

PACIFIC ASIA PETROLEUM, INC.

AUDIT COMMITTEE CHARTER

(Approved July 22, 2008)

I. THE PURPOSE OF THE AUDIT COMMITTEE

The purpose of the Audit Committee is to assist the Board of Directors in its general oversight of the Company's financial reporting, internal control and audit functions. Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles, internal controls and procedures designed to assure compliance with accounting standards, applicable laws and regulations. The Company's independent auditing firm is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards.

The Audit Committee members are not professional accountants or auditors and their functions are not intended to duplicate or certify the activities of management and the independent auditor, nor can the Committee certify that the independent auditor is "independent" under applicable rules. The Committee serves a board-level oversight role where it provides advice, counsel and direction to management and the auditors on the basis of the information it receives, discussions with the auditors and the experience of the Committee's members in business, financial and accounting matters.

II. APPOINTMENT

There shall be an Audit Committee comprised of at least three members, each of whom: (1) shall satisfy the requisite independence standards specified in Section 803A of the American Stock Exchange Company Guide (the "Company Guide") and rule 10A-3 under the Securities Exchange Act of 1934 (the "Act") (subject to any applicable exceptions and cure periods); and (2) is able to read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement, as required by Section 803B(2)(a)(iii) of the Company Guide. In addition, one of the members of the Audit Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities. An independent director is a director who is not an officer or employee of the Company or its subsidiaries and who does not have a material relationship which, in the opinion of the Company's Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons shall not be considered independent:

- A. a director who is employed by the Company or any of its affiliates for the current year or any of the past three years;

- B. a director who accepts any compensation from the Company or any of its affiliates in excess of \$60,000 during the previous fiscal year, other than compensation for board service, benefits under a tax-qualified retirement plan, or non-discretionary compensation;
- C. a director who is a member of the immediate family of an individual who is, or has been in any of the past three years, employed by the Company or any of its affiliates as an executive officer;
- D. a director who is a partner in, or a controlling stockholder or an executive officer of, any for-profit business or organization to which the Company made, or from which the Company received, payments (other than those arising solely from investments in the Company's securities) that exceed 5% of the Company's or business organization's consolidated gross revenues for that year, or \$200,000, whichever is more, in any of the past three years;
- E. a director who is employed as an executive of another entity where any of the Company's executives serve on that entity's compensation committee;
- F. a director who is, or has an immediate family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

The members of said Committee shall be appointed by the Board of Directors annually and shall continue to act until their successors are elected, but shall be subject to removal at any time by the majority of the entire Board. Any such vacancy shall be filled by the Board.

III. POWERS

The Audit Committee shall: (a) assist the Board of Directors in discharging its statutory and fiduciary responsibilities with regard to audits of the books and records of the Company and the monitoring of its accounting and financial reporting practices; (b) carry on appropriate oversight to determine that the Company and its subsidiaries have adequate administrative and internal accounting controls and that they are operating in accordance with prescribed procedures and codes of conduct; and (c) independently review the Company's financial information that is distributed to stockholders and the general public.

IV. MEETINGS

The Audit Committee shall meet at least quarterly each year in accordance with the attached agenda and at such other times as determined by the Chairman of the Committee. Two (2) members of the Committee shall constitute a quorum for the transaction of business.

V. DUTIES AND RESPONSIBILITIES

- A. Annually
 - 1. Recommend to the Board of Directors the appointment and, when necessary, removal of the independent accountants; such recommendations shall reflect

evaluation of:

- (a) Independence, professional capability and fees.
 - (b) Accessibility to the full Board.
 - (c) Accountability and loyalty to the Committee and to the full Board of Directors, as the stockholders' representatives.
2. Request from the auditor a formal written statement delineating all relationships between the auditor and the Company, consistent with Independence Standards Board Standard 1, and engage in a dialogue with the auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor, and take, or recommending that the full board take, appropriate action to oversee the independence of the auditor.
 3. Discuss with the auditor the matters required to be discussed by Statement of Auditing Standards No. 61 relating to responsibilities, policies, etc.
 4. Review and approve the auditors' annual audit plan and audit scope including a description of key functions and/or locations to be audited, a general description of each of the non-audit services provided or to be provided, and an estimate of audit and non-audit fees and costs for the year and actual versus estimated for the preceding year. Ascertain that resources are reasonably allocated as to risk and exposure. Determine that the plan calls for review and testing of internal controls, and includes procedures to follow up on prior year's recommendations and to evaluate management's response to such recommendations.
 5. Appraise the efficiency and effectiveness of the audit efforts and of financial accounting and reporting systems through scheduled meetings with the auditors. Determine that management places no restrictions on the scope of audits or examinations. Management representatives shall be excused during these discussions as appropriate.
 6. Determine that the audits of the Company and its affiliates are in compliance with statutory requirements and managerial policy by reviewing (a) the scope of the auditor's annual audit plans; and (b) appropriate summaries of the results of audits prepared by the auditors.
 7. Determine that adequate systems and audit coverage are in place for making inquiry of officers and employees of the Company and its subsidiaries about compliance with the Code of Ethics of the Company, if any.
 8. Review the annual financial statements and Annual Report on Form 10-K with the auditors, including the following:

- (a) Affirm that management and the independent accountants are satisfied with the disclosures and the form and content of such financial statements. Management and the independent accountants should provide to the Audit Committee qualitative judgments about the appropriateness, not just acceptability of accounting principles and financial disclosure practices used including degree of aggressiveness or conservatism of accounting principles used.
 - (b) Annually review the current value of all significant intangible assets.
 - (c) Present to the Board its review and recommendation of the Form 10-K.
- 9. Review with management and the auditors, their assessments of the adequacy of internal controls and the resolution of any identified material weaknesses and reportable conditions.
 - 10. Review with management and the auditors, their assessments of compliance with laws and regulations regarding loans to insiders and dividend restrictions.
 - 11. Annually review the process governing the preparation of quarterly financial statements and related disclosures.
 - 12. Review reports from management detailing the engagement of non-principal auditors including consultations, if any, with other auditors regarding significant accounting issues.
 - 13. Develop and review reports on the status of disaster recovery planning for the Company.
 - 14. Ensure that appropriate follow-up takes place on open issues (e.g. audit, regulatory)
 - 15. Review and reassess the adequacy of the Charter and recommend any changes to the Board.
 - 16. Prepare the report to be included in the annual proxy statement.

B. Periodically

- 1. The Chairman of the Audit Committee is to be contacted directly by the Internal Audit Directors of the independent auditor (1) to review items of a sensitive nature that can impact the accuracy of financial reporting or (2) to discuss significant issues relative to the overall Board responsibility that have been communicated to management but, in their judgment, have not been adequately addressed.
- 2. Review any changes in accounting policies or principles which are expected to be disclosed in the financial statements. Ascertain the reasons for the change and inquire if the accounting change will be mentioned in the independent accountant's

report. Discussion should include auditor and management qualitative judgments about the appropriateness, not just acceptability, of the proposed change and degree of aggressiveness or conservatism underlying the proposed change.

3. Review internal accounting controls and compliance with applicable laws and regulations through a review of reports and management letters issued by the auditors in respect thereof. Determine that management's responses and proposed actions are appropriate; determine whether such actions have been or are being implemented by reviewing audit reports.
4. Review reports from counsel regarding significant litigation as reflected in the financial statements.
5. Review a report prepared by the Chief Financial Officer of the expense reimbursement requests of the Chief Executive Officer on a periodic basis, but at least annually and discuss, as necessary, with the Company's independent auditors.
6. Review and approve all material transactions between the Company and its directors, officers and 5% or greater shareholders, as well as all material transactions between the Company and any relative or affiliate of any of the foregoing.
7. Establish 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.

C. Quarterly

1. The Chairman of the Audit Committee shall meet in person or telephonically with the Company's independent auditors prior to release of the Company's quarterly financial results. The independent auditors will inform the Chair of any work remaining to be done before the Form 10-Q is ready to be filed.
2. The Audit Committee shall meet in person or telephonically at least once each quarter prior to release of the Company's quarterly financial results.

VI. REPORTING

The Audit Committee will prepare and, through its Chairman, submit periodic reports of the Committee's work and findings to the Board of Directors. Said report will contain recommendations for appropriate Board actions. The Committee will annually present to the Board a review and recommendations concerning the annual report and Form 10-K.

VII. MANAGEMENT SUPPORT

To assist the Audit Committee in fulfilling its duties, management will provide the Committee with information and reports as needed and requested. The Committee shall have access to the Corporation's general counsel, and the ability to retain outside legal counsel or other experts at its discretion if it deems such action to be necessary.

PACIFIC ASIA PETROLEUM, INC.
CORE AGENDA FOR AUDIT COMMITTEE

Annual Tasks

1. Review proposed engagement letter and description of relationships and recommend appointment of independent accountants.
2. Review and approve total audit costs for the Company.
3. Appraise internal/external audit efficiency and effectiveness.
4. Review compliance with Company Code of Ethics, if any.
5. Review results of audit of executive officers' expenses.
6. Review annual financial statements and annual report on Form 10-K.
7. Review corporate charitable gifts.
8. Review with management and the auditors their assessment of the adequacy of internal controls.
9. Review with management and the auditors their assessment of compliance with certain laws and regulations.
10. Review of significant litigation.
11. Review significant accounting changes.
12. Review reports on significant losses.
13. Review and assess the adequacy of the Audit Committee Charter.