
TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

1. PURPOSE

The overall purpose of the Audit Committee (the “**Committee**”) of Morguard Real Estate Investment Trust (the “**TRUST**”) is to monitor the TRUST’s system of internal financial controls, to evaluate and report on the integrity of the financial statements of the TRUST, to enhance the independence of the TRUST’s external auditors and to oversee the financial reporting process of the TRUST.

2. COMPOSITION, PROCEDURES AND ORGANIZATION

- A. The Committee shall consist of at least three members of the Board of the TRUST (the “**Board**”), each of whom shall be, in the determination of the Board, “independent” as that term is defined by National Instrument 52-110, as amended from time to time, and the majority of whom shall be resident Canadians. Each member shall complete and return to the TRUST annually a questionnaire regarding the member’s independence. The definition of “independent” is set out in Exhibit A hereto.
- B. All members of the Committee shall be, in the determination of the Board, “financially literate” as that term is defined by National Instrument 52-110, and at least one member of the Committee must have, in the determination of the Board, “accounting or related financial expertise”. The definition of “financially literate” is set out in Exhibit A hereto.
- C. The Board, at its organizational meeting held in conjunction with each annual meeting of unitholders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee. Any member of the Committee ceasing to be a trustee of the TRUST shall cease to be a member of the Committee.
- D. Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from among their number.
- E. The Committee shall have access to such officers and employees of the TRUST and to the TRUST’s external auditors and its legal counsel, and to such information respecting the TRUST as it considers to be necessary or advisable in order to perform its duties.
- F. Notice of every meeting shall be given to the external auditors, who shall, at the expense of the TRUST, be entitled to attend and to be heard thereat.
- G. Meetings of the Committee shall be conducted as follows:
 - i. the Committee shall meet on a regular basis, at such times and at such locations as the chair of the Committee shall determine;
 - ii. the external auditors or any member of the Committee may call a meeting of the Committee;
 - iii. any trustee of the TRUST may request the chair of the Committee to call a meeting of the Committee and may attend such meeting to inform the Committee of a specific matter of concern to such trustee, and may participate in such meeting to the extent permitted by the chair of the Committee; and

- iv. the external auditors and management employees shall, when required by the Committee, attend any meeting of the Committee.
- H. The external auditors shall be entitled to communicate directly with the chair of the Committee and may meet separately with the Committee. The Committee, through its chair, may contact directly any employee in the TRUST as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper practices or transactions.
- I. Compensation to members of the Committee shall be limited to trustee's fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from the TRUST (other than as members of the Board and Board committee members).
- J. The Committee is authorized, at the TRUST's expense, to retain independent counsel and other advisors as it determines necessary to carry out its duties and to set their compensation.

3. DUTIES

- A. The overall duties of the Committee shall be to:
 - i. assist the Board in the discharge of its duties relating to the TRUST's accounting policies and practices, reporting practices and internal controls;
 - ii. establish and maintain a direct line of communication with the TRUST's external auditors and assess their performance;
 - iii. oversee the co-ordination of the activities of the external auditors;
 - iv. ensure that the management of the TRUST has designed, implemented and is maintaining an effective system of internal controls;
 - v. monitor the credibility and objectivity of the TRUST's financial reports;
 - vi. report regularly to the Board on the fulfillment of the Committee's duties;
 - vii. assist the Board in the discharge of its duties relating to the TRUST's compliance with legal and regulatory requirements; and
 - viii. assist the Board in the discharge of its duties relating to risk assessment and risk management.
- B. The Committee shall be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the TRUST, including the resolution of disagreements between management and the external auditors regarding financial reporting, and in carrying out such oversight the Committee's duties shall include:
 - i. recommending to the Board a firm of external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the TRUST;
 - ii. reviewing, where there is to be a change of external auditors, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 -- *Continuous Disclosure Obligations* or any successor legislation ("NI 51-102"), and the planned steps for an orderly transition;

