



Clean Energy Systems, Inc.

Audit Committee Charter

The Audit Committee is a committee of the Board of Directors of Clean Energy Systems, Inc. Its charter was adopted by the board on December 8, 2006.

I

Purpose

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling the board's oversight responsibilities regarding:

- The integrity of the corporation's financial statements.
- The corporation's compliance with legal and regulatory requirements.
- The independent auditor's qualifications and independence.
- The performance of the corporation's internal audit function and independent auditor.

The committee's responsibilities are limited to oversight. Management of the corporation is responsible for the corporation's financial statements, including the estimates and judgments on which they are based, as well as the corporation's financial reporting process, accounting policies, internal audit function, internal accounting controls and disclosure controls and procedures. The independent auditor is responsible for performing an audit of the corporation's annual financial statements, expressing an opinion as to the conformity of the annual financial statements with generally accepted accounting principles and reviewing the corporation's quarterly financial statements. It is not the responsibility of the committee to plan or conduct audits or to determine that the corporation's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable laws, rules and regulations.

Each member of the committee is entitled to rely on the persons within the corporation and the professionals and experts (including the independent auditor and the corporation's internal auditor) from which the committee receives information and upon

the accuracy of the financial and other information they provide to the committee. The members of the committee are not auditors and in fulfilling their responsibilities under this charter are not expected to follow the policies or procedures of independent or internal auditors. In particular, the term “review” as used in this charter is not intended to have the meaning set forth in Statement of Accounting Standards No. 71 (which defines the term “review” to include a particular set of required procedures to be undertaken by independent auditors) and should not be interpreted to suggest that the committee members should follow the procedures required of auditors.

II

Structure

2.1 Membership

The committee consists of no fewer than three members of the board. The committee’s members, including its chair, are appointed by the board. The board also may appoint one or more additional members of the board as alternate members of the committee to replace any absent member at any committee meeting. No member of the committee shall have participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time within the past three years.

Members of the committee are not required to be financial, accounting or auditing professionals and, consequently, some members or alternate members may not be expert in financial matters or in matters involving accounting or auditing. However, a majority of the members and alternate members must be “independent”. All members and alternate members must be “financially literate” and at least one member must be an “audit committee financial expert” within the meaning of the rules and regulations of the NASDQ and the Securities and Exchange Commission.

No member or alternate member of the committee may simultaneously serve on the audit committee of more than two other public companies, unless the board has affirmatively determined that such simultaneous service would not impair his or her ability to serve effectively on the committee and such determination is disclosed in the corporation’s proxy statement.

All committee members and alternate members serve at the pleasure of the board and any member or alternate member may be removed, with or without cause, by the board.

For the purpose of this section:

- (a) “financially literate” shall mean: be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statements at the time of appointment to the Audit Committee.
- (b) “audit committee financial expert” shall mean: An individual who has 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 oversight responsibility.

2.2 Power and Authority

In addition to the powers and responsibilities expressly delegated to the committee in this charter, the committee may exercise any other powers and carry out any other responsibilities from time to time delegated to it by the board. The committee also may conduct or authorize investigations into any matter within the scope of the duties and responsibilities delegated to the committee.

The powers and responsibilities delegated to the committee may be exercised in any manner the committee deems appropriate (including delegation to subcommittees) and without any requirement for board approval except as otherwise specified in this charter or the board's delegation. Any decision by the committee, including any decision to exercise or refrain from exercising any of its delegated powers, is at the committee's sole discretion. While acting within the scope of the powers and responsibilities delegated to it, the committee may exercise all the powers and authority of the board and, to the fullest extent permitted by law, has the authority to determine which matters are within the scope of its delegated authority.

The committee has the authority to retain and compensate independent counsel, consultants and other experts and advisors (accounting, financial or otherwise) and also may use the services of the corporation's regular counsel or other advisors to the corporation. The corporation will provide appropriate funding, as determined by the committee, for payment of compensation to the independent auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, for payment of compensation to any experts or advisors retained by the committee and for payment of ordinary administrative expenses of the committee.

2.3 Procedures

The committee will determine its own rules of procedure with respect to the call, place, time and frequency of its meetings. In the absence of such rules, the committee will meet at the call of its chair as appropriate to accomplish the purposes of the committee, but the committee will meet on a regularly scheduled basis at least once each quarter and periodically meet separately with management, with the internal auditor, with the independent auditor and with the chief legal officer.

A majority of the members of the committee will constitute a quorum for the transaction of business. Notice of meetings of the committee will be given as provided in the corporation's bylaws.

