

# QUANTUMSPHERE, INC.

## COMPENSATION COMMITTEE CHARTER

### **PURPOSE, DUTIES AND RESPONSIBILITIES**

The Board of Directors (the “Board”) of QuantumSphere, Inc. (the “Company”) has constituted and established a Compensation Committee (the “Committee”) with authority, direct responsibility, and specific duties as described in this Compensation Committee Charter.

The Committee’s purpose is to evaluate and make recommendations to the Board relating to compensation of the Company’s executives and directors, to produce an annual report on executive compensation for inclusion in the Company’s proxy statement (once the Company is publicly traded), in accordance with applicable rules and regulations, and to take such other actions within the scope of this Charter as the Committee deems necessary or appropriate. The Company’s compensation policies should be designed to assure shareholder value by ensuring that the senior executives of the Company are compensated effectively in a manner consistent with the stated compensation strategy of the Company, internal equity considerations, competitive practices, and the requirements of the appropriate regulatory bodies. More specifically, the Board delegates to the Committee the express authority to do the following, to the fullest extent permitted by applicable law and the Company’s Articles of Incorporation and Bylaws:

- Review management recommendations and advise management on broad compensation policies such as salary ranges, deferred compensation, incentive programs and executive stock plans.
- To retain, in the Committee’s discretion and at the Company’s expense, such independent consultants and other advisors and experts as may be required for the Committee to carry out its duties. If the Committee decides, in its discretion, to retain such consultants, advisors, or experts, the Board delegates to the Committee the sole authority to retain and terminate any such consultant, advisor, or expert and to approve their fees and other retention terms.
- Review and recommend to the Board the goals and objectives relevant to the Chief Executive Officer’s (“CEO’s”) compensation, evaluate the CEO’s performance in light of those goals and objectives, and recommend the CEO’s compensation level (including, but not limited to, salary, long and short-term incentive plans, retirement plans, deferred compensation plans, equity award plans, change in control or other severance plans, as the Committee deems appropriate) based on this evaluation.
- Monitor issues associated with CEO succession and management development, and regularly report to the Board on them. This should include issues associated with preparedness for the possibility of an emergency situation involving senior

management, the long-term growth and development of the senior management team, and identifying the CEO's successor.

- Recommend to the Board the base salaries, salary increases and other remuneration for other executive officers and senior management of the Company, including participation in the Company's Stock Option and Incentive Plan and other long and short-term incentive plans, retirement plans, deferred compensation plans, equity award plans, change in control or other severance plans, as the Committee deems appropriate.
- Recommend to the Board the compensation for the Board and committee members.
- Make recommendations to the Board with respect to the Company's non-CEO compensation, incentive-compensation plans and equity-based plans. Notwithstanding the foregoing, the Committee is not precluded from approving stock options and performance-based awards (with or without ratification of the Board) as may be required to comply with applicable tax laws (i.e., Internal Revenue Service Rule 162(m)).
- Produce an annual report on executive compensation for inclusion in the Company's proxy statement.
- Advise the Board if it believes that in its judgment the Company's executive compensation arrangements are reasonable and appropriate, meet their stated purpose (which, among other things, includes rewarding and creating incentives for individuals and Company performance) and effectively serve the interests of the Company and its shareholders.
- Prepare and approve an annual report on executive compensation and such other statements to shareholders on compensation matters which are required by the Securities and Exchange Commission and other governmental bodies.
- Publish the Charter as required by the rules and regulations of applicable law and as otherwise deemed advisable by the Committee.
- Evaluate the Committee's performance at least annually.
- Take such other actions as may be requested or required by the Board from time to time.
- Make recommendations and report to the Board and other Board committees with respect to compensation policy of the Company or any of the foregoing matters.

## **MEMBERSHIP**

The membership of the Committee shall be comprised of three (3) independent members, as determined by the Board, under applicable law and regulations. The members shall be appointed by and serve at the discretion of the Board. The Chairperson of the Committee shall be appointed by the Board.

## **MEETINGS**

The Committee will meet with such frequency, and at such times as its Chairperson, or a majority of the Committee, determines. A special meeting of the Committee may be called by the Chairperson and will be called promptly upon the request of any two Committee members. A majority of the Committee shall constitute a quorum for the transaction of business. The action of a majority of those present at a meeting, at which a quorum is present, shall be the act of the Committee. The Committee shall keep a record of its actions and proceedings and make a report thereof from time to time to the Board of Directors.

## **RELIANCE; COOPERATION**

In carrying out its duties, the Committee will act in reliance on management, the independent public accountants, internal auditors, and outside advisors and experts, as it deems necessary or appropriate.

The Committee shall have unrestricted access to the independent public accountants, the internal auditors, internal and outside counsel, and anyone else in the Company, and may require any officer or employee of the Company or the Company's outside counsel or independent public accountants to attend a meeting of the Committee or to meet with any members of, or consultants or advisors to, the Committee.

Approved by the Board of Directors on August 10, 2006.