

# **Bow Valley Energy Ltd.**

## **Audit Committee Charter**

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of Bow Valley Energy Ltd. (the "Corporation") shall have the oversight responsibility, authority and specific duties as described below.

### **Composition**

The Committee will be comprised of three or more directors as determined by the Board, none of whom shall be or shall have been, unless the period prescribed by applicable securities rules or regulations has elapsed since the end of service or employment, an officer or employee of the Corporation or any subsidiary of the Corporation. Each Committee member shall satisfy the independence, financial literacy and experience requirements of applicable securities laws, rules or guidelines, any applicable stock exchange requirements or guidelines and any other applicable regulatory rules. Determinations as to whether a particular director satisfies the requirements for membership on the Committee shall be made by the full Board.

Members of the Committee shall be appointed by the Board. The Compensation and Corporate Governance Committee of the Board shall recommend to the full Board eligible directors to fill vacancies on the Committee. Each member shall serve until his successor is appointed, unless he shall resign or be removed by the Board or he shall otherwise cease to be a director of the Corporation. The Board shall fill any vacancy if the membership of the Committee is less than three directors.

The Chair of the Committee may be designated by the Board or, if it does not do so, the members of the Committee may elect a Chair by vote of a majority of the full Committee membership.

### **Communication, Expenses and Authority to Engage Advisors**

The Committee shall have access to such officers and employees of the Corporation, the Corporation's external auditor, the independent reserves evaluator(s) and to such other information respecting the Corporation, as it considers to be necessary or advisable in order to perform its duties and responsibilities.

The Committee provides an avenue for communication with the external auditor and financial and senior management and the Board. The external auditor shall have a direct line of communication to the Committee through its Chair and shall report directly to the Committee. The Committee, through its Chair, may directly contact any employee in the Corporation as it deems necessary, and any employee may bring before the Committee, on a confidential basis, any matter involving the Corporation's financial practices or transactions.

The Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set the compensation for any such counsel and advisors. Any engagement of independent counsel or other advisors is to be at the Corporation's expense.

The Corporation shall be responsible for all expenses of the Committee that are deemed necessary or appropriate by the Committee in carrying out its duties.

### **Meetings and Record Keeping**

Meetings of the Committee shall be conducted as follows:

1. the Committee shall meet at least four times annually at such times and at such locations as the Chair of the Committee shall determine, provided that meetings shall be scheduled so as to permit timely review of the quarterly and annual financial statements and reports. The external auditor or any two members of the Committee may also request a meeting of the Committee. The Chair of the Committee shall hold *in camera* sessions of the Committee, without management present, at every meeting;
2. the Chair of the Committee shall preside as chair at each Committee meeting and lead Committee discussion on meeting agenda items;
3. the quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or by other telecommunication device that permits all persons participating in the meeting to hear each other;
4. if the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting;
5. the Chair shall, in consultation with management and the external auditor, establish the agenda for the meetings and instruct management to circulate properly prepared agenda materials to the Committee with sufficient time for study prior to the meeting;
6. every question at a Committee meeting shall be decided by a majority of the votes cast; in the event of a tie vote on any matter, such matter shall be presented to the Board for its consideration and determination;
7. the President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer shall be available to advise the Committee, shall receive notice of meetings and may attend meetings of the Committee at the invitation of the Chair of the Committee. Other management representatives may be invited to attend as necessary; and
8. a Committee member, or any other person selected by the Committee, shall be appointed at each meeting to act as secretary for the purpose of recording the minutes of each meeting.

The Committee shall provide the Board with a copy of the minutes of such meetings. Where minutes have not yet been prepared, the Chair shall provide the Board with oral reports on the activities of the Committee. All material information reviewed and discussed by the Committee at

any meeting shall be referred to in the minutes and made available for examination by the Board upon request to the Chair.

## **Responsibilities**

The Committee is part of the Board. Its primary functions are to assist the Board in fulfilling its oversight responsibilities with respect to: (i) the oversight, review and approval of the financial statements and the accounting and financial reporting processes of the Corporation; (ii) the assessment of the system of internal controls that management has established; and (iii) the external audit process. In addition, the Committee shall assist the Board, as requested, in fulfilling its oversight responsibilities with respect to (i) financial policies and strategies; (ii) financial risk management practices; and (iii) transactions or circumstances which could materially affect the financial profile of the Corporation.

The Committee shall be directly responsible, in its capacity as a committee of the Board, for recommending to the Board the nomination of the external auditor, and the compensation and retention of the external auditor and overseeing the work of the external auditor and the relationship of the external auditor with the Corporation (including the resolution of disagreements between management and the external auditor regarding financial reporting). Management is responsible for preparing the financial statements and financial reporting of the Corporation and for maintaining internal control and management information and risk management systems and procedures. The external auditor is responsible for the audit or review of the financial statements and other services they provide.

