

AQUATERA UTILITIES INC.

AUDIT AND RISK COMMITTEE (ARC) CHARTER

A. Mandate of the ARC

The ARC provides assistance to the Board in fulfilling its oversight responsibility to the shareholders, the community and others, relating to the integrity of the Company's financial statements, the financial reporting process, the systems of internal accounting and financial controls, the risk identification assessment conducted by management and the programs established by management and the Board in response to such assessment, the internal audit function and the external auditors' qualifications, independence, performance and reports to the Company. In so doing, it is the ARC's responsibility to maintain an open avenue of communication between the ARC, the external auditors, CFO and management of the Company.

Management Responsibilities

The function of the ARC is financial oversight. Management is responsible for the preparation, presentation and integrity of the interim and annual financial statements and related disclosure documents. Management of the Company is also responsible for maintaining appropriate accounting and financial reporting policies and systems of internal controls and procedures that are in compliance with accounting standards, applicable laws and regulations and that provide reasonable assurances that assets are safeguarded and that transactions are authorized, executed, recorded and reported properly.

Management is also responsible for the identification and management of the Company's risks and the development and implementation of policies and procedures to mitigate such risks. The ARC's role is to provide oversight in order to ensure that the Company's assets are protected and safeguarded within reasonable business limits.

ARC Limits

While the ARC has the responsibilities and powers set forth herein, it is not the duty of the ARC to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with International Financial Reporting Standards (IFRS). This is the responsibility of management and the external auditors. The designation of a member or members as financially literate³ is based on that individual's education and experience, which the individual will bring to bear in carrying out his or her duties on the ARC. Designation as financially literate does not impose on such person any duties, obligations and liability that are greater than the duties, obligations and liability imposed on a member of the ARC and Board in the absence of such designation.

B. Duties and Responsibilities of the ARC

The ARC shall have the following specific duties and responsibilities:

1. Audit and Financial Matters

The ARC shall:

- (a) have direct responsibility for the compensation and oversight of the external auditors including nominating the external auditors to the Board for appointment by the shareholders at the Company's annual meeting. In performing its function, the ARC shall:
 - (i) review the experience and qualifications of the external auditors' senior personnel who are providing audit services to the Company and the quality control procedures of the external auditors;
 - (ii) review and approve annually the external auditors audit plan;
 - (iii) review and approve the basis and amount of the external auditors' fees and ensure the Company has provided appropriate funding for payment of compensation to the external auditors;
 - (iv) review and discuss with the external auditors all relationships that the external auditors and their affiliates have with the Company and its affiliates in order to determine the external auditors' independence, including, without limitation, (i) requesting, receiving and reviewing, at least annually, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to the Company, (ii) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors, and (iii) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence;
 - (v) resolve disagreements between management and the external auditors regarding financial reporting;
 - (vi) pre-approve all audit related services provided by the external auditors; the Chair of the ARC, is authorized to approve all audit related services provided by the external auditors, and shall report all such approvals to the ARC at its next scheduled meeting;

³ Meaning of Financial Literacy – for the purposes of this instrument, an individual is financially literate if the individual has 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.

- (vii) review annual disclosure by Management on all non-prohibited and non-audit services performed by the external and internal auditors
 - (viii) inform the external auditors and management that the external auditors shall have direct access to the ARC at all times, as well as the ARC to the external auditors; and
 - (xiv) instruct the external auditors that they are ultimately accountable to the ARC as representatives of the shareholders of the Company;
- (b) review with management and the Company's external auditors the Company's financial reporting in connection with the annual audit and the preparation of the financial statements, including, without limitation, the annual audit plan of the external auditors, the judgement of the external auditors as to the quality, not just the acceptability, of and the appropriateness of the Company's accounting principles as applied in its financial reporting and the degree of aggressiveness or conservatism of the Company's accounting principles and underlying estimates;
- (c) review with management and the external auditors all financial statements and financial disclosure;
- (i) recommend to the Board for approval the Company's audited annual financial statements including the notes thereto and, "Management's Discussion and Analysis";
 - (ii) review any report or opinion to be rendered in connection therewith;
 - (iii) review with the external auditors the cooperation received during the course of the audit and review;
 - (iv) discuss with management and the external auditors all significant transactions which were not a normal part of the Company's business;
 - (v) review the management processes for formulating sensitive accounting estimates and the reasonableness of the estimates;
 - (vi) review with management and the external auditors any changes in accounting principles and applicability of the changes to the business;
 - (vii) review with management and the external auditors alternative treatments of financial information within IFRS that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the external auditors;
 - (viii) satisfy itself that there are no unresolved issues between management and the external auditors that could reasonably be expected to materially affect the financial statements;

