



## AUDIT COMMITTEE MANDATE

### ROLE AND OBJECTIVE

The Audit Committee (the "**Committee**") is a committee of the board of directors (the "**Board**") of Gear Energy Ltd. ("**Gear**" or the "**Corporation**") to which the Board has delegated its responsibility for the oversight of the following:

1. nature and scope of the annual audit;
2. the oversight of management's reporting on internal accounting standards and practices;
3. the review of financial information, accounting systems and procedures;
4. financial reporting and financial statements,

and has charged the Committee with the responsibility of recommending, for approval of the Board, the audited financial statements, interim financial statements and other mandatory disclosure releases containing financial information.

The primary objectives of the Committee are as follows:

1. To assist the Board in meeting its responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of the Corporation and related matters;
2. To provide better communication between directors and external auditors;
3. To enhance the external auditor's independence;
4. To increase the credibility and objectivity of financial reports; and
5. To strengthen the role of the outside directors by facilitating in depth discussions between directors on the Committee, management of Gear ("**Management**") and external auditors.

### MEMBERSHIP OF COMMITTEE

1. The Committee will be comprised of at least three (3) directors or such greater number as the Board may determine from time to time and all members of the Committee shall be "independent" (as such term is used in National Instrument 52-110 – Audit Committees ("**NI 52-110**") unless the Board determines that the exemption contained in NI 52-110 is available and determines to rely thereon.
2. The Board may from time to time designate one of the members of the Committee to be the Chair of the Committee.
3. All of the members of the Committee must be "financially literate" unless the Board determines that an exemption under NI 52-110 from such requirement in respect of any particular member is available and determines to rely thereon in accordance with the provisions of NI 52-110.
4. For the purposes of this Mandate, "financially literate" has the meaning ascribed thereto in NI 52-110 and means that the member has the ability to read and understand a set of financial statements that present a 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.

## **MANDATE AND RESPONSIBILITIES OF COMMITTEE**

It is the responsibility of the Committee to:

1. Oversee the work of the external auditors, including the resolution of any disagreements between Management and the external auditors regarding financial reporting;
2. Satisfy itself on behalf of the Board with respect to Gear's internal control systems identifying, monitoring and mitigating business risks; and ensuring compliance with legal, ethical and regulatory requirements;
3. Review the annual and interim financial statements of the Corporation and related management's discussion and analysis ("**MD&A**") prior to their submission to the Board for approval. The process may include but not be limited to:
  - (a) reviewing changes in accounting principles and policies, or in their application, which may have a material impact on the current or future years' financial statements;
  - (b) reviewing significant accruals, reserves or other estimates such as ceiling test calculation;
  - (c) reviewing accounting treatment of unusual or non-recurring transactions;
  - (d) ascertaining compliance with covenants under loan agreements;
  - (e) reviewing disclosure requirements for commitments and contingencies;
  - (f) reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
  - (g) reviewing unresolved differences between Management and the external auditors; and
  - (h) obtain explanations of significant variances with comparative reporting periods;
4. Review the financial statements, prospectuses, MD&A, annual information forms ("**AIF**") and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval. The Committee must be satisfied that adequate procedures are in place for the review of Gear's disclosure of other financial information and must periodically assess the adequacy of those procedures;
5. With respect to the appointment of external auditors by the Board:
  - (a) recommend to the Board the external auditors to be nominated;
  - (b) recommend to the Board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors will report directly to the Committee;
  - (c) on an annual basis, review and discuss with the external auditors all significant relationships such auditors have with the Corporation to determine the auditors' independence;

