

**CHARTER OF THE AUDIT COMMITTEE**

**OF**

**POLLARD BANKNOTE LIMITED**

**(Amended by the Board of Directors March 10, 2015)**

Approved as to form and content on May 9, 2018

## **POLLARD BANKNOTE LIMITED CHARTER OF THE AUDIT COMMITTEE**

### **General**

The Board of Directors (the “Board”) of Pollard Banknote Limited (the “Corporation”) has established an Audit Committee (the “Committee”) to take steps on its behalf as are necessary to assist the Board in fulfilling its oversight responsibilities regarding:

- a) the integrity of the Corporation’s financial statements;
- b) the internal control systems of the Corporation;
- c) the external audit process;
- d) risk management;
- e) the administration, financial reporting and investment activities of pension plan(s);
- f) the Corporation’s compliance with legal and regulatory requirements;
- g) any additional duties set out in this Charter or otherwise delegated to the Committee by the Board, and;
- h) internal audit.

### **Members**

The Board will in each year appoint a minimum of three (3) directors as members of the Committee. All members of the Committee shall be independent directors.

All members of the Committee shall be financially literate. While the Board shall determine the definition of and criteria for financial literacy, this shall, at a minimum, include 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 Corporation’s financial statements.

The Co-Chief Executive Officers (“Co-CEOs”) of the Corporation and, to the extent the Chair of the Board is not otherwise a member of the Committee, the Chair, and all other directors who are not members of the Committee may be invited to attend all meetings of the Committee in an ex-officio capacity but shall not vote. The Co-CEOs shall not attend in-camera sessions.

## **Duties**

The Committee shall have the following duties:

### **a) Financial Reporting and Disclosure**

1. **Audited Annual Financial Statements**: Review the audited financial statements, all related management discussion and analysis (“MD&A”), and earnings press releases for submission to the Board for approval.
2. **Quarterly Review**: Review the quarterly financial statements, the related MD&A, and earnings press releases for submission to the Board for approval.
3. **Significant Accounting Principles and Disclosure Issues**: Review with management and the external auditor, significant accounting principles and disclosure issues, including complex or unusual transactions, highly judgmental areas such as reserves or estimates, significant changes to accounting principles, and alternative treatments under Canadian GAAP for material transactions. This shall be undertaken with a view to understanding their impact on the financial statements, and to gaining reasonable assurance that the statements are accurate, complete, do not contain any misrepresentations, and present fairly the Corporation’s financial position and the results of its operations in accordance with Canadian GAAP.
4. **Compliance**: Confirm through discussions with management that Canadian GAAP and all applicable laws or regulations related to financial reporting and disclosure have been complied with.
5. **Legal Events**: Review any actual or anticipated litigation or other events, including tax assessments, which could have a material current or future effect on the Corporation’s financial statements, and the manner in which these have been disclosed in the financial statements.
6. **Off-Balance-Sheet Transactions**: Discuss with management the effect of any off-balance-sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation’s financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues and expenses.
7. **Other Disclosures**: Satisfy itself that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information, other than the public disclosure of the information referred to in sections 1 and 2 above, and periodically assess the adequacy of those procedures.

**b) Oversight of Internal Controls**

8. Review and Assessment: Review and assess the adequacy and effectiveness of the Corporation's system of internal control and management information systems through discussions with management and the external auditor.
9. Oversight: Oversee system of internal control, by:
  - monitoring and reviewing policies and procedures for internal accounting, financial control and management information;
  - consulting with the external auditor regarding the adequacy of the Corporation's internal controls;
  - reviewing with management its philosophy with respect to internal controls and, on a regular basis, all significant control-related findings together with management's response; and
  - obtaining from management adequate assurances that all statutory payments and withholdings have been made.
10. Fraud: Oversee investigations of alleged fraud and illegality relating to the Corporation's finances.
11. Complaints: Review with management that appropriate procedures exist for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters, and for the protection from retaliation of those who report such complaints in good faith (the "Whistle Blowing Procedures").

