performed hereunder. Should Client not fulfill its obligations set out herein or in the Engagement Letter and in the absence of rectification by Client within 10 days, KPMG may, upon written notice, terminate its performance and will not be responsible for any loss, cost or expense resulting. The engagement may be terminated by either party at any time by giving written notice to the other party not less than 30 calendar days before the effective date of termination. Upon early termination of the engagement, Client shall be responsible for the payment to KPMG for KPMG's time and expenses incurred up to the termination date, as well as reasonable time and expenses to bring the engagement to a close in a prompt and orderly manner.

### 15. E-MAIL COMMUNICATION.

Client recognizes and accepts the risks associated with communicating by Internet e-mail, including (but without limitation) the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Unless Client requests in writing that KPMG does not communicate by Internet e-mail, Client assumes all responsibility or liability in respect of risk associated with its use.

### 16. POTENTIAL CONFLICTS OF INTEREST.

Except as otherwise set out herein, Client should be aware that it is not uncommon for KPMG to be auditors and/or advisors of more than one of the parties involved in a transaction. In such situations, KPMG takes appropriate measures to ensure that strict confidentiality is maintained in all respects. If these circumstances are identified, KPMG will advise Client of that fact, subject to confidentiality requirements, and will consider with Client what further measures, if any, are appropriate. Client further acknowledges that at some point KPMG may act contrary to Client's interest on unrelated matters.

### 17. FORCE MAJEURE.

Neither Client nor KPMG shall be liable for any delays resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire or other casualty, act of God, strike or labour dispute, war or other violence, or any law, order or requirement of any governmental agency or authority.

### 18. INDEPENDENT CONTRACTOR.

It is understood and agreed that each of the parties hereto is an independent contractor and that neither party is, nor shall be considered to be, an agent, distributor or representative of the other. Neither party shall act or represent itself, directly or by implication, as an agent of the other or in any manner assume or create any obligation on behalf of, or in the name of, the other.

### 19. SURVIVAL.

Sections 1 to 16 and 19, 20, 24, 25 and 29 to 31 hereof shall survive the expiration or termination of the engagement.

### 20. SUCCESSORS AND ASSIGNS.

The Terms and Conditions and the accompanying Proposal or Engagement Letter shall be binding upon the parties hereto and their respective associated and affiliated entities and their respective partners, directors, officers and employees and successors and permitted assigns. Except as provided below, neither party may assign, transfer or delegate any of the rights or obligations hereunder without the prior written consent

of the other party. KPMG may assign its rights and obligations hereunder to any affiliate or successor in interest to all or substantially all of the assets or business of the relevant KPMG practice, without the consent of Client. In addition, KPMG may engage independent contractors and member firms of KPMG International to assist KPMG in performing the services hereunder.

### 21. SEVERABILITY.

The provisions of the Terms and Conditions and the accompanying Proposal or Engagement Letter shall only apply to the extent that they are not prohibited by a mandatory provision of applicable law. If any of these provisions shall be held to be invalid, void or unenforceable, then the remainder of the Terms and Conditions and the attached Proposal or Engagement Letter, as the case may be, shall not be affected, impaired or invalidated, and each such provision shall be valid and enforceable to the fullest extent permitted by law.

### 22. ENTIRE AGREEMENT.

The Terms and Conditions and the accompanying Proposal or Engagement Letter including, without limitation, Exhibits, constitute the entire agreement between KPMG and Client with respect to the engagement and supersede all other oral and written representation, understandings or agreements relating to the engagement.

### 23. GOVERNING LAW.

The Terms and Conditions and the accompanying Proposal or Engagement Letter shall be subject to and governed by the laws of the province in which KPMG's principal Canadian office performing the engagement is located (without regard to such province's rules on conflicts of law).

### 24. PUBLICITY.

Upon the closing of a transaction, KPMG will have the right (but shall not be obliged), at its expense, to publicize its association with the transaction by way of public announcement in "tombstone" or similar format, subject to prior review of the wording for any such announcement with Client.