- iii. reviewing all reportable events, including disagreements, unresolved issues and consultations, as defined in NI 51-102 or any successor legislation, on a routine basis, whether or not there is to be a change of external auditor;
 - iv. reviewing the engagement letters of the external auditors, both for auditing services and permitted non-audit services;
 - v. reviewing the performance, including the fee, scope and timing of the audit and other related services and any non-audit services provided by the external auditors;
 - vi. reviewing and approving the nature of and fees for any non-audit services performed for the TRUST by the external auditors and consider whether the nature and extent of such services could detract from the firm's independence in carrying out the audit function;
 - vii. Review with the External Auditor annually their written statement regarding relationships and services which may affect the External Auditor's objectivity and independence;
 - viii. At least annually, receive a report by the External Auditor describing the firms' internal quality control procedures and any material issues raised by the most recent internal quality control review of the local practice office or by any inquiry or investigation by governmental or professional authorities of the local practice office, within the preceding two years, and steps taken to address any such issues. The report shall also include any similar matters pertaining to offices other than the local practice office, to the extent the audit partner is aware of such matters;
 - ix. Ensure the regular rotation of the lead partner and the reviewing partner to the extent required by law, and regularly consider whether or not there should be a change of the TRUST's External Auditor;
 - x. With management, evaluate the performance of the External Auditor annually; and
 - xi. Review and approve guidelines for the TRUST's hiring of employees, partners and former employees and partners of the External Auditor and its predecessor.
- C. The duties of the Committee as they relate to audits and financial reporting shall be to:
- i. review the audit plan with the external auditor and management;
 - ii. review with the external auditor and management any proposed changes in accounting policies, the presentation of the impact of significant risks and uncertainties, and key estimates and judgments of management that may in any such case be material to financial reporting;
 - iii. review the contents of the audit report;
 - iv. question the external auditor and management regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
 - v. review the scope and quality of the audit work performed and the compensation therefore;
 - vi. review the adequacy of the TRUST's financial and auditing personnel;
 - vii. review the co-operation received by the external auditor from the TRUST's personnel during the audit, any problems encountered by the external auditors and any restrictions on the external auditor's work;
 - viii. review the internal resources used;

- ix. review the evaluation of internal controls by the internal auditor (or persons performing the internal audit function) and the external auditors, together with management's response to the recommendations, including subsequent follow-up of any identified weaknesses;
 - x. review the appointments of the chief financial officer, internal auditor (or persons performing the internal audit function) and any key financial executives involved in the financial reporting process;
 - xi. review and recommend to the Board for approval the TRUST's annual audited financial statements and those of its subsidiaries in conjunction with the report of the external auditors thereon, and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
 - xii. review and approve the TRUST's interim unaudited financial statements, and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
 - xiii. establish a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and employees' confidential anonymous submission of concerns regarding accounting and auditing matters; and
 - xiv. review and recommend for approval the terms of reference for an internal auditor or internal audit function.
- D. The duties of the Committee as they relate to accounting and disclosure policies and practices shall be to:
- i. review changes to accounting principles of the Canadian Institute of Chartered Accountants which would have a significant impact on the TRUST's financial reporting as reported to the Committee by management and the external auditors;
 - ii. review the appropriateness of the accounting policies used in the preparation of the TRUST's financial statements and consider recommendations for any material change to such policies;
 - iii. review any actual or anticipated litigation or other contingent liabilities which could have material impact on the TRUST's financial statements and the manner and adequacy of disclosure thereof;
 - iv. review the status of income tax returns and potentially significant tax problems as reported to the Committee by management;
 - v. review any errors or omissions in the current or prior year's financial statements;
 - vi. review and approve before their release all public disclosure documents containing audited or unaudited financial information, including all earnings, press releases, MD&A, prospectuses, annual reports to unitholders, annual information forms and management's discussion and analysis;
 - vii. oversee and review all written financial information and earnings guidance provided to analysts and rating agencies; and
 - viii. review the Certifications of chief executive officer and chief financial officer as to accuracy and completeness of the TRUST's reports and filings with securities regulators.

