



HORIZON OIL LIMITED

(ABN: 51 009 799 455)

AUDIT COMMITTEE CHARTER

1 Introduction

The Audit Committee's ("**Committee**") objective is to assist the Board of Horizon Oil Limited ("Horizon Oil") to fulfil its responsibilities in relation to the Horizon Oil's accounting and financial reporting practices.

The Committee makes recommendations to the Board but does not have any power to commit the Board or management to these recommendations. The Committee has unrestricted access to executives of Horizon Oil, and to the external auditors in order to fulfil its purpose and undertake its duties.

Horizon Oil recognises that the Committee plays a key role in assisting the Board to fulfil its responsibilities to oversee financial reporting, internal control structure, risk management systems and the external audit functions.

The Committee is also intended as an effective mechanism for the auditor to communicate in an informal and confidential way with the members of the Committee about these issues as well as potentially troublesome issues at a relatively early stage and to broach sensitive issues in an uninhibited fashion.

The Committee oversees:

- the adequacy of Horizon Oil's accounting system and internal control environment;
- the adequacy of Horizon Oil's system for compliance with relevant laws, regulations, standards and codes;
- the effectiveness of internal accounting controls;
- the identification of improvements that can or should be made to Horizon Oil's internal controls, policies and financial disclosures;
- the frequency and significance of all transactions with related parties and assesses their propriety;
- the integrity and quality of Horizon Oil's financial information including financial information provided to ASIC, ASX and shareholders; and
- the independence, objectivity, scope and quality of the external audit, including a review of the level of total fees paid to the external auditors.

2 Audit Committee

2.1 Composition

The Committee will comprise of at least three members, a majority of whom are independent directors. The Committee members:

- must not be executive directors;
- must be appropriately financially literate; and
- must be independent of management and free of any relationship or arrangement that may, in the opinion of the Board, be construed as comprising a conflict of interest.

The Board will confirm the membership of the Committee annually. The Board will appoint one of the Committee members as chairman. The chairman of the Committee must not be the chairman of the Board.

The chairman will invite Horizon Oil's chief executive officer, chief financial officer, auditor and other advisers to attend Committee meetings when appropriate.

2.1.1 Removal or resignation

If a member of the Committee retires, is removed or resigns from the Board, that member ceases to be a member of the Committee. The Board will appoint the successor.

2.1.2 Committee may invite

The Committee, if considered appropriate, may invite any senior management or other individuals to attend meetings of the Committee.

2.1.3 Secretary

The company secretary will be the secretary of the Committee. When the company secretary is not present at the meeting the chairman will make alternative arrangements for minutes to be kept.

2.2 Meetings

2.2.1 Frequency

The chairman will convene at least two meetings of the Committee each year and any additional meeting that the chairman considers necessary or appropriate to carry out the Committee's responsibilities. In addition, the chairman must call a meeting of the Committee if required by any committee member, Horizon Oil's chief executive officer, the Board or the external auditor.

2.2.2 Calling meeting and notice

Any committee members or the secretary may call a meeting of the Committee. A notice of each meeting confirming the date, time, venue and agenda will be forwarded to each member of the Committee (with a copy to all board members) in the week prior to the date of the meeting. The notice for members will include relevant supporting papers for the agenda items to be discussed.

2.2.3 Advice

The Committee may have access to employees of Horizon Oil and to appropriate external advisers. The Committee may meet with these external advisers without management being present.

2.2.4 Report to board

The chairman of the Committee reports the findings and recommendations of the Committee to the Board after each committee meeting.

The report must contain all matters relevant to the Committee's responsibilities including:

- assessing the external reporting including whether it:
 - is consistent with members information and knowledge; and
 - is adequate for shareholder needs;
- assessing the management processes supporting external reporting;

- procedures for selecting and appointing the external auditor and for the rotation of external audit engagement partners;
- recommendations for the appointment or removal of an auditor;
- assessing the performance and independence of the external auditors and whether the Committee is satisfied that this independence has been maintained having regard to the provision of non-audit services; and
- the results of its review of risk management and internal compliance and control systems.

