



Composition of Committees of the Board, Committees' Procedures and Committee Members' Qualifications

The Terms of Reference of the Board sets out a number of requirements for the composition of Committees, the Committee procedures and the qualifications of Committee members. One of those requirements states that a majority of the members of a Committee constitute a quorum for meetings of the Committee. Each Committee has the latitude to develop other rules of procedure.

Audit Committee Mandate

Objectives and Authorities:

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities related to the accounting and financial reporting process, including oversight of identification and management of business and financial risk.

The Audit Committee exercises oversight with respect to:

- the integrity of Cervus' financial reporting systems, management information systems and internal controls;
- the integrity of, and compliance with, legal and regulatory requirements related to financial reporting and risk management;
- the independence and effectiveness of Cervus' external auditors;
- the effectiveness of Cervus' internal controls over financial reporting;
- other financial matters delegated by the Board; and
- the identification and management of major business and financial risks.

Limitations Related to Oversight:

The Audit Committee's responsibility is to convey its findings and make recommendations to the Board. The Committee has no decision-making authority other than that which may be delegated to the Committee by the Board.

While the Audit Committee exercises oversight of the accounting, financial reporting and risk assessment processes, it is not the duty of the Audit Committee to plan or conduct audits and risk assessments, or to determine if Cervus' financial statements are complete and accurate and IFRS compliant, or otherwise manage day to day activities. The Committee exercises oversight over Management's internal controls and the preparation of financial statements; and, oversees audits performed by the external auditor related to those financial statements. A Director having financial or risk management expertise is not held to a higher degree of individual responsibility than other Directors.

Functions and Responsibilities:

The Audit Committee has the following functions and responsibilities:

Internal Controls



1. Enquire as to the adequacy of Cervus' system of internal controls, and review the evaluation of internal controls by Management and the internal auditors.
2. Establish procedures for:
 - the receipt, retention and treatment of complaints received by Cervus regarding accounting, internal accounting controls or auditing matters; and
 - the confidential, anonymous submission by employees of concerns regarding questionable accounting, internal controls or auditing matters.
3. Periodically review a summary of complaints and concerns and their related resolution.
4. Review the findings of any significant examination by regulatory agencies concerning Cervus' financial matters.
5. Periodically review Management's governance processes for information technology resources to assess their effectiveness in addressing the integrity, the protection and the security of Cervus' electronic information systems and records.
6. Annual review and make recommendations to the Board regarding the delegation of authority from the Board to Management
7. Review the management practices in effect over officers' expenses and perquisites.

External and Internal Auditors

8. Recommend to the Board the appointment of the external auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest functions.
9. Review and approve the audit scope and engagement letter of the external auditor.
10. Review and recommend to the Board the compensation of the external auditor.
11. Directly oversee the work of the external auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for Cervus, including the resolution of disagreements between Management and the external auditor regarding financial reporting.
12. Ensure that the external auditor is aware that it is to report directly to the Audit Committee.
13. Receive a written statement not less than annually from the external auditor describing in detail all relationships between the external auditor and Cervus, including Management, that may impact the objectivity and independence of the external auditor. Review annually with the Board the independence of the external auditor and either confirm to the Board that the external auditor is independent or recommend that the Board take appropriate action to satisfy itself of the external auditor's independence.
14. Evaluate the external auditor's qualifications, performance and independence and present the Committee's conclusions with respect to the external auditor to the Board.
15. Review and approve Cervus' hiring policies for employees and partners, as well as, former partners and employees, of the present and former external auditor.
16. Review and pre-approve the provision of all permitted non-audit services (including the fees and terms thereof) in advance of the provision of those services by the external auditor to Cervus or its subsidiary entities (subject to the de minimus exception for non-audit services described in applicable legislation and regulations which are approved by the Audit Committee prior to the completion of the audit).



17. Review the external auditor's quality control procedures including any material issues raised by the most recent quality control review or peer review and any issues raised by a government authority or professional authority investigation of the external auditor, providing details on actions taken by the external auditor to address such issues.
18. Review the plans, activities, organizational structure, qualifications and performance of Management in relation to the external audit process and overall accounting and financial responsibilities.
19. Review the plans, activities, organizational structure, qualifications and performance of the internal auditors, and monitor the internal audit department's performance and independence.
20. Provide an open avenue of communication between Management, the internal auditors or the external auditor, and the Board.

Financial Reporting and Other Public Disclosure

21. Review the external auditor's management comment letter and Management's responses thereto, and enquire as to any disagreements between Management and the external auditor or restrictions imposed by Management on the external auditor. Review any unadjusted differences brought to the attention of Management by the external auditor and the resolution of same.
22. Review with Management and the external auditor the financial materials and other disclosure documents referred to in paragraph 23, including any significant financial reporting issues, the presentation and impact of significant risks and uncertainties, and key estimates and judgments of Management that may be material to financial reporting, including alternative treatments and their impacts.
23. Review and make recommendations to the Board for approval of:
 - Cervus' interim consolidated financial statements and related Management's discussion and analysis ("MD&A");
 - Cervus' audited annual consolidated financial statements and related MD&A; and
 - annual and interim earnings press releases;in all cases before Cervus publicly discloses this information.
24. Be satisfied that adequate procedures are in place for the review of Cervus' public disclosure of financial information extracted or derived from Cervus' financial statements, other than the public disclosure referred to in paragraph 23, and periodically assess the adequacy of those procedures.
25. Review any change in Cervus' accounting policies.
26. Review Management's governance process to ensure awareness of, and compliance with financial and risk management related regulatory matters.
27. Review with legal counsel any legal matters having a significant impact on Cervus' financial reports.



Risk Management

28. Periodically, and not less than annually, review the policies and practices of Cervus respecting cash management, financial derivatives, financing, credit, insurance (including principal business risk-related insurance and directors' and officers' liability insurance), taxation, commodities trading and related matters.
29. Oversee and monitor Management's identification and management of principal business and financial risks.

Other Functions

30. Conduct any independent investigations into any matters, which come under the Committee's scope of responsibilities.
31. The Committee will discharge other responsibilities as delegated to it by the Board.
32. Annually, review this mandate and recommend changes to the Board when necessary.
33. Annually, develop and approve a work plan for the Committee.

Reporting to the Board

34. The Committee shall report to the Board on activities of the Committee with respect to the mandate at each Board meeting and at any other time that is deemed appropriate by the Committee or upon request of the Board.

Engagement of Consultants and Payment of Expenses

35. The Audit Committee has the authority to:
 - retain and pay independent external advisors as necessary to carry out its duties which will be funded by Cervus; and
 - communicate directly with Management.

Standards of Liability:

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

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