

TWIN BUTTE ENERGY LTD.

AUDIT COMMITTEE CHARTER AND TERMS OF REFERENCE FOR AUDIT COMMITTEE CHAIR

Introduction

Twin Butte Energy Ltd. (the "Corporation") is an Alberta based junior oil and gas exploration and development company. The Board of Directors of the Corporation (the "Board") has the responsibility for the overall stewardship of the conduct of the business of the Corporation and its subsidiaries and the activities of management of the Corporation, which is responsible for the day-to-day conduct of the business.

Purpose

The overall purpose of the Audit Committee (the "Committee") is to ensure that the Corporation's management has designed and implemented an effective system of internal financial controls and disclosure controls and procedures, to review and report on the integrity of the consolidated financial statements of the Corporation, to review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and disclosure of material facts and to review the Corporation's externally disclosed oil and gas reserves estimates including reviewing the qualifications of, and procedures used by, the independent engineering firm responsible for evaluating the Corporation's reserves.

Composition, Procedures And Organization

- (1) The Committee shall consist of at least three members of the Board of Directors (the "Board"), a majority of whom shall be "independent", as that term is defined in Sections 1.4 and 1.5 of Multilateral Instrument 52-110, *Audit Committees* (provided that, if the Common Shares of the Corporation are listed and posted on the Toronto Stock Exchange, then all of the members of the Audit Committee shall be "independent").
- (2) All of the members of the Committee shall be "financially literate" (i.e. able 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 those of the Corporation and that can be reasonably expected to be raised by the Corporation's financial statements).
- (3) The Committee composition, including the qualifications of its members, shall comply with the applicable requirements of stock exchanges on which the Corporation lists its securities and of securities regulatory authorities, as such requirements may be amended from time to time.
- (4) The Board shall appoint the members of the Committee. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee.
- (5) Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from among their members.
- (6) The quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or other telecommunication device that permits all persons participating in the meeting to speak and to hear each other.
- (7) The Committee shall have access to such officers and employees of the Corporation and to the Corporation's external auditors, and to such information respecting the Corporation, as it considers necessary or advisable in order to perform its duties and responsibilities.
- (8) Meetings of the Committee shall be conducted as follows:

- (a) the Committee shall meet at least four times annually at such times and at such locations as may be requested by the chair of the Committee. The external auditors or any member of the Committee may request a meeting of the Committee;
- (b) the external auditors shall receive notice of and have the right to attend all meetings of the Committee; and
- (c) the following management representatives shall be invited to attend all meetings, except executive sessions and private sessions with the external auditors:

President and Chief Executive Officer
 Chief Financial Officer
 Chief Operating Officer
 Controller

other management representatives shall be invited to attend as necessary.

- (9) The external auditors shall report directly to the Committee and the external auditors and internal auditors (if any) shall have a direct line of communication to the Committee through its chair and may bypass management if deemed necessary. The Committee, through its chair, may contact directly any employee of the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions.
- (10) The Committee may retain, at the Corporation's expense, special legal, accounting or other consultants or experts it deems necessary in the performance of its duties and may set and pay the compensation for any advisor engaged. The Committee will notify the Chairman of the Board whenever independent consultants are engaged.

Handling of Complaints

The Committee shall maintain procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters (a "whistleblower policy").

Annual Review

The Committee shall review and assess the adequacy of its mandate annually, report to the Board of Directors thereon and recommend any proposed changes to the Board of Directors for approval. The Committee shall also perform an annual evaluation of the performance of the Committee and shall report the results of the evaluation to the Chairman of the Board of the Corporation's Board of Directors.

