

**SOUTHERN ENERGY CORP.
AUDIT COMMITTEE CHARTER**

I. THE BOARD OF DIRECTORS' MANDATE FOR THE AUDIT COMMITTEE

The Board of Directors (the “**Board**”) has responsibility for the stewardship of Southern Energy Corp. (the “**Corporation**”). To discharge that responsibility, the Board is obligated by the *Canada Business Corporations Act* to supervise the management of the business and affairs of the Corporation. The Board’s supervisory function involves Board oversight or monitoring of all significant aspects of the management of the Corporation’s business and affairs.

Public financial reporting and disclosure by the Corporation are fundamental to the Corporation’s business and affairs. The objective of the Board’s monitoring of the Corporation’s financial reporting and disclosure is to gain reasonable assurance of the following:

- (a) that the Corporation complies with all applicable laws, regulations, rules, policies and other government requirements, regulatory agencies and stock exchanges, if applicable, relating to financial reporting and disclosure;
- (b) that the accounting principles, significant judgements and disclosures which underlie or are incorporated in the Corporation’s financial statements are appropriate in the prevailing circumstances;
- (c) that the Corporation’s quarterly and annual financial statements are accurate within a reasonable level of materiality and present fairly the Corporation’s financial position and performance in accordance with generally accepted accounting principles; and
- (d) that appropriate information concerning the financial position and performance of the Corporation is disseminated to the public, to the extent required by applicable securities laws, in a timely manner in accordance with corporate and securities law and with stock exchange regulations, if applicable.

The Board is of the view that the monitoring of the Corporation’s financial reporting and disclosure policies and procedures cannot be reliably met unless the following activities (the “**Fundamental Activities**”) are, in all material respects, conducted effectively:

- (a) the Corporation’s accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately all of the Corporation’s financial transactions and are consistent with internal financial controls implemented by companies of similar size and peer group as the Corporation;
- (b) the internal financial controls are regularly assessed for effectiveness and efficiency consistent with assessments performed by company’s of similar size and peer group as the Corporation;

- (c) the Corporation's quarterly and annual financial statements are properly prepared by management to comply with International Financial Reporting Standards ("IFRS"); and
- (d) the Corporation's quarterly and annual financial statements are reported on by an external auditor appointed by the shareholders of the Corporation.

To assist the Board in its monitoring of the Corporation's financial reporting and disclosure and to conform to applicable corporate and securities law, the Board has established the Audit Committee (the "**Committee**") of the Board.

The role of the Committee is to assist the Board in its oversight of the integrity of the financial and related information of the Corporation, including its consolidated financial statements, the internal controls and procedures for financial reporting and the processes for monitoring compliance with legal and regulatory requirements and to review the independence, qualifications and performance of the external auditor of the Corporation. Management is responsible for establishing and maintaining those controls, procedures and processes and the Committee is appointed by the Board to review and monitor them.

II. COMPOSITION OF COMMITTEE

The Committee shall be appointed annually by the Board and consist of at least three members from among the directors of the Corporation, each of whom shall be an independent director (as determined under applicable laws). Officers of the Corporation, who are also directors, may not serve as members of the Committee.

The Board shall designate the Chair of the Committee.

In the event of a vacancy arising in the Committee or a loss of independence of any member, the Committee will fill the vacancy within six months or by the following annual shareholders' meeting if sooner.

III. Reliance on Experts

In contributing to the Committee's discharging of its duties under this mandate, each member of the Committee shall be entitled to rely in good faith upon:

- (a) financial statements of the Corporation represented to him by an officer of the Corporation or in a written report of the external auditors to present fairly the financial position of the Corporation in accordance with generally accepted accounting principles; and
- (b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

IV. Limitations on Committee's Duties

In contributing to the Committee's discharging of its duties under its terms of reference ("**Terms of Reference**"), each member of the Corporation shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in

comparable circumstances. Nothing in these Terms of Reference is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is monitoring and reviewing to endeavor to gain reasonable assurance (but not to ensure) that the Fundamental Activities are being conducted effectively and that the objectives of the Corporation's financial reporting are being met and to enable the Committee to report thereon to the Board.

V. Audit Committee Terms of Reference

The Committee's Terms of Reference outlines how the Committee will satisfy the requirements set forth by the Board in its mandate. Terms of Reference reflect the following:

- Operating Principles;
- Operating Procedures; and
- Specific Responsibilities and Duties.

While the Committee has the responsibilities set forth in its Terms of Reference, it is not the duty of the Committee to prepare the financial statements, plan or conduct audits or to determine that the Corporation's financial statements and disclosures are complete and accurate and are in accordance with IFRS and applicable rules and regulations. Primary responsibility for the financial reporting, information systems, risk management, and disclosure controls and internal controls of the Corporation is vested in management.

1. Operating Principles

The Committee shall fulfill its responsibilities within the context of the following principles:

(a) Committee Values

The Committee expects the management of the Corporation to operate in compliance with corporate policies; reflecting laws and regulations governing the Corporation; and to maintain strong financial reporting and control processes.