- (d) 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;
  - (e) review and pre-approve any non-audit services to be provided to Gear or its subsidiaries by the external auditors and consider the impact on the independence of such auditors. The Committee may delegate to one or more independent members the authority to pre-approve non-audit services, provided that the member(s) report to the Committee at the next scheduled meeting such pre-approval and the member(s) comply with such other procedures as may be established by the Committee from time to time;
6. Review with external auditors (and internal auditor if one is appointed by Gear) their assessment of the internal controls of Gear, their written reports containing recommendations for improvement, and Management's response and follow-up to any identified weaknesses. The Committee will also review annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of Gear and its subsidiaries;
  7. Review risk management policies and procedures of the Corporation (i.e., hedging, litigation and insurance);
  8. To review and satisfy itself on behalf of the Board that management has adequate procedures in place for reporting and certification under the *Extractive Sector Transparency Measures Act* (Canada) ("**ESTMA**") when the Corporation is required to comply with ESTMA;
  9. To review the non-GAAP financial measures, non-GAAP ratios, capital management measures and supplementary financial measures (as each of such terms is defined in National Instrument 52-112 - *Non-GAAP and Other Financial Measures* ("**NI 52-112**")) used by the Corporation in public disclosure documents to ensure that (i) such measures and ratios are appropriate and not misleading in light of the Corporation's business, and (ii) procedures are in place for ensuring that disclosure of such measures complies with NI 52-112 and any other applicable securities legislation;
  10. Establish a procedure for:
    - (a) the receipt, retention and treatment of complaints received by Gear regarding accounting, internal accounting controls or auditing matters; and
    - (b) the confidential, anonymous submission by employees of Gear of concerns regarding questionable accounting or auditing matters; and
  11. Review and approve Gear's hiring policies regarding partners and employees and former partners and employees of the present and former external auditors of the Corporation.

The Committee has authority to communicate directly with the internal auditors (if any) and the external auditors of the Corporation. The Committee will also have the authority to investigate any financial activity of Gear. All employees of Gear are to cooperate as requested by the Committee.

#### **MEETINGS AND ADMINISTRATIVE MATTERS**

1. At all meetings of the Committee every resolution shall be decided by a majority of the votes cast. In case of an equality of votes, the Chair of the meeting shall not be entitled to a second or casting vote.
2. The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for purposes of the meeting.

3. A quorum for meetings of the Committee will be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee will be the same as those governing the Board unless otherwise determined by the Committee or the Board.
4. Meetings of the Committee should be scheduled to take place at least four times per year and at such other times as the Chair of the Committee or any two members of the Committee may determine. Minutes of all meetings of the Committee will be taken. The Chief Financial Officer of Gear will attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chair.
5. Any two directors may request the Chair to call a meeting of the Committee and may attend at such meeting or inform the Committee of a specific matter of concern to such directors, and may participate in such meeting to the extent permitted by the Chair of the Committee.
6. The Committee will meet with the external auditor in camera at least once per year (in connection with the preparation of the year-end financial statements) and at such other times as the external auditor and the Committee consider appropriate.
7. Agendas, approved by the Chair, will be circulated to Committee members along with background information on a timely basis prior to the Committee meetings.
8. The Committee may invite such officers, directors and employees of the Corporation and its subsidiaries as it sees fit from time to time to attend at meetings of the Committee and assist in the discussion and consideration of the matters being considered by the Committee.
9. Minutes of the Committee will be recorded and maintained and circulated to directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.
10. The Committee may retain special legal, accounting, financial or other consultants or advisors to advise the Committee at the Corporation's expense and shall have sole authority to retain and terminate any such consultants or advisors and to approve any such consultant's or advisor's fees and retention terms.
11. The Committee may delegate from time to time any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.
12. The Committee will conduct meetings "in-camera", without management, as deemed appropriate by the Committee.
13. Any members of the Committee may be removed or replaced at any time by the Board and will cease to be a member of the Committee as soon as such member ceases to be a director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following appointment as a member of the Committee each member will hold such office until the Committee is reconstituted.
14. Any issues arising from these meetings that bear on the relationship between the Board and Management should be communicated to the Chair of the Board by the Committee Chair.
15. 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 the Committee. The Committee may adopt additional policies and procedures as it deems necessary from time to time to fulfill its responsibilities.