



**ON TRACK INNOVATIONS LTD.**  
**AUDIT COMMITTEE CHARTER**

***Purpose***

The audit committee (the “**Committee**”) of the board of directors (the “**Board of Directors**” or the “**Board**”) of On Track Innovations Ltd. (the “**Company**”) is established by the Board of Directors primarily for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company.

The Committee is responsible, *inter alia*, for assisting the Board’s oversight of (1) the quality and integrity of the Company’s financial statements and related disclosure, (2) the Company’s compliance with legal and regulatory requirements, (3) the independent auditor’s qualifications and independence, (4) the performance of the Company’s internal audit function and independent auditors, (5) the evaluation of any inadequacies in the business management of the Company and (6) related-party transactions (other than engagement and employment of office holders, which are under the responsibility of our compensation committee).

The Committee exercises its powers according to pertinent statutory provisions, the Israeli Companies Law 1999 (the “**Companies Law**”), the Marketplace Rules of the Nasdaq General Market (“**Nasdaq**”), the articles of association of the Company and the resolutions and rules of procedure of the Company’s Board of Directors.

***Composition***

1. **Members.** The Committee shall consist of as many members as the Board shall determine, but in any event not fewer than three (3) members. All of the Company’s External Directors (as defined by the Companies Law) shall be members of the Committee. All members of the Committee must also be Board members. Neither the chairman of the Board nor any director who is otherwise employed by the Company, by a Controlling Shareholder (as defined by the Companies Law) or by a corporation controlled by a Controlling Shareholder, or any director who otherwise provides the Company, a Controlling Shareholder or a corporation controlled by a Controlling Shareholder with services on a regular basis or whose main livelihood is dependent on a Controlling Shareholder, nor a Controlling Shareholder or any Relative (as defined by the Companies Law) thereof, shall be members of the Committee.
2. **Qualifications.** Each member of the Committee shall meet all applicable independence, financial literacy and other requirements of applicable law and of the Nasdaq Marketplace Rules. At least one member of the Committee shall be determined by the

Board to have accounting or related financial management expertise in order to qualify as a “financial expert” for purposes of both the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) and the listing requirements of Nasdaq. No member of the Committee will receive any compensation from the Company except for Board or Committee service.

3. Chairman. The Chairman of the Committee shall be appointed by the Committee members and shall be an External Director, as defined in the Companies Law, providing that no member shall hold such position for a period exceeding nine years.
4. Removal and Replacement. The members of the Committee may be removed or replaced, and any vacancies on the Committee shall be filled, by the Board.

### *Operations*

5. Meetings. The chairman of the Committee, in consultation with the Committee members, shall determine the schedule and frequency of the Committee meetings, provided that the Committee shall meet at least four times per year. In addition, the Committee shall meet separately, periodically, with management, the General Counsel, the internal auditors and the independent auditor of the Company. The Committee shall also meet separately with the independent auditor at every meeting of the Board at which the independent auditor is present. The chairman of the Committee may admit members of the Company’s executive management to the meetings of the Committee, providing that aside of the Company’s General Counsel and Company’s Secretary, to the extent such do not constitute Controlling Shareholder or relatives thereof, no employee or executive of the Company shall be present during the actual vote.
6. Quorum. The Committee shall have a quorum if at least the majority of the members of the Committee is present at the meeting, one of which must be an External Director, and such quorum must participate in all resolutions passed.
7. Agenda. The chairman of the Committee shall develop and set the Committee’s agenda, in consultation with other members of the Committee, the Board and Company management. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practicable, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.
8. Report to Board. The Committee shall report regularly to the entire Board and shall submit to the Board the minutes of its meetings. In the event of any extraordinary and material findings within the scope of the Committee’s duties, the chairman of the Committee shall without delay inform the chairman of the Board of such findings.
9. Assessment of Charter. The Committee shall assess the adequacy of this charter on an annual basis and recommend any changes to the Board.
10. Internal Auditor. The internal auditor of the Company shall be notified in advance of every meeting of the Committee and shall be entitled to participate therein, without being

entitled to a vote on the Committee. The internal auditor shall also be entitled to request from the chairman of the Committee that the chairman convene the Committee to discuss a specific issue, and the chairman, if he sees reason to do so, shall convene the meeting within a reasonable time after receipt of the request.

