

# ***AKITA Drilling Ltd.***

## **Audit Committee Mandate**

### **Purpose**

The purpose of this Mandate is to establish the terms of reference of the Audit Committee of AKITA Drilling Ltd. (the "Corporation"). The Committee is appointed by the Board of Directors (the "Board") of the Corporation. The Committee is responsible for providing oversight of the annual and quarterly financial reporting matters of the Corporation and for providing oversight over the Corporation's Risk Management Committee and the Corporation's Disclosure Committee.

### **Composition**

The Board shall elect annually from among its members a committee to be known as the "Audit Committee" (the "Committee"). The Committee shall be composed of a minimum of three directors of the Corporation, all of whom shall be independent, as defined in National Instrument 52-110 – *Audit Committees* (the "Instrument"), subject to reliance upon the controlled company exemption set out in Section 3.3 of the Instrument. The Board will appoint one member of the Committee as the Chair of the Committee.

### **Membership**

All members of the Committee shall be financially literate. For the purposes hereof, "financially literate" shall have the meaning given to that term in the Instrument, and currently means the ability to read and understand a set of financial statements that present the breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

### **External Auditor Oversight**

The external auditor is ultimately accountable to the Board and the Committee, as representatives of the shareholders, and such shareholder representatives have the authority and responsibility to evaluate, and where appropriate recommend the external auditors to be proposed for shareholder approval in any management information circular and proxy statement). The external auditor shall report directly to the Committee.

### **Responsibilities**

The Committee shall have responsibility for overseeing:

- (a) the accounting and financial reporting processes of the Corporation; and

- (b) audits of the financial statements of the Corporation.

In addition to any other duties assigned to the Committee by the Board from time to time, the role of the Committee shall include meeting with the external auditor and the senior financial management of the Corporation to review all financial statements of the Corporation which require approval by the Board, including year-end audited financial statements. Specifically, the Committee shall have authority and responsibility for:

- (a) reviewing and approving the Corporation's interim financial statements, interim management's discussion and analysis and interim earnings news releases before the information is publicly disclosed;
- (b) overseeing 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 the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting;
- (c) discussing with the external auditor:
  - (i) the scope of the audit, in particular its view of the quality of the Corporation's accounting principles as applied in the financial statements in terms of disclosure quality and evaluation methods, inclusive of the clarity of the Corporation's financial disclosure and reporting, degree of conservatism or aggressiveness of the Corporation's accounting principles and underlying estimates and other significant decisions made by management in preparing the financial disclosure and reviewed by the auditors;
  - (ii) significant changes in the Corporation's accounting principles, practices or policies;
  - (iii) new developments in accounting principles, reporting matters or industry practices which may materially affect the Corporation; and
  - (iv) any other matters deemed appropriate by the Committee;
- (d) reviewing with the external auditor and the Corporation's senior financial management the results of the annual audit regarding:
  - (i) the financial statements;
  - (ii) MD&A and related financial disclosure contained in continuous disclosure documents;
  - (iii) significant changes, if any, to the initial audit plan;
  - (iv) accounting and reporting decisions relating to significant current year events and transactions;
  - (v) the management letter, if any, outlining the auditor's findings and recommendations, together with management's response, with respect to internal controls and accounting procedures; and

- (vi) any other matters relating to the conduct of the audit, including such other matters which should be communicated to the Committee under generally accepted auditing standards;
- (e) reviewing annually and recommending to the Board:
  - (i) the Corporation's annual financial statements, annual management's discussion and analysis and annual earnings news releases before the information is publicly disclosed;
  - (ii) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation; and
  - (iii) the compensation of the external auditor;
- (f) receiving from the external auditor a formal written statement describing all relationships between the auditor and the Corporation considering whether the advisory services performed by the external auditor during the course of the year have impacted their independence, and also ensuring that no relationship or services between the external auditor and the Corporation are in existence which may affect the objectivity and independence of the auditor or recommending appropriate action to ensure the independence of the external auditor;
- (g) pre-approval of non-audit services to be provided to the Corporation or its subsidiary entities by the external auditor or the external auditor of the Corporation's subsidiary entities, unless such pre-approval is otherwise appropriately delegated in accordance with the Instrument;
- (h) periodically reviewing, assessing and discussing with the external auditors and senior financial management the adequacy of procedures for review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements;
- (i) establishing and reviewing procedures for:
  - (i) the receipt, retention and treatment of complaints received by the Corporation regarding internal accounting controls, or auditing matters; and
  - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
- (j) reviewing and approving the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;
- (k) reviewing with the external auditor the adequacy of management's internal control and disclosure procedures and management information systems and inquiring of management and the external auditor about significant risks and exposures to the Corporation that may have a material adverse impact on the Corporation's financial statements and, when applicable, inquiring of the external auditor as to the efforts of management to mitigate such risks and exposures;