### 25. KPMG INTERNATIONAL MEMBER FIRMS.

In the case of multi-firm engagements, all member firms of KPMG International performing services hereunder shall be entitled to the benefits of the Terms and Conditions. Client agrees that any claims that may arise out of the engagement will be brought solely against KPMG, the contracting party, and not against any other KPMG International member firms or such third party service providers referred to in Section 8 above.

### 26. *SARBANES-OXLEY ACT.*

Except as set forth in the Engagement Letter, Client acknowledges that completion of the engagement or acceptance of KPMG's reports, advice, recommendations and other deliverables resulting from the engagement will not constitute a basis for Client's assessment of internal control over financial reporting or Client's evaluation of disclosure controls and procedures, or its compliance with its principal officer certification requirements under Section 302 of the *Sarbanes-Oxley Act of 2002* (the "Act"). The engagement shall not be construed to support Client's responsibilities under Section 404 of the Act requiring each annual report filed under Section 13(a) or 15(d) of the *Securities Exchange Act of 1934* to contain an internal control report from management.

### 27. NATIONAL INSTRUMENT 52-109.

Except as set forth in the Engagement Letter, Client acknowledges that completion of the engagement or acceptance of KPMG's reports, advice, recommendations and other deliverables resulting from the engagement will not constitute a basis for Client's evaluation of disclosure controls and procedures, or its compliance with its CEO/CFO certification requirements under *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*, including those related to the design of internal control over financial reporting.

### 28. SPECIFIC ACCOUNTING AND OTHER ADVICE.

Except as set forth in the Engagement Letter, the engagement does not contemplate the provision of specific accounting advice or opinions or the issuance of a written report on the application of accounting standards to specific transactions and facts and circumstances of Client.



## Terms and conditions for Advisory and Tax Services

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Such services, if requested, would be provided pursuant to a separate engagement.

Client should consult with and/or engage legal counsel for the purpose of advising on legal aspects of matters on which KPMG provides its advice and drafting any legal documents and/or agreements that may be required. To the extent legal counsel or other professional service providers are required, Client is exclusively responsible for engaging and paying such service providers.

### 29. TAX SERVICES.

a. If tax work is specifically requested by Client, KPMG will perform the procedures in accordance with this section. KPMG will base its findings exclusively on the facts and assumptions provided to KPMG by Client and Client's personnel and advisors. KPMG will consider the applicable provisions of the relevant taxing statutes, the regulations thereunder, applicable tax treaties and judicial and administrative interpretations thereof. KPMG will also take into account all specific proposals to amend such statutes, regulations and treaties publicly announced prior to the date of KPMG's reports, based on the assumption that these amendments will be enacted substantially as proposed. These authorities are subject to change, retroactively and/or prospectively, and any such changes could affect the validity of KPMG's findings and may result in incremental taxes, interest or penalties. KPMG's findings will not otherwise take into account or anticipate any changes in law or practice, by way of judicial, governmental or legislative action or interpretation. Unless Client specifically requests otherwise, KPMG will not update tax work to take any such changes into account.

b. KPMG will use professional judgment in providing advice, and will, unless Client instructs otherwise, take the position most favourable to Client whenever reasonable. All returns are subject to examination by tax authorities, and KPMG's advice may be audited and challenged by a tax authority. Client understands that KPMG's conclusions are not binding on tax authorities or the courts and should not be construed as a representation, warranty or guarantee that the tax authorities or courts will agree with KPMG's conclusion.

c. Client is also responsible for ensuring that KPMG's advice is implemented strictly in accordance with KPMG's recommendations. KPMG is not responsible for any penalties or interest assessed against Client as a result of a failure by Client to provide KPMG with accurate and complete information.

d. Unless expressly provided for, KPMG's services do not include representing Client in the event of a challenge by the Canada Revenue Agency or other tax or revenue authorities.

