

**SCHMITT INDUSTRIES, INC.**

**AUDIT COMMITTEE CHARTER**

**PURPOSE**

The Audit Committee (the "Committee") of the Board of Directors ("the Board") of Schmitt Industries, Inc. (the "Company") will have the oversight responsibility, authority and specific duties as described below.

**COMPOSITION AND DELEGATION**

The Committee will be comprised of three or more directors as determined by the Board. The Board will appoint the members of the Committee and may designate or remove members at its discretion. Each member will serve until such member's successor is duly appointed or until such member's earlier resignation or removal. The Board will designate one of the members of the Committee as Committee Chair. The members of the Committee will meet the independence and experience requirements prescribed by The Nasdaq Stock Market LLC ("NASDAQ") and the Securities and Exchange Commission (the "SEC"). In addition, each member will, at the time of appointment to the Committee, be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and statement of cash flows, and to meet such other applicable standards of financial literacy as may be required by the rules of NASDAQ.

*Financial Expert*

The Committee will at all times include among its membership at least one member who qualifies as an "audit committee financial expert" as such term is defined by applicable rules and regulations of the SEC and NASDAQ. The Board will formally determine which of the Committee members meets this requirement, and the designated member will be identified as such in the Company's annual proxy statement.

**MEETINGS OF THE COMMITTEE**

The Committee is to meet at least four times annually and as many additional times as the Committee deems necessary. The content of the agenda for each meeting should be pre-approved by the Committee Chair. The Committee is to meet in separate executive sessions with the chief financial officer and the independent auditor at least once each year and at other times when considered appropriate. The Committee will act (i) by affirmative vote of a majority of the members present at the meeting at which a quorum is present (which quorum shall consist of a majority of the members of the

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Committee) or (ii) by the written consent of all members of the Committee. Minutes of each meeting will be prepared and sent to the Committee members, and upon review and approval by the Committee members, the minutes will be retained by the corporate secretary in the minute book of the Company.

Committee members will strive to be present at all meetings. As necessary or desirable, the Committee Chair may request members of management and representatives of the independent auditor be present at Committee meetings.

### **DUTIES AND RESPONSIBILITIES OF THE COMMITTEE**

The primary function is to assist the Board in fulfilling its oversight responsibilities with respect to (i) the integrity of the Company's financial statements and financial reporting process, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualification and independence, (iv) the performance of any internal audit function, and (v) the adequacy of the Company's accounting and internal control systems. In addition, the Committee provides an avenue for communication between the independent auditor, management and the Board. The Committee should have a clear understanding with the independent auditor that it must maintain an open and transparent relationship with the Committee, and that the ultimate accountability of the independent auditor is to the Board and the Committee. The Committee will make regular reports to the Board concerning its activities.

Subject to the specific responsibilities that are set forth in this charter, it is not the responsibility of the Committee to plan or conduct audits or to determine whether the Company's financial statements are complete and accurate or are prepared in accordance with generally accepted accounting principles.

#### *Authority*

The Committee will have the power to conduct or authorize investigations into any matters within its scope of responsibilities. In connection with such investigations or otherwise in the course of fulfilling its responsibilities under this charter, the Committee will have the authority to engage and compensate special legal, accounting or other consultants to advise it as it deems necessary, and may request any officer or employee of the Company, its outside legal counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Committee may also meet with the Company's investment bankers or financial analysts who follow the Company.

The Company's independent auditor shall ultimately be accountable to the Board and to the Committee, as representatives of the shareholders, and the Committee will have direct responsibility to appoint, evaluate, compensate, retain, oversee (including resolving

disagreements between management and the independent auditor regarding financial reporting) and, where appropriate, replace the independent auditor.

### *Specific Duties*

In carrying out its oversight responsibilities, the Committee will:

### **General**

- Review and reassess the adequacy of this charter annually and recommend any proposed changes to the Board for approval. This should be done in compliance with applicable NASDAQ requirements.
- At least annually, conduct a self-evaluation of the performance of the Committee.

### **Independent Auditor**

- Subject only to shareholder ratification (if applicable), appoint, evaluate, compensate, retain, oversee (including resolution of any disagreements between management and the independent auditor regarding financial reporting), and replace the Company's independent auditor.
- Inquire as to the independence of the independent auditor and obtain from the independent auditor, at least annually, a formal written statement delineating all relationships between the independent auditor and the Company as contemplated by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees.
- As necessary, consider with management and the independent auditor the rationale for employing audit firms other than the principal independent auditor. Evaluate together with the Board whether it is appropriate to adopt a policy of rotating independent auditors and audit firm partners on a regular basis.
- Pre-approve the retention of the independent auditor for all audit, review and attestation engagements and such non-audit services as the independent auditor is permitted to provide the Company and approve the fees for such services pursuant to procedures that may be adopted by the Committee from time to time. Pre-approval of audit and non-audit services shall not be delegated to management, but may be delegated to one or more independent members of the Committee so long as that member or members report their decisions to the Committee at all regularly scheduled meetings. In considering whether to pre-approve any non-audit services, the Committee or its delegates shall consider whether the provision of such

services is compatible with maintaining the independence of the independent auditor.

- Approve the scope and fees to be paid to the independent auditor for audit services and approve the partner, manager and technical review partner on the audit engagement.