Directors who are not members of the committee may attend and observe meetings of the committee, but shall not be entitled to vote. The committee may, at its discretion, include

in its meetings members of management, representatives of the independent auditor, the internal auditor, any other accounting or professional personnel employed or retained by the corporation or any other person whose presence the committee believes to be desirable and appropriate. Notwithstanding the foregoing, the committee may exclude from its meetings any non-member who it deems appropriate to exclude.

The chair of the committee will report on the committee's activities to the board at appropriate times and as otherwise requested by the chairman of the board.

2.4 Committee Secretary

The secretary of the corporation will act as the committee's secretary. The secretary will 1) attend all meetings and keep minutes of the committee's proceedings; 2) advise members of all meetings; 3) arrange with the committee chair or other convening authority for preparation and distribution of committee agenda and supporting material for each meeting; 4) at the direction of the committee chair, make logistical and other arrangements for each meeting; and 5) carry out other functions as may be assigned from time to time by the committee.

III

Duties and Responsibilities

3.1 Interaction with the Independent Auditor

- (a) Appointment and Oversight. The committee is directly responsible and has sole authority for the appointment, compensation, retention and oversight of the work of the independent auditor (including resolution of any disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the corporation, and the independent auditor reports directly to the committee.
- (b) Pre-Approval of Services. Before the independent auditor is engaged by the corporation or its subsidiaries to render audit or non-audit services, the committee will pre-approve the engagement. Committee pre-approval of audit and non-audit services is not required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established by the committee that are detailed as to the particular service, do not include delegation of the committee's responsibilities under the Securities Exchange Act of 1934 to the corporation's management, and the committee is informed of each service provided. The committee may delegate to one or more designated members of the committee the authority to grant pre-approvals, provided such approvals are presented to the committee at a subsequent meeting. Committee pre-approval of non-audit services (other than review and attest services) also will not be required if such services fall within available exceptions established by the Securities and Exchange Commission.

- (c) Independence of the Independent Auditor. The committee will, at least annually, review the independence and quality control procedures of the independent auditor and the experience and qualifications of the independent auditor's senior personnel that are providing audit services to the corporation. In conducting its review:
- (i) The committee will obtain and review a report prepared by the independent auditor describing:
 - The auditing firm's internal quality-control procedures.
 - Any material issues raised by the most recent internal quality control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues.
 - (ii) The committee will discuss with the independent auditor its independence from the corporation, and obtain and review a written statement prepared by the independent auditor describing all relationships between the independent auditor and the corporation, consistent with Independence Standards Board Standard 1, and consider the impact that any relationships or services may have on the objectivity and independence of the independent auditor.
 - (iii) The committee will confirm with the independent auditor that the independent auditor is in compliance with the partner rotation requirements established by the Securities and Exchange Commission.
 - (iv) The committee will, if applicable, consider whether the independent auditor's provision of any permitted information technology services or other non-audit services to the corporation is compatible with maintaining the independence of the independent auditor.

3.2 Annual Financial Statements and Annual Audit

- (a) Meetings with Management, the Independent Auditor and the Internal Auditor. The committee will:
- (i) Meet with management, the independent auditor and the internal auditor in connection with each annual audit to discuss the scope of the audit, the procedures to be followed and the staffing of the audit.
 - (ii) Review and discuss with management and the independent auditor:
 - Major issues regarding accounting principles and financial

statement presentation, including any significant changes in the corporation's selection or application of accounting principles, and major issues as to the adequacy of the corporation's internal controls and any special audit steps adopted in light of material control deficiencies.

- Analyses prepared by management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the corporation's financial statements, including analyses of the effects of alternative generally accepted accounting principles on the corporation's financial statements.
- The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the corporation's financial statements.

(iii) Review and discuss the annual audited financial statements with management and the independent auditor, including the corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(b) Separate Meetings with the Independent Auditor. In separate meetings with the independent auditors, the committee will:

(i) Review with the independent auditor any problems or difficulties the auditor may have encountered during the course of its audit work, including any restrictions on the scope of its activities or access to required information or any significant disagreements with management and management's responses to such matters. Among the items that the committee should consider reviewing with the independent auditor are:

- Any accounting adjustments that were noted or proposed by the independent auditor but were "passed" as immaterial or otherwise.
- Any communications between the audit team and the independent auditor's national office respecting auditing or accounting issues presented by the engagement.
- Any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the corporation.

The committee will obtain from the independent auditor assurances that Section 10A(b) of the Securities Exchange Act of 1934 has not been implicated.

