



**TERMS OF REFERENCE**  
**AUDIT AND RISK COMMITTEE**

**OBJECTIVES**

The Audit and Risk Committee (the "**Committee**") is appointed by the board of directors (the "**Board**") of Pengrowth Energy Corporation (the "**Corporation**") to assist the Board in fulfilling its oversight responsibilities. The Corporation, together with its subsidiaries and affiliates, are collectively referred to herein as "**Pengrowth**".

The Committee's primary duties and responsibilities are to:

- monitor the performance of Pengrowth's internal audit function and the integrity of Pengrowth's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance;
- assist Board oversight of: (i) the integrity of Pengrowth's financial statements; (ii) Pengrowth's compliance with legal and regulatory requirements; and (iii) the performance of Pengrowth's internal audit function and independent auditors;
- monitor the independence, qualification and performance of Pengrowth's external auditors;
- provide an avenue of communication among the external auditors, the internal auditors, management and the Board; and
- oversee Pengrowth's risk management processes.

The Committee will continuously review and modify its terms of reference with regards to, and to reflect changes in, the business environment, industry standards on matters of corporate governance, additional standards which the Committee believes may be applicable to Pengrowth's business, the location of Pengrowth's business and its shareholders and the application of laws and policies.

**COMPOSITION**

Committee members must meet the requirements of applicable securities laws and each of the stock exchanges on which the shares of Pengrowth trade. The Committee will be comprised of three or more directors as determined by the Board. Each member of the Committee shall be "independent" and "financially literate", as those terms are defined in National Instrument 52-110 *Audit Committees* ("**NI 52-110**") of the Canadian Securities Administrators (as set out in Schedule "A" hereto), Rule 10A-3 promulgated under the *Securities Exchange Act of 1934* (as set out in Schedule "B" hereto), and Section 303A.02 of the New York Stock Exchange Listed Company Manual (as set out in Schedule "C" hereto), as applicable, and as "financially literate" is interpreted by the Board in its business judgement. In addition, at least one member of the Committee must have accounting or related financial management expertise as defined by paragraph (8) of general instruction B to Form 40-F and as interpreted by the Board in its business judgement.

The members of the Committee shall be appointed by the Board as members of the Committee and shall continue as such until their successors are appointed or until they cease to be directors of the Corporation. At any time, the Board may fill any vacancy in the membership of the Committee.

The chair of the Committee shall be appointed by the Board.

## **MEETINGS AND MINUTES**

The Committee shall meet at least four times annually, or more frequently if determined necessary to carry out its responsibilities.

A meeting may be called by any member of the Committee, the Chairman of the Board or the President and Chief Executive Officer ("CEO") of Pengrowth. A notice of time and place of every meeting of the Committee shall be given in writing to each member of the Committee at least two business days prior to the time fixed for such meeting, unless notice of a meeting is waived by all members entitled to attend. Attendance of a member of the Committee at a meeting shall constitute waiver of notice of the meeting except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.

A quorum for meetings of the Committee shall require a majority of its members present in person or by telephone. If the chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting will be chosen to preside by a majority of the members of the Committee present at that meeting.

The Chairman of the Board and the CEO 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. Other management representatives, as well as Pengrowth's internal and external auditors, may be invited to attend as necessary. Notwithstanding the foregoing, the chair of the Committee shall hold *in camera* sessions, without management present, at every meeting of the Committee.

Decisions of the Committee shall be determined by a majority of the votes cast.

The Committee shall appoint a member of the Committee, the Corporate Secretary or another officer of Pengrowth to act as secretary at each meeting for the purpose of recording the minutes of each meeting.

The Committee shall provide the Board with a summary of all meetings together with a copy of the minutes from 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 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.

## **SCOPE, DUTIES AND RESPONSIBILITIES**

### *MANDATORY DUTIES*

#### REVIEW PROCEDURES

Pursuant to the requirements of NI 52-110 and other applicable laws, the Committee will:

1. Review and reassess the adequacy of the Committee's terms of reference at least annually, submit the terms of reference to the Board for approval and have the document published annually in Pengrowth's annual information circular and at least every three years in accordance with the regulations of the United States' Securities and Exchange Commission.