2.2.5 Minutes

Minutes of proceedings and resolutions of committee meetings will be kept by the secretary. Minutes will be distributed to all committee members and the Board, after the Committee chairman has given preliminary approval. Minutes, agenda and supporting papers, will be made available to any director upon request to the secretary, providing no conflict of interest exists.

2.2.6 Quorum and voting

A quorum will comprise any two independent non-executive director committee members. In the absence of the Committee chairman or appointed delegate, the members will elect one of their number as chairman for that meeting.

Each member will have one vote and the chairman of the Committee will not have a second or casting vote.

3 Duties and responsibilities

The duties and responsibilities of the Committee are to engage in the oversight of Horizon Oil's financial reporting and disclosure process and the output of that process. The Committee is not responsible for the day-to-day tasks involved in ensuring the accuracy of the accounts, that is the role of management. However, while relying on the external auditor and Horizon Oil financial management, the Committee is expected to exercise a high level of due diligence in relation to the accuracy of:

- preparation and distribution of full and half year reports (full or concise) reconciled with any preliminary final report;
- preliminary final report in the form set out in Appendix 4E of the ASX Listing Rules.

The Committee will also review and consider all Horizon Oil's publicly released material concerning financial information.

The Committee will have the following duties and responsibilities:

3.1 External reporting

Review and assess the external reporting of Horizon Oil. In particular the Committee will:

- Review and assess the appropriateness of Horizon Oil's accounting policies and principles. Any significant changes to Horizon Oil's policies and principles will be reviewed and assessed by the Committee. To ensure that the Committee can

carry out this duty effectively, management is required to inform the Committee of:

- any changes in accounting policies or their application during the reporting period;
 - whether the methods chosen by management are consistent with Accounting Standards, Accounting Concepts and Urgent Issues Group (“**UIG**”) consensus views; and
 - the methods used to account for unusual transactions, for which there may be no specific accounting standard, including management’s reasoning in determining that method.
- Review and assess any significant estimates and judgments in financial reports. To ensure that the Committee can carry out this duty effectively, management should inform the Committee of the method and process used in making material estimates and judgments, including management’s reasoning in determining that method.
 - Upon receipt of information from management relating to accounting policy choice or method for making significant estimates and judgments, the Committee may seek the opinion and views of the external auditors in relation to that choice or method. This opinion should include the appropriateness, and not just the acceptability of that choice or method.
 - Review and assess the processes used by management to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting by Horizon Oil of financial and non-financial information. These include, but are not limited to:
 - Australian Accounting Standards;
 - Corporations Act 2001 (Cth);
 - Listing Rules of ASX, including but not limited to reviewing for completeness and accuracy the disclosure of Horizon Oil’s main corporate governance practices; and
 - Where applicable, requirements of other countries.
 - Review and assess information from external auditors that may affect the quality of financial reports.
 - Review and assess documents and reports to regulators and make recommendations to the Board on their approval or amendment.
 - Based on the assessment by the Committee, recommend to the Board whether the financial and non-financial statements should be signed.
 - Where management does not offer information required to make any of the reviews or assessments required under this section, ensure that the Committee acquires that the Committee acquires that information from management.

3.1.2 Related party transactions

The Committee should review and monitor related party transactions and assess their propriety. The Audit Committee will:

- ensure that Horizon Oil complies with all laws and regulations in respect to director-related party transactions;
- approve the following contracts with directors, or the related party of a director, in advance of committing Horizon Oil:
 - contracts for the supply of goods and/or services which extend beyond one year, or where the total value of goods and/or services supplied under the contract will exceed \$250,000 in any one year,
 - all agreements to lease and/or leases of property, and
 - all agreements for the purchase or sale of freehold and/or leasehold property.
- review the reports of chief financial officer and the external auditors relating to director-related party transactions; and
- approve all external disclosures regarding director-related party transactions.