Roles And Responsibilities

- (1) The overall duties and responsibilities of the Committee shall be as follows:
 - (a) to assist the Board in the discharge of its responsibilities relating to the Corporation's accounting principles, reporting practices and internal controls and its approval of the Corporation's annual and quarterly consolidated financial statements and management's discussion and analysis;
 - (b) to establish and maintain a direct line of communication with the Corporation's internal (if any) and external auditors and assess their performance;
 - (c) to assist the Board in the discharge of its responsibilities relating to oversight of the Company's internal, financial and disclosure controls and procedures;

- (d) to periodically review the audit and non-audit services pre-approval policy and recommend to the Board any changes which the Committee deems appropriate;
 - (e) to periodically consider whether there is a need to outsource internal audit functions or create an internal audit department;
 - (f) to assist the Board in the discharge of its responsibilities relating to the evaluation and disclosure of its oil and gas reserves and oil and gas activities and the approval and filing of all necessary statements and reports related thereto;
 - (g) to receive and review complaints received pursuant to the Corporation's Whistleblower Policy and oversee and provide direction on the investigation and resolution of such concerns and to periodically review the said policy and recommend to the Board changes which the Committee may deem appropriate;
 - (h) to report regularly to the Board on the fulfilment of its duties and responsibilities;
 - (i) to identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation;
 - (j) to ensure that it satisfies those responsibilities set out in Part 2 of MI 52-110 and provisions contained within the Companion Policy to 52-110; and
 - (k) review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
- (2) The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:
- (a) to be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting;
 - (b) to recommend to the Board a firm of external auditors to be nominated for appointment by the shareholders of the Corporation, and to monitor and verify the independence of such external auditors;
 - (c) to review and approve the fee, scope and timing of the audit and other audit related and non-audit services rendered by the external auditors;
 - (d) review the audit plan of the external auditors prior to the commencement of the audit;
 - (e) to review with the external auditors, upon completion of their audit:
 - (i) contents of their report;
 - (ii) scope and quality of the audit work performed;
 - (iii) adequacy of the Corporation's financial and auditing personnel;
 - (iv) co-operation received from the Corporation's personnel during the audit;
 - (v) internal resources used;
 - (vi) significant transactions outside of the normal business of the Corporation;
 - (vii) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and

- (viii) the non-audit services provided by the external auditors, as pre-approved pursuant to the audit and non-audit services pre-approval policy;
 - (f) to discuss with the external auditors the quality and not just the acceptability of the Corporation's accounting principles;
 - (g) to review any unresolved issues between management and the external auditors that could affect the financial reporting or internal controls of the Corporation;
 - (h) to implement structures and procedures to ensure that the Committee meets the external auditors on a regular basis in the absence of management; and
 - (i) to receive a written statement not less than annually from the external auditor describing in detail all relationships between the auditor and the Corporation that may impact the objectivity and independence of the auditor. The Committee shall review annually with the Board of Directors the independence of the external auditors and either confirms to the Board of Directors that the external auditors are independent or recommend that the Board of Directors take appropriate action to satisfy itself of the external auditor's independence.
- (3) The duties and responsibilities of the Committee as they relate to the internal control procedures of the Corporation are to:
- (a) review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to insurance, accounting, information services and systems and financial controls, management reporting and risk management;
 - (b) review compliance under the Corporation's Code of Business Conduct Policy with those matters addressed in the policy which affect the financial integrity of the Corporation and to periodically review this policy and recommend to the Board changes which the Committee may deem appropriate; and
 - (c) periodically review the Corporation's financial and auditing procedures and the extent to which recommendations made by the internal accounting staff or by the external auditors have been implemented.
- (4) The Committee is also charged with the responsibility to:
- (a) review and recommend to the Board for its approval, the Corporation's annual financial statements, management's discussion and analysis, annual information form and annual earnings press releases before the Corporation publicly discloses this information;
 - (b) review and approve the Corporation's interim financial statements, interim management's discussion and analysis including the impact of unusual items and changes in accounting principles and estimates and report to the Board with respect thereto and interim earnings press releases before the Corporation publicly discloses this information;
 - (c) review and approve the financial sections of:
 - (i) the annual report to shareholders;
 - (ii) the annual information form;
 - (iii) prospectuses;
 - (iv) other public reports requiring approval by the Board; and

- (v) press releases related thereto,
and report to the Board with respect thereto;
- (d) review regulatory filings and decisions as they relate to the Corporation's consolidated financial statements;
- (e) review the appropriateness of the policies and procedures used in the preparation of the Corporation's consolidated financial statements and other required disclosure documents, and consider recommendations for any material change to such policies;
- (f) review and report on the integrity of the Corporation's consolidated financial statements;
- (g) review the minutes of any audit committee meeting of any subsidiary of the Corporation;
- (h) review with management, the external auditors and, if necessary, with legal counsel, any litigation, 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 such matters have been disclosed in the consolidated financial statements;
- (i) review the Corporation's compliance with regulatory and statutory requirements as they relate to financial statements, tax matters and disclosure of material facts;
- (j) develop a calendar of activities to be undertaken by the Committee for each ensuing year related to the Committee's duties and responsibilities as set forth in this Charter and to submit the calendar in the appropriate format to the Board of Directors within a reasonable period of time following each annual general meeting of shareholders;
- (k) ensure all material public documents relating to the financial performance, financial position or analysis thereon are reviewed by the Committee or another appropriate committee, as designated by the Board of Directors. In certain cases which involve severe timing considerations, the Committee may designate the responsibility for review to any two members of the Committee. The Committee shall review and monitor practices and procedures adopted by the Corporation to assure compliance with applicable listing requirements, laws, regulations and other rules, and where appropriate, make recommendations or reports thereon to the Board of Directors;
- (l) The Committee shall review significant changes in the accounting principles to be observed in the preparation of the accounts of the Corporation and its subsidiaries, or in their application, and in financial disclosure presentation; and
- (m) The Committee shall prepare or review such reports as may be required by any applicable securities regulatory authority to be included in the Corporation's Information Circular or any other disclosure document of the Corporation.

Accountability

The Committee shall report its activities and proceedings to the Board by distributing the minutes of its meetings or by oral or written report at the next Board meeting.

Standards of Liability

Nothing contained in this mandate is intended to expand applicable standards of liability under statutory, regulatory, common law or any other legal requirements for the Board or members of the Committee. The purposes and responsibilities outlined in this mandate are meant to serve as guidelines rather than inflexible rules and the Committee may adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.

Annual Review And Assessment

The Committee shall conduct an annual review and assessment of its performance, including compliance with this Charter and its role, duties and responsibilities, and submit such report to the Board of Directors.

Committee Timetable

The major activities of the Committee with respect to scheduled meetings will be outlined in an annual schedule.

**TERMS OF REFERENCE FOR
AUDIT COMMITTEE CHAIR**

The Chair is appointed annually by and reports to the Board. The Chair's primary role is managing the affairs of the Committee, including ensuring the Committee is organized properly, functions effectively and meets its obligations and responsibilities. The Chair works with the Chief Financial Officer ("CFO") of the Corporation to ensure effective relations with Committee members. The Chair maintains on-going communications with the CFO and with such other officers of the Corporation as the Chair determines appropriate. The Chair, in conjunction with the Committee, maintains ongoing communications with the Trust's external auditors. The Chair has the responsibility to lead the Committee and report to the Board after each Committee meeting.

The Chair also has the responsibility to ensure the Committee is alert to its obligations to the Board and pursuant to law and to chair Committee meetings.

The Chair must also:

- (a) assist the Board in its recommendation of Committee members and its review of the performance and suitability of the Committee;
- (b) ensure the co-ordination of the agenda, information packages and related events for Committee meetings in conjunction with the Board Chair, the CFO and the Corporate Secretary;
- (c) maintain a liaison and communication with Committee members, other directors and the Board Chair to co-ordinate input from Committee members and directors, and optimize the effectiveness of the Committee;
- (d) in collaboration with the CFO and other officers, ensure information requested by Committee members is provided and meets their needs;
- (e) in conjunction with the Nomination and Corporate Governance Committee, the Board and the Board Chair, review and assess Committee attendance, performance and compensation and the size and composition of the Committee; and
- (f) in conjunction with the Compensation Committee, lead the Committee in assessing the performance of the Corporation's financial management team.