



Approved: June 28, 2017

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## AUDIT COMMITTEE CHARTER

### 1. Purpose

The Audit Committee (the “**Committee**”) is a standing committee of the Board of Directors (the “**Board**”) of Hexo Corp. (the “**Corporation**”) appointed as required by s. 158 of the Business Corporations Act (Ontario) and the Canadian Securities Administrators’ National Instrument 52-110 - *Audit Committees* (“**NI 52-110**”). Its purpose is to assist the Board in fulfilling its oversight responsibilities for (i) the integrity of the Corporation’s financial statements, (ii) the Corporation’s compliance with legal and regulatory requirements, and (iii) the qualifications and independence of the auditor of the Corporation (the “**external auditor**”).

### 2. Authority

The Committee has authority to conduct or authorize investigations into any matter within its scope of responsibility. It is empowered to:

- a. Recommend to the Board the public accounting firm to be nominated for appointment by the Corporation’s shareholders as the external auditor, including the external auditor’s compensation, and oversee the work of the external auditor. The external auditor will report directly to the Committee.
- b. Resolve any disagreements between management and the external auditor regarding financial reporting.
- c. Pre-approve permitted non-audit services performed by the Corporation’s external auditor.
- d. Retain independent counsel, accountants, or others to advise the Committee or assist in its duties and to set and pay their applicable compensation.
- e. Meet with the Corporation’s officers, external auditor or outside counsel, as necessary and communicate directly with the Corporation’s shareholders.
- f. Delegate authority, to the extent permitted by applicable law, to one or more designated members of the Committee, including the authority to pre-approve all permitted non-audit services, provided that such decisions are reported to the full Committee at its next scheduled meeting.

### 3. Composition

- a. The Committee will consist of directors, as determined by resolution of the Board from time to time.

- b.** The Corporate Governance Committee will recommend to the Board applicable directors for appointment to the Committee and the Chair of the Committee.
- c.** If and whenever a vacancy exists on the Committee, the remaining members may exercise all of its powers so long as there continue to be at least three members on the Committee. If at any time a vacancy exists on the Committee that the Board is required to fill, the Board may appoint a new member to fill such vacancy by ordinary resolution of the Board.
- d.** Each Committee member must be financially literate as defined in NI 52-110. The Board or the Committee may, from time to time, establish policies limiting the number of audit committees which Committee members may be appointed to.

#### **4. Meetings**

- a.** The Committee must meet at least four times per year, and at least annually, privately, with each of management and the external auditor.
- b.** The greater of two members or 50% of the members of the Committee shall constitute a quorum. All resolutions of the Committee shall be made by a majority of its members present at a meeting duly called and held. All Committee members are expected to attend each meeting, in person or by telephone or video conference. Any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee shall be fully as effective as if it had been made at a meeting duly called and held.
- c.** The Committee may invite such officers, directors and employees of the Corporation as it deems necessary or advisable from time to time to attend meetings of the Committee and assist in the discussion and consideration of the duties of the Committee.
- d.** The time at which and place where the meetings of the Committee shall be held and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee. Following a Committee meeting, the Committee Chair shall report on the Committees' activities to the Board at the next Board meeting. The Committee must keep and approve minutes of its meetings in which shall be recorded all action taken by it, which minutes must be made available to the Board as soon as practicable after each meeting of the Committee.

#### **5. Chair**

The Chair of the Committee has the powers and responsibilities set forth in Schedule "A" hereto.

#### **6. Responsibilities**

The Committee must:

- a.** Review significant accounting and reporting issues and understand their impact on the financial statements, including but not limited to:
  - (i) complex or unusual transactions and highly judgmental areas;

- (ii) major issues regarding accounting principles and financial statement presentation, including any significant changes in the Corporation's selection or application of accounting principles;
  - (iii) any significant variances with comparative reporting periods; and
  - (iv) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.
- b.** Review analyses prepared by management and/or the external auditor relating to significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of the selection or application of the Corporation's accounting principles.
- c.** Review compliance with covenants under any loan agreements.
- d.** Review disclosure requirements for commitments and contingencies.
- e.** Review with management and the external auditor the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the external auditor's activities or on access to requested information, any significant disagreements with management, and adjustments raised by external auditors, whether or not included in the financial reports.
- f.** Review and discuss the annual audited financial statements and quarterly financial statements with management and the external auditor, including the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A"), including the discussion of critical accounting estimates included therein.
- g.** Review and recommend to the Board for approval, prior to public disclosure, the annual and quarterly financial statements, MD&A and annual and interim profit or loss press releases.
- h.** Review disclosures made by the Chief Executive Officer and the Chief Financial Officer during the certification process about significant deficiencies or material weakness in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the Corporation's internal controls and, if applicable, understand the basis upon which the certifying officers concluded that any particular deficiency or combination of deficiencies did or did not constitute a material weakness.
- i.** Review and recommend to the Board for approval, prior to public disclosure, financial information and earnings guidance provided externally, including to analysts and rating agencies if applicable. This review may be general (i.e., the types of information to be disclosed and the type of presentations to be made).
- j.** Satisfy itself that adequate procedures are in place, and periodically assess the adequacy of those procedures, for the review of any public disclosure of financial information extracted or derived from the financial statements, other than the statements themselves, the MD&A or the press releases referred to above.

- k. Annually review and assess the Corporation's policies in effect from time to time, including its, Disclosure and Confidentiality Policy and Whistleblower Policy and make recommendations to the Board.

