



**MANDATE OF THE AUDIT COMMITTEE OF THE BOARD OF  
DIRECTORS**

## **MANDATE OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

### **I. PURPOSE**

The primary function of the audit committee (the "**Audit Committee**") of the board of directors (the "**Board of Directors**" or "**Board**") of Petrus Resources Ltd. ("**Petrus**" or the "**Corporation**") is to assist the in fulfilling the Board's responsibilities by reviewing: (a) the financial reports and other financial information provided by Petrus to any governmental body or the public; (a) Petrus' systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established; and (c) Petrus' auditing, accounting and financial reporting processes generally. Consistent with this function, the Audit Committee should endeavour to encourage continuous improvement of, and should endeavour to foster adherence to, the Corporation's policies, procedures and practices at all levels. In performing its duties, the external auditor of the Corporation is to report directly to the Audit Committee.

### **II. OBJECTIVES**

The Audit Committee's primary objectives are:

1. to assist the Board to meet its responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of the Corporation and related matters;
2. to facilitate better communication between directors and external auditors;
3. to assist the Board's oversight of the auditor's qualifications and independence;
4. to assist the Board's oversight of the credibility, integrity and objectivity of financial reports;
5. to strengthen the role of the outside directors by facilitating discussions between directors on the Audit Committee, management and external auditors;
6. to assist the Board's oversight of the Corporation's compliance with legal and regulatory requirements; and
7. to review the risks that may affect Petrus and the risk management policies and procedures of the Corporation.

### **III. COMPOSITION**

The Audit Committee shall be comprised of three or more directors as determined by the Board of Directors, none of whom are members of management of Petrus, except as otherwise permitted in National Instrument 52-110 ("**NI 52-110**"), all of whom are "independent" and "financially literate" (as such terms are defined in NI 52-110). Audit Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant. In addition, at least one member of the Audit Committee must have accounting or related financial management expertise, as the Corporation's Board of Directors interprets such qualification in its business judgment.

The members of the Audit Committee shall be appointed by the Board of Directors by resolution and remain as members of the Audit Committee until their successors are duly appointed. Unless a Chair is

elected by the full Board of Directors, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership.

#### **IV. MEETINGS**

The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Audit Committee should meet at least annually with management, internal auditors (if any) and the independent auditors to discuss any matters that the Audit Committee or each of these groups believe should be discussed privately. In addition, the Audit Committee or at least its Chair should meet with the independent auditors and management quarterly to review the Corporation's financial statements and MD&A consistent with Section V.4 below. The Audit Committee should also meet with management and independent auditors on an annual basis to review and discuss annual financial statements and the management's discussion and analysis of financial conditions and results of operations. Attached as Schedule "A" is an example of an annual meeting schedule/agenda.

A quorum for meetings of the Audit Committee shall be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Audit Committee shall be the same as those governing the Board.

#### **V. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties, the Audit Committee shall endeavour to:

##### ***Documents/Reports Review***

1. Review and, if deemed appropriate, update this Mandate, at least annually, as conditions dictate.
2. Review and recommend to the Board the organization's annual and interim financial statements, MD&A, earnings press releases and review any reports or other financial information submitted to any governmental body or the public, including any certification, report, opinion or review rendered by the independent auditors.
3. Review the reports to management prepared by the independent auditors and management's responses.
4. Review with financial management and the independent auditors the quarterly financial statements prior to their filing or prior to the release of earnings.
5. Review significant findings during the year, including the status of previous significant audit recommendations.
6. Periodically assess the adequacy of procedures for the review of corporate disclosure that is derived or extracted from the financial statements.
7. Periodically discuss guidelines and policies to govern the processes by which the Chief Executive Officer and senior management assess and manage the Corporation's exposure to risk.
8. Report to the Board any issues that arise with respect to the quality or integrity of the Corporation's financial statements, compliance with legal or regulatory requirements, performance and independence of the Corporation's auditors, or performance of the internal audit function.

9. Reviewing any inquiry or investigation by governmental or professional authorities respecting any independent audits carried out on the Corporation and any steps to deal with any such issues.

***Independent Auditors***

10. Recommend to the Board the external auditors to be nominated for appointment by the shareholders.
11. Approve the compensation of the external auditors.
12. On an annual basis, the Audit Committee should review and discuss with the auditors all significant relationships the auditors have with the Corporation to determine the auditors' independence.
13. Review and, as appropriate, resolve any material disagreements between management and the independent auditors and review, consider and make a recommendation to the Board regarding any proposed discharge of the auditors when circumstances warrant.
14. When there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change.
15. Periodically consult with the independent auditors, without the presence of management, about internal controls and the fullness and accuracy of the organization's financial statements.
16. Periodically (not less than once annually) assess the Corporation's internal controls, including the Corporation's risk management policies and processes.
17. Review the audit scope and plan of the independent auditor.
18. Oversee the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for Petrus.
19. Pre-approve the completion of any non-audit services by the external auditors and, with the assistance of the auditors, determine which non-audit services the external auditor is prohibited from providing. The Audit Committee may delegate to one or more members of the Audit Committee authority to pre-approve non-audit services in satisfaction of this requirement and if such delegation occurs, the pre-approval of non-audit services by the Audit Committee member to whom authority has been delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval. The Audit Committee shall be entitled to adopt specific policies and procedures for the engagement of non-audit services if:
  - (a) the pre-approval policies and procedures are detailed as to the particular service;
  - (b) the Audit Committee is informed of each non-audit service; and
  - (c) the procedures do not include delegation of the Audit Committee's responsibilities to management.

