

BREAKWATER RESOURCES LTD.

AUDIT COMMITTEE CHARTER

1. Policy Statement

It is the policy of Breakwater Resources Ltd. (the "Corporation") to establish and maintain an audit committee (the "Audit Committee") to assist the directors (individually a "Director" and collectively the "Board") of the Corporation in carrying out the Board's oversight responsibility for the internal controls, financial reporting and risk management processes of the Corporation. The Audit Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including appropriate administrative support. If determined appropriate by the Audit Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or other experts.

2. Composition of Committee

- (a) The Audit Committee shall consist of a minimum of three Directors. The Board shall appoint the members of the Audit Committee and may seek the advice and assistance of the Corporate Governance and Nominating Committee in identifying qualified candidates. The Board may appoint one member of the Audit Committee to be the Chairman of the Audit Committee or delegate such authority to appoint the Chairman of the Audit Committee to the Audit Committee. The Chairman of the Audit Committee shall have such accounting or related financial management expertise as the Board may determine in its business judgment.
- (b) Each member of the Audit Committee must be a Director who is independent and financially literate to the extent required by (and subject to the exemptions and other provisions set out in) applicable laws, rules and regulations, and stock exchange requirements (collectively "Applicable Laws"). In this Charter, the terms "independent" and "financially literate" have the meaning ascribed to such terms by Applicable Laws, and include the meanings given to similar terms by Applicable Laws.
- (c) A Director appointed by the Board to the Audit Committee shall be a member of the Audit Committee until replaced by the Board or until his or her resignation.

3. Meetings of the Committee

- (a) The Audit Committee shall convene a minimum of four times each year at such times and places as may be acceptable to the Chairman of the Audit Committee and whenever a meeting is requested by the Board, a member of the Audit Committee, the auditors or senior management of the Corporation. Scheduled meetings of the Audit Committee shall correspond with the review of the quarterly and year-end financial statements and management's discussion and analysis.
- (b) Notice of each meeting of the Audit Committee shall be given to each member of the Audit Committee and to the auditors of the Corporation, who shall be entitled to attend each meeting of the Audit Committee and shall attend whenever requested to do so by a member of the Audit Committee.
- (c) Notice of a meeting of the Audit Committee shall:
 - (i) be in writing, which includes electronic communication facilities;
 - (ii) state the nature of the business to be transacted at the meeting in reasonable detail;

- (iii) to the extent practicable, be accompanied by a copy of any documentation to be considered at the meeting; and
 - (iv) be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Audit Committee may permit.
- (d) A quorum for the transaction of business at a meeting of the Audit Committee shall consist of a majority of the members of the Audit Committee. However, it shall be the practice of the Audit Committee to require review, and, if necessary, approval of important matters by all members of the Audit Committee.
 - (e) A member or members of the Audit Committee may participate in a meeting of the Audit Committee by means of such telephonic, electronic or other communication facilities as permits all persons participating in the meeting to communicate with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
 - (f) In the absence of the Chairman of the Audit Committee, the members of the Audit Committee shall choose one of the members present to be chairman of the meeting. In addition, the members of the Audit Committee shall choose one of the persons present to be the secretary of the meeting.
 - (g) The Audit Committee may invite such persons to attend meetings of the Audit Committee as the Audit Committee considers appropriate, except to the extent exclusion of certain persons is required pursuant to this Charter or by Applicable Laws.
 - (h) The Audit Committee may invite the external auditors to be present at any meeting of the Audit Committee and to comment on any financial statements, or on any of the financial aspects, of the Corporation.
 - (i) The Audit Committee (i) shall meet with the external auditors separately from individuals other than the Audit Committee and (ii) may meet separately with management of the Corporation.
 - (j) Minutes shall be kept of all meetings of the Audit Committee and shall be signed by the chairman and the secretary of the meeting.
 - (k) The Audit Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as considered appropriate.

