

## TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

### I. PURPOSE

The primary function of the Audit Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities by reviewing:

- A. the financial information that will be provided to the unitholders and others;
- B. the systems of internal controls, management and the Board of Directors have established; and
- C. all audit processes.
- D. Primary responsibility for the financial reporting, information systems, risk management and internal controls of Vermilion Energy Trust (“Vermilion” or the “Trust”) is vested in management and is overseen by the Board.

### II. COMPOSITION AND OPERATIONS

- A. The Committee shall be composed of not fewer than three directors and not more than five directors, all of whom are independent<sup>1</sup> directors of Vermilion.
- B. All Committee members shall be “financially literate”<sup>2</sup> and at least one member shall have "accounting or related financial expertise". The Committee may include a member who is not financially literate, provided he or she attains this status within a reasonable period of time following his or her appointment and providing the Board has determined that including such member will not materially adversely affect the ability of the Committee to act independently.

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<sup>1</sup> Independence requirements, including those specifically for Audit Committee members, are described in the Appendix to Tab 6, Board Operating Guidelines.

<sup>2</sup> The Board has adopted the OSC definition of “financial literacy”, which is an individual is 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 issuer's financial statements.

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- C. The Committee shall operate in a manner that is consistent with the Committee Guidelines outlined in Tab 8 of the Board Manual.
- D. Vermilion's auditors shall be advised of the names of the Committee members and will receive notice of and be invited to attend meetings of the Committee, and to be heard at those meetings on matters relating to the Auditor's duties.
- E. The Committee has the authority to communicate with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Board or unitholders.
- F. The Committee shall meet at least four times each year.

### III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

#### A. Financial Statements and Other Financial Information

The Committee will review and recommend for approval to the Board financial information that will be made publicly available. This includes:

- i) review and recommend approval of Vermilion's annual financial statements, MD&A and press release and report to the Board of Directors before the statements are approved by the Board of Directors;
- ii) review and recommend approval for release Vermilion's quarterly financial statements, MD&A and press release;
- iii) satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from Vermilion's financial statements, other than the public disclosure referred to in items (i) and (ii) above, and periodically assess the adequacy of those procedures; and
- iv) review the Annual Information Form and any Prospectus/Private Placement Memorandums.

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Review and discuss:

- v) the appropriateness of accounting policies and financial reporting practices used by Vermilion;
- vi) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by Vermilion; and
- vii) any new or pending developments in accounting and reporting standards that may affect Vermilion.

### **B. Risk Management, Internal Control and Information Systems**

The Audit Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- i) review the Trust's risk management controls and policies;
- ii) obtain reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the internal auditor and external auditor; and
- iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies.

### **C. External Audit**

The External Auditor is required to report directly to the Committee, which will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

- i) review and recommend to the Board, for unitholder approval, engagement and compensation of the external auditor;
- ii) review the annual external audit plan, including but not limited to the following:

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- a) engagement letter
  - b) objectives and scope of the external audit work;
  - c) procedures for quarterly review of financial statements;
  - d) materiality limit;
  - e) areas of audit risk;
  - f) staffing;
  - g) timetable; and
  - h) proposed fees.
- iii) meet with the external auditor to discuss the Trust's quarterly and annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;
- iv) maintain oversight the External Auditor's work and advise the Board, including but not limited to:
- a) the resolution of any disagreements between management and the External Auditor regarding financial reporting;
  - b) any significant accounting or financial reporting issue;
  - c) the auditors' evaluation of Vermilion's system of internal controls, procedures and documentation;
  - d) the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weaknesses;
  - e) any other matters the external auditor brings to the Committee's attention; and
  - f) assess the performance and consider the annual appointment of external auditors for recommendation to the Board.

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- v) review the auditor's report on all material subsidiaries;
- vi) review and receive assurances on the independence of the external auditor;
- vii) review and pre-approve any non-audit services to be provided by the external auditor's firm or its affiliates (including estimated fees), and consider the impact on the independence of the external audit; and
- viii) meet periodically, and at least annually, with the external auditor without management present.

