



CHARTER OF THE AUDIT AND GOVERNANCE COMMITTEE OF  
BOARD OF DIRECTORS OF CHESSWOOD GROUP LIMITED

**I. Adoption**

This Audit and Governance Committee Charter (this “**Charter**”) has been adopted by the board of directors (the “**Board**”) of Chesswood Group Limited (the “**Corporation**”) as of March 24, 2015.

**II. Background**

The Corporation is a corporation incorporated under the laws of the Province of Ontario and has succeeded to the various ownership interests of Chesswood Income Fund as a result of the conversion of such fund into a corporate structure through a plan of arrangement.

The Corporation is the sole limited partner of Chesswood Holding Limited Partnership (the “**Holding LP**”). The Holding LP is the holding entity through which the Corporation has its ownership interests in various operating entities (the Corporation, together with its direct and indirect subsidiary entities are collectively referred to herein as the “**Corporation Entities**”).

**III. Purpose**

The Audit and Governance Committee of the board of directors (the “**Board**”) of the Corporation (the “**Audit and Governance Committee**”) is a committee of the directors of the Corporation (the “**Directors**”) and appointed by the Directors to assist the Board in fulfilling its oversight responsibilities relating to (i) the financial accounting and reporting process and internal controls for the Corporation and (ii) the nominating of Directors and the enhancement of governance.

The Audit and Governance Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Part VI (“Responsibilities and Duties”) of this Charter. The primary function of the Audit and Governance Committee is to assist the Directors in fulfilling their legal and fiduciary obligations and responsibilities.

**IV. Composition and Meetings**

*Audit and Governance Committee*

The Audit and Governance Committee will be composed of three or more Directors as shall be determined by the Directors from time to time, all of whom must be Independent (as defined below). In accordance with National Instrument 58-101, a Director is considered “**Independent**” to the Corporation if he or she has no direct or indirect “material relationship” with any of the Corporation Entities which could, in the view of the Directors, reasonably interfere with the exercise of his or her independent judgment. Notwithstanding the foregoing, a Director will be deemed to have a “material relationship” with the Corporation (and therefore be considered as not Independent) if he or she falls in one of the categories listed in Appendix “A” attached hereto. All members of the Audit and Governance Committee must also be “financially literate” (meaning that he or she 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 and be raised by the Corporation's financial statements).

The members of the Audit and Governance Committee will be elected by the Directors at the annual organizational meeting of the Directors or until their successors are duly elected and qualified. Unless a Chairman is elected by the Directors, the members of the Audit and Governance Committee may designate a Chairman by majority vote of the full Audit and Governance Committee membership.

The Audit and Governance Committee is to meet as frequently as circumstances require (but at least quarterly). The Audit and Governance Committee will meet prior to the filing of quarterly financial statements to review and discuss the unaudited financial results for the preceding quarter and the related management discussion and analysis ("MD&A"), and will meet prior to filing the annual audited financial statements to review and discuss the audited financial results for the year and related MD&A. As part of its job to foster open communications, the Audit and Governance Committee should meet at least annually with management of the Corporation and the external auditors in separate executive sessions to discuss any matters that the Audit and Governance Committee or each of these groups believe should be discussed privately.

Quorum for the transaction of business at any meeting of the Audit and Governance Committee is the presence in person or by telephone or other communication equipment of a majority of the number of members of the Audit and Governance Committee or such greater number as the Audit and Governance Committee shall by resolution determine.

If within one hour of the time appointed for a meeting of the Audit and Governance Committee, a quorum is not present, the meeting shall stand adjourned to the same hour on the second business day following the date of such meeting at the same place. If at the adjourned meeting a quorum as hereinbefore specified is not present within one hour of the time appointed for such adjourned meeting, the quorum for the adjourned meeting will consist of the members then present.

If and whenever a vacancy exists, the remaining members of the Audit and Governance Committee may exercise all of its powers and responsibilities so long as a quorum remains in office.

Notice of a meeting of the Audit and Governance Committee may be given verbally, in writing or by telephone, fax or other means of communication, and need not specify the purposes of the meeting.

Minutes are to be kept of meetings of the Audit and Governance Committee which are to be submitted to the Directors. The Audit and Governance Committee may, from time to time, appoint any person, who need not be a member, to act as secretary at any meeting.

All decisions of the Audit and Governance Committee will require the vote of a majority of its members present at a meeting at which a quorum is present.

