

Carbon Energy Corporation

Audit Committee of the Board of Directors

Charter

1. Purpose

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Carbon Energy Corporation (the “Company”) to assist the Board in fulfilling its responsibility to stockholders by taking a leadership role in the oversight of the integrity of the Company’s financial statements (including oversight of the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company), of the Company’s compliance with legal and regulatory requirements, of the independence and qualifications of the independent auditor, and the performance of the Company’s internal audit function and independent auditors.

While the Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to conduct audits or to determine that the Company’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles; these are the responsibilities of management and the independent auditor. Nor is it the duty of the Committee to assure compliance with laws and regulations or with the Company’s policies.

2. Composition and Qualifications

The Committee shall be comprised of three or more members of the Board, a majority of whom are independent in accordance with the criteria established in the Company’s Corporate Governance Guidelines. The Committee shall meet the experience requirements of the rules of Nasdaq and applicable law.

3. Meetings

The Committee shall meet at least four times annually, or more frequently as circumstances dictate.

4. Authority and Responsibilities

In the furtherance of its purpose, the Committee shall have the following authority and responsibilities. In addition, the Committee may carry out additional duties and responsibilities as may be appropriate and such other duties and responsibilities delegated to it from time to time by the Board.

(a) Directly appoint, retain, compensate, evaluate the independence and performance and, if necessary, terminate and replace the Company’s independent auditor.

(b) Preapprove all auditing services and permitted non-audit services by the independent auditor, subject to de minimus exceptions.

(c) At such time as the Company is required to undertake the following, and then at least annually thereafter, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the 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 firm, and any steps taken to deal with any such issues; and (to assess the audit's independence) all relationships between the independent auditor and the Company.

(d) Establish and maintain clear hiring policies for employees or former employees of the independent auditors.

(e) Discuss the annual audited financial statements and quarterly financial statements with management and the independent auditor, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(f) Review with management and the independent auditor the Company's financial reporting and accounting standards and principles, significant changes in such standards or principles or in their application and the key accounting decisions affecting the Company's financial statements, including alternatives to, and the rationale for, the decisions made. Obtain and review reports from the independent auditors on:

(i) all critical and accounting policies and practices to be used,

(ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with Company management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor, and

(iii) other material written communication between the independent auditor and Company management, such as any management letter or schedule of unadjusted differences.

(g) Review with the independent auditor any audit problems or difficulties and management's response. Resolve any disagreements between management and the independent auditor regarding financial reporting.

(h) Review with management and the independent petroleum engineering consultants the estimates of the Company's oil and gas reserves and any review or audit of such estimates of reserves.

(i) Discuss earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies with management and the independent auditor, as appropriate.

(j) Discuss the Company's policies with respect to risk assessment, risk management and steps taken by management to monitor and mitigate such exposure with management and the independent auditor, as appropriate.

(k) Review any disclosures made to the Committee by the Company's CEO and CFO during their quarterly certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses in internal controls and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.

(l) Periodically, meet separately with management, the independent auditors and with the independent petroleum engineering consultants.

(m) Establish and maintain 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 concerns regarding questionable accounting or auditing matters including, but not limited to, the establishment of a whistle-blower hotline by which employees may report suspected fraud.

(n) As required by Sarbanes-Oxley and the Securities and Exchange Commission, review at least annually the Company's Employee Code of Conduct and recommend any changes to the Board. Review, on at least an annual basis, with the CEO all matters related to compliance with the Company's Employee Code of Conduct. Review, on at least an annual basis, with the Company's outside counsel any material legal or regulatory issues relating to the Company.

(o) Oversee management's documentation, testing, monitoring and assessment of internal controls over financial reporting and, when required by applicable law, the Company's compliance with the requirement for a report on the assessment and an audit of the assessment by the Company's independent auditors.

(p) Prepare an annual committee report as required by the Securities and Exchange Commission to be included in the Company's proxy or information statement.

(q) Obtain advice and assistance from any outside accounting, reserve, legal or other experts as the Committee may deem appropriate in its sole discretion. The Committee shall have sole authority to retain such advisors and shall receive appropriate funding, as determined by the Committee, from the Company for payment of compensation to the outside accounting, reserve, legal or other advisors employed by the Committee and for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee shall report its actions and recommendations to the Board after each Committee meeting and shall review and reassess annually the performance of the Committee and the adequacy of this charter and recommend any changes to the Board for approval.