### **Audit Process, Results and SEC Reporting**

- Review the scope and general extent of the independent auditor's annual audit. The Committee's review should include an explanation from the independent auditor of the factors considered by the auditor in determining the audit scope, including the major risk factors. The independent auditor should confirm to the Committee that no limitations have been placed on the scope or nature of their audit procedures. The Committee will review annually with management the fee arrangement with the independent auditor.
- Review with management and the independent auditor the Company's accounting and financial reporting controls, including computerized information system controls and security, ensuring compliance with applicable legal and regulatory requirements. Obtain annually in writing from the independent auditor its letter as to the adequacy of such controls.
- Review with management and the independent auditor significant accounting and reporting principles, practices and procedures applied by the Company in preparing its financial statements. Discuss with the independent auditor its judgment about the quality, not just the acceptability, of the Company's accounting principles used in financial reporting.
- Review and discuss with management and the independent auditor filings with the SEC and other published documents containing the Company's financial statements, including certifications required to be made by management in connection with such filings.
- Review and discuss with management and the independent auditor the draft of the quarterly earnings release, interim financial statements and results of the independent auditor's reviews thereof before they are released to the public or filed with the SEC.
- Prepare the report required by the rules of the SEC to be included in the Company's annual proxy statement.

- At the completion of the annual audit, review and discuss with management and the independent auditor the following:
  - The annual financial statements and related footnotes and financial information to be included in the Company's annual report on Form 10-K.
  - Results of the audit of the financial statements and the related report thereon and, if applicable, a report on changes during the year in accounting principles and their application.
  - Significant changes to the audit plan, if any, and any serious disputes or difficulties with management encountered during the audit. Inquire about the cooperation received by the independent auditor during its audit, including access to all requested records, data and information. Inquire of the independent auditor whether there have been any disagreements with management which, if not satisfactorily resolved, would have caused them to issue a nonstandard report on the Company's financial statements.
  - Other communications as required to be communicated by the independent auditor by Statement of Auditing Standards ("SAS") 61 as amended by SAS 90 relating to the conduct of the audit. Further, receive a written communication provided by the independent auditor concerning its judgment about the quality of the Company's accounting principles, as outlined in SAS 61 as amended by SAS 90, and that they concur with management's representation concerning audit adjustments.
  - If deemed appropriate after such review and discussion, recommend to the Board that the financial statements be included in the Company's annual report on Form 10-K.

### **Internal Controls and Legal Matters**

- Review and discuss with management and the independent auditor (i) any significant deficiencies or material weaknesses identified by management in connection with required quarterly or annual certifications, (ii) any significant changes in internal control over financial reporting, and (iii) any fraud involving management or other employees who have a significant role in the Company's internal controls.
- Meet with management and the independent auditor to discuss relevant significant

recommendations that the independent auditor may have, particularly those characterized as "material" or "serious." Typically, such recommendations will be presented by the independent auditor in the form of a "Letter of Comments and Recommendations to the Committee." The Committee should review responses of management to the Letter of Comments and Recommendations from the independent auditor and receive follow-up reports on action taken concerning the aforementioned recommendations.

- Discuss with the independent auditor the quality of the Company's financial and accounting personnel.
- Elicit the comments of management regarding the responsiveness of the independent auditor to the Company's needs.
- As the Committee may deem appropriate, obtain, weigh and consider expert advice as to rules of NASDAQ, Statements on Auditing Standards and other accounting, legal and regulatory provisions related to the Committee.
- Review with the Company's general counsel legal and regulatory matters that may have a material impact on the financial statements and review related Company compliance policies and any material reports or inquiries received from regulators or governmental agencies.
- Review with management and the independent auditor the methods used to establish and monitor the Company's policies with respect to unethical or illegal activities by Company employees that may have a material impact on the financial statements.
- Review the Company's policies and procedures with respect to officer expense accounts and perquisites, including use of corporate assets, and consider the results of any review of these areas by the independent auditor.
- Review the Company's policies and procedures to ensure that they preclude loans to officers and directors. Confirm periodically that no such loans have been made.
- Review the Company's policies and procedures to assure that any transactions with directors, officers or members of their immediate families are reviewed and approved in advance by the Committee. Confirm periodically that no unapproved transactions have occurred.
- Review the Company's policies and procedures to assure that all non-audit services provided by the Company's auditors are reviewed and approved in advance by the Committee. Confirm periodically that no unapproved transactions have occurred.

- Obtain reports from management and the independent auditor that the Company's subsidiaries and foreign affiliated entities are in conformity with applicable legal requirements and the Company's own policies, including disclosures of insider and affiliated party transactions.
- Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and compliance with the Company's policies or code of conduct.
- Review quarterly reports provided by management relating to pending, threatened or likely litigation.
- Review the appointment and replacement of the senior internal auditing executive, if required.
- Review the internal audit department responsibilities, budget and staffing, if required.
- Review significant reports to management prepared by the internal auditing department and management's responses, if required.
- Ensure that the Company has adequate procedures in place for the receipt, retention and treatment of complaints received by the Company regarding allegations of suspected acts that are illegal or in violation of specific public regulations or policies, or regarding accounting, internal accounting controls or auditing matters.
- Assure that the Company has adequate procedures in place for the confidential, anonymous submission by employees of the Company regarding questionable accounting or auditing matters.
- Review and approve all related-party transactions, including transactions between the Company and its officers or directors or affiliates of officers or directors.
- Unless otherwise determined by the Board, the Committee (i) will have the authority to oversee the Company's response to regulatory actions, including investigations, involving financial, accounting and internal control matters, and (ii) may investigate any matter within the scope of its responsibilities that it determines appropriate.