

# InterOil Corporation

## Charter of the Audit Committee of the Board of Directors

This Audit Committee Charter (the “**Charter**”) sets forth the purpose and membership requirements of the Audit Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of InterOil Corporation (the “**Company**”) and establishes the authority and responsibilities delegated to it by the Board.

1. **Purpose.** The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities relating to the Company’s corporate accounting and financial reporting processes and the audits of the Company’s financial statements. In fulfilling this function, the Committee’s primary duties and responsibilities are to:

- Serve as an independent and objective party to oversee the integrity of the Company’s financial statements and to monitor the Company’s financial reporting process and systems of internal controls regarding financial, accounting, and legal compliance.
- Monitor the qualifications, independence and performance of the Company’s independent auditors and the performance of the Company’s internal auditing function.
- Provide an avenue of communication between the Board and the independent auditors, management and the internal auditor.
- Report actions of the Committee to the Board with such recommendations as the Committee may deem appropriate.

The Committee shall be empowered to conduct or cause to be conducted any investigation appropriate to fulfilling its responsibilities, and shall have direct access to the independent auditors, the internal auditor and Company employees as necessary. The Committee shall be empowered to retain, at the Company’s expense, independent legal, accounting, or other consultants or experts as the Committee deems necessary in the performance of its duties. The Committee shall have sole authority to approve related fees and retention terms.

2. **Committee Membership.**

2.1. **Composition and Appointment.** The Committee shall consist of three or more members of the Board. The Board shall designate members of the Committee. Membership on the Committee shall rotate at the Board’s discretion. The Board shall fill vacancies on the Committee and may remove a Committee member from the membership of the Committee at

any time without cause. Members shall serve until their successors are appointed by the Board and as otherwise required by applicable law or the rules of the American Stock Exchange (“**AMEX**”).

**2.2. Independence and Financial Literacy.** Each member of the Committee must meet the independence, or an applicable exception, financial literacy, and experience requirements of the AMEX rules and applicable Canadian and U.S. federal securities laws, including the rules and regulations of the U.S. Securities and Exchange Commission (“**SEC**”). In addition, at least one member of the Committee must be financially sophisticated, as determined by the Board, for purposes of applicable AMEX rules.

**2.3. Service on Multiple Audit Committees.** If a member of the Committee serves on the audit committee (or, in the absence of an audit committee, the board committee performing equivalent functions, or in the absence of such committee, the board of directors) of more than two other public companies, the Board must affirmatively determine that such simultaneous service on multiple audit committees will not impair the ability of such member to serve on the Committee.

**2.4. Subcommittees.** The Committee may form and delegate authority to subcommittees consisting of one or more members, including the authority to grant pre-approvals of audits and permitted non-audit services, provided that decisions of said subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

### **3. Meetings.**

**3.1. Frequency of Meetings.** The Committee shall meet at least quarterly, or more frequently as circumstances dictate. The schedule for regular meetings of the Committee shall be established by the Committee. The Chairperson of the Committee may call a special meeting at any time he or she deems advisable. Meetings may be by written consent. When necessary, the Committee will meet in executive session outside the presence of any senior executive officer of the Company. The Committee and any other independent members of the Board that are not members of the Committee will meet in executive session, without the presence of non-independent directors and management at least once annually.

**3.2. Minutes.** Minutes of each meeting of the Committee shall be kept to document the discharge by the Committee of its responsibilities.

**3.3. Quorum.** A quorum shall consist of at least one-half of the Committee’s members, but no fewer than two persons. The act of a majority of the

Committee members present at a meeting at which a quorum is present shall be the act of the Committee.

3.4. **Agenda.** The Chairperson of the Committee shall prepare an agenda for each meeting of the Committee, in consultation with Committee members and any appropriate member of the Company's management or staff, as necessary. As requested by the Chairperson, members of the Company's management and staff shall assist the Chairperson with the preparation of any background materials necessary for any Committee meeting.

3.5. **Presiding Officer.** The Chairperson of the Committee shall preside at all Committee meetings. If the Chairperson is absent at a meeting, a majority of the Committee members present at a meeting shall appoint a different presiding officer for that meeting.