### 30. LLP.

KPMG LLP is a registered limited liability partnership ("LLP") established under the laws of the Province of Ontario and, where applicable, has been registered extra-provincially under provincial LLP legislation. KPMG is a partnership, but its partners have a degree of limited liability. A partner is not personally liable for any debts, obligations or liabilities of the LLP that arise from a negligent act or omission by another partner or any person under that other partner's direct supervision or control. The legislation relating to limited liability partnerships does not, however, reduce or limit the liability of the firm. The firm's insurance exceeds the mandatory professional indemnity insurance requirements established by the relevant professional bodies. Subject to the other provisions hereof, all partners of the LLP remain personally liable for their own actions and/or actions of those they directly supervise or control.

### 31. ALTERNATIVE DISPUTE RESOLUTION.

The parties hereby agree that they will first attempt to settle any dispute arising out of or relating to this Engagement Letter or the services provided hereunder through good faith negotiations in the spirit of mutual cooperation between representatives of each of the parties with authority to resolve the dispute. In the event that the parties are unable to settle or resolve their dispute through negotiation within 30 days of the dispute first arising or such longer period as the parties may mutually agree upon, such dispute shall, as promptly as is reasonably practicable, be subject to mediation pursuant to the National Mediation Rules of the ADR Institute of Canada, Inc. All disputes remaining unsettled for more than 60 days following the parties first meeting with a mediator or such longer period as the parties may mutually agree upon shall, as promptly as is reasonably

practicable, be subject to arbitration pursuant to the National Arbitration Rules of the ADR Institute of Canada, Inc. (the "Arbitration Rules"). Such arbitration shall be final, conclusive and binding upon the parties, and the parties shall have no right of appeal or judicial review of the decision. The parties hereby waive any such right of appeal which may otherwise be provided for in any provincial arbitration statute made applicable under the Arbitration Rules. The place of mediation and arbitration shall be the city in Canada in which the principal KPMG office that performed the engagement is located. The language of the mediation and arbitration shall be English.

## KPMG's Audit Committee Priorities for 2013



### Audit Committee Responsibilities

- **Stay focused on the audit committee's top priority: financial reporting and internal controls.** This continues to be the number one to-do for 2013. The challenges of continued economic uncertainty, coupled with the impact of major public policy initiatives—deficit reduction and tax reform, financial services regulation, new accounting standards, and a challenging regulatory environment—will require the attention of every audit committee. Monitor fair value estimates, impairments, and management's assumptions underlying critical accounting estimates. Consider how the disclosures can be improved to tell the company's story. Are *all* financial communications – including earnings releases and analyst calls – consistent with what is being said in the quarterly and annual filings? Recognizing that financial reporting quality starts with the CFO and finance organization, maintain a sharp focus on management's financial reporting processes, and make sure they have the resources to succeed.
- **Reinforce audit quality and set clear expectations for the external auditor.** Audit quality is enhanced by a fully engaged audit committee that sets the tone and clear expectations for the external auditor, and then monitors auditor performance—through frequent, quality communications, and a rigorous performance assessment. Pay close attention to regulatory initiatives on audit quality and auditor independence, and consider how the audit committee can strengthen its oversight.
- **Monitor the impact of the business and regulatory environment on the company's compliance programs.** With supply chains, emerging technologies, and strategic growth opportunities tightening the interconnection of business and markets, companies are more vulnerable than ever to fraud, misconduct, and compliance risk. These vulnerabilities, coupled with the complex global regulatory environment will require continued attention. Ensure that the company's regulatory compliance and monitoring programs cover all vendors in the global supply chain.
- **Understand the company's significant tax risks and how they are being managed.** Oversight of tax risk is an increasingly important responsibility for audit committees, prompted largely by the complexity of operating globally in different tax regimes. Increased enforcement at all levels, demands for greater transparency and disclosure, prospects for business tax reform, and reputational issues have also raised the stakes. Ensure that the tax function is monitoring tax reform proposals and analyzing the impact of likely scenarios. To stay abreast of critical tax risks – including internal control, compliance, and disclosure issues - establish a clear communications protocol for management to update the audit committee on the status of its tax risk management activities.
- **Make sure internal audit is properly focused and fully utilized.** Consider the need to re-define internal audit's role—and focus internal audit on key areas of risk and the adequacy of the company's risk management *processes* generally. Internal audit is most effective when it is focused on the critical risks to the business, including key operational risks and related controls—not just compliance and financial reporting risks. What's changed in the operating environment? What are the risks posed by the extended organization—sourcing, outsourcing, sales and distribution channels? Set clear expectations and make sure internal audit has the resources, skills, and expertise to succeed. Challenge internal audit to take the lead in coordinating with other governance, risk, and compliance functions within the organization to limit duplication in coverage and, more importantly, to prevent gaps. Help maximize collaboration between internal and external auditors. As internal audit moves to a higher value-add model, it should become an increasingly valuable resource—a trusted adviser and consultant—for the audit committee.