4. Authority of the Committee

The Audit Committee shall have the authority to:

- (a) inspect any and all of the books and records of the Corporation and its subsidiaries;
- (b) discuss with the management of the Corporation and its subsidiaries, any affected party and the external auditors, such accounts, records and other matters as any member of the Audit Committee considers appropriate;
- (c) engage independent counsel and other advisors as it determines necessary to carry out its duties;

- (d) set and pay the compensation for any advisors engaged by the Audit Committee; and
- (e) communicate directly with the external and internal (if any) auditors.

5. **Duties and Responsibilities of the Committee**

The Audit Committee is generally responsible for overseeing the financial affairs of the Corporation and its subsidiaries, and, if deemed appropriate, making recommendations to the Board, external auditors or management related thereto. The Audit Committee shall require the external auditors to report directly to the Audit Committee.

The specific duties and responsibilities of the Audit Committee including the following:

Financial Reporting

- (a) before release, to review with management and the external auditors, as applicable, and if appropriate, recommend for approval by the Board:
 - (i) the audited annual financial statements (including management's discussion and analysis) and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all material variances between comparative reporting periods;
 - (ii) the quarterly unaudited financial statements (including management's discussion and analysis);
 - (iii) all annual and interim earnings press releases; and
 - (iv) all public disclosure documents containing audited or unaudited financial information;
- (b) to discuss with management and the external auditors the presentation and impact of material risks and uncertainties and key estimates and judgments of management that may be material to financial reporting;
- (c) to review with management and with the external auditors material financial reporting issues arising during the most recent financial period and the resolution or proposed resolution of such issues;
- (d) to discuss with management and the external auditors any proposed changes to the Corporation's auditing and accounting principles, policies and practices and, in particular, to consider accounting policy choice recommendations from management and the external auditors with respect to any conversion from Canadian generally accepted accounting principles to international financial reporting standards (IFRS);

Engagement of External Auditors

- (e) to monitor and evaluate the independence and performance of the external auditors and annually recommend to the Board the nomination of the external auditors (or the discharge of the external auditor when circumstances are warranted) and the compensation of the external auditors;
- (f) to consider the recommendations of management in respect of the appointment (or discharge) of the external auditors;
- (g) to review (with the external auditors and with management) and approve the audit plan;
- (h) to receive a report outlining the work of the external auditors and to review any problems experienced or concerns expressed by the external auditors in performing any audit, including any restrictions imposed by management and to resolve any disagreements between management and the external auditors regarding financial reporting;
- (i) when there is to be a change of external auditors, to review all issues and documentation related to the change, including the information to be included in the notice of change of auditors and documentation required pursuant to the then current legislation, rules, policies and instruments of applicable regulatory authorities and the planned steps for an orderly transition period;

Non-Audit Services

- (j) to consider and pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by its external auditors, or the external auditors of subsidiaries of the Corporation in accordance with the *Audit Committee Policy on the Review and Pre-Approval of Auditors' Fees for Audit and Non-Audit Services*; provided that notwithstanding the above, the foregoing pre-approval of non-audit services may be delegated to a member of the Audit Committee, with any decisions of the member with the delegated authority reporting to the Audit Committee at the next scheduled meeting;

Internal Controls and Risk Management

- (k) to monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance on an ongoing basis;
- (l) to 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;
- (m) to review with management the process for identifying, monitoring and reporting principal risks affecting financial reporting of the Corporation on an ongoing basis;
- (n) to review annually with management of the Corporation the anti-fraud and risk assessment programs of the Corporation;

“Whistleblower” System

- (o) to establish and maintain procedures for:
 - (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting controls or auditing matters; and
 - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or audit matters;
- (p) to annually review the effectiveness of the above-noted procedures and re-approve the Corporation’s policies relating thereto;

Hiring

- (q) to review and approve the Corporation's hiring policies regarding partners and employees and former partners and employees of the present and former external auditors;

Other Responsibilities

- (r) to enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters which are directed to the Audit Committee by any member of the Board, a shareholder of the Corporation, the external auditors or management;
- (s) to periodically review with management the need for an internal audit function; and

Annual Review

- (t) to assess, on an annual basis, the adequacy of this Charter and the performance of the Audit Committee.