

# **CHARTER OF THE AUDIT COMMITTEE OF TERRA FIRMA CAPITAL CORPORATION**

## **1. Composition**

- a) the Audit Committee (“AC”) of Terra Firma Capital Corporation (“TFCC”) is a Committee which shall be comprised of a minimum of 3 members of the Board of Directors (“Board”) of “TFCC” as required by National instrument 52-110;
- b) the majority of the AC must be “independent” as defined by National Instrument 52-110;
- c) all members of the AC shall be *financially literate* in understanding “TFCC’s” financial information (or acquire such literacy at the expense of TFCC within a reasonable period after appointment);
- d) upon the recommendation of “TFCC’s” Governance, Compensation, and Nominating Committee the Board shall appoint the members of the AC by Board resolution at the first Board meeting following the “TFCC” annual meeting;
- e) the Chairman of the AC (“Chair”) shall be appointed by the Board, upon the recommendation of the Governance Committee;
- f) no member of the AC shall concurrently serve on the audit committee of more than 3 other public companies without the specific approval of the Board; and
- g) a majority of the members of the AC shall be “resident Canadians”, as contemplated by the Business Corporations Act (Ontario).

## **2. Operating Principles**

The AC shall fulfill its responsibilities within the context of the following principles:

### a) Committee Values

The AC expects the management of “TFCC” to operate in compliance with “TFCC’s” Code of Ethics and Professional Conduct and policies; with laws and regulations governing “TFCC”; and to maintain strong financial reporting and control processes.

### b) Communications

The Chair and members of the AC expect to have direct, open and frank communications throughout the year with management, other Committee Chairs, the external auditors, the Chief Financial Officer (“CFO”) and other key AC advisors as applicable.

### c) Financial Literacy

All AC members shall have 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 “TFCC’s” financial statements.

d) Annual AC Work Plan

The AC, in consultation with management, shall develop an annual Committee Work Plan responsive to the AC's responsibilities as set out in this Mandate.

e) Meeting Agenda

AC meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the Board Chair, Committee members, senior management and the external auditors.

f) Committee Expectations and Information Needs

The AC shall communicate its expectations to Management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that all reasonably required and available information (including minutes) relating to each matter to be dealt with by the AC at its meetings will be received from Management and the external auditors within a reasonable time frame in advance of each AC meeting (e.g. 4 days).

g) Reliance on Experts

In contributing to the AC's discharging of its duties under this mandate, each member of the AC shall be entitled to rely in good faith upon:

- i) the financial statements of "TFCC" represented to him or her by an officer of "TFCC" or in a written report of the external auditors to present fairly the financial position of "TFCC" in accordance with generally accepted accounting principles; and
- ii) any report of a lawyer, accountant, appraiser or other person whose profession lends credibility to a statement made by any such person.

h) External Resources

In addition to the external auditors, the AC may, after consultation with the Chair of the Board, retain one or more persons having special expertise that will assist the AC in discharging its responsibilities.

i) In Camera Meetings

The members of the AC shall meet in private session and separately with the external auditors annually; and, as part of each meeting, with the AC members only (i.e., without Management present). The Committee shall meet in private session as often as it deems necessary.

j) Reporting to the Board

The AC, through its Chair, shall report after each Committee meeting its activities and recommendations to the Board at the Board's next regular meeting.

k) Committee Evaluation

The AC shall annually review, discuss and assess its own performance. In addition, the AC shall periodically review and assess the adequacy of its charter and recommend to the Board any improvements to this charter that the AC determines to be appropriate.

l) The External Auditors

The AC will assure themselves that the external auditors have the appropriate qualifications, independence and performance track record to carry out their audit of "TFCC". The AC expects that, in discharging their responsibilities to the Board, the external auditors shall be accountable to

the Board through the AC. The external auditors shall report all material issues or potentially material issues to the AC.

m) Financial Statements

Given “TFCC’s” relative small size and the low number of transactions it undertakes, only “Notice to Reader” financial statements will be produced for the first three quarters of any financial year. Financial statements audited by the external auditors will only be produced annually at the completion of a financial year.

