



Audit Committee Charter

CANNARA BIOTECH INC.

AUDIT COMMITTEE CHARTER

I. PURPOSE AND AUTHORITY OF THE COMMITTEE

The members of the audit committee (the “**Audit Committee**”) shall be appointed by the board of directors (the “**Board**”) of Cannara Biotech Inc. (the “**Company**”), subject to any requirements in the shareholders agreement, and shall report to the Board. The Audit Committee shall be responsible to:

1. assist the Board in fulfilling its oversight of the Company’s financial integrity, specifically by assisting the Board’s oversight of:
 - (a) the integrity of the Company’s financial statements and other financial reporting;
 - (b) the external auditor’s qualifications and independence;
 - (c) the performance of the Company’s internal audit functions and internal auditor, if and when one is appointed;
 - (d) the Company’s compliance with legal and regulatory requirements;
 - (e) the process by which the Company assesses and manages risk; and
 - (f) any other matters as defined by the Board;
2. manage, on behalf of the shareholders, the relationship between the Company and the external auditor by:
 - (a) having direct responsibility for appointing, retaining and determining the compensation of the external auditor (in the Audit Committee’s capacity as a committee of the Board and subject to the rights of shareholders and applicable law);
 - (b) overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company, including the resolution of any disagreements between management and the external auditor regarding financial reporting;
 - (c) determining and approving compensation for all audit and audit-related services and pre-approving all audit and permitted non-audit services to be provided to the Company or its subsidiaries by the Company’s external auditor;
 - (d) ensuring that the external auditor report directly to the Audit Committee and meets with the Audit Committee or the Board

without management present at each regularly scheduled meeting of the Audit Committee and at least annually with the full Board;

- (e) facilitating communication between the Company and the external auditor; and

This Charter and any subsequent revisions thereto require the approval of the Board.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has unrestricted access to communicate directly with the internal and external auditor, management, members of the Board, employees of, or consultants to, the Company and any relevant information. The Audit Committee has the authority to retain independent legal, accounting or other advisers, consultants or experts it deems necessary in the performance of its duties, and the Audit Committee shall have the authority to set the compensation for any such advisers subject to a budget approved by the Board.

Subject to a budget approved by the Board, the Company shall provide appropriate funding, as determined by the Audit Committee, for payment of (i) compensation to the external auditor to prepare and issue an audit report or perform other audit, review or attest services for the Company, (ii) compensation to any outside advisers, consultants or experts employed by the Audit Committee, and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out the Audit Committee's duties.

II. COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee shall be composed of at least three non-management directors of the Company who are appointed by the Board (and may be removed or replaced by the Board), subject to any requirements in the shareholders agreement, annually at the meeting of the Board immediately following the annual general shareholders meeting. Members shall serve until their qualified successors are appointed, and the Board may fill vacancies in the Audit Committee, subject to satisfying all applicable independence requirements. The Chairman of the Audit Committee shall be designated by the full Board, or if the Board does not do so, the members of the Audit Committee, by majority vote, may designate a Chairman.

Each member shall be neither an officer nor employee of the Company or any of its affiliates. Each member shall be independent of management and must be free from any direct or indirect relationship which could, or, in the view of the Board, could reasonably be perceived to, interfere with the exercise of that member's independent judgement in carrying out the responsibilities as a member. No member may have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the previous three years. No member may, other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other Board committee, accept directly or indirectly any consulting, advisory, or other

“compensatory fee” (as such term is defined under applicable securities laws and stock exchange rules) from, or be an “affiliated person” (as such term is defined under applicable securities laws and stock exchange rules) of, the Company or any subsidiary of the Company unless approved by the Board.

All members of the Audit Committee shall be financially literate at the time of their election to the Audit Committee, which means that they will have the ability to read and understand fundamental financial statements (including a balance sheet, income statement and cash flow statement), including a set of financial statements that present a breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.

Ideally at least one member of the Audit Committee shall be an “audit committee financial expert” as such term is defined by the Regulations of the Quebec/Ontario Securities Commission and the rules of the Securities and Exchange Commission. At least one member of the Audit Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individuals financial sophistication, including but not limited to being or having been a chief executive officer, chief financial officer, other senior officer with financial oversight responsibilities. The Board shall make determinations as to whether any particular member of the Audit Committee satisfies these requirements.

A quorum of any Audit Committee meeting will be a majority of the members of the Audit Committee. The Secretary of the Audit Committee shall be such person as nominated by the Chairman of the Audit Committee.