## Broader Governance Matters

Beyond the above “core” areas of oversight, we believe audit committees can play an important role in supporting the board (and coordinating among board committees) on the following governance matters:

- **Consider whether the board has the right composition and committee structure to provide effective risk oversight.** In addition to their oversight responsibility for financial reporting risk, many audit committees have oversight responsibility for the company’s enterprise risk management *process*. Over the years (by design or default), many audit committees have also assumed responsibility for other major risks facing the company—such as risks posed by globalization, cyber security and IT risks, and other operational risks, as well as legal and regulatory compliance. Given the substantial time commitment required by its core oversight responsibilities, does the audit committee have the time and expertise to oversee so many critical risks “beyond the core”? Is there a need for another committee (e.g., risk, technology, compliance)? Are risk responsibilities clear? Board and audit committee effectiveness and accountability hinge on honest self-reflection, meaningful board assessments, and continuing director education. In addition to board oversight processes, take a hard look at board and audit committee composition, independence, and leadership. Is there a need for a “fresh set of eyes” or a greater diversity of views?
- **Understand how digitization and social media are transforming the business landscape—and impacting the company and board oversight.** The staggering pace of technology change and the accelerating threat of cyber attack have pushed IT risk steadily higher on audit committee agendas. At the same time, audit committees and boards have expanded their focus beyond “defensive” IT risks—such as data privacy and security, social media/brand reputation, and protection of IP and non-public financial information—to consider the transformational impact of game-changing technologies such as the cloud, social media, mobile, and “big data.” Is management making the most of new technologies? Absent a technology committee of the board, what is the role of the audit committee—versus the board—in helping to ensure that management understands the opportunities and risks posed by emerging technologies? What expertise/resources does the audit committee or board require to oversee the company’s efforts to manage the many risks (such as cyber attack) posed by these technologies, and to understand the strategic and transformational implications of emerging technologies for the company’s business model and data analytics?
- **Set the tone and closely monitor leadership’s commitment to that tone, as well as the culture throughout the organization.** The year ahead will be one of tremendous pressure and change. In this environment, it is more important than ever to be acutely sensitive to the tone from (and example set by) leadership, and to reinforce the culture of the organization, i.e., *what* the company does, *how* it does it, and the *culture of compliance, including a commitment to financial reporting integrity throughout the organization*. Is the audit committee (and board) hearing views from those below senior management and outside the company? Are there dissenting views? Recognize when asymmetric risk – the over-reliance on senior management’s information and perspective – is too high. Does the information provided by management, internal audit, and external auditors tell a consistent story? Make time to visit company facilities and attend employee functions. The tone and culture throughout the company’s operations and the extended organization is critical.

**KPMG’s Audit Committee Institute**





KPMG LLP Chartered Accountants  
Chartered Accountants, Licensed Public Accountants

[www.kpmg.ca/enterprise](http://www.kpmg.ca/enterprise)  
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