

AUDIT COMMITTEE MANDATE AND CHARTER

WATERLOO BREWING LTD.

I. The Board of Directors' Mandate for the Audit Committee

- 1. The Board of Directors** ("Board") bears responsibility for the stewardship of Waterloo Brewing Ltd. (the "Corporation"). To discharge that responsibility, the Board is obligated by the Ontario Business Corporations Act to supervise the management of the business and affairs of the Corporation. The Board's supervisory function involves Board oversight or monitoring of all significant aspects of the management of the Corporation's business and affairs.

Financial reporting and disclosure by the Corporation constitute a significant aspect of the management of the Corporation's business and affairs. The objective of the Board's monitoring of the Corporation's financial reporting and disclosure (the "Financial Reporting Objective") is to gain reasonable assurance of the following:

- a) That the Corporation complies with all applicable laws, regulations, rules, policies and other requirements of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure;
- b) That the accounting principles, significant judgments and disclosures which underlie or are incorporated in the Corporation's financial statements are the most appropriate in the prevailing circumstances;
- c) That the Corporation's quarterly and annual financial statements are accurate and present fairly the Corporation's financial position and performance in accordance with International Financial Reporting Standards ("IFRS"); and
- d) That appropriate information concerning the financial position and performance of the Corporation is disseminated to the public in a timely manner.

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) The Corporation'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 Corporation's financial transactions;
- b) The Corporation's internal financial controls are regularly assessed for effectiveness and efficiency;
- c) The Corporation's quarterly and annual financial statements are properly prepared by management;
- d) The Corporation's annual financial statements are reported on by an external auditor appointed by the shareholders of the Corporation; and
- e) The financial components of the Corporation's Disclosure Policy are complied with by management and the Board.

To assist the Board in its monitoring of the Corporation's financial reporting and disclosure, the Board has established, and hereby continues the existence of, a committee of the Board known as the Audit Committee (the "Committee"). The Committee shall develop and present to the Board for the Board's approval a Charter which, among other things, will describe the activities in which the Committee 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.

2. *Composition of Committee*

- a) The Committee shall be appointed annually by the Board and consist of at least three (3) members from among the directors of the Corporation, each of whom shall be independent as required by applicable securities legislation and stock exchange regulations and free from any direct or indirect relationship that, in the opinion of the Board, could reasonably interfere with the exercise of his or her independent judgment as a member of the Committee. Officers of the Corporation, including the Chairman of the Board, may not serve as members of the Audit Committee.
- b) The Board shall appoint the Chairman of the Committee.

3. *Reliance on Experts*

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

- a) Financial statements of the Corporation represented to him or her by an officer of the Corporation or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with IFRS; and
- b) Any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

4. *Limitations on Committee's Duties*

In contributing to the Committee's discharging of its duties under this mandate, each member of the 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 mandate is intended, or may be construed, to impose on any member of the Committee 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. The essence of the Committee's duties is monitoring and reviewing to gain reasonable assurance (but not to ensure) that the Fundamental Activities are being conducted effectively and that the Financial Reporting Objective is being met and to enable the Committee to report thereon to the Board.

II. *Audit Committee Charter*

The Audit Committee's Charter outlines how the Committee will satisfy the requirements as set forth by the Board in its mandate. This Charter comprises:

- Operating Principles;
- Operating Procedures;
- Specific Responsibilities and Duties

A. *Operating Principles*

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

1) Committee Values

The Committee expects the management of the Corporation to operate in compliance with corporate policies; with laws and regulations governing the Corporation; and to maintain strong financial reporting and control processes.

2) Communications

The Chairman (and others on the Committee) expects to have direct, open and frank communications throughout the year with management, other Board Committee Chairmen, the external auditors, and other Committee advisors as applicable.

3) Financial Literacy

All Committee Members shall be financially literate and sufficiently versed in financial matters to understand the Corporation's accounting practices and policies and the major judgments involved in preparing the financial statements.