#### **V. Authority of the Audit and Governance Committee**

The Audit and Governance Committee has the authority to (a) engage independent counsel and other advisors as it determines necessary to carry out its duties; (b) to set and pay the compensation for any advisors employed by it; and (c) to communicate directly with the Corporation's internal and external auditors.

The Audit and Governance Committee also has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities.

The Audit and Governance Committee may request the external auditors as well as any Director or member of management of the Corporation, outside counsel of the Corporation or others, to attend an Audit and Governance Committee meeting or to meet with members of, or advisors to, the Audit and Governance Committee and to provide pertinent information as necessary. For purposes of performing their oversight related duties, members of the Audit and Governance Committee are to have full access to the books and records of the Corporation Entities and are to be permitted to discuss such information and any other matters relating to the financial position of the Corporation Entities with senior employees, management and external auditors and advisors of the Corporation Entities.

## **VI. Responsibilities and Duties**

To fulfill their responsibilities and duties, the Audit and Governance Committee is expected to:

### *General Responsibilities*

1. Review and assess this Charter at least annually, as conditions dictate, and submit any proposed revisions to the Board for approval.
2. Create an agenda for each meeting and for the ensuing year.
3. Report periodically (but no less frequently than quarterly) to the Board.

### *Review of Financial Documents*

#### Annual Financial Statements

4. Meet with management and external auditors to review the financial statements and the results of the audit as well as to discuss significant issues regarding accounting principles, practices and judgments of management.
5. Review the audited annual financial statements to satisfy itself that, to the best of the knowledge of its members, such statements are presented in accordance with generally accepted accounting principles (“GAAP”), including any reconciliation of Canadian and applicable non-Canadian GAAP..
6. Recommend to the Board whether or not the audited financial statements and all related documents should be approved, prior to their being publicly disclosed and filed with the appropriate regulatory authorities.
7. Satisfy itself that adequate procedures are in place for the review of the Corporation’s public disclosure of financial information extracted or derived from the Corporation’s financial statements and periodically assess the adequacy of such procedures.
8. Review the post-audit or management letter containing the recommendations of the external auditors and management’s response and subsequent follow-up to any identified weaknesses.
9. Review the MD&A relating to annual financial statements.

10. Review complex and/or unusual transactions, and judgmental areas such as significant claims and contingencies that could materially impact the Corporation's consolidated financial position.

#### Interim Financial Statements

11. Review the interim financial statements.
12. Meet with management to review the financial statements and to obtain explanations from management on whether, to the best of management's knowledge, information and belief, after reasonable inquiry:
  - (a) actual financial results for the interim period varied significantly from budgeted or forecasted results;
  - (b) changes in financial ratios and the relationships between the interim financial statements are consistent with changes in the operations and financing practices of the Corporation Entities;
  - (c) GAAP has been consistently applied, including any reconciliation of Canadian and applicable non-Canadian GAAP;
  - (d) there are any actual or proposed changes in accounting or financial reporting practices;
  - (e) there are any significant or unusual events or transactions; and
  - (f) the interim financial statements contain adequate and appropriate disclosures.
13. Recommend to the Board whether (and, if so, the nature of) review of interim financial statements and/or related documents by the Corporation's external auditors is in the best interests of the Corporation and its shareholders having regard to cost and other relevant factors.
14. Recommend to the Board whether or not the interim financial statements and all related documents should be approved, prior to their being publicly disclosed and filed with the appropriate regulatory authorities.
15. Review the MD&A relating to interim financial statements.

#### Other

16. Review the Corporation's interim and annual earnings press releases and any other public disclosure documents that are required to be reviewed by the Audit and Governance Committee under any applicable laws prior to their public disclosure and/or filing with any governmental body.
17. Review policies and procedures with respect to the non-chargeable expenses of the Directors and the senior management of the Corporation.
18. Review all related party transactions entered into by Corporation Entities.