3.6. **Private Meetings.** The Committee may meet privately with management, the chief executive officer ("**CEO**"), the general counsel, the internal auditor, the independent auditors, and as a Committee to discuss any matters that the Committee or each of these groups believe should be discussed privately.

#### 4. **General Review Procedures.**

4.1. **Annual Report Review.** The Committee shall review with management, the independent auditors, and the internal auditors, the Company's year-end financial results prior to the release of earnings and the Company's year-end financial statements prior to filing or distribution. Such review shall also include the Company's disclosures that are to be included in the Company's Annual Information Form, Annual Report, Management's Discussion and Analysis for the year and Annual Report on Form 40-F. The Committee shall also discuss with management, the independent auditors and the internal auditors any significant issues or findings or any changes to the Company's accounting principles, any items required to be communicated by the independent auditors in accordance with Statement on Auditing Standards No. 61, as amended, and various topics and events that may have a significant impact on the Company or that are the subject of discussions between management and the independent auditors. The Committee shall approve the audited financial statements and recommend to the Board whether or not the audited financial statements should be filed on SEDAR and included in the Company's Annual Report on Form 40-F for the last fiscal year.

4.2. **Quarterly Report Review.** The Committee shall review with management, the internal auditors, and the independent auditors (if the independent auditors were involved in a review of such financial

statements), (i) the Company's interim financial results prior to the release of earnings, the Company's interim financial statements prior to filing or distribution and the disclosures that are to be included in the Company's Management's Discussion and Analysis for each quarter and Form 6-K and (ii) the operation of the Company's internal controls and any special steps adopted in light of material control deficiencies. The Committee shall discuss with management, the internal auditors and the independent auditors (if required by GAAP, AMEX rules, or applicable Canadian and U.S. federal securities laws), any significant findings or any changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with Statement on Auditing Standards No. 61 as amended.

**4.3. Canadian and SEC Filings Review.** The Committee shall review with financial management and the independent auditor (if the independent auditors were involved in a review of such financial statements) filings with Canadian securities regulators and the SEC which contain or incorporate by reference the Company's financial statements or Management's Discussion and Analysis and consider whether the information in these documents is consistent with information contained in the financial statements.

**4.4. Reporting System Review.** In consultation with management, the independent auditors, and the internal auditors, the Committee shall consider the integrity of the Company's financial reporting processes and controls, including computerized information system controls and security. The Committee shall review and discuss with management the Company's significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. The Committee shall review significant findings prepared by the independent auditors and the internal auditors together with management's responses, including the status of previous recommendations.

**4.5. Non-GAAP Financial Data Review.** The Committee shall review and discuss with management earnings including the use of "proforma," "adjusted" or other non-GAAP information, financial guidance and other press releases of a material financial nature, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally consisting of discussing the types of information to be disclosed and the types of presentations to be made.

**4.6. Off-Balance Sheet Review.** The Committee shall discuss with management and the independent auditor the effect of regulatory and

accounting initiatives as well as off-balance sheet structures on the Company's financial statements.

**4.7. Risk Assessment.** Although it is the job of the CEO and senior management to assess and manage the Company's exposure to risks, the Committee shall discuss guidelines and policies to govern the process by which risk assessment and risk management is addressed.

**4.8. Audit Difficulties.** The Committee shall review with the independent auditor any audit problems or difficulties encountered in the course of the audit work and management's response, any restrictions on the scope of activities or access to requested information; and any significant disagreements between auditors and management. The Committee shall work to resolve disagreements that may have occurred between auditors and management related to the Company's financial statements or disclosures.

**4.9. Hiring Approval.** The Committee shall approve the hiring of any employee or former employee of the independent auditor.

**4.10. Financial Officer Code of Ethics Review.** The Committee shall review and periodically recommend modifications to the Company's Code of Ethics for the Chief Executive Officer and Senior Financial Officers.

**4.11. Certification Review.** The Committee shall review disclosures made to the Committee by the Company's CEO and CFO during the certification process for the audited annual financial statements, interim financial statements, related Management's Discussion and Analysis and Form 40-F concerning significant deficiencies or material weaknesses in internal controls and any fraud.