- E. The duties of the Committee as they relate to risk responsibilities shall be to:
- i. Receive presentations, regular reports and other information to understand the top and emerging risks to which the TRUST is exposed; and
 - ii. Regularly review and evaluate the effectiveness of the TRUST's process for assessing significant risks or exposures and the steps that management has taken to minimize such risks and obtain management's reasonable assurance that the TRUST's risk management policies for significant risks are being adhered to.
- F. The other duties of the Committee shall include:
- i. reviewing any inquires, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
 - ii. formulating clear hiring policies for employees or former employees of the TRUST's external auditors;
 - iii. reviewing annual operating and capital budgets;
 - iv. reviewing the funding and administration of the TRUST's compensation plans;
 - v. reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;
 - vi. inquiring of management and the external auditors as to any activities that may be or may appear to be illegal or unethical;
 - vii. ensuring procedures are in place for the receipt, retention and treatment of complaints and employee concerns received regarding accounting or auditing matters and the confidential, anonymous submission by employees of the TRUST of concerns regarding such;
 - viii. reviewing the adequacy of the TRUST's insurance program in covering property, casualty, environmental and other insurable risks;
 - ix. reviewing managements system of risk management identification and mitigation; and
 - x. any other questions or matters referred to it by the Board.

EXHIBIT A – TO TERMS OF REFERENCE OF THE AUDIT COMMITTEE FOR DEFINITIONS

Definitions

“Financially Literate” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer’s financial statements.

Meaning of “Independence”

1. A member of an audit committee is independent if the member has no direct or indirect material relationship with the TRUST.
2. For the purposes of paragraph 1, a material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member’s independent judgment.
3. Despite paragraph 2, the following persons are considered to have a material relationship with the TRUST:
 - a) a person who is, or whose immediate family member is, or at any time during the prescribed period has been, an officer or employee of the TRUST, its parent, or of any of its subsidiary entities or affiliated entities;
 - b) a person who is, or has been an affiliated entity of, a partner of, or employed by, a current or former internal or external auditor of the TRUST, unless the prescribed period has elapsed since the person’s relationship with the internal or external auditor, or the auditing relationship, has ended;
 - c) a person whose immediate family member is, or has been, an affiliated entity of, a partner of, or employed in a professional capacity by, a current or former internal or external auditor of the TRUST, unless the prescribed period has elapsed since the person’s relationship with the internal or external auditor, or the auditing relationship, has ended;
 - d) a person who is, or has been, or whose immediate family member is or has been, employed as an executive officer of an entity if any of the TRUST current executives serve on the entity’s compensation committee, unless the prescribed period has elapsed since the end of the service or employment;
 - e) a person who accepts, or has accepted at any time during the prescribed period, directly or indirectly, any consulting, advisory or other compensatory fee from the TRUST or any subsidiary entity of the TRUST, other than as remuneration for acting in his or her capacity as a member of the Committee, the Board, or any other Board committee; and
 - f) a person who is an affiliated entity of the TRUST or any of its subsidiary entities.
4. For the purposes of paragraph 3, the prescribed period is the three year period ending immediately prior to the determination required by paragraph 3.
5. For the purposes of paragraphs 3(b) and 3(c), a partner does not include a limited partner whose interest in the internal or external auditor is limited to the receipt of fixed amounts of compensation

(including deferred compensation) for prior service with an internal or external auditor if the compensation is not contingent in any way on continued service.

6. For the purpose of paragraph 3(e), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
7. For the purposes of paragraph 3(e), the indirect acceptance by a person of any consulting, advisory or other compensatory fee includes acceptance of a fee by:
 - i. an immediate family member, or
 - ii. a partner, member or executive officer of, or a person who occupies a similar position with, an entity that provides accounting, consulting, legal, investment banking or financial advisory services to the TRUST or any subsidiary entity of the TRUST, other than limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the TRUST.