2. Prior to filing or public distribution, review, discuss with management and the internal and external auditors and recommend to the Board for approval, Pengrowth's audited annual financial statements, annual earnings press releases, annual information form, all statements including the related management's discussion and analysis required in prospectuses and other offering memoranda, financial statements required by regulatory authorities, all prospectuses and all documents which may be incorporated by reference into a prospectus, including without limitation, the annual information circular. Approve, on behalf of the Board, Pengrowth's interim financial statements and related management's discussion and analysis and interim earnings press releases. This review should include discussions with management, the internal auditors and the external auditors of significant issues regarding accounting principles, practices and judgements. Discuss any significant changes to Pengrowth's accounting principles and any items required to be communicated by the external auditors in accordance with Assurance and Related Services Guideline #11 (AuG-11).
3. Ensure that adequate procedures are in place for the review of Pengrowth's public disclosure of financial information extracted or derived from Pengrowth's financial statements, other than the public disclosure referred to in paragraph 2 above and periodically assess the adequacy of those procedures.
4. Be responsible for reviewing the disclosure contained in Pengrowth's annual information form as required by Form 52-110F1 *Audit Committee Information Required in an AIF*, attached to NI 52-110. If proxies are solicited for the election of directors of Pengrowth, the Committee shall be responsible for ensuring that Pengrowth's information circular includes a cross-reference to the sections in Pengrowth's annual information form that contain the information required by Form 52-110F1.

#### EXTERNAL AUDITORS

1. The Committee shall advise the external auditors of their accountability to the Committee and the Board as representatives of Pengrowth's shareholders to whom the external auditors are ultimately responsible. The external auditors shall report directly to the Committee. The Committee is directly responsible for overseeing the work of the external auditors, shall review at least annually the independence and performance of the external auditors and shall annually recommend to the Board the appointment of the external auditors or approve any discharge of auditors when circumstances warrant. The Committee shall, on an annual basis, obtain and review a report by the external auditor describing: (i) the external auditor's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues; and (iii) all relationships between the independent auditor and Pengrowth.
2. Approve the fees and other compensation to be paid to the external auditors.
3. Pre-approve all services to be provided to Pengrowth or its subsidiary entities by Pengrowth's external auditors and all related terms of engagement.

#### OTHER COMMITTEE RESPONSIBILITIES

1. Establish procedures for: (i) the receipt, retention and treatment of complaints received by Pengrowth regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential and anonymous submission by employees of Pengrowth of concerns regarding questionable accounting or auditing matters.
2. Review and approve Pengrowth's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of Pengrowth.

## DISCRETIONARY DUTIES

The Committee's responsibilities may, at the Committee's discretion, also include the following:

### REVIEW PROCEDURES

1. In consultation with management, the internal auditors and the external auditors, consider the integrity of Pengrowth's financial reporting processes and controls and the performance of Pengrowth's internal financial accounting staff; discuss significant financial risk exposures and the steps management has taken to monitor, control and report such exposures; and review significant findings prepared by the internal or external auditors together with management's responses.
2. Review, with financial management, the internal auditors and the external auditors, Pengrowth's policies relating to risk management and risk assessment.
3. Meet separately with each of management, the internal auditors and the external auditors to discuss difficulties or concerns, specifically: (i) any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, and any significant disagreements with management; (ii) any changes required in the planned scope of the audit; and (iii) the responsibilities, budget, and staffing of the internal audit function, and report to the Board on such meetings.
4. Conduct an annual performance evaluation of the Committee.

### INTERNAL AUDITORS

1. Review the annual audit plans of the internal auditors.
2. Review the significant findings prepared by the internal auditors and recommendations issued by any external party relating to internal audit issues, together with management's response.
3. Review the adequacy of the resources of the internal auditors to ensure the objectivity and independence of the internal audit function.
4. Consult with management on management's appointment, replacement, reassignment or dismissal of the internal auditors.
5. Ensure that the internal auditors have access to the Chairman of the Board and the President and CEO.

### EXTERNAL AUDITORS

1. On an annual basis, the Committee should review and discuss with the external auditors all significant relationships they have with Pengrowth that could impair the auditors' independence.
2. The Committee shall review the external auditors audit plan – discuss scope, staffing, locations, and reliance upon management and general audit approach.
3. Consider the external auditors' judgments about the quality and appropriateness of Pengrowth's accounting principles as applied in its financial reporting.
4. Be responsible for the resolution of disagreements between management and the external auditors regarding financial performance.
5. Ensure compliance by the external auditors with the requirements set forth in National Instrument 52-108 *Auditor Oversight*.

6. Ensure that the external auditors are participants in good standing with the Canadian Public Accountability Board ("**CPAB**") and participate in the oversight programs established by the CPAB from time to time and that the external auditors have complied with any restrictions or sanctions imposed by the CPAB as of the date of the applicable auditor's report relating to Pengrowth's annual audited financial statements.
7. Monitor compliance with the lead auditor rotation requirements of Regulation S-X.