**c) External Audit**

12. Appointment or Replacement: Recommend the appointment or replacement of the external auditor to the Board, who will consider the recommendation prior to submitting the nomination to the shareholders for their approval.
13. Compensation: Review with management, and make recommendations to the Board, regarding the compensation of the external auditor. In making a recommendation with respect to compensation, the Committee shall consider the number and nature of reports issued by the external auditor, the quality of internal controls, the size, complexity and financial condition of the Corporation, and the extent of other support provided by the Corporation to the external auditor.
14. Reporting Relationships: The external auditor will report directly to the Committee.

15. Performance: Review with management, on a regular basis, the terms of the external auditor's engagement, accountability, experience, qualifications and performance. Evaluate the performance of the external auditor.
16. Transition: Review management's plans for an orderly transition to a new external auditor, if required.
17. Audit Plan: Review the audit plan and scope of the external audit with the external auditor and management, and consider whether the nature and scope of the planned audit procedures can be relied upon to detect weaknesses in internal controls, frauds or other illegal acts.
18. Audit Plan Changes: Discuss with the external auditor any significant changes required in the approach or scope of their audit plan, management's handling of any proposed adjustments identified by the external auditor, and any actions or inactions by management that limited or restricted the scope of their work.
19. Review of Results: Review, in the absence of management, the results of the annual external audit, the audit report thereon and the auditor's review of the related MD&A, and discuss with the external auditor the quality (not just the acceptability) of accounting principles used, any alternative treatments of financial information that have been discussed with management, the ramifications of their use and the auditor's preferred treatment, and any other material communications with management.
20. Disagreements with Management: Resolve any disagreements between management and the external auditor regarding financial reporting.
21. Material Written Communications: Review all other material written communications between the external auditor and management, including the post-audit management letter containing the recommendations of the external auditor, management's response and, subsequently, follow up identified weaknesses.
22. Other Audit Matters: Review any other matters related to the external audit that are to be communicated to the Committee under generally accepted auditing standards.
23. Meeting with External Auditor: Meet with the external auditor in the absence of management at least quarterly to discuss and review specific issues as appropriate as well as any significant matters that the auditor may wish to bring to the Committee for its consideration.
24. Correspondence: Review with management and the external auditor any correspondence with regulators or governmental agencies, employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies.

25. Independence: At least annually, and before the external auditor issues its report on the annual financial statements, review and confirm the independence of the external auditor through discussions with the auditor on their relationship with the Corporation, including details of all non-audit services provided. Consider the safeguards implemented by the external auditor to minimize any threats to their independence, and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the external auditor. Consider the number of years the lead audit partner has been assigned to the Corporation, and consider whether it is appropriate to recommend to the Board a policy of rotating the lead audit partners more frequently than every seven years, as is required under the rules of the Canadian Public Accountability Board.
26. Non-Audit/Audit Services: Pre-approve any material non-audit services to be provided to the Corporation by the external auditor, with reference to compatibility of the service with the external auditor's independence.
27. Hiring Policies: Review and approve the hiring policies regarding partners, employees and former partners and employees of the present and former external auditor.
28. Quality Control: Utilizing the Canadian Public Accountability Board (CPAB) Audit Quality Initiative tools, conduct formal assessments of the external audit firm and their external audit quality. On an annual basis conduct an assessment of the external audit and on a once every five year cycle conduct a comprehensive review of the external audit firm.

**d) Risk Management**

29. Adequacy of Policies and Procedures: Review and assess the adequacy of the Corporation's risk management policies and procedures with regard to identification of the Corporation's principal risks annually. Review and assess the adequacy of the implementation of appropriate systems to mitigate and manage the risks, and report regularly to the Board.