**4.12. Legal Counsel Review.** On at least an annual basis, the Committee shall review with the Company's legal counsel any legal matters that could have a significant impact on the Company's financial statements or the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

## **5. Independent Auditors.**

**5.1. Auditor Performance Review.** The Committee shall confirm with the independent auditors their ultimate accountability to the Committee. The independent auditors will report directly to the Committee. The Committee will ensure that the independent auditors are aware that the Chairperson of the Committee is to be contacted directly by the independent auditor (i) to review items of a sensitive nature that can impact the accuracy of financial reporting or (ii) to discuss significant

issues relative to the overall Board responsibility that have been communicated to management but, in their judgment, may warrant follow-up by the Committee. The Committee shall review and evaluate the performance of the auditors and the lead partner on the independent auditor team.

**5.2. Approval of Independent Auditor and Pre-Approval of Services.** The Committee shall be directly responsible for the appointment, compensation, retention, termination, and oversight of the work of the independent auditors engaged (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The Committee shall pre-approve all auditing services, including the compensation and terms of the audit engagement, and all other non-audit services to be performed by the independent auditors, subject to the de-minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 which are approved by the Audit Committee prior to the completion of the audit. The Committee shall periodically discuss current year non-audit services performed by the independent auditors and review and pre-approve all permitted non-audit service engagements.

**5.3. Auditor Independence.** The Committee shall oversee the independence of the independent auditors by, among other things, (i) on an annual basis, receiving from the independent auditors a formal written statement delineating all relationships between the independent auditors and the Company, consistent with Independence Standards Board Standard No. 1, that could impair the auditors' independence; (ii) actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors; and (iii) taking, or recommending to the Board the appropriate action to be taken, in response to the independent auditors' report to satisfy itself of the independent auditors' independence.

**5.4. Auditor Report.** The Committee shall annually obtain from the independent auditor and review a written report describing (i) the independent auditor's internal quality-control procedures; and (ii) any material issues raised by (a) the independent auditor's most recent internal quality-control review, or peer review or (b) any inquiry or investigation by governmental or accounting profession authorities, in each case, within the preceding five years, respecting one or more independent audits carried out by the independent auditor, and any steps taken to deal with any such issues.

- 5.5. Audit Partner Rotation.** The Committee shall ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law. The Committee shall obtain, annually, from the independent auditor a written statement confirming that neither the lead (or coordinating) audit partner having primary responsibility for the Company's audit nor the audit partner responsible for reviewing the Company's audit has performed audit services for the Company in each of the Company's five previous fiscal years.
- 5.6. Internal Controls Report.** Beginning in fiscal year 2006 or earlier if required by applicable accounting rules or Canadian and U.S. federal securities laws, the Committee shall annually obtain from the independent auditor a written report in which the independent auditor attests to and reports on the assessment of the Company's internal controls made by the Company's management. The Committee shall review and discuss with management, the independent auditor, and the Company's independent auditor (i) the adequacy and effectiveness of the Company's internal controls (including any significant deficiencies and significant changes in internal controls reported to the Committee by the independent auditor or management; (ii) the Company's internal audit procedures; and (iii) the adequacy and effectiveness of the Company's disclosures controls and procedures, and management reports thereon.
- 5.7. National Office Consultation.** The Committee shall discuss with the national office of the independent auditor issues on which they were consulted by the Company's audit team and matters of audit quality and consistency.
- 5.8. Audit Planning.** The Committee shall review and discuss with the independent auditors their audit plan and engagement letter and discuss with the independent auditors and the internal auditor the scope of the audit, staffing, locations, reliance upon management, and internal audit and general audit approach.
- 5.9. Accounting Principles.** The Committee shall consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting, including critical accounting policies and practices used by the Company, GAAP alternatives discussed with management (including the ramifications and the auditor's preferred treatment) and any other material written communications between the independent auditor and management.

5.10. **Auditor Assurance.** The Committee shall obtain from the independent auditor assurance that Section 10A of the Securities Exchange Act of 1934, addressing the reporting of illegal acts, has not been implicated.

5.11. **Additional Auditors.** The Committee shall review the use of auditors other than the independent auditor where management has requested a second opinion or another auditor is proposed to be engaged for other reasons.