- (d) review with management and the external auditors the Company's interim financial statements, including the notes thereto, "Management's Discussion and Analysis" and earnings release;
- (e) review and discuss with management and external auditors the use of "pro forma" or "adjusted" non-IFRS information and the applicable reconciliation;
- (f) review and recommend to the Board for approval the Company's financial commitments and limits, and any material changes underlying any of these commitments;
- (g) at least once during term of appointment, obtain and review the external auditors' report with respect to the auditing firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review or peer review of the auditing firm, any inquiry or investigation by governmental or professional authorities within the preceding five years undertaken respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues;
- (h) review annually with the CFO and, if necessary, outside legal advisors, significant legal, compliance or regulatory matters that may have a material effect on the financial statements of the business;
- (i) review changes in accounting practices or policies and the financial impact these may have on the Company;
- (j) discuss with the external auditors their perception of the Company's financial and accounting personnel, any recommendations which the external auditors may have, including those contained in the management letter, with respect to improving internal financial controls, choice of accounting principles or management reporting systems, and review all management letters from the external auditors together with management's written responses thereto;
- (k) review with management, the external auditors and as necessary external legal counsel, any litigation, claim, contingent liability, license issue or regulatory issue, that could have a material effect upon the financial position of the Company, and the manner in which these matters may be, or have been, disclosed in the financial statements.
- (l) review when requested by HRC the Reports and financial statements of the Company's externally managed pension plans including the actuarial valuation, asset/liability forecast, asset allocation, manager performance and plan operating costs;
- (m) meet separately with management, the external auditors and CFO to review issues and matters of concern respecting audits and financial reporting;

- (o) discuss with management and the external auditors any correspondence from or with regulators or governmental agencies, any employee complaints or any published reports that raise material issues regarding the Company's financial statements or accounting policies;
- (p) report annually to shareholders on the work of the ARC during the year;
- (q) review and approve the Company's hiring policies for employees or former employees of the external auditors and monitor the Company's adherence to the policy;

2. Risk Management

The ARC provides oversight of management's establishment of an overall risk culture for the Company. The ARC shall review the processes established and developed by management for the identification of the Company's principal risks, the evaluation of potential impact and the implementation of appropriate systems to mitigate and manage the risks.

The ARC shall:

- (a) review annually with the Board management's assessment of the significant risks to which the Company is exposed; discuss with management the Company's policies and procedures for identifying and managing the principal risks of its business in order to ensure that management:
 - (i) has identified appropriate business strategies taking into account the principal risks identified, and
 - (ii) is maintaining systems and procedures to manage or mitigate those risks, including programs of loss prevention, insurance and risk reduction and disaster response and recovery programs and;
 - (iii) conduct appropriate due diligence with respect to any activities relating to mergers and acquisitions to ensure the visibility, and potential mitigation of all risks of such mergers and acquisitions to Aquatera, including Aquatera's subsidiaries, directors, officers, employees and shareholders.
- (b) receive and review managements' annual and ad hoc risk assessment update including an update on residual risks, emergent risks and next steps;
- (c) review the Company's enterprise risk management framework and reporting methodology;
- (d) review annually the Company's investment policies, banking/credit agreements, and purchasing policies, and to make recommendations to the Board concerning any proposed changes to same;

- (e) review the Company's annual insurance program, including the risk retention philosophy and resulting uninsured exposure and corporate liability protection programs for directors and officers including directors' and officers' insurance coverage;
- (f) periodically consider the respective roles and responsibilities of the external auditor, CFO function and external counsel concerning risk management of the Company and review their performance in relation to such roles and responsibilities; and
- (g) annually, together with management report to the Board on:
 - (i) the Company's strategies in light of the overall risk profile of the Company;
 - (ii) the nature and magnitude of all significant risks;
 - (iii) the processes, policies, procedures and controls in place to manage or mitigate the significant risks; and
 - (iv) the overall effectiveness of risk management processes including highlighting risk management problems and the actions that have been or will be taken to address them.