The Committee should have a clear understanding with the external auditor that they must maintain an open and transparent relationship with the Committee and the Board, and that the ultimate accountability of the external auditor is to the shareholders of the Corporation.

The duty and standard of care which directors must meet is as set forth in applicable corporate and securities legislation. This charter is intended to assist the members of the Committee in satisfying the standard of care which is imposed upon them by applicable law and is not intended to increase or decrease the standard of care to which all directors are subject.

## **Specific Duties**

### **A. Relationship with External Auditor**

The Committee shall:

1. consider and make a recommendation to the Board as to the nomination of the external auditor for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services, considering whether such auditor is a participant in good standing pursuant to applicable securities laws;
2. consider and make a recommendation to the Board as to the compensation of the external auditor which is to be paid by the Corporation;

3. oversee the work of the external auditor in performing their audit, review or attest services and oversee the resolution of any disagreements between management of the Corporation and the external auditor;
4. discuss with the external auditor all material relationships that the external auditor and its affiliates have with the Corporation and its affiliates in order to determine the external auditor's independence;
5. discuss the audit plan of the external auditor with the external auditor, including the staffing thereof, prior to the commencement of the audit;
6. as may be required by applicable securities laws, rules and guidelines, either:
  - (a) pre-approve all non-audit services to be provided by the external auditor to the Corporation (and its subsidiaries, if any), or, in the case of *de minimus* non-audit services, approve such non-audit services prior to the completion of the audit; or
  - (b) adopt specific policies and procedures for the engagement of the external auditor for the purposes of the provision of non-audit services; and
7. review and approve the hiring policies of the Corporation regarding partners and employees and former partners and employees of the present and former external auditor of the Corporation.

B. Financial Statements and Financial Reporting

The Committee shall:

1. review with management and the external auditor, and recommend to the Board for approval, the annual financial statements of the Corporation and related annual financial reporting, including management's discussion and analysis and earnings press releases;
2. upon completion of each audit, review with the external auditor the results of such audit;
3. review with management and the external auditor, and recommend to the Board for approval, the interim financial statements of the Corporation and related financial reporting, including management's discussion and analysis and earnings press releases;
4. read and discuss with management and recommend to the Board for approval, the Corporation's renewal annual information form;
5. review with management and recommend to the Board for approval, any financial statements of the Corporation which have not previously been approved by the Board and which are to be included in a prospectus or other public disclosure document of the Corporation;

6. consider and be satisfied that appropriate policies and procedures are in place by management for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements (other than public disclosure referred to in clauses B.1 and B.3 above), and periodically assess the adequacy of such procedures;
7. discuss with management, the external auditor and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position or results of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements; and
8. encourage cooperation and communication between the Committee, the Reserves Committee, the independent reserves evaluator(s), the external auditors and management on the use of corporate information and records in the financial reporting and reserves evaluation process.

C. Internal Controls

The Committee shall:

9. discuss with management and the external auditor, the adequacy and effectiveness of the internal control and management information systems and procedures of the Corporation (with particular attention given to accounting, financial statements and financial reporting matters) and consider whether the Corporation is in compliance with applicable legal and regulatory requirements and with the Corporation's policies;
10. read the external auditor's recommendations regarding any matters, including internal control and management information systems and procedures, and management's responses thereto;
11. establish procedures for:
  - (a) the receipt, retention and treatment of complaints, submissions and concerns regarding accounting, internal controls or auditing matters; and
  - (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
12. consider policies and practices concerning the expenses and perquisites of the President and Chief Executive Officer, including the use of the assets of the Corporation; and
13. discuss with management and the external auditor any identified corporate transactions in which directors or officers of the Corporation have a personal interest and other transactions with affiliated parties of the Corporation.

D. Financial Risk Management

The Committee may, if requested by the Board, review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to accounting and management reporting. The Committee may, if requested by the Board, also review the financial risks arising from the Corporation's exposure to such things as commodity prices, interest rates, foreign currency exchange rates and credit, the activities of the Corporation's marketing group, the Corporation's insurance program and tax or government audits and report the results of such reviews to the Board for the purpose of assisting the Board in identifying the principal business risks associated with the business of the Corporation.

### **Review of Charter**

The Committee shall review and reassess the adequacy of this charter at least annually, and otherwise as it deems appropriate and recommend changes to the Board. Such review shall include the evaluation of the performance of the Committee against criteria defined in the Committee and Board mandates.