11. Independent Auditor. The Committee shall give the independent auditor advance notice of any meeting whose agenda includes an issue regarding the audit of the Company's financial statements, and the independent auditor shall be entitled to participate in such a meeting, without being entitled to a vote.

### *Authority and Duties*

#### Independent Auditor's Qualifications and Independence

12. As governed by Israeli law, the Committee shall examine and shall make recommendations regarding the appointment, retention, evaluation, remuneration, independence, oversight and termination of the work of the independent auditor employed by the Company (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The Committee may prepare a proposal to the general shareholders meeting of the Company regarding the appointment of the independent auditor. The independent auditor shall report directly to the Committee and shall also inform the chairman of the Board immediately upon discovering any material deficiencies in the Company's accounting control.
13. Without derogating from any other reporting obligations to which the independent auditor may be subject under applicable law, the chairman of the Committee shall agree with the independent auditor upon his engagement that the independent auditor shall (i) inform the chairman of the Committee without delay of any grounds for disqualification or lack of impartiality occurring during the audit, unless such grounds are eliminated; (ii) report to the chairman of the Committee without delay all material findings and facts that may be of relevance for the tasks of the Board and that may arise during the performance of the audit; and (iii) inform the chairman of the Committee or indicate in the auditor's report if, during the performance of the audit, the independent auditor comes across facts that show a misstatement of the Board with respect to any corporate governance requirements under Israeli law, the Nasdaq corporate governance principles or otherwise.
14. The Committee shall have the sole authority to pre-approve any non-audit services to be provided by the independent auditor. The Committee shall review with the lead audit partner whether any of the audit team members receive any discretionary compensation from the audit firm with respect to non-audit services procured by the independent auditor.
15. The Committee shall obtain and review with the lead audit partner and a more senior representative of the independent auditor, annually or more frequently as the Committee considers appropriate, a report by the independent auditor describing: the independent

auditor's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor, or by any inquiry, review or investigation by governmental, professional or other regulatory authorities, within the preceding five years, respecting independent audits carried out by the independent auditor, and any steps taken to deal with these issues; and a formal written statement delineating all relationships between the auditor and the Company, consistent with Independence Standards Board Standard

16. The Committee will actively engage with the independent auditors with respect to any disclosed relationships or services that could impact the objectivity or independence of the independent auditors and take further action to ensure the independent auditor's independence as necessary. The Committee shall discuss with the independent auditors the matters required by Statement on Auditing Standards No. 61. The Committee shall, in addition to assuring the regular rotation of the lead independent audit partner, consider whether there should be regular rotation of the independent audit firm, in order to make a recommendation in this regard to the Annual General Meeting.
17. The Committee shall review the experience, qualifications and performance of the independent auditor.
18. The Committee shall pre-approve the hiring of any employee or former employee of the independent auditor who was a member of the Company's independent audit team during the preceding three fiscal years. In addition, the Committee shall pre-approve the hiring of any employee or former employee of the independent auditor (within the preceding three fiscal years) for senior positions within the Company, regardless of whether that person was a member of the Company's audit team.
19. In any general meeting whose agenda includes the termination of the retention of the independent auditor or the non-renewal of this retention, the Committee shall inform the general meeting of the Committee's position with regard to this issue, after having given the independent auditor a reasonable opportunity to present its position to the Committee.

#### Related Party Transactions

20. The Committee shall review and pre-approve policies and procedures with respect to proposed transactions between the Company and related parties (other than with respect to the engagement and employment of office holders, for which our compensation committee is responsible).
21. The Committee shall review and approve all such related-party transactions.
22. The Committee may not approve a transaction that requires Committee approval under Chapter Five of the Sixth Part of the Companies Law ("**Transactions with Related Parties**") *unless*, at the time of the approval, and during the discussion during which such approval is given, the Committee is in compliance with the provisions of Sections 1 and 2 above.

