

DESERT LION ENERGY LIMITED
CHARTER OF THE AUDIT COMMITTEE

1. PURPOSE

The Audit Committee (the “**Audit Committee**”) is a committee of independent directors appointed by the Board of Directors (the “**Board**”) of Desert Lion Energy Limited (the “**Company**”). The Audit Committee’s mandate is to provide assistance to the Board in fulfilling its financial reporting and control responsibility to the shareholders and the investment community. The Committee is, however, independent of the Board and the Company and in carrying out its role shall have the ability to determine its own agenda and any additional activities that the Audit Committee shall carry out.

2. COMPOSITION

The Committee will be comprised of at least three directors of the Company, all of whom, subject to any exemptions set out in National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”) will be independent and financially literate. In addition, at least one member of the Audit Committee shall have accounting or related financial expertise as such qualifications are interpreted by the Board.

An “independent” director is a director who has no direct or indirect material relationship with the Company. A “material relationship” is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of the director’s independent judgement or a relationship deemed to be a material relationship pursuant to Sections 1.4 and 1.5 of NI 52-110.

A “financially literate” director is a director who has the ability to read and understand a set of financial instruments 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 financial statements of the Company.

3. RESPONSIBILITIES

Responsibilities of the Audit Committee generally include, but are not limited to, the undertaking of the following tasks:

- (a) Selecting and determining the compensation of the external auditors, subject to approval of the shareholders of the Company, to be nominated for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company. In making such determination and recommendation to the shareholders, the Audit Committee will:
 - confirm the independence of the auditors and report to the Board its conclusions on the independence of the auditors and the basis for these conclusions;

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- meet with the auditors and financial management to review the scope of the proposed audit for the current year, and the audit procedures to be used; and
 - obtain from the external auditors, confirmation that they are participants in good standing in the Canadian Public Accountability Board oversight program and other legal or regulatory requirements with respect to the audit of the financial statements of the Company.
- (b) Overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting. In overseeing such work, the Audit Committee will:
- review with the external auditors any audit problems or difficulties and management's response;
 - at least annually obtain and review a report prepared by the external auditors describing (i) the auditors' internal quality-control procedures; and (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditors, and reviewing any steps taken to deal with such issues;
 - serve as an independent and objective party to monitor the Company's financial reporting process and internal control system and overseeing management's reporting on internal control;
 - provide open lines of communication among the external auditors, financial and senior management, and the Board for financial reporting and control matters;
 - make inquiries of management and the external auditors to identify significant business, political, financial and control risks and exposures and assess the steps management has taken to minimize such risks to the Company;
 - establish procedures to ensure that the Audit Committee meets with the external auditors on a regular basis in the absence of management;
 - ensure that the external auditors prepare and deliver annually a detailed report covering (i) critical accounting policies and practices to be used; (ii) material alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors; (iii) other material written communications between the external auditors and management such as any management letter or schedule of unadjusted differences; and (iv) such other aspects as may be required by the Audit Committee or legal or regulatory requirements;
 - consider any reports or communications (and management's responses thereto) submitted to the Audit Committee by the external auditors, including reports and communications related to:

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- (i) deficiencies noted following the audit of the design and operation of internal controls;
 - (ii) consideration of fraud in the audit of the financial statements;
 - (iii) detection of illegal acts;
 - (iv) the external auditors' responsibility under generally accepted auditing standards;
 - (v) significant accounting policies;
 - (vi) management judgements and accounting estimates;
 - (vii) adjustments arising from the audit;
 - (viii) the responsibility of the external auditors for other information in documents containing audited financial statements;
 - (ix) disagreements with management;
 - (x) consultation by management with other accountants;
 - (xi) major issues discussed with management prior to retention of the external auditors;
 - (xii) difficulties encountered with management in performing the audit;
 - (xiii) the external auditors judgements about the quality of the entity's accounting principles; and
 - (xiv) any reviews of unaudited interim financial information conducted by the external auditors;
- review the form of opinion the external auditors propose to render to the Audit Committee, the Board and shareholders; and
 - discuss significant changes to the Company's auditing and accounting principles, policies, controls, procedures and practices proposed or contemplated by the external auditors or management, and the financial impact thereof.
- (c) Pre-approving all non-audit services to be provided to the Company or its subsidiaries by the Company's external auditor, subject to any exemptions set out in NI 52-110. Notwithstanding the pre-approval process, the Audit Committee will ensure that the external auditors are prohibited from providing the following non-audit services and will determine which other non-audit services the external auditors are prohibited from providing:
- bookkeeping or other services related to the accounting records or financial statements of the Company;
 - financial information systems design and implementation;
 - appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