#### *External Audit*

19. Recommend to the Directors (i) the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review and attest services for the Corporation, and (ii) the compensation of the external auditors.
20. Instruct the external auditors that they are to report directly to the Audit and Governance Committee and ensure that significant findings and recommendations made by the external auditors are received and discussed by the Audit and Governance Committee on a timely basis.
21. Pre-approve all audit and non-audit services not prohibited by law to be provided to the Corporation Entities by the external auditors.
22. Review the external auditors' audit plan, including scope, approach, procedures and timing of the audit and ensure no unjustified restrictions or limitations have been placed on the scope of the audit.
23. Monitor and assess the relationship between management and the external auditors including reviewing any management letters or other reports of the external auditor and discussing and resolving any material differences of opinion between management and the external auditors.
24. Monitor, confirm, review and discuss, on an annual basis, with the external auditors all significant relationships they have with Corporation Entities and the range of services provided to determine the independence and objectivity of the external auditors.
25. Oversee the work and review the performance of the external auditors and approve any proposed discharge of the external auditors when circumstances warrant. Consider with management and the external auditors the rationale for employing accounting/auditing firms other than the principal external auditors.
26. Periodically consult with the external auditors out of the presence of management about any matters that the Audit and Governance Committee or the external auditors believe should be discussed privately.
27. Review the draft audit opinion on annual financial statements, including matters related to the conduct of the audit.
28. Arrange for the external auditors to be available to the Audit and Governance Committee, and the Directors as needed.
29. Review the fees paid to the external auditors and other professionals in respect of audit and non-audit services for Corporation Entities on an annual basis.
30. Review and approve the hiring policies of the Corporation regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation (and its predecessor entities).

#### *Internal Controls*

31. Review the plans of the internal (if any) and external auditors to determine whether the Audit and Governance Committee believes that the proposed combined evaluation and testing of control would be comprehensive, well coordinated, cost effective and appropriate to risks, business activities and changing circumstances.

32. Review the qualifications of senior management of the Corporation.
33. Review management control procedures.
34. Consider how management is held to account for security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown.
35. Gain an understanding of whether internal control recommendations made by the external auditors have been implemented by management.

#### *Financial Reporting Processes*

36. Review, in consultation with the external auditors, the integrity of the organization's financial reporting processes, both internal and external.
37. Consider the external auditor's judgments about the quality and appropriateness, not just the acceptability, of the Corporation's accounting principles and financial disclosure practices, as applied in its financial reporting, particularly about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates and whether those principles are common practices or are minority practices.
38. Consider and approve, if appropriate, major changes to the accounting principles and practices of the Corporation Entities as suggested by management with the concurrence of the external auditors and ensure that management's reasoning is described in determining the appropriateness of changes in accounting principles and disclosure.

#### *Process Improvement*

39. Establish regular and separate systems of reporting to the Audit and Governance Committee by each of management and the external auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
40. Review the scope and plans of the external auditors' audit and reviews prior to the audit and reviews being conducted. The Audit and Governance Committee may authorize the external auditors to perform supplemental reviews or audits as the Audit and Governance Committee may deem desirable.
41. Following completion of the annual audit and quarterly reviews, review separately with each of management and the external auditors any significant changes to planned procedures, any difficulties encountered during the course of the audit and reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditors received during the course of the audit and reviews.
42. Review and resolve any significant disagreements among management and the external auditors in connection with financial reporting or the preparation of the financial statements.
43. Ensure, where there are significant unsettled issues, that there is an agreed course of action for the resolution of such matters.

44. Review with the external auditors and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Audit and Governance Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Audit and Governance Committee.

*Risk Management*

45. Review management's program of risk assessment and steps taken to address significant risks or exposures, including insurance coverage, and obtain the external auditors' opinion of management's assessment of significant financial risks facing the Corporation Entities and how effectively such risks are being managed or controlled.

*Ethical and Legal Compliance*

46. Establish procedures for the receipt, retention and treatment of reports ("**Reports**") received by the Corporation regarding accounting, internal accounting controls, auditing matters or violations of the Corporation's Code of Business Conduct and Ethics relating to financial matters, and the confidential, anonymous submission by employees of Reports.
47. Review management's monitoring of the systems that are in place to ensure that the Corporation's financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy legal requirements.
48. Obtain regular updates from management and others, including internal and external auditors and legal counsel, concerning the compliance of Corporation Entities with financial related laws and regulations such as tax and financial reporting laws and regulations and legal withholding requirements.
49. Review insider stock trades for compliance with the Corporation's Timely Disclosure, Confidentiality and Insider Trading Policy.
50. Be satisfied that, to the best of the knowledge of its members, all regulatory compliance matters have been considered in the preparation of financial statements.
51. Review the findings of any examination by regulatory agencies.

*Nominating Responsibilities*

52. Establish competencies and skills the Directors, as a group, should possess, recognizing that the particular competencies and skills required for one issuer may not be the same as those required for another.
53. Assess competencies and skills of each of the existing Directors as well as of the Directors, as a group, recognizing the personality and other qualities of each Director.
54. Establish procedures for identifying possible nominees who meet these criteria (and who are likely to bring the competencies and skills the Corporation needs as a whole.
55. Establish an appropriate review selection process for new nominees for election as Directors.