### 3. Operating Procedures

- a) The AC shall meet at least quarterly, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chair, or upon the request of two (2) members of the Committee or at the request of the external auditors;
- b) a quorum will consist of a majority of the members present in person or by telephone and all decisions of the AC require a majority of those present at a meeting of the AC at which a quorum is present;
- c) unless the AC otherwise specifies, the CFO of “TFCC” (or his/her designate) shall act as Secretary of all meetings of the Committee;
- d) to accommodate the planned and unplanned absences of the AC Chair, he or she should appoint an Acting Chair at the start of his or her term of office. In the absence of the Acting Chair, the Committee members present shall appoint an Acting Chair; and
- e) minutes shall be maintained for all meetings of the AC together with materials relating to those meetings and a copy of the minutes of each meeting of the AC shall be provided to each member of the Committee and to each director of “TFCC” in a timely fashion.

### 4. Terms of Reference

The AC’s role is to oversee the financial affairs of “TFCC” and to assist the Board in monitoring the organization’s financial reporting and disclosure. The objective of the Board’s monitoring of “TFCC’s” financial reporting and disclosure (the "**Financial Reporting Objective**") is to gain reasonable assurance of the following:

- a) that “TFCC” complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies relating to financial reporting and disclosure;
- b) that the accounting principles, significant judgments and disclosures which underlie or are incorporated in “TFCC” financial statements are the most appropriate in the prevailing circumstances;
- c) that “TFCC’s” interim “Review Engagement” financial statements (recognizing the limitations of such statements) and annual audited financial statements present fairly “TFCC’s” financial position as a result of its operations in accordance with international financial reporting standards (“IFRS”) and together with Management Discussion and Analysis (i.e., the document containing a complete and integrated view of the organization’s historical operations, prospective analysis and financial condition explaining the ‘why’ behind performance and prospects) constitute a fair presentation of “TFCC’s” financial condition; and
- d) that appropriate information concerning the financial position and performance of “TFCC” is disseminated to the Board in a timely manner.

## 5. Fundamental Activities

The Board is of the view that the Financial Reporting Objective cannot be reliably met unless the following activities (the "**Fundamental Activities**") are conducted effectively:

- a) "TFCC's" accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately all of the "TFCC's" financial transactions;
- b) "TFCC's" internal financial controls are regularly assessed for effectiveness and efficiency; and
- c) "TFCC's" interim and annual financial statements are in accordance with IFRS and promptly prepared by management.

The AC shall develop and present to the Board for the Board's approval a process which, amongst other things, will describe the activities in which the AC will engage for the purpose of gaining reasonable assurance that the Fundamental Activities are being conducted effectively and that the Financial Reporting Objective is being met.

The following is provided as a guide to the AC to fulfill its responsibilities and duties:

## 6. Financial Reporting

- a) review and provide guidance to the full Board and management about:
  - i) policies relating to "TFCC's" cash flow, cash management and working capital, and investments;
  - ii) adjustments to "TFCC's" capital structure;
  - iii) capital and debt issuances;
  - iv) working capital and cash flow management;
  - v) tax planning and compliance; and
  - vi) other transactions or financial issues that management desires to have reviewed by the Committee.
- b) review "TFCC's" annual financial statements with management and the external auditors to gain reasonable assurance that the statements are (i) prepared in accordance with IFRS, (ii) are complete, (iii) represent fairly "TFCC's" financial position and performance, (iv) and together with Management's Discussion and Analysis ensure fair presentation of "TFCC's" financial condition and (v) report thereon to the Board before such financial statements are approved by the Board;
- c) review "TFCC's" interim Notice to Reader financial statements with management (recognizing the limitations of such statements) to gain reasonable assurance that the statements are (i) prepared in accordance with IFRS, (ii) are complete, (iii) represent fairly "TFCC's" financial position and performance, (iv) ensure fair presentation of "TFCC's" financial condition and (v) report thereon to the Board before such financial statements are approved by the Board;
- d) receive from the external auditors reports on their review of the audited annual financial statements;
- e) receive from Management a copy of the engagement letter provided to the external auditors;
- f) receive from the external auditors a copy of the "management letter" and Management's response to it;

