



## **THE AUDIT COMMITTEE CHARTER**

### **1. PURPOSE**

The Audit Committee (“the Committee”) is established to assist the Board of Directors (“the Board”) of Cave Shepherd & Co. Limited (“Cave Shepherd”) by addressing issues which require the necessary focus, independence and skills separate from the functioning of the Board. The Committee is an operating committee of the Board charged with oversight of the integrity of financial reporting and disclosure and ensuring an effective system of internal control and risk management. Consequently, it assists the Board’s oversight of management’s responsibilities to assure that there is in place an effective system of controls reasonably designed to:

- Safeguard the assets and income of the corporation;
- Assure the integrity of Cave Shepherd’s financial statements;
- Assess the internal and external auditors’ qualifications and independence; and
- Maintain compliance with Cave Shepherd’s ethical standards, policies, plans and procedures and with laws and regulations.

It also provides a direct channel of communication between the internal and external auditors and the Board and assists the Board in ensuring the internal and external audits are conducted in a thorough, objective and cost-effective manner.

### **2. AUTHORITY**

The Committee has authority to conduct or authorise investigations into any matters within its scope of responsibility. It has the authority to:

- Retain such outside counsel, experts and other advisors as required to carry out its duties;
- To set and pay compensation for any advisors employed by the Committee; and
- To communicate directly with the internal and external auditors

The Board remains responsible for the duties assigned to the Committee and as the Committee has no autonomous decision making power, the Board collectively makes the decisions pertaining to it.

### **3. ESTABLISHMENT OF THE AUDIT COMMITTEE**

#### **3.1 *Composition***

The Committee shall be composed of not less than three (3) directors. Each member shall be financially literate, as the Board interprets such qualification in its business judgment, but which shall not be less than a director's ability to read and understand a set of financial statements.

#### **3.2 *Independence of Committee Members***

The majority of members of the Committee shall be independent of a significant shareholding in Cave Shepherd which shall be determined by legal requirements and determined by director independence standards adopted by the Board in accordance with applicable regulatory requirements.

#### **3.3 *Appointment of Committee Members***

Members of the Committee shall be appointed or reappointed by the Board and shall continue to be a member until a successor is appointed, unless the member resigns, is removed or ceases to be a director. The Board shall fill a vacancy that occurs at any time.

#### **3.4 *Committee Chairman and Secretary***

The Board or, in the event of its failure to do so, the members of the Committee, shall appoint or reappoint, a Chairman among its number. The Committee shall also appoint a Secretary who need not be a director.

#### **3.5 *Quorum of the Committee***

A quorum shall comprise of at least two (2) members of the Committee.

### **3.6 *Time and Place of Meetings***

The Committee shall meet at least twice a year with authority to convene additional meetings as circumstances require. The time and place of and the procedure at meetings shall be determined from time to time by the Committee.

All Committee members are expected to attend each meeting in person or via tele- or video-conference. The Committee shall invite members of Management, auditors or other advisors to attend meetings and provide pertinent information as necessary.

Meeting agendas shall be prepared and provided in advance to members together with appropriate briefing materials. Minutes of meetings shall also be prepared.

### **3.7 *Reporting to the Board***

The Committee shall regularly report to the Board on its activities and with such recommendations as are deemed desirable in the circumstances. The Committee shall also report its review of Cave Shepherd's financial statements, Management Discussions and Analyses and annual and interim press releases (where applicable) that must be approved by the Board, before Cave Shepherd publicly discloses this information.

### **3.8 *Access to Management and Professional Advisors***

In fulfilling its responsibilities, the Committee shall have unrestricted access to management and employees together with full access to all books, records, facilities, as well as the internal and external auditors. The Committee shall, if it deems it necessary to carry out its duties and responsibilities, retain, terminate and approve the fees of any independent professional advisors. .

## **4. SPECIFIC DUTIES and RESPONSIBILITIES of the AUDIT COMMITTEE**

### **4.1 *Documents and Reports***

The Committee shall review:

- 4.1.1 Prior to Board approval, Cave Shepherd's annual financial statements, quarterly financial statements and annual Management Discussions and Analyses;
- 4.1.2 The integrity of Cave Shepherd's financial statements and financial reporting and public disclosure;

- 4.1.3 The audit plans of the external and internal auditors as well as any reports of the auditors on the scope of their respective audits during the preceding year or financial period;
- 4.1.4 Any other reports submitted by the external and internal auditors.