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- actuarial services;
 - internal audit outsourcing services;
 - management functions or human resources;
 - broker, dealer, investment adviser or investment banking services;
 - legal services and expert services unrelated to the audit; and
 - any other service that the Audit Committee determines to be impermissible.
- (d) Ensuring that the external auditors submit annually to the Company and the Audit Committee a formal written statement of the fees billed for each of the following categories of services rendered by the external auditors: (i) the audit of the Company's annual financial statements for the most recent fiscal year and, if applicable, the reviews of the financial statements included in the Company's Quarterly Reports for that fiscal year; and (ii) all other services rendered by the external auditors for the most recent fiscal year, in the aggregate and by each service.
- (e) Reviewing the Company's financial statements, Management's Discussion and Analysis, annual and interim earnings press releases and any other reports or other financial information to be submitted to any regulatory body, or the public, before the Company files, issues or publicly discloses the information. In connection with such review, the Audit Committee will ensure that:
- management has reviewed the financial statements with the Audit Committee, including significant judgments affecting the financial statements;
 - the members of the Audit Committee have discussed among themselves, without management or the external auditors present, the information disclosed to the Audit Committee; and
 - the Audit Committee has received the assurance of both financial management and the external auditors that the Company's financial statements are fairly presented in conformity with Canadian GAAP in all material respects.
- (f) Ensuring that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, other than the public disclosure referred to above, and periodically assessing the adequacy of those procedures.
- (g) Reviewing, evaluating and monitoring any risk management program implemented by the Company, including any revenue protection program. This function should include:
- risk assessment;
 - quantification of exposure;

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- risk mitigation measures; and
 - risk reporting.
- (h) Reviewing the adequacy of the resources of the finance and accounting group, along with its development and succession plans.
- (i) Establishing procedures for:
- the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and
 - the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
- (j) Reviewing and approving the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company.
- (k) Annually reviewing and revising this Charter as necessary with the approval of the Board of the Company and the text relating to this Charter which is required to appear in the Annual Information Form of the Company, as more specifically set out in Form 52-110FI *Audit Committee Information Required in an AIF*.
- (l) Reviewing and assessing the adequacy of the Code of Business Conduct and Ethics governing the officers, directors and employees of the Company and the Code of Ethics governing Financial Reporting Officers at least annually or otherwise, as it deems appropriate, and propose recommended changes to the Board.
- (m) Reporting its activities to the Board on a regular basis and to make such recommendations with respect to the above and other matters as the Audit Committee may deem necessary or appropriate.
- (n) Reviewing and discussing with management, and approving all related party transactions.

4. AUTHORITY

The Audit Committee has the authority to:

- (a) Engage independent counsel and other advisors as the Audit Committee determines necessary to carry out its duties;
- (b) Set and pay the compensation for any advisors employed by the Audit Committee, in accordance with applicable corporate statutes; and
- (c) Communicate directly with the external auditors.