56. Establish procedures and approve appropriate orientation and education programs for new Directors.
57. Analyze the needs of the Corporation when vacancies arise among the Independent members and identify and recommend nominees who meet such needs for election as Independent members.
58. Establish procedures for filling vacancies.

#### *Governance Responsibilities*

59. Ensure that there is an appropriate number of Independent Directors.
60. Facilitate the independent functioning and maintain an effective relationship between the Directors and management of the Corporation.
61. Assess the effectiveness of the Chairman's agenda.
62. Annually review performance and qualification of existing Directors in connection with their re-election.
63. Assess, at least annually, the composition and effectiveness of the Board, committees of the Board and the contribution of individual Directors, including making recommendations where appropriate that sitting Directors be removed or not re-appointed.
64. Keep up to date with regulatory requirements and other new developments in governance and develop and review the quality of the Corporation's governance and suggest changes to such governance practices as determined appropriate.
65. Consider annually the appropriateness of the number of Directors.
66. Ensure that disclosure and securities compliance policies, including communications policies, are in place and that such policies are reviewed annually.

#### **VII. Other Responsibilities**

While the Audit and Governance Committee has the responsibilities and duties as set out in this Charter, it shall perform any other activities consistent with this Charter, the *Business Corporations Act* (Ontario), the constating documents of the Corporation and all applicable legal, regulatory and listing requirements (including, without limitation, those of the Ontario Securities Commission and the Toronto Stock Exchange), as it or the Board deems necessary or appropriate.

#### **VIII. Caveat**

The Audit and Governance Committee is not responsible for planning or conducting the audit or for determining whether the Corporation's financial statements are complete and accurate and are in accordance with GAAP.

## APPENDIX “A”

### Meaning of “material relationship”

A “material relationship” is a relationship that could, in the view of the issuer’s board of directors, be reasonably expected to interfere with the exercise of a member’s independent judgment. The following individuals are considered to have a material relationship with the issuer:

- A. an individual who is, or has been within the last three years, an employee or executive officer of the issuer;
- B. an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;
- C. an individual who: (i) is a partner of a firm that is the issuer’s internal or external auditor, (ii) is an employee of that firm, or (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time;
- D. an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual: (i) is a partner of a firm that is the issuer’s internal or external auditor; (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time;
- E. an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer’s current executive officers serves or served at that same time on the entity’s compensation committee; and
- F. an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct compensation from the issuer during any 12 month period within the last three years.

An individual will not be considered to have a material relationship with the issuer solely because (a) he or she had a relationship identified above if that relationship ended before March 30, 2004; or (b) he or she had a relationship identified above by virtue of such relationship being with a subsidiary entity or a parent of that issuer, if that relationship ended before June 30, 2005.

An individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member (a) has previously acted as an interim chief executive officer of the issuer, or (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.

For the purposes of “C” and “D” above, a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

For the purposes of “F” above, direct compensation does not include: (a) remuneration for acting as a member of the board of directors or of any board committee of the issuer, and (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

Despite any determination made whether an individual has a material relationship with an issuer, an individual who (a) accepts directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or (b) is an affiliated entity of the issuer or any of its subsidiary entities, is considered to have a material relationship with the issuer. The indirect acceptance by an individual of any such consulting, advisory or other compensatory fee includes acceptance of a fee by (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer. Compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

**“company”** - any corporation, incorporated association, incorporated syndicate or other incorporated organization;

**“control”** - the direct or indirect power to direct or cause the direction of the management and policies of a person or company, whether through ownership of voting securities or otherwise;

**“executive officer”** of an entity – means an individual who is (a) a chair of the entity; (b) a vice-chair of the entity; (c) the president of the entity; (d) a vice-president of the entity in charge of a principal business unit, division or function including sales, finance or production; (e) an officer of the entity or any of its subsidiary entities who performs a policy-making function in respect of the entity; or (f) any other individual who performs a policy-making function in respect of the entity;

**“issuer”** includes a subsidiary entity of the issuer and a parent of the issuer;

**“person”** - an individual partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, trustee, executor, administrator, or other legal representative; and

**“subsidiary entity”** - a person or company is considered to be a subsidiary entity of another person or company if (a) it is controlled by (i) that other, or (ii) that other and one or more persons or companies each of which is controlled by that other, or (iii) two or more persons or companies, each of which is controlled by that other; or (b) it is a subsidiary entity of a person or company that is the other's subsidiary entity.