#### 4.2 *External Auditors*

The Committee shall have the authority and responsibility to recommend the appointment and the revocation of the appointment of the external auditors engaged for the purpose of preparing or issuing an audit report or performing other non-audit services and to fix their remuneration.

The Commission shall:

- 4.2.1 Review the financial position of Cave Shepherd;
- 4.2.2 Be responsible for assisting the Board oversight of the external auditor function and examining and approving as necessary the external auditor's reports;
- 4.2.3 Be responsible for assisting Board oversight of the performance of Cave Shepherd's external auditor;
- 4.2.4 Meet with the external auditors to review and discuss the annual audit plan and the results of the audit;
- 4.2.5 Review and recommend for approval by the Board the nomination and compensation of the external auditor;
- 4.2.6 Review with the external auditor any audit problems or difficulties and Management's responses;
- 4.2.7 Evaluate and pre-approve all non-audit services provided by the external auditor and consider whether these non-audit services are compatible with the auditors' independence; and
- 4.2.8 Annually review with the external auditor their qualifications, independence and objectivity, including delineating all relationships between the external auditor and Cave Shepherd that may impact such independence and objectivity

#### 4.3 *Internal Controls*

The Committee shall:

- 4.3.1 require management to implement and maintain appropriate systems of internal control, including internal controls over financial reporting and information technology security

and control;

- 4.3.2 assist the Board in its oversight and risk assessment and management; review evaluate and approve systems of internal control and meet with management to assess the adequacy and effectiveness of these systems of internal control

#### 4.4 ***Internal Auditor***

The Committee shall:

- 4.4.1 Review and approve the person responsible for the internal audit function, including:
  - (i) Purpose and authority; and
  - (ii) Audit plan and budget
- 4.4.2 Meet with the internal auditor to review results of internal audit activities, including any significant issues reported to management by the internal auditor and management's responses and/or corrective actions;
- 4.4.3 Meet with the internal auditor to review the status of identified control weaknesses;
- 4.4.4 Review with the internal auditor any issues that may be brought forward by him including any difficulties encountered by the internal audit function, such as audit scope, information access of staffing restrictions.

#### 4.5 ***Legal and Regulatory Compliance and Risk Management***

The Committee shall:

- 4.5.1 Review with Cave Shepherd's legal counsel any legal matters that could have a significant impact on Cave Shepherd's financial statements;
- 4.5.2 Assist Board oversight of Cave Shepherd's compliance with legal and regulatory requirements;
- 4.5.3 Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;
- 4.5.4 Review the finding of any examinations by regulatory agencies and any auditor observations;
- 4.5.5 Discuss policies with respect to risk assessment and risk management, including appropriate guideline and policies to govern the process, as well as Cave Shepherd's major financial risk exposure and the step management has taken to control them;

4.5.6 Oversee Cave Shepherd's processes relating to financial statements, systems, reporting processes, compliance and auditing

#### 4.6 **Other Responsibilities**

The Committee shall:

4.6.1 Meet separately and regularly and in camera with Management, persons responsible for internal and external audit;

4.6.2 Perform any other activities consistent with this Charter, Cave Shepherd's By-Laws and other governing laws that the Board or the Committee determines are necessary or appropriate;

4.6.3 Institute and oversee special investigations as needed

### 5. **ANNUAL PERFORMANCE EVALUATION and REVIEW of the COMMITTEE CHARTER**

The Committee shall:

5.1 Conduct a performance evaluation of the Committee and individuals annually and report to the Board the result of such performance evaluation;

5.2 Annually review the Committee's Charter and recommend any proposed changes to the Board for approval and ensure appropriate disclosure as may be required by law or regulation;

5.3 Annually review the Committee's Chairman's position description and recommend any proposed changes to the Board for approval and ensure appropriate disclosure as may be required by law or regulation

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