3. Internal Audit and Controls

The ARC shall have direct responsibility for the compensation and oversight of the Internal Audit Group including nominating the Internal Auditor to the Board for appointment. In performing the function the ARC shall:

- (a) Review annually with senior management, and, as necessary, outside legal advisors, the CFO and external auditors, the effectiveness of the Company's internal controls to ensure the Company is in compliance with legal and regulatory requirements and with the Company's policies;
- (b) review Internal audit recommendation from the CFO;
- (c) review with CFO annual plan for internal audit;
- (d) review management's processes relating to the assessment of potential fraud, programs and controls to mitigate the risk of fraud and the process put in place for monitoring the risks within targeted areas;
- (e) review with the CFO the adequacy of the Company's systems of internal control and procedures;
- (f) obtain assurances from the CEO and CFO as to the adequacy and effectiveness of the Company's disclosure controls and procedures and systems of internal control over financial reporting and that any fraud involving management or other employees who have a significant role in the Company's internal controls was reported to the ARC;
- (g) establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding accounting or auditing matters;
- (h) review and amend as needed Schedule 1 – Internal Audit Procedure.

4. Compliance and Powers of the Committee

- (a) The Company's goal and intention is to comply with the laws, rules and regulations by which it is governed. In fact, the Company strives to comply not only with requirements of the law but also with recognized compliance practices and ethical standards. The ARC shall ensure that the Company's financial reporting practices and procedures comply with same.
- (b) The ARC may, at the request of the Board or on its own initiative, investigate such other matters as are considered necessary or appropriate in carrying out its mandate.

5. Report to the Board

The ARC shall:

- (a) Act in an advisory capacity reporting to the Board on matters reviewed and make recommendations for approval as appropriate.

6. Review of Charter

The ARC shall evaluate its performance and review and reassess the adequacy of its Charter at least annually or otherwise, as it deems appropriate, and if necessary propose changes to the GEC and the Board for review and approval.

SCHEDULE 1 - INTERNAL AUDIT PROCEDURE

Mission and Scope of Work

The mission of Aquatera Utilities Inc.'s ("Aquatera") Internal Audit group is to provide independent, objective assurance and consulting services designed to add value and improve Aquatera's operations. It helps Aquatera accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the Internal Audit group is to determine whether Aquatera's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in Aquatera's control process.
- Significant legislative or regulatory issues impacting Aquatera are recognized and addressed properly.

In addition, consulting projects will be undertaken based on consultation with management to identify opportunities for improving the efficiency and effectiveness of business processes and increasing Aquatera's profitability and success. To maintain the independence of the Internal Audit group, Internal Audit will not assume any management responsibilities.

Accountability

The Director of Internal Audit (functioning as Chief Audit Executive), in the discharge of his duties, shall be accountable to management and the Board as represented by the Audit and Risk Committee (ARC) to:

- Provide annually an assessment on the adequacy and effectiveness of Aquatera's processes for controlling its activities and managing its risks in the areas covered in that year's scope of work.
- Report significant issues related to the processes for controlling the activities of Aquatera, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of internal audit resources.

- Coordinate with and provide oversight of other control and monitoring functions as applicable (e.g. risk management, compliance, security, legal, ethics, environment, external audit).

Independence

To provide for the independence of the Internal Audit group, its personnel report to the Director of Internal Audit, who reports administratively to the Chief Financial Officer and functionally to the Chair of the ARC in a manner outlined in the above section on accountability. It will include as part of its reports to the ARC a regular report on Internal Audit resources.

Responsibility

The Director and supporting team of the Internal Audit group have responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the ARC for review and approval.
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the ARC.
- Maintain a professional audit team with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Establish a quality assurance program by which the Director of Internal Audit assures the operation of internal auditing activities.
- Perform consulting services, beyond Internal Auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services. Full disclosure of such services to be reported to the ARC.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the ARC and management summarizing results of audit activities.
- Keep management and the ARC informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the ARC.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the ARC of the results.
- Consider the scope of work of the external accountants/auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

Authority

The Director and supporting team of the Internal Audit group are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the ARC.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.

- Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.

The Director and supporting team of the Internal Audit group are not authorized to:

- Perform any operational duties for Aquatera or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit group.
- Direct the activities of any Aquatera employee, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Audit group.

Standards of Audit Practice

The Internal Audit group will meet or exceed The Institute of Internal Auditors' mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and the [International Standards for the Professional Practice of Internal Auditing](#).

AQUATERA UTILITES INC.

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Chair of the Audit and Risk Committee _____ Date _____

Chief Financial Officer _____ Date _____