1. PURPOSE

- To establish the principles governing the identification, authorization and reporting of Capital Expenditures, Acquisitions and leasing contracts.

2. APPLICATION

- This policy applies to:
  - Capital expenditures.
  - Leasing contracts of buildings and equipment.

3. DEFINITION

3.1 Capital expenditures:

Capital expenditures include all tangible assets purchased in an amount greater than $1,000 with a useful life exceeding twelve (12) months. Capital expenditures include land, vehicles, furniture and fixtures, buildings, machinery and equipment, and corporate acquisition, equity investment or joint venture.

Expenditures related to existing capital assets should meet one of the following criteria to be considered capital expenditures:

- The useful life of the asset is extended;
- There is an increase in the previously assessed physical output or service capacity;
- There is a substantial quality improvement or an important reduction in operating costs.
- Expenditures which do not meet one of these criteria should be considered as operating expenses (maintenance).
- Capital expenditures of less than $1,000 should be expensed and not capitalized.

4. PRINCIPLES

4.1 **Project authorization**:

All capital expenditures and leasing contracts must be fully authorized by ALL required levels of authorization before any money is disbursed or committed.

The required levels of authority are listed in *Appendix A* and refer to individual initiatives. Projects should not be split so as to meet a level of authority inferior to that required by the whole project.

Appendix B explains computation methods for the investment payback period and provides a threshold projected rate of return on corporate acquisitions.

Appendix C should be submitted together with the documentation and analysis relative to projects on which a follow up analysis is required.

4.2 **Leasing contracts**:

All contracts for commercial leased equipment, building or offices, whose total rent value exceeds $200,000, should be approved by the parent CFO and legal department and authorized in accordance with the principles established in section 4.1.

4.3 Project overruns

Revised project cost should be resubmitted for approval, according to guidelines in Appendix A, as follows on projects with original costs greater than $50,000 where there are project overruns higher than 25%.

4.3 Reports

Appendix C is the standard form for the applicable follow up analysis on qualifying projects.

Accomplishment report

- Scope : For all projects higher than $100,000
- Frequency : At the end of construction or installation period
- Responsible : Controller
- Distribution : Subsidiary President, parent CFO, and President

5. PROJECT CLASSIFICATION

Appendix D defines the six capital expenditures classified below:

1- Environment
2- Health and safety
3- Cost reduction
4- Expansion and diversification
5- Improvement of product quality
6- Replacement

APPENDIX A

LEVELS OF APPROVALS ON CAPITAL EXPENDITURE REQUEST APPROVAL

ALL FACILITIES

Level	LIMITS	JOINT AUTHORIZATION
A	Up to $5,000	Departments
B	Up to $50,000	Entity Chief Financial Officer
C	Up to $100,000	Subsidiary President
D	Greater than $200,000	Holding Company President
E	Greater than $500,000	Holding Company Board of Directors

APPENDIX B

PAYBACK PERIOD

Payback period is the period required so that funds generated by a project equal the initial investment, including working capital, installation, freight and capitalized interest.

Instructions:

- Calculation should take into consideration only cash disbursements and receipts;
- Disbursements and receipts attributable to the project should be calculated on an incremental basis;
- Disbursements and receipts are to be equal to last actual results (excluding any growth);
- Financial charges and other expenses which do not require disbursements, such as depreciation and accruals, are excluded from the cash flow calculation;
- Installation costs, capitalized interest and working capital are part of the initial investment; and
- Income tax payments are included in the cash flow calculation.

Any corporate acquisition proposed should meet a threshold projected return of at least 10% on an after tax basis, unless there are significant mitigating factors.

Appendix C - Accomplishment report

Operating Facility: **Project NO:**

PROJECT TITLE: ____
APPROVAL DATE (DD/MM/YYYY):____/____/______ START-UP DATE: ____/____/______

BRIEF PROJECT DESCRIPTION

PROJECT COST SUMMARY

CAPITALIZED FIXED ASSETS:	ACTUAL	AUTHORIZED	VARIANCE
Categories in submission form	+	+	+
	+	+	+
	+	+	+
	+	+	+
	+	+	+
	+	+	+
	+	+	+
	=	=	=
TOTAL PROJECT SPENDING	=	=	=

COMMENTS

A. EXPLAIN DIFFERENCES BETWEEN THE ACTUAL AND AUTHORIZED SPENDING (VARIANCE) (submit more information on an additional document, if necessary)

B. HAVE YOU PLANNED ANY ACTION TO RECTIFY THE SITUATION, IF NECESSARY

C. ACCORDING TO THE PRESENT COMMENTS, PLEASE ATTACHED YOUR REVISED PAYBACK CALCULATION, IF NECESSARY

B. OTHER

SIGNATURES OF ORIGINAL SUBMITTORS:

TITLE	SIGNATURE	DATE

APPENDIX D

DEFINITIONS OF CAPITAL EXPENDITURES CATEGORIES

ENVIRONMENT

Environment investments are made to comply with internal or legal requirements with respect to the protection of quality improvement of the environment. Such CAPEX does not necessarily generate additional cash flow.

HEALTH AND SAFETY

Health and safety investments are made to comply with internal or legal requirements with respect to the health and safety considerations or to improve the working conditions of the personnel. Such CAPEX does not normally generate additional cash flow.

COST REDUCTION

Cost reduction investments are made to improve the productivity of the existing capacity and positively affect the cash flow.

EXPANSION AND DIVERSIFICATION

Expansion and diversification investments are made to increase capacity, create additional capacity for the existing products or to diversify into new products. Consequently, such investments require the marketability and must generate an additional cash flow.

IMPROVEMENT OF PRODUCT QUALITY

Improvement of product quality investments, which should generate positive cash flows due to higher sales revenue.

REPLACEMENT INVESTMENTS

Replacement investments are CAPEX required to sustain the production capacity of a particular piece of equipment, a product line or the entire plant, which may or may not generate a change of the resulting cash flow.