## 6. **Internal Audit Department and Legal Compliance.**

6.1. **Budget and Plan.** The Committee shall review the budget, plan, changes in plan, activities, organizational structure, and qualifications of the internal auditor. The internal auditor function shall be responsible to senior management, but shall have a direct reporting responsibility to the Board through the Committee. The internal auditor will be responsible for contacting the Chairperson of the Committee directly (i) to review items of a sensitive nature that can impact the accuracy of financial reporting or (ii) to discuss significant issues relative to the overall Board responsibility that have been communicated to management but, in the internal auditor's judgment, may warrant follow-up by the Committee.

6.2. **Approval of Internal Auditor.** The Committee shall review and approve the appointment, performance, dismissal and replacement of the internal auditor or the entity retained to provide internal audit services.

6.3. **Internal Audit Review.** The Committee shall review a summary of findings from completed internal audits and, where appropriate, review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.

## 7. **General Audit Committee Responsibilities.**

7.1. **Code of Ethics for the Chief Executive Officer and Senior Financial Officers.** The Committee shall inquire of management, the independent auditor and the internal auditor as to their knowledge of (i) any violation of the Code of Ethics for the Chief Executive Officer and Senior Financial Officers, (ii) any waiver of compliance with such code, and (iii) any investigations undertaken with regard to compliance with such code. The Committee may make recommendations to the Board regarding the waiver of any provision of the Code of Ethics for the Chief Executive Officer and Senior Financial Officers, however any waiver of such code may only be granted by the Board. All waivers granted by the Board shall be promptly publicly disclosed as required by the rules and regulations of the SEC and the AMEX.

- 7.2. **Complaints Procedure.** The Committee shall establish procedures to (i) receive, process, retain and treat complaints received by the Company regarding accounting, internal audit controls or auditing matters and (ii) the confidential and anonymous submission by employees of concerns regarding questionable accounting or audit practices.
- 7.3. **Related Party Transactions.** The Committee shall approve all related party transactions after a review of the transactions by the Committee for potential conflicts of interest and transaction will be considered a “related party transaction” if the transaction would be required to be disclosed in the Company’s Management’s Discussion and Analysis or any other filings with Canadian Securities Administrators or the SEC.
- 7.4. **Use of Assets.** The Committee shall review Company policies and procedures with respect to executive officers’ expense accounts and prerequisites, including their use of corporate assets, and consider the results of any review of these areas by the internal auditors or the independent accountant.
- 7.5. **General Activities.** The Committee shall perform any other activities consistent with this Charter, the Company’s bylaws, the Company’s Code of Ethics and Business Conduct and governing law, as the Committee or the Board deems necessary or appropriate, including reviewing the Company’s corporate compliance activities.

## 8. Reports and Assessments.

- 8.1. **Board Reports.** The Chairperson shall, periodically at his or her discretion, report to the Board on Committee actions and on the fulfillment of the Committee’s responsibilities under this Charter. Such reports shall include any issues that arise with respect to the quality or integrity of the Company’s financial statements, the Company’s compliance with legal or regulatory requirements, the performance and independence of the Company’s independent auditors and the performance of the Company’s internal audit function.
- 8.2. **Charter Assessment.** The Committee shall annually assess the adequacy of this Charter and advise the Board of its assessment and of its recommendation for any changes to the Charter. The Committee shall, if requested by management, assist management with the preparation of a certification to be presented annually to the AMEX affirming that the Committee reviewed and reassessed the adequacy of this Charter.
- 8.3. **Committee Self-Assessment.** The Committee shall regularly make a self-assessment of its performance, which shall include eliciting input

from management, the Board and the General Counsel on the performance of the Committee.

**8.4. Audit Committee Report.** The Committee shall prepare any Audit Committee Reports required by the rules of the Canadian Securities Administrators or the SEC to be included in the Company's filings with such agencies.

The duties and responsibilities of a member of the Audit Committee are in addition to those duties set out for a member of the Board. While the Committee has the responsibilities and powers set forth by this Charter, it is the responsibility of management to prepare the financials and it is the responsibility of the independent auditor to plan or conduct audits or to determine that the Company's financial statements are complete and accurate in accordance with generally accepted accounting principles.

The material in this Charter is not soliciting material, is not deemed filed with the SEC and is not incorporated by reference in any filing of the Company under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date this Charter is first included in the Company's filings with the SEC and irrespective of any general incorporation language in such filings.