- g) receive from Management any additional representations required by the AC;
- h) review and recommend approval to the Board of all public disclosure documents where the Board has delegated such responsibility to the AC;
- i) satisfy itself that adequate procedures are in place for the review of “TFCC’s” disclosure of financial information extracted or derived from “TFCC’s” financial statements (especially ratio and trend analyses) in order to satisfy itself that such information is fairly presented and periodically assess the adequacy of these procedures; and
- j) obtain summaries of complex financings and other significant transactions and other potentially difficult matters whose treatment in the annual financial statements merits advance disclosure;

## 7. Accounting Policies

Review with management and, where appropriate, the external auditors:

- a) the appropriateness of “TFCC’s” accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto and obtain reasonable assurance that they are presented fairly in accordance with IFRS;
- b) all major issues regarding accounting principles and financial statement presentation including any significant changes in the selection or application of accounting principles to be observed in the preparation of the accounts of “TFCC”;
- c) any major issues regarding auditing principles and practices, and the adequacy of internal controls that could significantly affect “TFCC’s” financial reporting;
- d) all critical accounting policies and practices used, including their application to unusual and material related party transactions;
- e) all alternative treatments of financial information within IFRS, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditor;
- f) the use of “*pro forma*” or “adjusted” non-IFRS information;
- g) the effect of regulatory and accounting initiatives, as well as any off-balance sheet structures, transactions, arrangements and obligations (contingent or otherwise), on “TFCC’s” financial reports;
- h) any disclosures concerning any weaknesses or any deficiencies in the design or operation of internal financial controls or disclosure controls made to the Audit Committee by the Chief Executive Officer and the Chief Financial Officer during their approval process for forms filed with applicable securities regulators; and
- i) the adequacy of “TFCC’s” internal accounting controls and its financial, auditing and accounting organizations and personnel and any special steps adopted in light of any material control deficiencies recognizing by definition because TFCC size is not able to have adequate internal controls.

Review with the external auditor:

- a) the quality, as well as the acceptability of the accounting principles that have been applied and significant judgments made in estimating amounts;
- b) any problems or difficulties the external auditor may have encountered during the provision of its audit-related services, including any restrictions on the scope of activities or access to requested information and any significant disagreements with management, any management letter provided

by the independent auditor or other material communication (including any schedules of unadjusted differences) to management and the Corporation's response to that letter or communication;

- c) any changes to the Corporation's significant auditing and accounting principles and practices suggested by the external auditor or other members of management; and
- d) other matters required to be communicated to the AC under generally accepted auditing standards.

## **8. Risk and Uncertainty**

By acknowledging that it is the responsibility of the Board, in consultation with Management, to identify the principal business risks facing "TFCC" and "TFCC's" tolerance for risk and approve risk management policies, the AC shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled by:

- a) reviewing with management "TFCC's" tolerance for financial risk;
- b) reviewing with management (through a Risk map or other risk assessment tool) its assessment of the significant financial risks facing "TFCC";
- c) reviewing with management "TFCC's" policies and any proposed changes thereto for managing those significant financial risks;
- d) reviewing with management its plans, processes and programs to manage and control such risks;
- e) reviewing the adequacy of D&O and E&O insurance maintained by "TFCC"; and
- f) reviewing with management, the external auditors and the company's legal counsel, any legal claim or other contingency that could have a material effect upon the financial position or operating results of the company.

## **9. Compliance with Legal, Ethical and Regulatory Requirements**

The AC shall obtain reasonable assurance that "TFCC" has implemented appropriate systems of internal control to ensure compliance with legal, ethical and regulatory requirements and that these systems are operating effectively by:

- a) Inquiring about the policies and procedures "TFCC" has in place for monitoring compliance with laws and regulations and "TFCC's" own code of conduct;
- b) Obtain reports from management and the independent auditor that "TFCC" is in conformity with applicable legal requirements including disclosures of insider and affiliated party transactions;
- c) Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Corporation's financial statements or accounting policies;
- d) Advise the Board with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations affecting financial reporting and compliance with internal policies relating to employee conduct, conflicts and integrity;
- e) review with "TFCC's" in-house or outside counsel legal matters that may have a material impact on financial statements, "TFCC's" compliance policies and any material reports or inquiries received from regulators or governmental agencies;
- f) review and approve "TFCC's" hiring policies regarding partners, employees, and former partners and employees of the present and former external auditor of "TFCC";

- g) establish procedures for:
  - i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters; and
  - ii) the confidential, anonymous submission by employees of the Corporation with concerns regarding any accounting or auditing matters.
- h) informing senior management and external auditors on which matters the AC wishes them to report should such matters come to the auditors' attention during the course of the auditors' work;
- i) asking senior management to provide a summary concerning compliance and any changes in the acts or regulations governing "TFCC"; and
- j) considering whether the CFO or others should be asked to undertake special assignments to monitor compliance with regulatory requirements.