III. MEETINGS OF THE AUDIT COMMITTEE

The Audit Committee shall meet as frequently as it deems necessary to carry out its duties and responsibilities but no less than twice per year. The external auditor shall receive notice of every meeting of the Audit Committee and shall be invited to attend and participate in such meetings. The Audit Committee, in its discretion, may also ask members of management or others to attend its meetings (or portions thereof) and to provide pertinent information as necessary.

The Audit Committee Chairman shall approve an agenda in advance of each meeting and shall cause that agenda and related materials to be distributed to members and the external auditor in advance of said meeting. The Audit Committee shall maintain minutes of its meetings and records relating to those meetings and the Audit Committee’s activities and provide copies of such minutes to the Board.

The Audit Committee shall also meet separately with management as it deems appropriate.

The Secretary shall circulate the minutes of the meetings to members of the Board, members of the Audit Committee and the head of the external auditor.

IV. REMUNERATION OF AUDIT COMMITTEE MEMBERS

No member of the Audit Committee may, other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other Board committee, accept directly or indirectly any consulting, advisory, or other “compensatory fee” (as such term is defined under applicable securities laws and stock exchange rules) from the Company or any subsidiary of the Company unless approved by the Board.

V. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

1. Selection and Evaluation of External Auditor

The Audit Committee is responsible for selecting and evaluating the external auditor, and for managing, on behalf of the Company’s shareholders, the relationship between the Company and its external auditor. In furtherance of this responsibility, as delegated by the Board, the Audit Committee shall

- (a) Review and recommend to the Board, subject to the rights of shareholders, for the selection, appointing, retaining and determining the compensation of the external auditor. The external auditor must be a top tier national firm with operations across Canada and the United States.
- (b) Review and approve the external auditor’s annual engagement letter, including the proposed audit plan and fees contained therein.
- (c) Oversee the work of the external auditor, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- (d) Receive the report from the external auditor covering the outcome of their annual audit of the Company.
- (e) Review the performance of the external auditor and, if warranted recommend replacement or termination the external auditor to the full Board.
- (f) Oversee the qualifications and independence of the external auditor by, among other things:
 - (i) At least on an annual basis, evaluating the qualifications, performance and independence of the external auditor and the senior audit partners having primary responsibility for the audit.
 - (ii) Obtaining and reviewing a report from the external auditor at least annually regarding: (i) the external auditor’s internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or 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 firm, (iii) any steps taken to deal with any issues, (iv) all relationships between the external auditor and the Company, and (v) the independence of the external auditor as required by applicable law.

- (iii) Establish and periodically assess policies and procedures for the review and pre-approval of all audit and permitted non-audit services to be provided by the external auditor to the Company or its subsidiaries.
 - (iv) Review and, if deemed desirable, pre-approve all audit and permitted non-audit services to be provided by the external auditor to the Company or its subsidiaries which pre-approval may be delegated to one or more members in accordance with applicable law.
 - (v) Requiring the external auditor to deliver to the Audit Committee, at least annually, a formal written statement delineating all relationships between the external auditor and the Company and confirming their independence from the Company.
 - (vi) Actively engaging in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditor and taking, or recommending that the Board take, appropriate action to satisfy itself of the auditor's independence.
- (g) Take necessary actions to eliminate all factors that might impair or be perceived to impair the independence of the external auditor.

2. Financial Statements and Reports

The Audit Committee is responsible for overseeing the accounting and financial reporting process of the Company and the audits of the financial statements of the Company. In furtherance of this responsibility, as delegated by the Board, the Audit Committee shall:

- (a) Review and approve the external auditor's annual audit plan, including the scope of the external auditor's quarterly reviews and all related fees.

- (b) Confirm through private discussions with the external auditor that no restrictions are being placed on either the scope or the effectiveness of the external auditor's work.
- (c) Review all material written communications between the external auditor and management, including post audit or management letters containing recommendations of the external auditor, management's response and follow up with respect to the identified weaknesses.
- (d) As part of the Audit Committee's review of the Company's quarterly audited annual financial statements, review and discuss with management and the external auditor:
 - (i) The external auditor's report on the audited annual financial statements.
 - (ii) The quality of, and any major issues regarding, the Company's accounting principles and financial statement presentations, including all critical accounting policies, accounting practices and financial disclosure practices used and any significant changes in the Company's selection or application of accounting principles.
 - (iii) All significant issues and judgements made in connection with the preparation of the financial statements to determine if and how they should be reported or disclosed.
 - (iv) Any problems experienced by the external auditor in performing audits.
 - (v) The content and presentation of sales or earnings press releases and any financial information or earnings guidance (if any) provided to analysts and rating agencies.
 - (vi) Any outstanding or anticipated litigation or legal claims or actions which may materially affect the financial position of the Company.

