



AUDIT COMMITTEE CHARTER

THIS AUDIT COMMITTEE CHARTER is made the 17th day of March 2004 by Robert Hosking of Karoon Gas Australia Ltd

OBJECTIVE

1. The primary objective of the Committee is to assist the board in pursuing its Statutory and fiduciary duties relating to the financial management of the Company and the products it manages with respect to internal controls, accounting and reporting practises and to ensure those duties are carried out in accordance with the *Corporations Law* and the Constitutions of the relevant schemes and any guidelines, policies and procedures laid down by the Company.
2. The Committee has been constituted to also ensure:
 - Reliable and timely financial management and reporting;
 - Maintenance of effective systems of internal monitoring and accounting, financial and operational control; and
 - Maintenance of an effective system of risk management.

POWERS AND FUNCTIONS

In particular, the Committee is set up to:

- Improve the credibility and objectivity of the accountability process (including financial reporting).
- Assist the board to discharge its responsibility to exercise due care, diligence and skill in relation to:
 - reporting of financial information;
 - application of accounting policies;
 - financial management;
 - internal control systems;
 - business policies and practises;
 - compliance with applicable laws and regulations; and
 - monitoring and controlling of business risk.
- Provide a formal forum for communication between the Board of Directors and senior financial management.
- Improve the effectiveness of the external audit functions and the communication between the Board of Directors and the external auditors.

TERMS OF REFERENCE

External Reporting

- Consider the appropriateness of accounting policies and principals and any changes to them as well as the methods of applying them, ensuring that they are in accordance with the stated financial reporting framework, based on management's assertions regarding:
 - the consistency of the methods chosen with Accounting Standards, Urgent Issues Group (UIG) Consensus Views and other authoritative announcements of the Australian Accounting Standards Board.
 - Any changes in significant accounting policies or their application during the reporting period.
 - The method used to account for significant unusual transactions in emerging areas for which there may be no specific accounting standard and the reasonableness of those methods.
 - The views of the external auditor in relation to the above.
- Assess significant estimates and judgements in the financial reports by enquiring of management about the process used by management in making material accounting estimates. Enquire of the auditor the basis for the auditor's conclusions regarding the reasonableness of these estimates.
- Assess information from external auditors which affects the quality of financial reports (eg. Actual and potential material audit adjustments, financial report disclosures, non-compliance with the laws and regulations, and internal control issues).
- Obtain the external auditors independent judgement about the appropriateness, not just the acceptability, of the accounting principals used and the clarity of the financial disclosure practises used or proposed to be used as put forward by management.
- Review documents and reports to regulations and internal control issues.
- Obtain the external auditors independent judgement used and the clarity of the financial disclosure practises used or proposed to be used as put forward by management.
- Review documents and reports to regulators and members and make a recommendation to the Board on their approval or amendment.
- Review the financial statements of the Company, and the products prior to submission and recommendation by the Committee to the Board.

Reporting and Risk Management

- Ensure that an effective budgeting system is maintained.
- Assess the internal processes for determining and managing key risk areas, particularly.
 - litigation and claims;
 - non-compliance with laws and regulations, including environmental laws and industrial relations laws;
 - important judgements and accounting estimates;
 - business risks other than those that are dealt with by other specific board committees.
- Ensure that an adequate risk management system exists and effective monitoring systems are in place so that company objectives are achieved without unacceptable risk.
- Address the adequacy of the entity's control structure with management and the external auditors.
- Evaluate the process in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.
- Assess whether management has controls in place for unusual types of transactions and/or any potential transactions that may carry more than an acceptable degree of risk.
- Recommend the issue of a corporate code of ethical conduct, assist in its overseeing and review compliance with it.

External Audit

- Review the remuneration and monitor the effectiveness and independence of the external auditor.
- Review the external auditor's fee and be satisfied that an effective, comprehensive and complete audit can be conducted for the set fee.
- At the start of each audit, agree the terms of the engagement with the external auditor.
- Together with the external auditor, review the scope of the external audit (particularly the identified risk areas) and any additional agreed upon procedures on a regular and timely basis.
- Invite the external auditor to attend audit committee meetings to, at least, review the audit plan, discuss audit results and consider the implications of the external audit findings for the control environment.
- Facilitate the maintenance of the independence of the external auditor.
- Review all representation letters signed by management and ensure that the information provided is complete and appropriate.
- Enquire of the auditor if there have been any significant disagreements with management irrespective of whether or not they have been resolved.
- Monitor and critique management's responsiveness to the external auditor's findings and recommendations.
- Oversee the co-ordination of the external auditors.
- Meet periodically with key management staff, external auditors, and compliance staff to understand and discuss the control environment.

Other

- Other responsibilities if necessary, to institute special investigations and, if appropriate, hire appropriate personnel to assist in providing any information it sees relevant to the execution of its activities from any Director or employee of the company.
- To report any matter to the Board that the Committee considers appropriate and to perform any relevant task.

PERIODIC REVIEW OF OBJECTIVES AND TERMS OF REFERENCE

The objective and terms of reference of the Committee as defined in this Charter shall be reviewed periodically by the Board to ensure that the Committee's activities meet the Board's needs.

COMPOSITION AND TERM OF MEMBERSHIP

The Board shall annually confirm the membership of the Committee, which shall comprise a minimum of two Directors. All of the members will be independent and free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent and good judgement as a committee member. It is desirable that at least one member of the Committee has a strong financial background.

One member of the Committee shall be elected by the Board as Chairperson of the Committee. The Chairperson shall be re-elected annually by the Board and no Chairperson shall serve more than three consecutive years as Chairperson of the Committee.

Each member of the Audit Committee shall serve as a member of the Committee for a period of no more than 5 years and is eligible for re-appointment to the Committee after a 3-year absence.

PROCEDURES OF THE COMMITTEE

Without limiting the generality of the forgoing, the following procedures shall apply:

All functions and powers of the Committee may be performed or exercised at a meeting of the Committee at which not less than two thirds of the delegates are present. As resolution of the committee requires the agreement of at least two-thirds of delegates.

Minutes of the Committee meetings will be kept and provided to the Board at the next meeting following the Committee meeting which the minutes relate.

The Finance Director will act as Secretary to the Committee.

The Chief Executive will attend meeting together with any staff member nominated by the Chief Executive or requested by the Chairperson of the Committee.

Representatives from the external auditors (and agents thereof) will attend meetings of the Committee at the invitation of the Chairperson of the Committee.

An independent advisor to the Committee may be appointed by the Board and invited to attend meetings of the Committee at the invitation of the Chairperson of the Committee.

The Committee shall meet at least quarterly.

The Committee may report to the Board at any time on any matter as the Committee sees fit.

The performance of the Committee will be reviewed annually by the Board.

The Committee has the right of access to all levels of management and to all documents and records of the company. All employees are directed to co-operate with any request made by the committee.

RECORDS OF THE COMMITTEE

The Committee shall establish and maintain files, which will contain the following:

1. The Committee's Charter document.
2. Copies of the confirmed minutes of all meetings of the Committee.
3. Copies of all written submissions to the Board by the Committee and copies of the confirmed Board minutes relating to such submissions.
4. Details of any changes to the composition of the Committee or its terms of reference.

REVOCATION OF EXISTING CHARTER

Any previous Audit Charter is hereby revoked with effect from the date of this Charter.



Robert Hosking
Executive Chairman
17 March 2004