(b) Communications

The Committee and members of the Committee expect to have direct, open and frank communications throughout the year with management, other Committee chairs, the external auditors, and other key Committee advisors or Corporation staff members as applicable.

(c) Delegation

The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that may be lawfully delegated.

(d) Financial Literacy

All Committee members should be sufficiently versed in financial matters to read and understand the Corporation's financial statements and also to understand the Corporation's accounting practices and policies and the major judgements involved in preparing the financial statements.

(e) Annual Audit Committee Work Plan

The Committee, in consultation with management and the external auditors, shall develop an annual Committee work plan responsive to the Committee's responsibilities as set out in these Terms of Reference. In addition, the Committee, in consultation with management and the external auditors, shall participate in a process for review of important financial topics that have the potential to impact the Corporation's financial disclosure.

The work plan will be focused primarily on the annual and interim financial statements of the Corporation; however, the Committee may at its sole discretion, or the discretion of the Board, review such other matters as may be necessary to satisfy the Committee's Terms of Reference.

(f) Meeting Agenda

Committee meeting agendas shall be the responsibility of the Chair of the Committee in consultation with Committee members, senior management and the external auditors.

(g) Committee Expectations and Information Needs

The Committee shall communicate its expectations to management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from management and the external auditors at a reasonable time in advance of meeting dates.

(h) Access to Committee

Representatives of the external auditor and management of the Corporation shall have access to the Committee each in the absence of the other.

(i) External Resources

To assist the Committee in discharging its responsibilities, the Committee may at its discretion, in addition to the external auditors, at the expense of the Corporation, retain one or more persons having special expertise, including independent counsel.

(j) In Camera Meetings

At the discretion of the Committee, the members of the Committee shall meet in private session with the external auditors. In addition, at the discretion of the Committee, the members of the Committee shall meet in private with the management of the Corporation, without the auditors being present at such meeting.

(k) Reporting to the Board

The Committee, through its Chair, shall report after each Committee meeting to the Board at the Board's next regular meeting.

(l) The External Auditors

The Committee expects that, in discharging their responsibilities to the shareholders, the external auditors shall report directly to and be accountable to the Board through the Committee. The external auditors shall report all material issues or potentially material issues, either specific to the Corporation or to the financial reporting environment in general, to the Committee.

2. Operating Procedures

- (a) The Committee shall meet at least four times annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chair, upon the request of two members of the Committee or at the request of the external auditors.
- (b) A quorum shall be a majority of the members.
- (c) Unless the Committee otherwise specifies, the Secretary (or his or her deputy) of the Corporation shall act as Secretary of all meetings of the Committee.
- (d) In the absence of the Chair of the Committee, the members shall appoint an acting Chair.
- (e) A copy of the minutes of each meeting of the Committee shall be provided to each member of the Committee and to each director of the Corporation in a timely fashion.
- (f) Notice of the time and place of every meeting shall be given in writing by any means of transmitted or recorded communication, including facsimile, email or other electronic means that produces a written copy, to each member of the Committee at least 24 hours prior to the time fixed for such meeting; provided, however, that a member of the Committee may in any manner waive a notice of the meeting. Attendance of a member of the Committee at a meeting constitutes waiver of notice of the meeting, except where a member of the Committee attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called for.
- (g) Committee meeting agendas shall be the responsibility of the Chair of the Committee in consultation with the other members of the Committee, senior management and the external auditors.
- (h) Subject to any statute or the articles and by-laws of the Corporation, the Committee shall fix its own procedures at meetings, keep records of its proceedings and report to the Board when the Committee may deem

appropriate (but not later than the next regularly scheduled meeting of the Board).

3. **Specific Responsibilities and Duties**

To fulfill its responsibilities and duties, the Committee shall:

(a) **Financial Reporting**

- (i) Review, prior to public release, the Corporation's annual and quarterly financial statements with management and the external auditors with a view to gaining reasonable assurance that the statements are (A) accurate within reasonable levels of materiality, (B) complete, and (C) represent fairly the Corporation's financial position and performance in accordance with IFRS. The Committee shall report thereon to the Board before such financial statements are approved by the Board;
- (ii) Receive from the external auditors reports of their review of the annual and quarterly financial statements and any management letters issued to the management of the Corporation;
- (iii) Receive from management a copy of the representation letter provided to the external auditors and receive from management any additional representations required by the Committee;
- (iv) Review, prior to public release, to the extent required pursuant to applicable securities laws, and, if appropriate, recommend approval to the Board, of news releases, to the extent required pursuant to applicable securities laws, and reports to shareholders issued by the Corporation with respect to the Corporation's annual and quarterly financial statements;
- (v) Review and, if appropriate, recommend approval to the Board of prospectuses, material change disclosures of a financial nature, management discussion and analysis, annual information forms and similar disclosure documents that may be issued by the Corporation; and
- (vi) Review and validate procedures for the receipt, retention and resolution of complaints received by the Corporation from any party regarding accounting, auditing or internal controls. For greater certainty, the Committee's responsibilities in this area will not include complaints about minor operational issues. (Examples of minor operational issues include late payment of invoices, minor disputes over accounts owing or receivable, revenue and expense allocations and other similar items characteristic of the normal daily operations of the accounting department of an oil and gas company.)