#### RISK MANAGEMENT POLICIES

Review and recommend for approval by the Board changes considered advisable, after consultation with officers of the Corporation, to the Corporation's policies relating to:

- (a) The risks inherent in the Corporation's businesses, facilities, strategic direction;
- (b) The overall risk management strategies (including insurance coverage);
- (c) The risk retention philosophy and the resulting uninsured exposure of the Corporation; and
- (d) The loss prevention policies, risk management and hedging programs, and standard and accountabilities of the Corporation in the context of competitive and operational considerations.

#### RISK MANAGEMENT PROCESSES

Review with management at least annually the Corporation's processes to identify, monitor, evaluate and address important enterprise-wide business risks.

#### FINANCIAL RISK MANAGEMENT

Review with management activity related to management of financial risks to the Corporation.

#### OTHER COMMITTEE RESPONSIBILITIES

1. On at least an annual basis, review with Pengrowth's legal counsel any legal matters that could have a significant impact on the organization's financial statements, Pengrowth's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.
2. Annually prepare a report to shareholders as required by the United States' Securities and Exchange Commission; the report should be included in Pengrowth's annual information circular.
3. Ensure due compliance with each obligation to certify, on an annual and interim basis, internal control over financial reporting and disclosure controls and procedures in accordance with applicable securities laws and regulations.
4. Review all exceptions to established policies, procedures and internal controls of Pengrowth, which have been approved by any two officers of Pengrowth.
5. Perform any other activities consistent with this Charter, Pengrowth's by-laws, and other governing law as the Committee or the Board deems necessary or appropriate.
6. Maintain minutes of meetings and periodically report to the Board on significant results of the foregoing activities.

## **COMMUNICATION, AUTHORITY TO ENGAGE ADVISORS AND EXPENSES**

The Committee shall have direct access to such officers and employees of Pengrowth, to Pengrowth's internal and external auditors and to any other consultants or advisors, as well as to such information respecting Pengrowth it considers necessary to perform its duties and responsibilities.

Any employee may bring before the Committee, on a confidential basis, any concerns relating to matters over which the Committee has oversight responsibilities.

The Committee has the authority to engage the external auditors, independent legal counsel and other advisors as it determines necessary to carry out its duties and to set the compensation for any auditors, counsel and other advisors, such engagement to be at Pengrowth's expense. Pengrowth shall be responsible for all other expenses of the Committee that are deemed necessary or appropriate by the Committee in order to carry out its duties.

Adopted by the Board of Pengrowth on November 4, 2011.

## Schedule "A"

### Excerpt from Multilateral Instrument 52-110

#### Standard of "Independence"

1. An audit committee member is independent if he or she has no direct or indirect material relationship with Pengrowth.
2. For the purposes of paragraph 1, a "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member's independent judgment.
3. Despite paragraph 2, the following individuals are considered to have a material relationship with Pengrowth:
  - (a) an individual who is, or has been within the last three years, an employee or executive officer of Pengrowth;
  - (b) an individual whose immediate family member is, or has been within the last three years, an executive officer of Pengrowth;
  - (c) an individual who:
    - (i) is a partner of a firm that is Pengrowth's internal or external auditor,
    - (ii) is an employee of that firm, or
    - (iii) was within the last three years a partner or employee of that firm and personally worked on Pengrowth's audit within that time;
  - (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
    - (i) is a partner of a firm that is Pengrowth's internal or external auditor,
    - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
    - (iii) was within the last three years a partner or employee of that firm and personally worked on Pengrowth's audit within that time;
  - (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of Pengrowth's current executive officers serves or served at that same time on the entity's compensation committee; and
  - (f) an individual who received, or whose immediate family member who is employed as an executive officer of Pengrowth received, more than \$75,000 in direct compensation from the issuer during any 12 month period within the last three years.
4. For the purposes of paragraphs 3(c) and 3(d), a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

5. For the purposes of paragraph 3(f), direct compensation does not include
  - (a) remuneration for acting as a member of the Board or any Board committee of Pengrowth, and
  - (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with Pengrowth if the compensation is not contingent in any way on continued service.
6. Despite paragraph 3, an individual will not be considered to have a material relationship with Pengrowth solely because the individual or his or her immediate family member
  - (a) has previously acted as an interim chief executive officer of Pengrowth, or
  - (b) acts, or has previously acted, as a chair or vice-chair of the Board or of any Board committee of Pengrowth on a part-time basis.
7. Despite any determination made under paragraphs 1 through 6, an individual who
  - (a) accepts, directly or indirectly, any consulting, advisory or other compensatory fee from Pengrowth or any subsidiary entity of Pengrowth, other than as remuneration for acting in his or her capacity as a member of the Board or any Board committee, or as a part-time chair or vice-chair of the Board or any Board committee; or
  - (b) is an affiliated entity of Pengrowth or any of its subsidiary entities,is considered to have a material relationship with Pengrowth.
8. For the purposes of paragraph 7, the indirect acceptance by an individual of any consulting, advisory or other compensatory fee includes acceptance of a fee by
  - (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or
  - (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to Pengrowth or any subsidiary entity of Pengrowth.
9. For the purposes of paragraph 7, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with Pengrowth if the compensation is not contingent in any way on continued service.