- (l) reviewing the expense accounts of the President and Chief Executive Officer on an annual basis;
- (m) reviewing and/or considering that, with regard to the previous fiscal year:
  - management has reviewed the Corporation's audited financial statements with the Committee, including a discussion of the quality of the accounting principles as applied and significant judgments affecting the financial statements;
  - the external auditor and the Committee have discussed the external auditor's judgments of the quality of the accounting principles applied and the type of judgments made with respect to the Corporation's financial statements;
  - the Committee, on its own (without management or the external auditor present), has considered and discussed all the information disclosed to the Committee from the Corporation's management and the external auditor; and
  - in reliance on review and discussions conducted with senior financial management and the external auditor, the Committee believes that the Corporation's financial statements are fairly presented in conformity with generally accepted accounting principles in all material respects and that the financial statements fairly reflect the financial condition of the Corporation;
- (n) enquiring into other related matters that may be assigned by the Board or that the Committee believes relevant to carrying out its purpose;
- (o) receiving reports at each meeting from the Risk Management Committee, to report to the Board on the activities of the Risk Management Committee, and to review the objectives, responsibilities and mandate of the Risk Management Committee on an annual basis;
- (p) reporting after each Risk Management Committee meeting to the Board on such matters and questions relating to the risk appetite, risk profile, and risk performance of the Corporation or any affiliates of the Corporation as the Committee may from time to time refer to the Corporation's Risk Management Committee;
- (q) receiving reports at each meeting from the Disclosure Committee of the Corporation, reporting to the Board on the activities of the Disclosure Committee, and reviewing the objectives, responsibilities and mandate of the Disclosure Committee on an annual basis; and
- (r) reporting after each Disclosure Committee meeting to the Board on such matters and questions relating to the adequacy of the Corporation's disclosure policy as the Committee may from time to time refer to the Disclosure Committee.

#### **Administrative Matters**

The following general provisions shall have application to the Committee:

- (a) a quorum for meetings of the Committee shall be a majority of the members thereof. The presence in person or by telephone of a majority of the members of the

Committee shall constitute a quorum for any meeting of the Committee. No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee;

- (b) any member of the Committee may be removed or replaced at any time by resolution of the directors of the Corporation, and shall cease to be a member of the Committee upon ceasing to be a director of the Corporation. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, each member of the Committee shall hold such office until the close of the annual meeting of shareholders next following the date of appointment as a member of the Committee or until a successor is duly appointed;
- (c) the Committee may invite such officers, directors and employees of the Corporation or affiliates as it may see fit from time to time to attend at meetings of the Committee and to assist thereat in the discussion of matters being considered by the Committee. The external auditor is to appear before the Committee when requested to do so by the Committee;
- (d) the Committee, having regard to the by-laws of the Corporation, shall determine the time and place for Committee meetings, the calling and the procedure at such meetings, and shall meet at least four times annually. Members shall be provided a minimum of 48 hours prior written notice (or such shorter period as the members may permit) prior to each meeting of the Committee;
- (e) notice of all meetings of the Committee shall be given to the external auditor and the external auditor shall be entitled to attend and be heard at each Committee meeting. The external auditor must attend every meeting of the Committee that it is specifically requested to attend by a member of the Committee. Upon the request of the external auditor or any member of the Committee, the Committee shall convene a meeting of the Committee to consider any matters that should be brought to the attention of the directors of the Corporation;
- (f) the affirmative vote of a majority of the members of the Committee participating in any meeting of the Committee at which a majority of the members constituting a quorum are present necessary for the adoption of any resolution;
- (g) a member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities as permit all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting;
- (h) in the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to be Chair of the meeting. In addition, the Chair of the Committee shall choose one persons present to be the Secretary of the meeting;
- (i) the Committee shall report to the directors of the Corporation on such matters and questions relating to the financial position of the Corporation or any affiliates of

the Corporation as the directors of the Corporation may from time to time refer to the Committee;

- (j) the members of the Committee shall, for the purpose of performing their duties, have the right to inspect all the books and records of the Corporation and its affiliates, and to discuss such books and records that are in any way related to the financial position of the Corporation with the officers, employees and external auditor of the Corporation and its affiliates;
- (k) minutes of the Committee meetings shall be recorded and maintained. The Committee will report to the Board on the activities of the Committee and/or the minutes of the Committee meetings will be promptly circulated to the directors or otherwise made available at the next meeting of directors.
- (l) the Committee shall have the authority to:
  - (i) engage independent counsel and other advisors or consultants as it determines necessary to carry out its duties;
  - (ii) set and pay the compensation for any advisors employed by the Committee; and
  - (iii) communicate directly with the internal (if any) and external auditor.

### **Review of Mandate**

On an annual basis, the Committee shall review its objectives and responsibilities and implement any changes it deems are necessary to this Mandate prior to presenting it to the Corporate Governance, Nomination, Compensation and Succession Committee of the Corporation for it to recommend to the Board for Board approval.