The Audit Committee will satisfy the pre-approval requirement set forth in this paragraph if:

- (a) the aggregate amount of all non-audit services that were not pre-approved is reasonably expected to constitute no more than 5% of the total amount of fees paid by Petrus and its subsidiary entities to the auditors during the fiscal year in which the services are provided;
- (b) Petrus or a subsidiary entity, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and
- (c) the services are promptly brought to the attention of the Audit Committee and approved, prior to completion of the audit, by the Audit Committee or by one or more of its members to whom authority to grant such approvals has been delegated by the Audit Committee.

### ***Financial Reporting***

- 20. In consultation with the independent auditors, annually review the organization's financial reporting processes and the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.
- 21. Consider and approve, if appropriate, major changes to the Corporation's auditing and accounting principles and practices as suggested by the independent auditors or management.

### ***Process Improvement***

- 22. Request reporting to the Audit Committee by each of management and the independent auditors of any significant judgments made in the management's preparation of the financial statements and the view of each group as to appropriateness of such judgments.
- 23. Following completion of the annual audit, review separately with each of management and the independent auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
- 24. Review any significant disagreements among management and the independent auditors in connection with the preparation of the financial statements.
- 25. Review with the independent auditors and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. (This review may be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Audit Committee.)
- 26. Conduct and authorize investigations into any matters brought to the Audit Committee's attention and within the Audit Committee's scope of responsibilities. The Audit Committee shall be empowered to retain and to approve compensation for any independent counsel and other professionals to assist in the conduct of any investigation.
- 27. Assist with the establishment of a procedure for:
  - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

- (b) the confidential, anonymous submission by employees of Petrus of concerns regarding questionable accounting matters, auditing matters and matters set forth in Petrus' Code of Business Conduct and Ethics.

which procedure shall be set forth in a "Whistle Blower Policy" to be adopted by the Board in connection with such matters.

### ***Ethical and Legal Compliance***

- 28. Assist with the establishment of a Code of Business Conduct and Ethics and ensure that management has established a system to enforce same.
- 29. Review management's monitoring of the Corporation's compliance with the Code of Business Conduct and Ethics.
- 30. In consultation with the auditors, consider the review system established by management regarding the Corporation's financial statements, reports and other financial information disseminated to governmental organizations and the public in the context of the applicable legal requirements.
- 31. On at least an annual basis, review with the Corporation's auditors or counsel, as appropriate, any legal matters that could have a significant impact on the organization's financial statements, the Corporation's compliance with applicable laws and regulations and inquiries received from regulators or government agencies.

### ***Risk Management Process and Policy Review***

- 32. Review the systems that identify and manage principal business risks.
- 33. Review risk management policies and procedures of Petrus including but not limited to litigation, insurance, hedging, credit risk and significant contracts.
- 34. Review counterparty credit risk.

### ***Other***

- 35. Perform any other activities consistent with this Mandate, Petrus' by-laws and governing law, as the Audit Committee or the Board of Directors deems necessary or appropriate.
- 36. In connection with the performance of its responsibilities as set forth above, the Audit Committee shall have the authority to engage outside advisors and to pay outside auditors and advisors.

### ***Standards of Liability***

Nothing contained in this mandate is intended to expand applicable standards of liability under statutory, regulatory, common law or any other legal requirements for the Board or members of its Committees. The purposes and responsibilities outlined in this mandate and accompanying Board materials are meant to serve as guidelines rather than inflexible rules and the Board may adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.

## SCHEDULE "A"

### Audit Committee Meeting Agenda for Year

As noted previously, it is important to review the completeness of the Audit Committee charter as well as the agenda established for each meeting. The following is an example of topics that could be covered in each Audit Committee meeting. This example assumes a December year-end with four audit committee meetings scheduled in connection with quarterly earnings releases.

Scheduled Meetings			
May	August	November	March

**I. Audit Committee Purpose**

Conduct special investigations

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**II. Audit Committee Composition and Meetings**

Assess independence and financial literacy of Audit Committee

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Audit Committee Chair to establish meeting agenda

X	X	X	X
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Enhance financial literacy - update on current financial events

X	X	X	X
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Executive sessions with auditors, management, committee

X	X	X	X
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**III. Audit Committee Responsibilities and Duties**

1. Review mandate, publish relevant information in proxy

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2. Review quarterly and annual financial statements and management's discussion & analysis - discuss with management, auditors

X	X	X	X
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3. Review other public disclosures including Information Circular, Annual Information Form

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4. Consider internal controls and financial risks

			X
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5. Review quarterly and annual financial and operating results and findings

X	X	X	X
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6. Review financial reporting issues

X	X	X	X
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7. Review treasury status and debt compliance

X	X	X	X
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8. Review tax status and tax issues

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9. Review insurance coverage and claims or potential claims

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10. Review legal issues, claims or potential claims

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11. Review risk management policies including hedging, derivative contracts, counterparty credit risk

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12. Review abandonment and reclamation liability exposure

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13. Review credit risk including joint venture partner share of operations, capital and future abandonment costs

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14. Recommend appointment of auditors

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15. Approve audit fees

		X	X
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16. Discuss auditor independence

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17. Review auditor plan

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18. Discuss year-end results

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19.	Discuss quality of accounting principles	*	*	*	X
20.	Review legal matters with counsel and auditors	*	*	*	X
21.	Perform other activities as appropriate	*	*	*	*
22.	Maintain minutes and report to Board of Directors	X	X	X	X
23.	Review Code of Conduct and Whistleblower Policy	*	*	*	X
24.	Perform self-assessment of Audit Committee performances				X
25.	Review sufficiency and adequacy of financial accounting staff				X
26.	Review CEO and senior executive expenses and related party transactions				X

**X = Recommended Timing    \* = As Needed**