

YUKON DEVELOPMENT CORPORATION AUDIT COMMITTEE TERMS OF REFERENCE

1. PURPOSE

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight and fiduciary responsibilities in the following areas:

- financial planning and reporting,
- financial internal control systems,
- accountability for the use of assets,
- financial reporting principles and policies,
- relationships with External Auditor,
- legal and ethical conduct; and
- risk management.

Note: Consistent with the Yukon Development Corporation Act, the External Auditor shall be the Auditor General of Canada.

2. AUTHORITY

The Board of Directors grants the Audit Committee the authority to carry out the specific responsibilities outlined in the terms of reference, in order to achieve its stated objectives. The Audit Committee shall have access to personnel, documents, records and resources necessary to carry out its responsibilities. The Committee shall have the authority to authorize investigations into any matter within the Committee's scope of responsibilities; and, subject to approval by the Board of Directors, is empowered to retain special legal, accounting or other consultants to advise the Committee.

3. MEMBERSHIP

The Committee shall be composed of a minimum of three and a maximum of four Directors, one of whom shall be the Chair of the Board of Directors. Committee members other than the Chair, shall be elected by the Board to serve terms specified by the Board, not to exceed their term of appointment to the Board of Directors. To preserve continuity of information over time, where possible the Board will appoint Committee members with differing and overlapping terms. The Board will annually elect one of these Directors to serve as the Committee Chairperson. The Committee will annually elect a Vice Chairperson. As required, the Board will elect directors to fill vacancies arising from expired terms. At all times the Committee members must be non-related directors. Each member shall be free of any relationship that, in the opinion of the Board, would interfere with his or her individual exercise of independent judgement. All members may serve any number of consecutive terms in order to ensure some continuity to the Committee. In the event of mid-term vacancies, the Board will elect replacement directors to complete the term.

The Audit Committee may include one additional non-voting Board Advisor. The Advisor would be appointed by the Board of Directors in consultation with the Audit Committee Chairperson. All members

of the Committee ought to have current knowledge of the energy industry and a good understanding of fundamental financial principles and reporting management experience.

4. MEETINGS/ATTENDANCE/AGENDA

The Committee will generally meet at least quarterly. A quorum shall consist of three members, one being the Chairperson or Vice-Chairperson. The Audit Committee shall record attendance at all meetings. Meetings may be held in person, by conference telephone call, or by any individual member participating by conference telephone or videoconference.

The Chairperson shall, in consultation with management, establish the agenda for the meetings and ensure that properly prepared agenda materials are circulated to members in sufficient time for study prior to the meeting. Audit Committee members may recommend agenda items subject to approval of the agenda by the Committee.

The Audit Committee will maintain minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board of Directors.

5. SPECIFIC RESPONSIBILITIES AND DUTIES

The Audit Committee is responsible for reporting on the results of deliberations at each regularly scheduled meeting of the Board of Directors.

A. Annual Financial Information

The Audit Committee shall:

- 1) Review the annual consolidated financial statements and recommend their approval to the Board of Directors, after discussing with management and the auditors, matters pertaining to:
 - The selection, application and quality of accounting policies;
 - Significant accounting judgements, accrual estimates; and significant disclosure or presentation issues addressed by management and the External Auditor during the course of the audit and preparation of the financial statements.
- 2) Review and approve the Annual Report including management's discussion and analysis. The Annual Report shall include a letter from the Audit Committee detailing its responsibilities and how they were discharged.
- 3) Review the planning and results of the external audit, including:
 - The engagement letter;
 - The scope of the audit, including areas of audit risk, timetable, deadlines, materiality limits, extent of internal control testing and coordination with internal audit should the function be established.
 - The auditor's report; and

- Any errors detected by the audit, how they were resolved with management, and whether they indicate a weakness in the reporting and control system.
- 4) Examining the consolidated audited annual financial statements in conjunction with the report of the External Auditors, which may include determining whether the statements:
 - properly reflect the significant accounting policies selected,
 - reflect estimates and other financial statement elements that are reasonable and consistent,
 - adequately disclose all major transactions and issues, disclose all post-year-end significant events; and
 - are understandable, relevant, reliable and comparable.

B. Interim Financial Statements

The Audit Committee shall:

- 1) Review and recommend for approval by the Board of Directors, all interim financial statements, including management's discussion and analysis that are published or issued to the shareholder.
- 2) Obtain reasonable assurance that the process for preparing these statements is reliable and consistent with the process for preparing annual financial statements.

C. Risk Management, Accounting and Internal Controls

The Audit Committee shall:

- 1) Review and evaluate the critical areas of risk and exposure for the Yukon Development Corporation, as determined by management, including but not limited to, insurance protection, environmental risk, industry factors, credit, and other areas as determined from time to time.
- 2) Periodically review any emerging accounting issues and their potential impact on the company's financial statements.
- 3) Obtain reasonable assurance from discussions with and/or reports from management and the External Auditor that the company's accounting systems and internal control systems are reliable, effective and comply with authorities.
- 4) Direct the External Auditor's examinations to specific areas as deemed necessary by the Committee.
- 5) Review significant control weaknesses identified by the External Auditor along with management's response.

D. External Auditor Independence

The Audit Committee shall:

- 1) Ensure that the External Auditor understands its ultimate accountability to the Board and the Audit Committee, as representatives of the Company's shareholders.
- 2) Strengthen and preserve External Auditor independence by:
 - holding periodic in-camera sessions with the External Auditor;
 - assessing the performance of the External Auditor; and
 - reviewing the co-operation received by the External Auditor from management.

E. Ethical and Legal Conduct

The Audit Committee shall:

- 1) Ensure there adequate systems and practices in place to provide reasonable assurance of compliance with laws, regulations, and standards of ethical conduct, with respect to the financial affairs of the Yukon Development Corporation.
- 2) Receive and review updates from management and general counsel on compliance matters and litigation claims or other contingencies that could have a significant impact on the financial position or operating results of the Yukon Development Corporation.
- 3) The Audit Committee shall annually self-assess whether the Audit Committee has carried out the responsibilities defined in the Audit Committee Terms of Reference and report these results to the Board of Directors.
- 4) The Audit Committee shall ensure disclosure of, or appropriate access to, the Audit Committee Terms of Reference for the shareholders of Yukon Development Corporation.
- 5) The Audit Committee shall schedule an Orientation Seminar to educate new members on the role of the audit committee. Audit Committee members will receive documentation on their roles and responsibilities. The Audit Committee will undertake development and education activities as deemed appropriate.
- 6) The Audit Committee shall perform any other activities consistent with this its Terms of Reference, Yukon Development Corporation's bylaws and governing law, as the Committee or Board deems necessary or appropriate.
- 7) Review insurance program and insurance management strategies.
- 8) Review, revise and authorize routine banking arrangements and relationships.