**10. Internal Audit**

- a) assess periodically the need for an internal audit function and, if needed, is adequately staffed and effectively carried out by the AC; and
- b) if applicable, review the terms of reference, activities and resources of the internal audit function to ensure its primary reporting relationship to the AC.

**11. Financial Controls**

- a) review both management's overall approach to control and the plans of the CFO and external auditors to gain reasonable assurance that the combined evaluation and testing of internal financial controls is comprehensive, coordinated and cost-effective;
- b) inquire specifically about "TFCC's" compliance with its internal control policies and procedures; and
- c) receive regular reports from management, the external auditors and "TFCC's" legal advisors on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto.

**12. Relationship with External Auditors**

- a) recommend to the Shareholders, through the Board, the need for the annual financial statements of "TFCC" to be audited by external auditors;
- b) recommend to the Shareholders, through the Board, the appointment of the external auditors, subject to shareholder approval as is required under the Business Corporations Act (Ontario);
- c) recommend to the Shareholders, through the Board, the terms of engagement of the external auditors;
- d) obtain confirmation from the external auditor that it ultimately is accountable, and will report directly, to the AC and the Board;
- e) review and approve the external auditors annual engagement letter, the audit plans, the experience and qualifications of the senior members of the audit team and proposals for related fees
- f) review the performance of the external auditors annually or more frequently as required;

- g) if deemed necessary, receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services to “TFCC”;
- h) review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit and the materiality levels which the external auditors propose to employ;
- i) meet with the external auditors in the absence of management to determine, that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the AC;
- j) establish effective communication processes with Management and “TFCC’s” CFO and external auditors to assist the AC in monitoring objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee;
- k) oversee the work of the external auditors, reviewing all reports and recommendations from them, and helping to resolve any disagreements between management and the external auditors with respect to financial reporting;
- l) request that the external auditors provide to the AC, at least annually, an oral and/or written report describing the external auditors' internal quality assurance policies and procedures as well as any material issues raised in the most recent internal quality assurance reviews;
- m) adopt policies and procedures for the pre-approval by the AC regarding the retention of the external auditor by “TFCC” for all audit and permitted non-audit services (subject to any regulatory restrictions on such services) including procedures for the delegation of authority to provide such approval to one or more members of the AC;
- n) at least annually, review a report by the external auditors describing :
  - i) its internal quality-control procedures;
  - ii) any material issues raised by recent firm-wide internal quality-control reviews, peer or professional body reviews of the independent auditor;
  - iii) any material issues raised by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the external auditor;
  - iv) any steps taken to deal with issues identified in ii) and iii) above; and
  - v) all relationships between the external auditor and “TFCC”.
- o) discuss with the national office of the independent auditor issues on which it was consulted by the Corporation’s audit team and matters of audit quality and consistency.

### **13. Other Responsibilities**

- a) approve semi-annually the reasonableness of the expenses of the Chair of the Board and the Chief Executive Officer;
- b) investigate any matters that, in the AC’s discretion, fall within the Committee’s duties;
- c) perform such other functions as may from time to time be assigned to the AC by the Board; and
- d) review the terms of reference of the AC annually.

### **14. Delegation**

Except as otherwise provided above, the AC may form and delegate authority to individual members of the AC and/or subcommittees where the AC determines it is appropriate to do so. All matters dealt with by delegation shall be promptly reported to the full committee, no later than the subsequent meeting of the full committee.

To avoid any confusion, the AC responsibilities identified above are the responsibilities of the Audit Committee and may not be allocated to a different committee.

**15. Limitations on the Audit Committee's Duties**

In contributing to the AC's discharging of its duties under this mandate, each member of the AC shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this mandate is intended, or may be construed, to impose on any member of the AC a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject.

March 25, 2015