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5. ADMINISTRATIVE PROCEDURES

- 5.1 The Audit Committee will meet regularly and whenever necessary to perform the duties described above in a timely manner, but not less than four times a year. Meetings of the Audit Committee shall be held from time to time as the Committee or the Audit Chairman of the Committee shall determine upon 48 hours notice to each of its members and by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.
- 5.2 The notice period may be waived by a quorum of the Audit Committee.
- 5.3 The Committee will record minutes of its meetings and, through its Chairman, report periodically to the Board.
- 5.4 At the discretion of the Audit Committee, meetings may be held with representatives of the external auditors and appropriate members of management.
- 5.6 The external auditors will have direct access to the Audit Committee at their own initiative.
- 5.7 The Chairman of the Audit Committee may be appointed by the Board; however, if the Board does not appoint a Chairman, the members of the Audit Committee shall designate a Chairman by a majority vote of the Audit Committee.
- 5.8 A quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Audit Committee.

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SCHEDULE "A"

POSITION DESCRIPTION FOR THE CHAIRMAN OF THE AUDIT COMMITTEE

1. PURPOSE

The Chairman of the Audit Committee of the Board shall be an independent director who is elected by the Board to act as the leader of the Committee in assisting the Board in fulfilling its financial reporting and control responsibilities to the shareholders of the Company.

2. WHO MAY BE CHAIRMAN

The Chairman will be selected from amongst the independent directors of the Company who have a sufficient level of financial sophistication and experience in dealing with financial issues to ensure the leadership and effectiveness of the Committee.

The Chairman will be selected annually at the first meeting of the Board following the annual general meeting of shareholders.

3. RESPONSIBILITIES

The following are the primary responsibilities of the Chairman:

- (a) chairing all meetings of the Committee in a manner that promotes meaningful discussion;
- (b) ensuring adherence to the Committee's Charter and that the adequacy of the Committee's Charter is reviewed annually;
- (c) providing leadership to the Committee to enhance the Committee's effectiveness, including:
 - (i) providing the information to the Board relative to the Committee's issues and initiatives and reviewing and submitting to the Board an appraisal of the Company's independent auditors and internal auditing functions;
 - (ii) ensuring that the Committee works as a cohesive team with open communication, as well as ensuring open lines of communication among the independent auditors, financial and senior management and the Board for financial and control matters;
 - (iii) ensuring that the resources available to the Committee are adequate to support its work and to resolve issues in a timely manner;
 - (iv) ensuring that the Committee serves as an independent and objective party to monitor the Company's financial reporting process and internal control systems, as well as to monitor the relationship between the Company and the independent auditors to ensure independence;

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- (v) ensuring that procedures are in place to assess the audit activities of the independent auditors and the internal audit functions;
 - (vi) ensuring that procedures are in place to review the Company's public disclosure of financial information and assess the adequacy of such procedures periodically, in consultation with any disclosure committee of the Company;
 - (vii) ensuring that clear hiring policies are put in place for partners and employees of the auditors;
- (d) ensuring that procedures are in place for dealing with complaints received by the Company regarding accounting, internal controls and auditing matters, and for employees to submit confidential anonymous concerns, ensuring the establishment of a budget process, which shall include the setting of spending limits and authorizations and periodical reports from the Chief Financial Officer of actual spending as compared to the budget regarding questionable accounting or auditing matters; and
- (e) managing the Committee, including:
- (i) adopting procedures to ensure that the Committee can conduct its work effectively and efficiently, including committee structure and composition, scheduling, and management of meetings;
 - (ii) preparing the agenda of the Committee meetings and ensuring pre-meeting material is distributed in a timely manner and is appropriate in terms of relevance, efficient format and detail;
 - (iii) ensuring meetings are appropriate in terms of frequency, length and content;
 - (iv) obtaining and reviewing with the Committee an annual report from the independent auditors, and arranging meetings with the auditors and financial management to review the scope of the proposed audit for the current year, its staffing and the audit procedures to be used;
 - (v) overseeing the Committee's participation in the Company's accounting and financial reporting process and the audits of its financial statements;
 - (vi) ensuring that the auditors report directly to the Committee, as representatives of the Company's shareholders; and
 - (vii) annually reviewing with the Committee its own performance.