4) Annual Audit Committee Work Plan

The Committee, in consultation with management and the external auditors, shall develop an annual Audit Committee Work Plan responsive to the Committee's responsibilities as set out in this Charter. In addition, the Committee, in consultation with management and the external auditors, shall develop and participate in a process for review of important financial topics that have the potential to impact the Corporation's financial disclosure.

5) Meeting Agenda

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

6) Committee Expectations and Information Needs

The Committee 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 written materials will be received from management and the external auditors at least three days in advance of meeting dates.

7) External Resources

To assist the Committee in discharging its responsibilities, the Committee may in addition to the external auditors, at the expense of the Corporation, retain independent counsel and other advisors having special expertise as it deems necessary to carry out its duties. The Committee shall set and pay the compensation for any such advisors.

8) In Camera Meetings

At each meeting of the Committee, the members of the Committee shall meet in private session with the external auditors; or with management; or with the Committee members only.

9) Reporting to the Board

The Committee, through its Chairman, shall report after each Committee meeting to the Board at the Board's next regular meeting.

10) Committee Self Assessment

The Committee shall annually review, discuss and assess its own performance. In addition, the Committee shall periodically review its role and responsibilities.

11) The External Auditors

The Committee requires that, in discharging its responsibilities, the external auditors shall report directly to the Committee and be accountable to the Committee. The external auditors shall report all material issues or potentially material issues directly to the Committee.

B. Operating Procedures

- 1) The Committee shall meet at least four times annually, or more frequently as circumstances dictate. Meetings shall be held at the request of the Chairman, upon the request of two (2) members of the Committee or at the request of the external auditors.
- 2) A quorum shall be a majority of the members.
- 3) Unless the Committee otherwise specifies, the Secretary of the Corporation shall act as Secretary of all meetings of the Committee.
- 4) In the absence of the Chairman of the Committee, the members shall appoint an acting Chairman.
- 5) A copy of the minutes of each meeting of the Committee shall be provided to each member of the Committee and to each director of the Corporation in a timely fashion.

C. Specific Responsibilities and Duties

To fulfill its responsibilities and duties, the Committee shall:

Financial Reporting

- 1) Review the Corporation's annual and quarterly financial statements with management and the annual financial statements with the external auditors to gain reasonable assurance that the statements are accurate, complete, represent fairly the Corporation's financial position and performance and are in accordance with IFRS and report thereon to the Board before such financial statements are approved by the Board;
- 2) Receive from the external auditors reports on their audit of the annual financial statements;
- 3) Receive from management a copy of the representation letter provided to the external auditors and receive from management any additional representations required by the Committee;
- 4) Review and, if appropriate, recommend approval to the Board of news releases and reports to shareholders issued by the Corporation with respect to the Corporation's annual and quarterly financial statements and any financial information derived from such statements, including earnings; and
- 5) Review and, if appropriate, recommend approval to the Board of prospectuses, material change disclosures of a financial nature, management discussion and analysis, annual information forms and similar disclosure documents to be issued by the Corporation.

Accounting Policies

- 1) Review with management and the external auditors the appropriateness of the Corporation's accounting policies, disclosures, reserves, key estimates and judgments, including changes or variations thereto and obtain reasonable assurance that they are in compliance with IFRS and report thereon to the Board; and
- 2) Review with management and the external auditors the degree of conservatism of the Corporation's underlying accounting policies, key estimates and judgments and reserves.