(ii) Discuss with the independent auditor the report that the auditor is required to make to the committee regarding:

- All accounting policies and practices to be used that the independent auditor identifies as critical.
- All alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed among management and the independent auditor, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor.
- Other material written communications between the independent auditor and management of the corporation, such as any management letter, management representation letter, reports on observations and recommendations on internal controls, independent auditor's engagement and independence letters, schedule of unadjusted audit differences and any listing of adjustments and reclassifications not recorded.

(iii) Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as then in effect.

(iv) Discuss the responsibilities, budget and staffing of the corporation's internal audit function.

(c) Recommendation to Include Financial Statements in Annual Report. The committee will, based on the review and discussions in paragraphs 3.2 (a)(iii) and 3.2 (b)(iii) above, and based on the disclosures received from the independent auditor regarding its independence and discussions with the auditor regarding such independence pursuant to paragraph 3.1 (c)(ii) above, determine whether to recommend to the board that the audited financial statements be included in the corporation's annual report or report to stockholders for the fiscal year subject to the audit.

3.3 Quarterly Financial Statements

The committee will review and, if required, discuss the quarterly financial statements with management and the independent auditor, including the corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

3.4 Internal Audit

(a) Appointment. The committee will approve the appointment and replacement

of the internal auditor.

- (b) **Separate Meetings with the Internal Auditor.** The committee will meet periodically with the corporation's internal auditor to discuss the responsibilities, budget and staffing of the corporation's internal audit function and any issues that the internal auditor believes warrant audit committee attention. The committee will discuss with the internal auditor any significant reports to management prepared by the internal auditor and any responses from management.

3.5 Other Duties and Responsibilities

- (a) The committee will discuss with management and the independent auditor the corporation's earnings press releases (with particular focus on any use of "pro forma," "adjusted" or other "non-GAAP" financial information), as well as financial information and earnings guidance provided to analysts and rating agencies. The committee's discussion in this regard may be general in nature (a discussion of the types of information to be disclosed and the type of presentation to be made) and need not take place in advance of each earnings release or each instance in which the corporation may provide earnings guidance.
- (b) The committee will discuss with management and the independent auditor any related-party transactions brought to the committee's attention which could reasonably be expected to have a material impact on the corporation's financial statements.
- (c) The committee will discuss with management and the independent auditor any correspondence that is brought to its attention from or with regulators or governmental agencies, or any published reports that raise material issues regarding the corporation's financial statements, financial reporting processes, accounting policies or internal audit functions.
- (d) The committee will establish procedures for the receipt, retention and treatment of complaints received by the corporation regarding accounting, internal accounting controls or auditing matters and also establish procedures for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- (e) The committee will discuss with the corporation's chief legal officer any legal matters brought to the committee's attention that could reasonably be expected to have a material impact on the corporation's financial statements and periodically will meet separately with the chief legal officer to discuss legal matters and with the chief compliance officer to discuss compliance matters.
- (f) The committee will discuss with management the corporation's policies with respect to risk assessment and risk management, significant financial risk

exposures and the actions management has taken to limit, monitor or control such exposures.

- (g) The committee will set clear hiring policies for employees or former employees of the corporation's independent auditor.
- (h) The committee will consider whether the corporation should adopt a rotation of the annual audit among independent auditing firms.
- (i) The committee will provide the corporation with the report of the committee with respect to the audited financial statements for inclusion in the corporation's proxy statement.
- (j) The committee, through its chair, will report regularly to, and review with, the board any issues that arise with respect to 1) the quality or integrity of the corporation's financial statements, 2) the corporation's compliance with legal or regulatory requirements, 3) the performance and independence of the corporation's independent auditor, 4) the performance of the corporation's internal audit function or 5) any other matter the committee determines is necessary or advisable to report to the board.

IV

Communications from Shareholders, Employees and Others

Shareholders, employees and other interested persons who wish to communicate with the committee (including communicating complaints regarding the corporation's accounting, internal accounting controls or auditing matters) may do so by writing to the committee care of the corporation's Corporate Secretary. Letters will be reviewed promptly by the Corporate Secretary and relayed promptly to the chair of the committee if the subject matter is within the duties of the committee, in a manner consistent with the screening policies adopted by the board.

V

Committee Self-Evaluation and Charter Review

The committee will evaluate its own performance on an annual basis, including its compliance with this charter. It will also review this charter and provide the board with any recommendations for changes in the charter or in policies or other procedures governing the committee.

VI

Charter Availability

This charter will be posted on the corporation's investor website