3. Financial Reporting Process and Internal Controls

The Audit Committee is responsible for overseeing the design, implementation and on-going effectiveness of policies and procedures for providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, including those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted

accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements (“**Internal Controls**”). In furtherance of this responsibility, as delegated by the Board, the Committee shall:

- (a) Establish (under the supervision of the Company's Chief Financial Officer, and President and Chief Executive Officer), monitor and review a system of Internal Controls.
- (b) Consult with the external auditor regarding the adequacy of Internal Controls and review any significant findings concerning the adequacy of Internal Controls raised by the external auditor in its report on the Internal Controls.
- (c) Review management's report on its assessment of the Internal Controls of the Company and the steps taken to monitor, control and report financial risks and exposures.
- (d) Consider the effectiveness of the Internal Controls, and review with the President and Chief Executive Officer, the Chief Financial Officer, and the external auditor: (A) all significant deficiencies and material weaknesses in the design or operation of the Company's Internal Controls that could adversely affect the Company's ability to record, process, summarize and report financial information required to be disclosed by the Company in the reports that it files or submits with applicable securities regulators within the required time periods, and (B) any fraud, whether or not material, that involves management of the Company or other employees who have a significant role in the Company's Internal Controls.
- (e) Address, on a regular basis, any perceived shortcomings in the Company's Internal Controls.

4. Risk Management

The Audit Committee is responsible for overseeing the process by which the Company assesses and manages risk, including the relationship of the Company's compensation policies and practices to risk management. In furtherance of this responsibility, as delegated by the Board, the Audit Committee shall:

- (a) identify risks inherent in the Company's business;
- (b) maintain policies and procedures that address such risks on a reasonable, cost-effective basis;

- (c) in conjunction with management, review, on an annual basis, all aspects of the Company's risk management program, including all significant policies and procedures relating to insurance coverage, foreign exchange exposures and investments (including the Company's use of financial risk management instruments);
- (d) review policies and practices with respect to off-balance sheet transactions and trading and hedging activities, and consider the results of any review of these areas by the external auditor; and
- (e) review management's processes in place to prevent and detect fraud.

5. Compliance with Laws and Regulations

The Audit Committee shall:

- (a) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
- (b) Obtain regular updates from management and the Company's legal counsel regarding compliance matters that may have a material impact on the Company's financial statements or compliance policies.
- (c) Review the findings of any examinations by regulatory agencies and any correspondence with, or published reports by, regulators or governmental agencies which raise material issues regarding the Company's financial statements or accounting policies.

6. Related Party Transactions and Off-Balance Sheet Structure

The Audit Committee shall:

- (a) review all proposed related-party transactions for potential conflicts of interest, including those between the Company and its officers or directors and, if deemed appropriate, recommend to the Board an appropriate course of action with respect to any particular transaction (including approval, rejection or ratification);
- (b) annually review any ongoing related party transactions and report to the Board thereon; and
- (c) review all material off-balance sheet structures to which the Company is a party.

A "**related party**" is a director or officer of the Company, or an immediate family member of a director or officer of the Company (which means any spouse, parents, children, siblings, mother-in-law, father-in-

law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, and anyone who resides in such person's home (other than domestic employees)).

7. Hiring Policies

The Audit Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and any former external auditor of the Company.

8. Complaint Procedure

The Audit Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters, and monitor compliance with the Company's Whistleblower Protection Policy on Financial Matters and oversee, coordinate and review all investigations undertaken thereunder.

VI. EVALUATION OF AUDIT COMMITTEE CHARTER AND COMMITTEE PERFORMANCE

Annually, the Audit Committee shall review and assess the adequacy of the Audit Committee charter, report to the Board on the results of such assessment, and recommend any proposed changes to the Board for approval.

The Audit Committee shall also perform an annual evaluation of the performance of the Audit Committee and report to the Board on the results of such evaluation.

While the Audit Committee has the oversight duties and responsibilities set forth in this charter, the Audit Committee is not responsible for planning or conducting the audit or for determining whether the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management has the responsibility for preparing the financial statements and implementing internal controls and the external auditor has the responsibility of auditing the financial statements.

In discharging its duties, each member of the Audit Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter, including designating any member of the Audit Committee as an "audit committee financial expert" is intended, or should be determined to impose on any member of the Audit Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all members of the Board are subject.

The essence of the Audit Committee's responsibilities is to monitor and review the activities described in this Charter to gain reasonable assurance (but not to ensure) that such activities are being conducted properly and effectively by the Company.