

AUDIT COMMITTEE CHARTER

POLICY STATEMENT

It is the policy of PetroShale Inc. (the "**Corporation**") to establish and maintain an Audit Committee (the "**Committee**"), composed of independent directors, to assist the Board of Directors (the "**Board**") in carrying out their oversight responsibility for the Corporation's external audit, internal controls, disclosure, financial reporting and risk management.

The Committee's function is one of oversight only and shall not relieve management of its responsibilities.

The Corporation's external auditor shall report directly to the Committee.

COMPOSITION OF THE COMMITTEE

1. The Committee shall consist of at least three (3) directors.
2. Each director appointed to the Committee by the Board shall be independent as such term is defined in Section 1.4 of *Multilateral Instrument 52-110*.
3. Each member of the Committee shall be financially literate as such term is defined in Section 1.6 of *Multilateral Instrument 52-110* and at least one (1) member shall have accounting or related financial management expertise.
4. The Board shall appoint the members of the Committee and may seek the advice and assistance of the Corporate Governance and Compensation Committee in identifying qualified candidates. The Board shall appoint one (1) member of the Committee to be the Chair of the Committee.
5. A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation. A member shall cease to be a member of the Committee upon ceasing to be a director of the Corporation.
6. The Secretary of the Corporation shall be the Secretary of the Committee.

MEETINGS OF THE COMMITTEE

1. The Committee shall convene a minimum of four (4) times each year at such time and places as may be designated by the Chair of the Committee and whenever a meeting is requested by the Board, a member of the Committee, the external auditors, or a senior officer of the Corporation.
2. Notice of each meeting of the Committee shall be given to each member and to the external auditors, who shall be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee or the Secretary of the Committee.
3. Notice of a meeting of the Committee shall:
 - (a) Be in writing.
 - (b) State the nature of the business to be transacted at the meeting in reasonable detail.
 - (c) To the extent practicable, be accompanied by copies of documentation to be considered at the meeting.
 - (d) Be given at least forty-eight (48) hours' notice preceding the time stipulated for the meeting or such shorter period as the members of the Committee may permit.
4. A quorum for the transaction of business at a meeting of the Committee shall consist of two (2) members of the Committee.
5. A member of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, provided it permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.

6. In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to be Chair of the meeting and, in the absence of the Secretary of the Committee, the members shall choose one of the persons present to be the Secretary of the meeting.
7. The Committee may invite the Chairman of the Board, other directors, senior management of the Corporation and other parties to attend meetings of the Committee; however, the Committee may meet separately with the external auditors or with invited management.
8. At each regular meeting of the Committee, the agenda shall include an opportunity for the members of the Committee to meet *in-camera*.
9. Minutes shall be kept of all meetings of the Committee and shall be signed by the Chair and the Secretary of the meeting.
10. Minutes of the meetings of the Committee shall be retained by the Secretary of the Corporation and shall be available, on request, to any member of the Board.

DUTIES AND RESPONSIBILITIES OF COMMITTEE MEMBERS

1. Committee members shall have and maintain a sufficient knowledge of company operations and changes in operations including the principal risks, systems and abilities of key personnel involved in financial reporting and disclosure processes to reasonably discharge their duties.
2. Committee members have an obligation to remain independent of the affairs of the Corporation and shall disclose any circumstances that create a conflict of interest with his or her role as a Committee member or may appear to create a conflict of interest.

DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

1. The Committee's primary duties and responsibilities are to:
 - (a) Select and recommend the nomination and compensation of the external auditors.
 - (b) Oversee the independence, work and performance of the Corporation's external auditors.
 - (c) Review the principal risks that could impact the financial reporting of the Corporation and monitor how management is dealing with such risks.
 - (d) Monitor the integrity of the Corporation's disclosure and financial reporting process and its system of internal controls regarding financial reporting and accounting compliance.
 - (e) Oversee the resolution of any disagreements among external auditors, management and the internal auditing department, if any.
 - (f) If requested by the Board and permitted by applicable law and policies, review and approve unaudited quarterly financial statements or other public disclosure documents containing financial information.
2. The Committee shall annually select and recommend to the Board the nomination of an external auditor, recommend the replacement of the current external auditor when circumstances warrant it and monitor the independence, work and performance of the external auditors. This shall include:
 - (a) Considering the views of management in respect of the nomination of the external auditors.
 - (b) Reviewing and recommending, for approval by the Board, the terms of the external auditors' engagement and audit plan, including the reasonableness of the proposed audit fees.
 - (c) Pre-approving any engagement for non-audit services to be provided by the external auditors' firm or its affiliates, together with estimated fees. This shall involve considering the potential impact of such services on the independence of the external auditors.
 - (d) When there is to be a change of external auditors, reviewing all issues and providing documentation related to the change, including the information to be included in the Notice of Change of Auditors