## **7. Internal Control**

The Committee shall also:

- a. Consider the effectiveness of the Corporation's system for internal control over financial reporting, including information technology security and control.
- b. Review the scope of the external auditor's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- c. Review the external auditor's management letters and management's responses to such letters.
- d. As requested by the Board, discuss with management and the external auditor the Corporation's identifiable risks arising from any financial, operational or other deficiencies, the adequacy and effectiveness of the Corporation's accounting and financial controls relating thereto, and the steps management has taken to monitor and control identified risks.
- e. Annually review the Corporation's disclosure controls and procedures, including any significant deficiencies in, or material non-compliance with same, and the steps management has taken to monitor and control such deficiencies or instances of non-compliance.

## **8. External Audit**

The Committee shall also:

- a. Review the external auditor's proposed audit scope and approach.
- b. Review the performance of the external auditor. Annually review the report of the external auditor on matters required to be communicated to the Committee under Section 5135 (auditors' responsibility to consider fraud) and Section 5751 (communications with those having oversight responsibility for the financial reporting process-independence) of the Canadian Institute of Chartered Accountants handbook.
- c. Report any conclusions with respect to the external auditor to the Board.
- d. Establish and periodically assess the Corporation's hiring policies for partners, employees and former partners and employees of the current or prior external auditor.
- e. At least once per year, meet privately with the external auditor to discuss any matters that the Committee or the external auditor believes should be discussed privately.
- f. Review and pre-approve, in accordance with NI 52-110, any non-audit services, provided by the Corporation's external auditor, taking into consideration whether

the delivery of non-audit services will interfere with the independence of the auditors. The pre-approval of non-audit services may be further delegated to one or more independent members of the Committee, provided that said pre-approval is presented to the Committee at its first scheduled meeting following such approval. The pre-approval requirement is satisfied with respect to the provision of *de minimis* non-audit services if:

- (i) the aggregate amount of all such non-audit services provided to the Corporation which were not pre-approved constitutes not more than 5% of the total amount of fees paid by the Corporation and its subsidiaries to the external auditor during the fiscal year in which the non-audit services are provided;
- (ii) the services were not recognized by the Corporation or its subsidiaries, at the time of the engagement, to be non-audit services; and
- (iii) the services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee.

The Committee may from time to time establish specific pre-approval policies and procedures in accordance with NI 52-110.

## **9. Compliance**

The Committee shall also:

- a.** Annually review the effectiveness of the Corporation's system of monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- b.** Establish and periodically assess the adequacy of procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees regarding questionable accounting or auditing matters.
- c.** Review findings of any examinations by regulatory agencies, and any external auditor's observations made regarding those findings.
- d.** Review the process for communicating the Code of Business Ethics to Corporation personnel, and for monitoring compliance therewith.

## **10. Reporting Responsibilities**

The Committee shall also:

- a.** Report to the Board about Committee activities and issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and

independence of the Corporation's external auditor and internal controls over financial reporting.

- b.** Review any other reports the Corporation issues that relate to Committee responsibilities.
- c.** Liaise with the external auditor and the Board to ensure that any material issues that have arisen related to compliance and governance have been addressed and that appropriate actions have been identified and undertaken to mitigate the issues identified.
- d.** The Committee shall at least annually evaluate its own performance and the contents of this Charter, including Schedule "A" attached hereto, and recommend to the Board such changes to the Charter as the Committee deems appropriate.

### **11. Other responsibilities**

The Committee shall also:

- a.** Discuss with management the Corporation's major policies with respect to risk assessment and risk management.
- b.** Perform other activities related to this Charter as requested by the Board.
- c.** Institute and oversee special investigations as required with respect to the discharge of the Committee's duties hereunder.
- d.** Ensure appropriate disclosure of this Charter as may be required by applicable law.

## Schedule “A”

### Hexo Corp.

#### Audit Committee Chair Person Description

In addition to the duties and responsibilities set out in the bylaws and any other applicable charter, mandate or position description, the chair (the “**Chair**”) of the Audit Committee (the “**Committee**”) of Hexo Corp. has the duties and responsibilities described below.

1. Provide overall leadership to enhance the effectiveness of the Committee, including:
  - (a) overseeing the structure, composition, membership and activities delegated to the Committee;
  - (b) chairing every meeting of the Committee and encouraging free and open discussion at the meeting of the Committee;
  - (c) scheduling and setting the agenda for Committee meetings with input from other Committee members, the Chair of the Board of Directors and management as appropriate;
  - (d) facilitating the timely, accurate and proper flow of information to and from the Committee;
  - (e) arranging for management, internal personnel, external advisors and others to attend and present at Committee meetings as appropriate;
  - (f) arranging sufficient time during Committee meetings to fully discuss agenda items;
  - (g) encouraging Committee members to ask questions and express viewpoints during meetings, and
  - (h) taking all other reasonable steps to ensure that the responsibilities and powers of the Committee, as outlined in its Charter, are well understood by the Committee members and executed as effectively as possible.
2. Foster ethical and responsible decision making by the Committee and its individual members.
3. Encourage the Committee members to meet separately from the scheduled Committee meetings to ensure that all members have an opportunity to be fully informed of information that will be addressed by the Committee during the meeting.
4. Following each meeting of the Committee, report to the Board of Directors on the activities, findings and any recommendations of the Committee.
5. Carry out such other duties as may reasonably be requested by the Board of Directors.