3.1.3 Internal control and risk management

The Committee should review and assess internal processes for determining, monitoring and assessing key risk areas. In particular, the Committee should consider:

- non-compliance with laws, regulations, standards and best practice guidelines;
- important judgments and accounting estimates;
- litigation and claims;
- fraud and theft;
- approval of changes to the company's policies in relation to Financial Risk Management where required due to exceptional circumstances; and
- any other business risks that are not dealt with by a specific board committee.

In relation to these risk areas, the Committee should ensure:

- that Horizon Oil has an effective financial risk management system in place, including for large scale risks, and that the Committee assesses this system;
- that Horizon Oil has an effective internal control system in place, and that the Committee assesses this system;
- that Horizon Oil has a system in place for unusual and/or high risk transactions and that the Committee assesses this system;
- that it receives from management reports on all actual and suspected breaches of laws, including fraud and theft; and
- that it meets periodically with management, and external and internal auditors to discuss Horizon Oil's control environment, including the processes for improvement in place.

3.1.4 External audit

The Committee and the Board will select and appoint an external auditor in accordance with Annexure 5.2.

The Committee should review and assess key areas relating to the external audit of Horizon Oil. In particular the Committee should:

- make recommendations to the Board on the appointment, reappointment or replacement, remuneration, monitoring of the effectiveness, and independence of the external auditor;
- if the Board disagrees with any of these recommendations, it must disclose its decision and reasons in the annual report;
- review and assess the independence of the external auditor, including but not limited to any relationships with Horizon Oil or any other entity that may impair or appear to impair the external auditor's judgment or independence in respect of Horizon Oil;
- review and assess any prospect of auditor replacement and/or tender suggested by management. Before any decision is made, the Committee should report the results of its investigation to the Board and make recommendations;
 - where the decision for replacement or a new tender is made, this tender should then be conducted by the Committee;
 - as outlined in section 2.5 of the Board Charter, if the Board disagrees with any of these recommendations, it must disclose its decision and reasons in the annual report;
- review and agree on the terms of engagement for the external auditor at the start of each audit;
- review the scope of the external audit with the external auditor including identified risk areas and any additional agreed-upon procedures;
- monitor the activities and performance of the external auditor by:
 - obtaining the proposed audit plan for each audit, and agreeing the audit plan with the auditor prior to commencement;
 - liaising with the auditor to ensure that each audit is conducted effectively;
 - reviewing the auditor's assessment of financial statement materiality;
 - ascertaining "root causes" of any significant external audit year end adjustments;
 - appraising the quality of audit work;
 - ensuring that no management restrictions or limitations are placed on the auditor; and
 - asking the external auditor for an independent judgment of the appropriateness, not just the acceptability, of the accounting principles used and the clarity of the financial disclosure used or proposed to be used by Horizon Oil.
- reviewing the external audit findings in respect of any significant deficiencies or weaknesses in controls, and ensuring that management agrees to and implements appropriate and timely corrective action;
- review and assess non-audit service ("**NAS**") provision by the external auditor, with particular consideration given to the potential for the provision of these services to impair or appear to impair the external auditor's judgment or independence in respect of Horizon Oil;
- review the external auditor's audit fee, and be satisfied that an effective, comprehensive and complete audit can be conducted for that fee;

- in addition to reviewing the audit fee, the Committee should review and assess total fees paid to the external auditor, considering in particular fees paid for NAS provision, and these fees as a proportion of total fees;
- review and monitor management's responsiveness to the external auditor's findings and recommendations;
- review with the external auditor any significant disagreements between the external auditor and management, irrespective of whether they have been resolved;
- review all representation letters signed by management, and be satisfied that the information provided is complete and appropriate;
- monitor the number of former employees of the external auditor currently employed in senior positions in Horizon Oil and assess whether this impairs or appears to impair the auditor's judgment or independence in respect of Horizon Oil;
- consider whether taken as a whole, the various relationships between Horizon Oil and the external auditor impairs or appears to impair the auditor's judgment or independence in respect of Horizon Oil;
- consider whether the compensation of the individuals employed by the external auditor who are performing the audit of Horizon Oil is tied to the provision of non-audit services and, if so, consider whether this impairs or appears to impair the external auditor's judgment or independence in respect of Horizon Oil;
- review the economic importance of Horizon Oil (in terms of fees paid to the external auditor for the audit as well as fees paid to the external auditor for the provision of non-audit services) to the external auditor and assess whether the economic importance of Horizon Oil to the external auditor impairs or appears to impair the external auditor's judgment or independence in respect of Horizon Oil; and
- at least annually, meet with the external auditor without the presence of management.

3.1.5 Internal audit

Given the size of Horizon Oil and the number of employees, the Company does not have an internal audit function.

3.1.6 Internal monitoring

The Committee should conduct internal monitoring of Horizon Oil by:

- Ensuring that an appropriate internal control framework is established and maintained, including systems for:
 - incurring and recording liabilities and expenses, and arranging for payment;
 - recording, monitoring and maintaining assets;
 - managing and investing liquid funds;
 - measuring financial performance of individual employees, groups and business units, and monitoring their performance against budget.

- Assessing internal processes for identifying and managing risk areas including:
 - compliance with laws, regulations, standards and best practice guidelines;
 - important judgments and accounting estimates;
 - litigation and claims;
 - fraud and theft.
- Receiving reports on all suspected and actual frauds, thefts and breaches of the law.
- Reviewing in draft any financial report and directors' report that Horizon Oil proposes to distribute to shareholders and other external parties with particular emphasis on the accuracy and completeness of information and key disclosures, changes from prior periods, and important judgment questions impacting the overall integrity of the information.
- When satisfied with the propriety and accuracy of the draft financial report and directors' report, recommending the financial report and directors' report to the Board for approval and release.
- Assessing the management of non-financial information in internal and external documents to ensure the information does not conflict inappropriately with the financial report and directors' report.

3.2 Compliance

The Committee must ensure that they have an appropriate understanding of any relevant laws, regulations, Listing Rules, and codes of particular significance to Horizon Oil, and its programs to ensure compliance including with respect to the following matters where not dealt with by a specific board Committee:

- petroleum licences;
- trade practices;
- workplace health and safety;
- equal opportunity; and
- other matters.

3.3 Disclosure

In order to maintain transparency the role of the Committee is to be fully and fairly reported. Consistent with the disclosure policy the Committee will review all public disclosures and statements of a financial nature.

4 Resources

Where the Committee considers it necessary or appropriate in order to fulfil its responsibilities, the Committee will be entitled to:

- access all books and records of Horizon Oil;
- draw on the expertise and resources of any employee of Horizon Oil, external auditors; and
- select and engage an external adviser or external service provider involving, where appropriate, advisers that are "independent" in the sense that they are not usual service providers to Horizon Oil.

In this context “independent” refers to the restrictions on relationships between the advisers providing the advice and management and/or third parties that might affect the adviser’s capacity to provide zealous representation and advice to the Committee and should be determined in a way that is consistent with the Committee’s approach to audit independence.

The Committee may access these resources without management present. The Committee will meet with the external auditors at least once a year without management present.

5 Review

The Committee will review its performance and compliance with its terms of reference on an annual basis.

In addition, the Committee may be subject to a periodic comprehensive review that includes surveys of directors, Committee members, external auditors, senior financial and other management.

ANNEXURE 5.1 Statement of director-related transaction policies

1. Introduction

The following policies are set out as guidance to the application of related party transactions.

2. Who are director-related parties in the context of Horizon Oil?

A “**director-related party**” means, in relation to particular directors, the spouses of such directors, relatives of such directors or spouses, and any other entity under the joint or several control or significant influence of such directors, spouses or relatives.

“**Spouses**” and “**relatives**” are intended to be considered according to the likely level of influence rather than on the immediacy of the family relationship. They relate to members of the same household who may be expected to influence, or be influenced by, the director in dealings with the company. Again it is the substance of the relationship that is the key.

“**Significant influence**” means the capacity of an entity to affect substantially (but not control) either, or both, of the financial or operating policies of another entity. The meaning of “significant influence” is crucial in the determination of what constitutes a director-related party.