Risk and Uncertainty

- 1) Acknowledging that it is the responsibility of the Board, in consultation with management, to identify the principal business risks facing the Corporation, determine the Corporation's tolerance for risk and approve risk management policies, the Committee shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled by:
 - a) Reviewing with management the Corporation's tolerance for financial risks;
 - b) Reviewing with management its assessment of the significant financial risks facing the Corporation;
 - c) Reviewing with management the Corporation's policies and any proposed changes thereto for managing those significant financial risks; and
 - d) Reviewing with management its plans, processes and programs to manage and control such risks;
- 2) Ascertain that policies and procedures are in place to minimize environmental, occupational health and safety and other risks to asset value and mitigate damage to or deterioration of asset value and review such policies and procedures periodically;
- 3) Review policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;
- 4) Review foreign currency, interest rate and commodity price risk mitigation strategies, including the use of derivative financial instruments;
- 5) Review the adequacy of insurance coverage's maintained by the Corporation; and
- 6) Review regularly with management, the external auditors and the Corporation's legal counsel, any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these matters have been disclosed in the financial statements.

Financial Controls and Control Deviations

- 1) Review the plans of management and the external auditors to gain reasonable assurance that the combined evaluation and testing of internal financial controls is comprehensive, coordinated and cost effective; and
- 2) Receive regular reports from management, the external auditors, or, if requested, the Corporation's legal counsel on all significant deviations, or indications/detection of fraud and the corrective activity undertaken in respect thereto.

Compliance with Laws and Regulations

- 1) Review regular reports from management and others (e.g. external auditors) with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including:
 - a) Tax and financial reporting laws and regulations;
 - b) Legal withholding requirements;
 - c) Environmental protection laws and regulations; and
 - d) Other laws and regulations which expose directors to liability;
- 2) Review reports with respect to occupational health and safety matters having a potential significant financial impact and to gain reasonable assurance annually that the Corporation's reserves with respect to such matters are sufficient and appropriate; and
- 3) Review the status of the Corporation's tax returns and, if applicable, those of its subsidiaries.

Relationship with External Auditors

- 1) Recommend to the Board the nomination of the external auditors;
- 2) Recommend to the Board the remuneration of the external auditors and approve the terms of engagement of the external auditors as set forth in the auditors' engagement letter;
- 3) Be directly responsible for overseeing the work of the external auditors;
- 4) Review the performance of the external auditors annually or more frequently as required;
- 5) Receive annually from the external auditors an acknowledgement in writing that the shareholders, as represented by the Board and the Committee, are their primary client;
- 6) Receive a report annually from the external auditors with respect to their independence, such report to include disclosure of all engagements (and fees related thereto) for non audit services provided to the Corporation;
- 7) Review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, the extent to which the external audit can be coordinated with management's activities and the materiality levels which the external auditors propose to employ;
- 8) Meet regularly 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 Committee;
- 9) Establish effective communication processes with management and the Corporation's external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee;
- 10) Resolve disagreements between management and the external auditors regarding financial reporting; and

- 11) Pre-approve all non-audit services to be provided to the Corporation by the external auditors and shall establish a pre-approval policy to do so.

Other Responsibilities

- 1) Periodically review the form, content and level of detail of financial reports to the Board;
- 2) Approve annually the reasonableness of the expenses of the Chairman of the Board and the President and Chief Executive Officer;
- 3) After consultation with the Chief Financial Officer and the external auditors, gain reasonable assurance, at least annually, of the quality and sufficiency of the Corporation's accounting and financial personnel and other resources;
- 4) Review in advance the appointment of the Corporation's senior financial executives;
- 5) Investigate any matters that, in the Committee's discretion, fall within the Committee's duties; and
- 6) Perform such other functions as may from time to time be assigned to the Committee by the Board.

Accountability

- 1) Review and update this Charter on a regular basis for approval by the Board;
- 2) From time to time, as requested by the Board, disclose its Mandate and this Charter in the Corporation's statement of corporate governance practices;
- 3) Review the description of the Committee's activities as set forth in the Corporation's statement of corporate governance practices; and
- 4) Ensure 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 those procedures.

Procedures

The Committee shall establish procedures for:

- 1) The receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
- 2) The confidential anonymous submission by employees of the Corporation of concerns regarding questionable accounting or audit matters.

The Committee shall also review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors.