

AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

PURPOSE

The Audit Committee (the “Committee”) is a standing committee appointed by the Board of Directors (the “Board”). It is established to fulfill applicable public company obligations respecting Audit Committees and to assist the Board in fulfilling its oversight and fiduciary responsibilities to the shareholders, potential shareholders and the investment community with respect to the integrity of accounting, audit and financial reporting and disclosure practices of Klondike Star Mineral Corporation (“Klondike Star” or “company”).

The Committee’s oversight duties include: (i) the integrity, adequacy and timeliness of the company’s financial statements, reporting and other public disclosures; (ii) the company’s compliance with legal and regulatory requirements relating to financial reporting; (iii) processes for identifying the principal financial risks of the company and control systems in place to monitor them; (iv) the qualifications, independence and performance of the external auditors; (v) monitoring of policies concerning legal and ethical conduct; and (vi) providing and maintaining free and open lines of communications between the Board, the independent external auditors, and company financial and senior management.

MEMBERSHIP

The Committee shall be composed of at least three independent directors of the Board. The Chair and members, including any vacancies that may arise, shall be appointed and may be replaced by the Board, with or without cause. Appointments may be for prescribed or indeterminate periods so long as members remain qualified directors. The Committee may appoint a Deputy-Chair to act in the absence of the Chair.

All members of the Committee shall be directors whom the Board has determined are independent of management of the company and are free of any relationship that, in the opinion of the Board, would interfere with his or her individual exercise

of independent judgment as a committee member.

For this determination, the Board shall be guided by the applicable rules of the Securities and Exchange Commission and the NASDAQ Marketplace Rules. The Chair of the Board may not be a member.

In particular, each Committee member must:

- (1) be independent as defined under NASDAQ Rule 4200(a)(15), elaborated by IM – 4200, and Rule 4350 that establishes additional requirements for Audit Committee members.
- (2) meet the criteria for independence set forth in Rule 10A-3(b)(1), subject to exemptions provided in Rule 10A-3(c), under the Securities Exchange Act of 1934 (the “Exchange Act”) which states, in part, that a member of the Committee shall be considered independent if:
 - (a) he or she, other than in his or her capacity as a member of the Committee, Board or any other committee of the Board, does not accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation or any subsidiary thereof. The indirect acceptance of a consulting, advisory or other compensatory fee shall include acceptance of the fee by a spouse, minor child or stepchild, or child or stepchild sharing a home with the Committee member, or by an entity in which such member is a partner, member or principal or occupies a similar position and which provides accounting, consulting, legal, investment banking, financial or other advisory services or any similar services to the Corporation;
 - (b) is not currently employed, and has not been employed in the past three years, by the company or any of its affiliates;



- (c) is not an “affiliated person” of the company or any of its subsidiaries as defined by rules of the Securities and Exchange Commission, including rules promulgated under the Exchange Act, and applicable stock market or exchange listing rules (the “Listing Rules”); and
 - (d) he or she meets all the other requirements for independence imposed by law and the Listing Rules from time to time and any requirements imposed by any Canadian body having jurisdiction over the Corporation.
- (3) not have participated in the preparation of the financial statements of the company or any current subsidiary of the company at any time during the past three years.
 - (4) meet the “non-employee director” standard within the meaning of Rule 16b-3 of the Exchange Act, as amended from time to time; and
 - (5) meet the “outside director” standard within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended from time to time (the “Code”).

Each member of the Committee shall be “financially literate” and at least one member ought to have significant “accounting or related financial management expertise”¹ as those terms are defined from time to time under the requirements or guidelines for Audit Committee service under securities laws and the rules of any stock market or exchange on which the company’s securities are listed for trading.

Except as noted, no one other than the chair of the Audit Committee and its members is entitled to be present at a meeting of the Committee. It is expected that the external auditor and chief financial officer or comptroller will be invited regularly to attend meetings. Others may be invited to attend all or part of any meeting at the Committee’s request, as and when appropriate.

AUTHORITY

The Board authorizes the Audit Committee to carry out the roles and responsibilities outlined in this charter.

The Committee is empowered, including approval of fees and other retention terms, to obtain advice and assistance from outside legal, accounting or other advisors on any manner within its terms of reference, at company expense, which shall provide the Committee with adequate funding for such purposes.

The Audit Committee shall have unrestricted access to company management, employees and financial service providers, records and information, external (and internal, if any) auditors, including private meetings, as necessary or appropriate.

Unless prohibited by applicable laws, rules or regulations, in exigent circumstances caused by time constraints or similar factors, the Chair of the Committee is authorized to take actions required of the Committee under this Charter and to report such actions to the Committee.

The Committee may appoint a Secretary who need not be a director.

MEETINGS

The Committee shall meet regularly at times necessary to perform its duties, but not less than three times per year at appropriate times in the reporting and audit cycle.

The time and place of the meetings of the Committee, the calling of meetings and the procedure in all things at such meetings may be determined by the Chair of the Committee. The Committee may act by unanimous written consent of its members.

In the absence of the Chair, the Committee shall select a Chair for that meeting. A majority of the members of the Committee shall constitute a quorum and the act of a majority of the members present at a meeting where a quorum is present shall be the act of the Committee.

The Chair shall, in consultation with the President and/ or Vice-President and Comptroller, 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.

The external auditor is entitled to receive notice of every meeting of the Audit Committee, to attend and be heard at each meeting, and, if so required by the Chair of the

Audit Committee, the auditor shall attend any or every meeting of the committee.

The Committee shall meet at least annually with each of the company's management, the comptroller and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

The Audit Committee will maintain minutes or other records of its meetings and activities that shall be filed as part of the company's corporate records. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

ROLES AND RESPONSIBILITIES

The function of the Committee is oversight. In carrying out its broad oversight responsibilities, the Committee is not accountable or responsible for day-to-day operation or performance of financial reporting, risk and control related activities of the company or planning or conducting audits. Nor is the Committee providing any expert or special assurance as to the company's financial statements or any professional opinion as to the outside auditors' work.

Company management is responsible for the preparation, presentation and integrity of the company's financial statements. Management is also responsible for (i) maintaining appropriate accounting and financial reporting principles and policies, (ii) maintaining systems of risk assessment and internal controls and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, recorded and reported, and (iii) assuring the reliability of financial reporting and compliance with accounting standards and applicable laws and regulations. Management is also responsible for documenting, evaluating and reporting on internal controls.

The company's independent external auditors are responsible for the audit or review, as applicable, of the financial statements in accordance with generally accepted auditing standards, applicable laws and regulations, and to provide its opinion that the financial statements present fairly, in all material respects, the

financial position, results of operations and cash flows of the company. As such, it is not the duty or responsibility of the Committee or any of its members to plan or conduct any type of audit or accounting review or procedure or set auditor independence standards.

The Committee has the following specific powers, functions and responsibilities:

Selection of the external auditor and oversight of the audit

1. Be directly responsible for the appointment, compensation, retention (including termination) and oversight of the work of any independent auditor engaged by the company for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, subject to applicable law and regulatory requirements. The independent auditor shall report directly to the Committee. In circumstances where the responsibility for appointing the independent, external auditor is vested with shareholders, the Committee is solely responsible for making the recommendation or nomination to the shareholders.
2. Be vested with all responsibilities and authority required by Rule 10A-3 under the Exchange Act.
3. Pre-approve all engagement letters and fees for all auditing services (including providing comfort letters in connection with securities underwritings) and non-audit services performed by the outside auditors, subject to any exception under Section 10A of the Exchange Act and any rules promulgated thereunder. Pre-approval authority may be delegated to the Chair or a Committee member, and any such member shall report any decisions to the full Committee at its next scheduled meeting. The Committee shall not approve an engagement of outside auditors to render non-audit services that are prohibited by law or the Listing Rules. The Committee will review a summary of non-audit and assurance work performed for the company at least annually.
4. Obtain from the external auditors assurance that they have complied with Section 10A, as amended, of the Exchange Act and the rules promulgated thereunder.

5. Review with the external auditors, at least annually, all reports which the external auditors are required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the external auditors, as well as any of the reports which the Committee may require. Such reports shall include a description of the auditors' internal quality control procedures and any material issues raised by the most recent internal quality or peer review of the external auditors and steps taken to deal with any such issues; and a report describing (i) all critical accounting policies and practices to be used by the company in the preparation of its annual financial statements, (ii) alternative accounting treatments and their ramifications within generally accepted accounting principles (iii) other material written communication between the external auditors and management, such as any management letter or schedule of unadjusted differences.

Annual and interim financial reporting

6. Review, evaluate and discuss with the external auditors and management the company's audited annual financial statements and other information that is to be included in the company's annual report on Form 10-KSB, including the disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, and the results of the outside auditors' audit of the company's annual financial statement, including the accompanying endnotes and the external auditors' opinion, and determine whether to recommend to the Board that the financial statements be included in the company's annual report on Form 10-KSB for filing with the Securities Exchange Commission ("SEC").
7. Review, evaluate and discuss the nature and extent of any significant changes in U.S. accounting principles or the application of accounting principles. In so doing, the Committee may, as it deems necessary, review and discuss with management and the external auditors:
- (a) the quality, appropriateness and acceptability of the company's accounting principles and practices used in its financial report;
 - (b) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects of alternative methods within generally accepted accounting principles on the statements, and any "second opinions" sought by management with respect to the accounting treatment of a particular item;
 - (c) disagreements between management and the external auditors on the application of any accounting principles or practices;
 - (d) the effect of regulatory and accounting initiatives on the company's financial statements and other financial disclosures;
 - (e) any reserving, accruals, provisions or estimates or business programs or policies, including factors that affect asset and liability carrying values and the timing of revenue and expense recognition, that may have a material effect upon the financial statements of the company;
 - (f) the use of special purpose entities and the business purpose and economic effect of transactions, contracts, arrangements, obligations, guarantees and other relationships of the company that are "off balance sheet" and their impact on the reported financial results and condition of the company;
 - (g) the manner in which the company's financial statements disclose (i) any legal matter, claim or contingency that could have a significant impact on the financial statements; and, (ii) the company's compliance with and policies concerning any material reports, inquiries or other correspondence received from regulators or governmental agencies;
 - (h) the treatment for financial reporting purposes of any significant transactions which are not a normal part of the company's operations; and
 - (i) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles.

8. Require the external auditors to review the company's interim financial statements, and review and discuss with the external auditor and management those statements and other information to be included in the company's quarterly reports on Form 10-QSB, including the disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, prior to filing such reports with the SEC.
 9. Review and discuss with management and external auditors significant accounting and reporting principles, practices and procedures applied in preparing the financial statements and any major changes to the company's accounting or reporting principles, practices or procedures, as brought to its attention by management or the external auditors.
 10. Review significant accounting and reporting issues, including recent or proposed regulatory announcements and rule changes, U.S. GAAP matters and professional actions identified to the Committee by management or the external auditors, and understand their impact on the financial statements.
 11. Review the results of any material difficulties, differences or disputes with management encountered by the external auditors during the course of the audit or reviews, and if necessary, be responsible for overseeing the resolution of such matters.
 12. Review the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communications with Audit Committees), relating to the conduct of the audit.
 13. Receive from the external auditors, review and discuss a formal written statement delineating all relationships between the external auditors and the company, consistent with the Independence Standards Board, Standard No. 1, regarding relationships and services, which may impact the objectivity and independence of the external auditors, and other applicable standards. The statement shall include a description of all services provided by the outside auditors and the related fees. The Committee shall discuss any disclosed relationships or services that may impact the objectivity and independence of the external auditors, and take appropriate action to oversee the independence of the external auditor.
 14. Review the scope, plan and procedures to be used on the annual audit and receive confirmation from the external auditors that no limitations have been placed on the scope or nature of their audit, plan or procedures.
- Internal control and risk management**
15. Review annually the adequacy and quality of the company's financial and accounting staffing or service, as well as the need, plan, budget and responsibility for internal audits or reviews.
 16. Review the material findings of internal audits or reviews, if any.
 17. Review annually with the external auditors any significant matters regarding the company's internal controls and procedures over financial reporting that have come to their attention during the conduct of their annual audit, and review whether internal control recommendations made by the auditors have been implemented by management.
 18. Review major risk exposures for the company, whether financial, computerized information systems, operating or otherwise, and the policies and guidelines that management has put in place to govern the process of monitoring, controlling and reporting such risks.
 19. Review and evaluate at least annually the company's policies and procedures for managing and investing cash funds.

20. Review annually management’s report on internal controls and the auditor’s attestation regarding management’s assessment of internal controls, when and as required by Section 404 of the Sarbanes-Oxley Act.
21. Evaluate whether management is setting the appropriate tone at the top by communicating the importance of internal controls and ensuring that all supervisory and accounting employees/service providers understand their roles and responsibilities with respect to internal controls.

Related party transactions

22. Review any transaction involving the company and a related party at least annually or upon any significant change in the transaction or relationship, and the Committee shall approve all such transactions. For these purposes, a “related party transaction” includes any transaction required to be disclosed pursuant to Regulation S-K, Item 404 of Securities Exchange Act of 1934.

Earnings, financial and mineral information, press releases

23. Review and discuss with management and the external auditors prior to release of all earnings press releases of the company, as well as financial information and earnings guidance, if any, provided by the company to analysts and rating agencies or shareholders. This role may be delegated by the Committee to the Chair. The substance of presentations to analysts, rating agencies or shareholders involving material changes in the company’s strategy or outlook shall be reviewed with the full Board prior to the event.
24. Review and discuss with management all mineral resource, reserve and valuation press releases of the company and the associated disclosure standards for companies engaged in mineral exploration, development and production, as well as related information and guidance, if any, provided by the company to analysts and rating agencies.

Compliance with law and regulations

25. Meet at least annually with management to review compliance with laws and regulations (including insider reporting) in all operating jurisdictions, the effectiveness of the company’s systems for monitoring compliance with laws and regulations, and the results of any investigation and management follow-up (including disciplinary action) on any fraudulent or illegal acts or accounting irregularities.
26. Periodically obtain updates from management regarding compliance matters and litigation claims or other contingencies that could have a significant impact on the financial position or operating results of the company.

Compliance with company code of business conduct and ethics

27. Review with management, the external auditors and legal counsel, as the Committee deems appropriate, actions taken to provide reasonable assurance of compliance with the code of business conduct and ethics established for the company by the Board.
28. Review at least annually the company’s code of ethics policy adopted to comply with Section 406 of Sarbanes-Oxley Act.
29. Evaluate whether management is setting the appropriate tone at the top by communicating the importance of the company’s ethics and business conduct code.

Complaints

30. Unless otherwise provided by the company, establish and monitor procedures for the receipt of and response to complaints received by the company, or by the Committee regarding accounting, internal accounting controls or audit matters; and, the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

31. Review periodically with management and the internal auditor, if any, the procedures for receiving such complaints and any significant complaints received. In so doing, the Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

Other duties and responsibilities

32. The Audit Committee shall plan and organize ongoing orientation and professional education and training activities for new and existing members on the role of the Audit Committee, methods of discharging responsibilities, role of the external auditor, on changes in related laws or regulatory requirements, significant issues of accounting principles and policies, internal control and risk management, and the company's business.

33. At least annually, the Committee shall review with management and external auditors the applicable law and the Listing Rules relating to the qualifications, activities, duties and responsibilities of auditor committees and compliance therewith, and take or recommend the Board take appropriate action to comply. Concurrently the Committee may review their work, emerging developments and best practices in auditing and governance, and the adequacy of this Charter and make recommendations to the Board.

REPORTING

The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, and may make any recommendations to the Board it deems appropriate on any area within its mandate where action or improvement is needed.

The Committee shall compile a report or disclosure letter to shareholders on its roles and responsibilities and the actions taken to discharge those responsibilities for inclusion in any annual proxy circular and the annual report for the company.

The Chair of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

The Committee shall ensure that the company includes in any annual proxy statements:

- (1) Declaration of independence – statement on whether the Audit Committee members are “independent” under the standards established under the Exchange Act, the Sarbanes Oxley Act of 2002 and by the NASDAQ National Market, and disclose for any non-independent director the nature of the relationship that makes the director not independent and the reasons for the Board' decision to appoint such director to the Audit Committee;
- (2) The Audit Committee Charter – that the Board has adopted a written charter for the Audit Committee and include a copy of the charter as an appendix to any proxy statement at least once every three years;
- (3) Audit Committee Report – a report from the Audit Committee that states (i) whether the Audit Committee has reviewed and discussed the company's audited financial statements with management; (ii) whether the Audit Committee has discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 61; (iii) whether the Audit Committee has received the written disclosures and letter from the issuer's independent auditors relating to the independence as required by Independent Standards Board (“ISB”) Standard No.1, and has discussed with the auditors the auditors' independence; and (iv) whether the Audit Committee has recommended to the Board, based on the reviews and discussions referred to in the foregoing items, that the audited financial statements be included in the company's annual report on Form 10-KSB.

The Committee shall review all public disclosures with respect to its pre-approval of audit and non-audit services provided by the external auditors.

The Committee shall ensure that the Audit Committee Charter is disclosed on the company's public website and that this Charter, or a summary of it which has been approved by the Committee, is disclosed in accordance with applicable securities laws or regulatory requirements in any annual proxy circular or annual report of the company.

CHARTER IMPLEMENTATION

The Board is ultimately accountable to shareholders and securities regulators for the integrity of accounting, audit and financial reporting and disclosure practices of the company. Implementation of this Charter is being phased in following its approval by the Board. Some aspects will become effective concurrent with the dates for compliance by small public companies with the Sarbanes-Oxley Act of 2002, certain associated rules of the Commission under the Exchange Act and related Marketplace Rules of the NASDAQ Stock Market.

ENDNOTES

¹For purposes of this Charter, “financially literate” means the ability to read and understand a balance sheet, an income statement, a cash flow statement and the related notes; and, “accounting or related financial management expertise” means the ability to analyze and interpret a full set of financial statements, including the related notes. The designation or identification of a member of the Committee as having “expertise” does not impose on such person any duties, obligations, or liability that are greater than those imposed on such person as a member of the Committee and Board in the absence of such designation or identification.

Adopted by the Board of Directors

November 29, 2005