Significant influence is likely to exist when:

- a director holds or has an interest in a substantial proportion of the voting power of shares of another entity. The holding of 20% or more of the voting power in an entity, in the absence of evidence to the contrary, leads to a presumption of significant influence. However, this percentage cannot be regarded as an absolute cut-off point. It may be necessary to consider the distribution of the voting power, i.e. a 5% or 10% interest may also indicate a director is able to exert significant influence where the remaining voting power is spread widely and evenly;
- a director’s immediate family holds or has an interest in a substantial proportion of the voting power of shares of another entity;
- a director has an “executive” role (executive, director with a hands-on role) in relation to another entity.

“Significant influence” may exist when:

- a director is a director of another entity. However, in normal circumstances a director is probably unable to “effect substantially either, or both, of the financial or operating policies” of that entity. Even if the director is non-executive chairman he or she individually may not be in a position to “effect substantially either, or both, of the financial or operating policies” of that entity;
- a director’s immediate family holds directorship of another entity;
- a director participates in other ways in policy-making decisions of, or has a significant financial or personal interest in other ways in, another entity.

3 Identification and ongoing assessment of director-related parties in the context of Horizon Oil

- Each director must advise the Audit Committee in writing by 30 June and 31 December each year whether they have any director-related parties as defined in this policy and, if so, disclose names of each such party. Changes in status of director-related party relationships will be advised at the time the change occurs.
- Directors will advise the Audit Committee through the company secretary of any relationships where they have uncertainty regarding the status of a particular relationship.
- The chief financial officer, will institute a search for director-related parties of Horizon Oil utilising Horizon Oil statutory information and readily available public information.
- The Audit Committee will review and determine the status of any relationship where there is uncertainty regarding the status of that relationship under the definition.
- The chief financial officer, will maintain a register of director-related parties so identified.

4 Director-related party transactions

4.1 Responsibilities of directors

- All directors will provide monthly details of all director-related party transactions with Horizon Oil to the chief financial officer. This information need only be provided monthly where the total of the transactions exceed \$20,000 in a month. In all other cases, the information will be provided by 15 July in respect of the previous 12 months ending 30 June.
- Information provided by directors should include the:
 - nature of the transaction(s);
 - name of the director-related party the transaction was with;
 - date of the transaction;
 - dollar amount of the transaction; and
 - name of Horizon Oil entity that is party to the transaction.
- In relation to merchandise and/or services supplied to Horizon Oil or its subsidiaries, directors will ensure access to books and records of their director-related parties for independent external review by the external auditors to enable comparison of pricing and terms of trade of similar goods or services to other customers of the supplier.

4.2 Responsibilities of management

- Management have primary responsibility for ensuring the integrity, fairness and accurate reporting of all transactions with all employees, customers and suppliers. Senior management must be in a position to positively assert that appropriate controls are effectively operating to address all business risks and therefore, specifically in relation to director-related parties, the risk of no-arm's length dealings. Senior management will formally represent that this is the case each half year.

- Management must report any contracts requiring prior approval by the Audit Committee to the chief financial officer prior to committing Horizon Oil.
- Transactions with director-related parties are transactions where there is, prima facie, a conflict of interest, will be actively monitored by senior management as a high priority business issue.

4.3 Responsibilities of chief financial officer

- The chief financial officer will maintain a director-related party transaction management information system to enable the monitoring of all director-related party transactions on a timely basis by the Audit Committee, the preparation of annual accounts disclosures and review by the external auditors.
- The chief financial officer will review details in relation to director-related party transactions provided by directors and from the management information system and seek further explanation or review of any transaction where appropriate.
- The chief financial officer will review any contracts requiring prior approval of the Audit Committee.
- The chief financial officer will report to the Audit Committee each half-year on the results of reviews of transactions with director-related parties.

ANNEXURE 5.2 Procedure for the selection and appointment of an external auditor

1 Introduction

The Board is responsible for the initial appointment of the external auditor. The members at the next annual general meeting must ratify the appointment of an external auditor.