#### **Standard of "Financial Literacy"**

An individual is financially literate if he or she has 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 Pengrowth's financial statements.

## Schedule "B"

### Excerpts from Rule 10A-3 of the Securities and Exchange Act of 1934

#### Standard of "Independence"

- b. *Required standards.*
  - 1. *Independence.*
    - i. Each member of the audit committee must be a member of the board of directors of the listed issuer, and must otherwise be independent; provided that, where a listed issuer is one of two dual holding companies, those companies may designate one audit committee for both companies so long as each member of the audit committee is a member of the board of directors of at least one of such dual holding companies.
    - ii. *Independence requirements for non-investment company issuers.* In order to be considered to be independent for purposes of this paragraph (b)(1), a member of an audit committee of a listed issuer that is not an investment company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee:
      - A. Accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the listed issuer (provided that such compensation is not contingent in any way on continued service); or
      - B. Be an affiliated person of the issuer or any subsidiary thereof.
- e. *Definitions.* Unless the context otherwise requires, all terms used in this section have the same meaning as in the Act. In addition, unless the context otherwise requires, the following definitions apply for purposes of this section:
  - 1.
    - i. The term *affiliate of*, or a person *affiliated with*, a specified person, means a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.
    - ii.
      - A. A person will be deemed not to be in control of a specified person for purposes of this section if the person:
        - 1. Is not the beneficial owner, directly or indirectly, of more than 10% of any class of voting equity securities of the specified person; and
        - 2. Is not an executive officer of the specified person.
      - B. Paragraph (e)(1)(ii)(A) of this section only creates a safe harbor position that a person does not control a specified person. The existence of the safe harbor does not create a presumption in any way that a person exceeding the ownership requirement in

paragraph (e)(1)(ii)(A)(1) of this section controls or is otherwise an affiliate of a specified person.

- iii. The following will be deemed to be affiliates:
  - A. An executive officer of an affiliate;
  - B. A director who also is an employee of an affiliate;
  - C. A general partner of an affiliate; and
  - D. A managing member of an affiliate.
- iv. For purposes of paragraph (e)(1)(i) of this section, dual holding companies will not be deemed to be affiliates of or persons affiliated with each other by virtue of their dual holding company arrangements with each other, including where directors of one dual holding company are also directors of the other dual holding company, or where directors of one or both dual holding companies are also directors of the businesses jointly controlled, directly or indirectly, by the dual holding companies (and, in each case, receive only ordinary-course compensation for serving as a member of the board of directors, audit committee or any other board committee of the dual holding companies or any entity that is jointly controlled, directly or indirectly, by the dual holding companies).
- 4. The term control (including the terms controlling, controlled by and under common control with) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise.
- 8. The term indirect acceptance by a member of an audit committee of any consulting, advisory or other compensatory fee includes acceptance of such a fee by a spouse, a minor child or stepchild or a child or stepchild sharing a home with the member or by an entity in which such member is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary of the issuer.

## Schedule "C"

### Excerpts from Section 303A.00 of the New York Stock Exchange Listed Company Manual

#### 303A.02 "Independence" Tests

The NYSE Listed Company Manual contains the following provisions regarding the independence requirements of members of the audit committee:

- (a) No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). Companies must identify which directors are independent and disclose the basis for that determination.
- (b) In addition, a director is not independent if:
  - (i) The director is, or has been within the last three years, an employee of the listed company, or an immediate family member is, or has been within the last three years, an executive officer, of the listed company.
  - (ii) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the listed company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).
  - (iii) (A) The director is a current partner or employee of a firm that is the company's internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the listed company's audit; or (D) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the listed company's audit within that time.
  - (iv) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the listed company's present executive officers at the same time serves or served on that company's compensation committee.
  - (v) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the listed company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

#### **General Commentary to Section 303A.02(b):**

An "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home. When applying the look-back provisions in Section 303A.02(b), listed companies need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

For the purposes of Section 303A, the term "executive officer" has the same meaning specified for the term "officer" in Rule 16a-1(f) under the Securities Exchange Act of 1934 as follows:

The term "officer" shall mean an issuer's president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice-president of the issuer in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the issuer. Officers of the issuer's parent(s) or subsidiaries shall be deemed officers of the issuer if they perform such policy-making functions for the issuer. In addition, when the issuer is a limited partnership, officers or employees of the general partner(s) who perform policy-making functions for the limited partnership are deemed officers of the limited partnership.