(b) **Accounting Policies**

- (i) Review with management and the external auditors the appropriateness of the Corporation's accounting policies, disclosures, reserves, key estimates and judgements, including changes or variations thereto.
- (ii) Obtain reasonable assurance that they are in compliance with IFRS from management and external auditors and report thereon to the Board.
- (iii) Review with management and the external auditors the apparent degree of conservatism of the Corporation's underlying accounting policies, key estimates and judgements and provisions along with quality of financial reporting.
- (iv) Participate, if requested, in the resolution of disagreements, between management and the external auditors.
- (v) Review with management the policies and procedures used for the categorization of flow-through expenditures and the qualification of such expenditures to satisfy the Corporation's existing obligations.

(c) **Risk and Uncertainty**

- (i) Acknowledging that it is the responsibility of the Board, in consultation with management, to identify the principal business risks facing the Corporation, determine the Corporation's tolerance for risk and approve risk management policies, the Committee shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled by:
 - A. reviewing with management the Corporation's tolerance for financial risks;
 - B. reviewing with management its assessment of the significant financial risks facing the Corporation;
 - C. reviewing with management the Corporation's policies and any proposed changes thereto for managing those significant financial risks; and
 - D. reviewing with management its plans, processes and programs to manage and control such risks.
- (ii) Review policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;
- (iii) Review foreign currency, interest rate and commodity price risk mitigation strategies, including the use of derivative financial instruments;

- (iv) Review the adequacy of insurance coverages maintained by the Corporation; and
 - (v) Review regularly with management, the external auditors and the Corporation's legal counsel, any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these matters have been disclosed in the financial statements.
- (d) **Financial Controls and Control Deviations**
- (i) Review the plans of the external auditors to gain reasonable assurance that the evaluation and testing of applicable internal financial controls is comprehensive, coordinated and cost-effective;
 - (ii) Receive regular reports from management and the external auditors on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto;
 - (iii) Institute a procedure that will permit any employee, including management employees, to bring to the attention of the Chair of the Committee, under conditions of confidentiality, concerns relating to financial controls and reporting which are material in scope and which cannot be addressed, in the employee's judgement, through existing reporting structures in the Corporation; and
 - (iv) Receive and periodically assess reports from management on the policies and procedures used to assess and ensure the adequacy of controls over financial information disclosed to the public, which is extracted or derived from the Corporation's financial statements.
- (e) **Compliance with Laws and Regulations**
- (i) Review regular reports from management and others (e.g. external auditors) with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements including:
 - A. tax and financial reporting laws and regulations;
 - B. legal withholding requirements; and
 - C. other laws and regulations which expose directors to liability.
 - (ii) Review the filing status of the Corporation's tax returns, flow-through share renunciation filings and those of its subsidiaries.

(f) **Relationship with External Auditors**

- (i) Recommend to the Board the nomination of the external auditors;
- (ii) Approve the remuneration and the terms of engagement of the external auditors as set forth in the Engagement Letter. The Chair of the Committee has the authority to pre-approve non-audit services which may be required from time to time;
- (iii) Review the performance of the external auditors annually or more frequently as required;
- (iv) Receive annually from the external auditors an acknowledgement in writing that the shareholders, as represented by the Board and the Committee, are their primary client;
- (v) Receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services by the Corporation;
- (vi) Review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, and the materiality levels which the external auditors propose to employ;
- (vii) Meet with the external auditors in the absence of management to determine, inter alia, that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the Committee;
- (viii) Establish effective communication processes with management and the Corporation's external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, management and the Committee; and
- (ix) Establish a reporting relationship between the external auditors and the Committee such that the external auditors can bring directly to the Committee matters that, in the judgement of the external auditors, merit the Committee's attention. In particular, the external auditors will advise the Committee as to disagreements between management and the external auditors regarding financial reporting and how such disagreements were resolved.

(g) **Other Responsibilities**

- (i) After consultation with the Chief Financial Officer and the external auditors, consider at least annually, of the quality and sufficiency of the Corporation's accounting and financial personnel and other resources;
- (ii) Approve in advance non-audit services, including tax advisory and compliance services, provided by the external auditors. However, the Committee can establish a threshold amount for fees for non-audit

services to be provided by the external auditors without advance approval of the Committee. The nature of such services and the associated cost will be provided to the Committee at the next following meeting;

- (iii) Investigate any matters that, in the Committee's discretion, fall within the Committee's duties;
- (iv) Perform such other functions as may from time to time be assigned to the Committee by the Board;
- (v) Review and update the Terms of Reference on a regular basis for approval by the Board; and
- (vi) The Committee will review disclosures regarding the organization and duties of the Committee to be included in any public document, including quarterly and annual reports to shareholders, information circulars and annual information forms.