When a vacancy occurs, the Audit Committee (“**Committee**”) will meet and determine whether a replacement auditor should be selected by way of a formal tender or some other method. The Board is responsible for the appointment of the external auditor. The members at the next annual general meeting must ratify the appointment of an external auditor to fill a vacancy.

The selection and appointment process is the responsibility of the Committee. The Committee must conduct the selection process and recommend a preferred external auditor to the Board. If it thinks fit, the Board will appoint the preferred external auditor recommended by the Committee.

2 Role of chief financial officer

If requested to do so by the Committee, the chief financial officer will assist the Committee in the selection and appointment process.

If requested to do so by the Committee, the chief financial officer will submit to the Committee the details of a proposed external auditor together with a written supporting submission.

3 Formal tender

3.1 Request for submissions

If the Committee elects to undertake a formal tender process, the chief financial officer will prepare a draft request for submissions that will be reviewed by the Committee. The Committee may make such changes to the draft, as it considers appropriate.

The final request for submissions must contain sufficient information to enable a potential auditor to provide a proposal and fee estimate to Horizon Oil. Such information should include information about Horizon Oil, its operations, its key personnel and any other relevant information about the structure of Horizon Oil and its financial statements.

The chief financial officer will assist the Committee to distribute the request for submissions and to arrange for candidates to meet with the selection panel.

3.2 Selection panel

The Committee will establish a selection panel comprising the Committee, the chief financial officer and any other person the Committee considers appropriate to assess the suitability of the external auditor. The Committee will consult with the other members of the Selection Panel as to the preferred auditor however it is the responsibility of the Committee to recommend a preferred external auditor to the Board.

4 Selection criteria

The candidate selected by the Committee, as the preferred external auditor must satisfy the selection criteria whether or not it is selected by way of a formal tender.

4.1 Fees

A candidate must provide a fixed fee quotation for its audit services. However, price will not be the sole determining factor in the selection of a preferred external auditor.

4.2 Independence

A candidate must satisfy the Committee that it is independent and outline the procedures it has in place to maintain its independence.

The external auditor must be independent from Horizon Oil and be seen to be independent from Horizon Oil.

The independence of the external auditor is integral to the role of auditor and the Committee will give due consideration to this requirement when selecting a preferred auditor for recommendation to the Board.

4.3 Material matters

A candidate must outline its proposed procedures to address any issue of material significance or matter of disagreement with Horizon Oil management.

The external auditor and the chief financial officer will be required to disclose to the Committee all issues of material significance and all matters of disagreement with Horizon Oil management, whether resolved or unresolved, and to assist the Committee to review such matters.

4.4 Non-audit work

A candidate must detail its approach to the provision of non-audit related services to Horizon Oil.

The Committee must consider the circumstances in which Horizon Oil might use the external auditor for non-audit services. Matters to be considered include the potential quantum of non-audit fees and any circumstance where the external auditor may be required to review and rely upon work conducted by it in a non-audit capacity.

4.5 Other matters

The selection criteria may include such other matters as the Committee thinks fit.

5 Policy on audit and non-audit services

The Committee will develop a policy that sets out the circumstances in which Horizon Oil may use the external auditor for other services. A copy of this policy will be provided to the external auditor.

The policy will be based on the following principles:

- the auditor may provide audit and audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor;
- the external auditor shall not provide services that are perceived to be materially in conflict with the role of auditor;
- the external auditor may be permitted to provide non-audit services that are not perceived to be materially in conflict with the role of auditor, subject to the approval of the Committee;
- exceptions may be made to the policy where the variation is in the interests of Horizon Oil and arrangements are put in place to preserve the integrity of the external audit process. The Board must specifically approve any such exception.

6 Rotation of external audit engagement partner

The Committee will ensure that the external auditor has in place arrangements for rotation of the audit engagement partner.

The audit engagement partner for the audit must rotate every 5 years.

7. Review of audit arrangements

The Committee will review the external auditor's performance annually. As part of this review the Committee will obtain feedback from the chief financial officer and other members of senior management regarding the quality of the audit service.