**D. Compliance**

The Committee shall:

- i) Ensure that the External Auditor's fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements;
- ii) Disclose any specific policies or procedures has adopted for pre-approving non-audit services by the External Auditor including affirmation that they meet regulatory requirements;
- iii) Assist the Governance and Human Resources Committee with preparing the Trust's governance disclosure by ensuring it has current and accurate information on:
  - a) the independence of each Committee member relative to regulatory requirements for audit committees;
  - b) the state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status; and
  - c) the education and experience of each Committee member relevant to his or her responsibilities as Committee member.

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- iv) Disclose if the Trust has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

**E. OTHER**

The Committee shall:

- i) establish and periodically review implementation of procedures for:
  - a) the receipt, retention and treatment of complaints received by the Trust regarding accounting, internal accounting controls, or auditing matters; and
  - b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- ii) review and approve the Trust's hiring policies regarding partners, employees and former partners and employees of the present and former External Auditor;
- iii) review insurance coverage of significant business risks and uncertainties;
- iv) Review the Trust's Reclamation Fund (the "Fund"):
  - a) approve fund managers and monitor performance; and
  - b) review the forecast of costs and funding requirements and approve of contributions to the Fund.
- v) review material litigation and its impact on financial reporting;
- vi) review policies and procedures for the review and approval of officers' expenses and perquisites; and
- vii) review the terms of reference for the Committee annually and make recommendations to the Board as required.

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**IV. ACCOUNTABILITY**

- A.** The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relative to the Trust.
- B.** The Committee shall report its discussions to the Board by maintaining minutes of its meetings and providing an oral report at the next Board meeting.

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CHECKLIST	COMMENTS
<b>A. Financial Statements and Other Financial Information</b>	
i) review and recommend approval of annual financial statements and MD&A and press release	
ii) review and approve quarterly financial statements, MD&A and press release	
iii) review public disclosure of financial information	
iv) review Annual Information Form, and Prospectus/Private Placement Memorandums	
v) review and discuss accounting policies and financial reporting practices	
vi) review and discuss changes in financial reporting and accounting policies and practices	
vii) review and discuss developments in accounting and reporting standards	
<b>B. Risk Management, Internal Control, and Information Systems</b>	
i) review risk management controls and policies	
ii) review information and internal control systems	
iii) review implementation of information systems and internal controls	
<b>C. External Audit</b>	
i) review External Auditor engagement	
ii) review external audit plan	
a) engagement letter;	
b) objectives and scope;	
c) procedures for quarterly review of financial statements;	

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CHECKLIST	COMMENTS
d) materiality limit;	
e) areas of audit risk;	
f) staffing;	
g) timetable; and	
h) proposed fees	
iii) meet auditor to discuss annual & quarterly financial statements and auditor's report	
iv) maintain oversight of the External Auditor's work and advise the Board	
a) resolution of any disagreements between management and External Auditor	
b) any significant accounting or financial reporting issue;	
c) auditor's evaluation of internal controls, procedures and documentation;	
d) post audit recommendation of the External Auditor	
e) other matters the external auditor brings to the Committee's attention; and	
f) assess performance of External Auditor;	
v) review auditor's report on all material subsidiaries	
vi) review and receive assurances on independence of external auditor	
vii) review non-audit services to be provided by the external auditor's firm or its affiliates	
viii) meet with auditor without management present	

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CHECKLIST	COMMENTS
<b>D. Compliance</b>	
i) disclose External Auditor's fees;	
ii) disclose specific policies or procedures for pre-approving non-audit services by the external auditor;	
iii) assist Governance & Human Resources Committee with preparing governance disclosure:	
a) independence of each Committee member;	
b) state of financial literacy of each Committee member; and	
c) education and experience of each Committee member	
iv) disclose any exemptions	
<b>E. Other</b>	
i) establish and review implementation of procedures	
a) receipt, retention and treatment of complaints; and	
b) submission of employees' concerns	
ii) review and approve hiring policies of present and former External Auditor	
iii) review insurance coverage of significant business risks and uncertainties	
iv) review material litigation and its impact on financial reporting	
v) review policies and procedures for review and approval of officers' expenses and perquisites	
vi) review terms of reference for Committee and make recommendations to the Board	