**e) Retirement/Pension Plan**

30. Oversight: Review and assess management's reports on retirement/pension plan oversight including:
- i) reviewing Management controls and processes with respect to the administration of investment activities, financial reporting and funding of the plan(s);
  - ii) confirming the following appointments for the management of the plan(s), subject to exceptions where the appointment authority is assigned to another party as per plan documents:
    - Trustee
    - Investment Manager;

- iii) reviewing the actuarial assumptions used for the valuation, including the rate of return on investments and the discount rate used to arrive at the funding requirements;
- iv) reviewing and approving the plan(s) investment objectives and guidelines annually and amend if necessary; and
- v) reviewing the investment performance of the funds and the investment managers, and their compliance with the investment objectives and applicable legislation.

**f) Compliance**

- 31. Filings with Regulatory Authorities: Review with management the Corporation's relationship with regulators, and the timelines and accuracy of Corporation filings with regulatory authorities.
- 32. Code of Business Conduct and Ethics: Review the Corporation's Code of Business Conduct and Ethics and confirm that adequate and effective systems are in place to enforce compliance. Ensure the Code of Business Conduct and Ethics is disclosed in the Corporation's annual report or information circular at least every three years or following a material amendment. Alternatively, confirm with management that an up-to-date version of the Code of Business Conduct and Ethics is disclosed on the Corporation's website.

**g) Related Party Transactions**

- 33. Related Party Transactions: Review with management all related party transactions and the development of policies and procedures related to those transactions.

**h) Board Relationship and Reporting**

- 34. Adequacy of Charter: Review and assess the adequacy of the Committee Charter annually and submit such amendments as the Committee proposes to the Governance and Nominating Committee.
- 35. Disclosure: Oversee appropriate disclosure of the Committee's Charter, and other information required to be disclosed by applicable legislation, in the Corporation's Annual Information Form and all other applicable documents.
- 36. Reporting: Report regularly to the Board on Committee activities, issues and related recommendations.

**i) Internal Audit**

- 37. Audit Charter: Approve the internal audit charter.

38. Oversight: Approve decisions regarding the appointment and removal of the internal auditor. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the internal auditor.
39. Audit Plan: Approve the annual audit plan and all major changes to the plan. Review the internal audit activity's performance relative to its plan.
40. Performance: At least once per year, review the performance of the internal auditor.
41. Effectiveness: Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
42. Private Meeting: On a regular basis, meet separately with the internal auditor to discuss any matters that the committee or internal audit believes should be discussed privately.

### **Chair**

The Board will in each year appoint the Chair of the Committee. The Chair shall have accounting or related financial expertise. In the Chair's absence, or if the position is vacant, the Committee may select another member as Chair. The Chair will have the right to exercise all powers of the Committee between meetings but will attempt to involve all other members as appropriate prior to the exercise of any powers and will, in any event, advise all other members of any decisions made or powers exercised.

### **Meetings**

The Committee shall meet at the request of its Chair, but in any event it will meet at least four times a year. Notices calling meetings shall be sent to all Committee members, to the Co-CEOs and CFO of the Corporation, to the Chair of the Board and to all other directors.

### **Quorum**

A majority of members of the Committee, present in person, by teleconferencing, or by videoconferencing will constitute a quorum.

### **Removal and Vacancy**

A member may resign from the Committee, and may be removed and replaced at any time by the Board, and will automatically cease to be a member as soon as the member ceases to be a director. The Board will fill vacancies in the Committee by appointment from among the directors



of the Board in accordance with Section 2 of this Charter. Subject to quorum requirements, if a vacancy exists on the Committee, the remaining members will exercise all its powers.

**Experts and Advisors**

The Committee may retain or appoint, at the Corporation's expense, such experts and advisors as it deems necessary to carry out its duties, and to set and pay their compensation. The Committee shall provide notice to the Governance Committee of its actions in this regard.

**Secretary and Minutes**

The Secretary of the Corporation, or such other person as may be appointed by the Chair of the Committee, will act as Secretary of the Committee. The Minutes of the Committee will be in writing and duly entered into the books of the Corporation. The minutes of the Committee will be circulated to all members of the Board, with a copy to the Co-CEOs.