and documentation called for under *National Instrument 51-102* as defined in Section 4.11 and the planned steps for an orderly transition.

- (e) Reviewing all reportable events, including disagreements, unresolved issues and consultations with external auditors, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors.
- (f) The Committee shall have the opportunity to meet with the external auditors apart from management at each regular meeting to receive assessments relating to audit scope limitations, management cooperation and any issues relating to financial competencies.

3. In carrying out its primary duties and responsibilities, the Committee shall:

- (a) Review the annual audit plan with the external auditors and with management.
- (b) Discuss with management and the external auditors any proposed changes in major accounting policies or principles, the potential impact of significant risks and uncertainties on future operations, and key estimates and judgments of management that may be material to financial reporting.
- (c) Review with management and with the external auditors significant financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues.
- (d) Review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or significant accounting issues on which there was a disagreement with management.
- (e) Review periodically with management the Corporation's disclosure controls and procedures as such term is defined in *Multilateral Instrument 52-109* and monitor the certification process set out therein.
- (f) Review audited annual financial statements and related documents in conjunction with the report of the external auditors.
- (g) Consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and management's response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses.
- (h) Review with management and the external auditors, if engaged to perform such a review, the quarterly unaudited financial statements before release to the public.
- (i) Before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information including any press release, annual report, annual information form, management discussion and analysis of operations, prospectus (and all documents which may be incorporated by reference into such prospectus) and all other securities offering documents of the Corporation.
- (j) Review periodically with management the internal procedures implemented to review any other public disclosure of financial information extracted or derived from the Corporation's financial statements.
- (k) Approve the hiring of any partners, employees or former partners and employees of the Corporation's present and former external auditor.

4. In addition, the Committee shall:

- (a) Oversee the receipt, review and follow-up of questions, concerns or complaints pursuant to the Corporation's Code of Business Conduct and Ethics and the procedures set out in Appendix "A" thereto.
- (b) The Committee shall periodically review the manner of delegation and limits of authority that management has implemented throughout the Corporation.

- (c) The Committee shall review changes in accounting principles, regulations and emerging issues that may be relevant to the Corporation.
- (d) In conjunction with the Corporate Governance and Compensation Committee, monitor financial and accounting personnel succession planning within the Corporation and review the appointments of the Chief Financial Officer and any key financial managers who are involved in the financial reporting process.
- (e) Inquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters.
- (f) Quarterly, review any legal matter that could have a significant impact on the Corporation's financial statements, and any enquiries received from regulators, or government agencies.
- (g) Report to the Board, at the earliest opportunity after each meeting, the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate. In particular, the Committee shall make recommendations to the Board in connection with: (i) the appointment of external auditors; (ii) approval of financial statements, MD&A and related disclosure documents; and (iii) changes in significant accounting policies.
- (h) Periodically assess the performance of the Committee.

RESOURCES AND AUTHORITY

1. The Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including administrative support. If deemed necessary by the Committee, it will have the discretion to institute investigations of improprieties or suspected improprieties, including the standing authority to retain independent counsel or advisors and to set their compensation.
2. The Committee shall have the authority to:
 - (a) Inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates.
 - (b) Discuss with any officer of the Corporation, its subsidiaries and affiliates, the Chief Financial Officer and senior staff of the Corporation, any affected party and the external auditors, such accounts, records and other matters as any member of the Committee considers necessary and appropriate.
 - (c) Communicate directly with the internal and external auditors.
 - (d) Retain independent external advisors.