### Financial Statements and Related Disclosure

23. The Committee shall review the Company's annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," before the filing of the Company's reports with the SEC, in order to ascertain in particular that the preparation of these financial statements complies with the pertinent statutory provisions and that the statements represent a factually accurate picture of the assets, financial results and results of operations of the Company and its subsidiaries.
24. The Committee shall review with management earnings press releases before they are issued. The Committee shall review generally with management the nature of the financial information and earnings guidance provided to analysts and rating agencies.
25. The Committee shall review with the independent auditor: (a) all critical accounting policies and practices to be used by the Company in preparing its financial statements, (b) all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of these alternative disclosures and treatments, and the treatment preferred by the independent auditor, and (c) other material communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences. In addition, the Committee shall review with the independent auditor any audit problems or difficulties and management's response to these problems or difficulties.
26. The Committee shall review with management, and any outside professionals as the Committee considers appropriate, the effectiveness of the Company's disclosure controls and procedures.
27. The Committee shall review with management, and any outside professionals as the Committee considers appropriate, important trends and developments in financial reporting practices and requirements and their effect on the Company's financial statements.

### Performance of the Internal Audit Function and Independent Auditors

28. The internal auditor shall be appointed by the Board, upon recommendation of the Committee. Without derogation from the duties of the internal auditor pursuant to the Company's articles of association and to the Companies Law, the Committee shall review with management and decide upon the scope, planning and staffing of the proposed internal audit for the current year. The Committee shall also review, and if relevant decide upon, the internal audit function's organization, responsibilities, plans, results, budget and staffing.
29. The Committee shall review with management the quality, adequacy and effectiveness of the Company's internal controls and any significant deficiencies or material weaknesses in internal controls.

30. The Committee shall review and discuss with the Board the Company's policies with respect to risk assessment and risk management.

#### Review of Legal Matters and Compliance with Regulatory Requirements

31. The Committee shall review with management, and any internal or external counsel as the Committee considers appropriate, any legal matters (including the status of pending litigation) that may have a material impact on the Company and any material reports or inquiries from regulatory or governmental agencies.
32. The Committee shall review with the General Counsel the adequacy and effectiveness of the Company's procedures to ensure compliance with its legal and regulatory responsibilities. The Committee shall also review the legal and compliance function's organization, responsibilities, plans, results, budget and staffing.
33. The Committee shall obtain reports from management, the internal auditor and the independent auditor regarding compliance with all applicable legal and regulatory requirements, including the U.S. Foreign Corrupt Practices Act.

#### Complaints

34. The Committee shall establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters or potential violations of law and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters or potential violations of law.

#### Reports and Press Releases

35. The Committee shall review disclosure made by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Company's annual report on Form 20-F and shall review and discuss with the independent auditor the Company's SEC filings on Form 20-F and the annual financial statements and report included therein, as well as any quarterly or interim reports filed with the SEC, including the results of the independent auditor's review of the quarterly financial information.
36. The Committee shall review with the Company's management the earnings press releases, including the use of any non-GAAP financial information, before they are issued.
37. The Committee shall review generally with the Company's management the nature of the financial information and earnings guidance provided to analysts and rating agencies.

The foregoing list of duties is not exhaustive, and the Committee may, in addition, perform such other functions as may be necessary or appropriate for the performance of its oversight function. In discharging its oversight role, the Committee shall have full access to all Company books, records, facilities and personnel. The Committee may retain counsel, auditors or other advisors, in its sole discretion. The Company shall provide for appropriate funding for

payment of: (a) compensation to the independent auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company (as determined by the shareholders), (b) compensation to any advisers retained by the Committee (as determined by the Committee) and (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties (as determined by the Committee).

***Clarification of Audit Committee's Role***

The Committee's responsibility is one of oversight. It is the responsibility of the Company's management to prepare consolidated financial statements in accordance with applicable law and regulations and of the Company's independent auditor to audit those financial statements. Therefore, each member of the Committee shall be entitled to rely, to the fullest extent permitted by law, on the integrity of those persons and organizations within and outside the Company from whom he or she receives information, and the accuracy of the financial and other information provided to the Committee by such persons or organizations.

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