



AUDIT COMMITTEE CHARTER

Introduction

This Charter governs the procedures of the Cockatoo Coal Limited (the 'Company') Audit Committee ('Committee') and outlines the procedures and guidelines in relation to the audit and financial reporting responsibilities of the Company.

1. Overall Purpose/Objectives

1.1 The Committee will assist the Board in fulfilling its oversight responsibilities. The Committee will review the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the committee will maintain effective working relationships with the Board of directors, management, and the external auditors. To perform his or her role effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the Company's business, operations and risks.

2. Authority

- 2.1 The Board authorises the Committee, within the scope of its responsibilities, to:
- Seek any information it requires from:
 - any employee (and all employees are directed to co-operate with any request made by the Committee)
 - external parties.
 - Obtain outside legal or other professional advice.
 - Ensure the attendance of Company officers at meetings as appropriate.

3. Organisation

Membership

- 3.1 The Committee will comprise a minimum of three members, of which a majority will be non-executive directors.
- 3.2 Each member should be capable of making a valuable contribution to the committee.
- 3.3 The majority of members should be independent of management.

- 3.4 The chairman of the Committee will be nominated by the Board from time to time.
- 3.5 Members will be appointed for a three year term of office.
- 3.6 A quorum for any meeting will be two members.
- 3.7 The secretary of the Committee will be the Company Secretary, or such other person as nominated by the Board or the committee from time to time.

Attendance at Meetings

- 3.8 The Committee may invite such other persons (e.g. the Chairman, CEO, CFO) to its meetings, as it deems necessary.
- 3.9 The external auditors should be invited to make presentations to the Committee as appropriate.
- 3.10 Meetings shall be held not less than two times a year. Special meetings may be convened as required. The external auditors may convene a meeting if they consider that it is necessary.
- 3.11 The proceedings of all meetings will be minuted.

4. Roles and Responsibilities

The Committee will:

Internal Control

- 4.1 Evaluate whether management is setting the appropriate 'control culture' by communicating the importance of internal control and the management of risk and ensuring that all employees have an understanding of their roles and responsibilities.
- 4.2 Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown.
- 4.3 Gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.

Financial Reporting

General

- 4.4 Gain an understanding of the current areas of greatest financial risk and how management is managing these effectively.
- 4.5 Consider with the external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues.
- 4.6 Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.

- 4.7 Ask management and the external auditors about significant risks and exposures and the plans to minimise such risks.
- 4.8 Review any legal matters which could significantly impact the financial statements.

Annual Financial Statements

- 4.9 Review the annual financial statements and determine whether they are complete and consistent with the information known to committee members; assess whether the financial statements reflect appropriate accounting principles.
- 4.10 Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures.
- 4.11 Focus on judgmental areas, for example those involving valuation of assets and liabilities; warranty, product or environmental liability; litigation reserves; and other commitments and contingencies.
- 4.12 Meet with management and the external auditors to review the financial statements and the results of the audit.
- 4.13 Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the Company and its operations.

Preliminary Announcements, Interim Financial Statements and Analysts' Briefings

- 4.14 Be briefed on how management develops preliminary announcements, interim financial information and analysts' briefings; the extent to which the external auditors review such information.
- 4.15 Assess the fairness of the preliminary and interim and statements and disclosures, and obtain explanations from management and internal and external auditors on whether:
 - Actual financial results for the interim period varied significantly from budgeted or projected results.
 - Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the Company's operations and financing practices.
 - Generally accepted accounting principles have been consistently applied.
 - There are any actual or proposed changes in accounting or financial reporting practices.
 - There are any significant or unusual events or transactions.
 - The Company's financial and operating controls are functioning effectively.
 - The preliminary announcements and interim financial statements contain adequate and appropriate disclosures.

External Audit

- 4.16 Review the external auditors' proposed audit scope and approach and ensure no unjustified restrictions or limitations have been placed on the scope.
- 4.17 Review the performance of the external auditors.

- 4.18 Consider the independence of the external auditor, including reviewing the range of services provided in the context of all consulting services bought by the Company.
- 4.19 Make recommendations to the Board regarding the reappointment of the external auditors.
- 4.20 Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.
- 4.21 Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.
- 4.22 Ensure that management responds to recommendations by the external auditors.

Compliance with Laws and Regulations

- 4.23 Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up, including disciplinary action, of any fraudulent acts or non-compliance.
- 4.24 Obtain regular updates from management and Company's legal counsel regarding compliance matters.
- 4.25 Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
- 4.26 Review the findings of any examinations by regulatory agencies.

Compliance with the Company's Code of Conduct (if appropriate)

- 4.27 Ensure that the code of conduct is in writing and that arrangements are made for all employees to be aware of it.
- 4.28 Evaluate whether management is setting the appropriate 'tone at the top' by communicating the importance of the code of conduct and the guidelines for acceptable behaviour.
- 4.29 Review the process for monitoring compliance with the code of conduct.
- 4.30 Obtain regular updates from management regarding compliance.

Reporting Responsibilities

- 4.31 Regularly update the Board about committee activities and made appropriate recommendations.
- 4.32 Ensure the Board is aware of matters which may significantly impact the financial condition or affairs of the business.

Other Responsibilities

- 4.33 Perform other oversight functions as requested by the full Board.
- 4.34 If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.

- 4.35 Review and update the charter; receive approval of changes from the Board.
- 4.36 Evaluate the committee's own performance on a regular basis.

5. Review

The Company Secretary will conduct an annual review of the Charter to ensure that the Charter continues to reflect the current processes and guidance utilised when assessing the appropriate remuneration of the Directors and the Senior Executives.

The Board will need to approve any amendments to the Charter that stem from the review.

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