

CARNEGIE WAVE ENERGY LIMITED

AUDIT COMMITTEE CHARTER

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1.0 GENERAL

The Board of Directors at a meeting held 14 May 2003 has approved the following terms of reference for the Committee. The Committee has the authority to review, on behalf of the parent entity Board, matters arising in all entities in the economic entity including funds operated.

2.0 OBJECTIVES

The objectives of the Finance and Audit Committee will be:

- to assist the Board of Directors of each company in the Carnegie Group to discharge their responsibility for externally reporting financial information, ensuring financial integrity and credibility of that reporting.
- to ensure that management has in place a process to identify and manage business risks.
- to seek to improve the quality of financial reporting, control systems and corporate governance of the Group.
- to oversee internal and external audit functions.
- to monitor and ensure the Carnegie Group conforms with requirements of the Corporations Act and Australian Securities & Investments Commission ("ASIC").

3.0 COMPOSITION

3.1 ELIGIBILITY AND APPOINTMENT

Committee members will be members of the Board of Directors of any corporate entity within the Carnegie Group.

The Committee will consist of a majority of non-executive directors. The Chairman of the Committee shall be a non-executive director of the company. A Secretary will be selected and appointed by the participating members.

The Managing Director and CFO are not eligible to be committee members although may be invited to attend Committee meetings as appropriate.

3.2 TENURE

Committee members shall be appointed by the Carnegie Board for an initial two-year term of office after which their appointment may be subject to annual rotation determined by the Board.

3.3 ROLE OF THE COMMITTEE CHAIRMAN

The Chairman will be responsible for:

- Planning and conducting meetings;
- Overseeing reporting to the Board; and
- Advising the Board in the selection of Committee members.

3.4 COMMITTEE SECRETARY

The Secretary shall be responsible for:

- Minutes of Committee meetings taken and distributed;
- Facilitating appropriate communications between the Committee and Board, including ensuring that the Board receive reports which keep them adequately informed of the Committee's activities; and
- Providing supporting documentation to the Board for Committee recommendations.

3.5 MEETINGS

A quorum of two (2) Committee members, including at least one (1) independent (non-executive) director is required.

Meetings are to be held approximately four (4) times per year. The Secretary will be required to give reasonable notice of a meeting. Other officers of the Group or external persons may be invited to attend Committee meetings. The Chairman will call a meeting of the Audit and Compliance Committee if so requested by any Committee member, and Director or the Auditors.

The Chairman of the Committee shall report the findings and recommendations of the Committee to the appropriate Board after each Committee meeting.

4.0 FUNCTION AND RESPONSIBILITY

4.1 RISK MANAGEMENT AND CONTROL ENVIRONMENT

The Committee takes responsibility for:

- monitoring corporate risk assessment and the internal controls instituted.
- monitoring the establishment of an appropriate internal control framework, including information systems, and considering enhancements.
- reviewing external audit programs/reports to ensure that where deficiencies in controls or procedures have been identified, appropriate remedial action is taken by management.

4.2 FINANCIAL REPORTING

The Committee shall examine and consider and matters relating to the financial affairs of the Group and its external audit that it considers necessary, including:

- reviewing financial statements and other financial information distributed externally.
- monitoring the procedures in place to ensure compliance with accounting standards, Corporations Act and ASIC requirements, and any other statutory requirements applicable.

4.3 COMPLIANCE

In relation to its compliance functions, the Committee shall consider any matters relating to the ongoing compliance of Group activities, particularly in respect of the various applicable laws and legislation and the regulators responsible for them.

4.4 AUDIT FUNCTIONS

The Committee shall be responsible for:

- reviewing the nomination, performance and remuneration of the external auditors.
- liaising with the external auditors and ensuring that the annual audits and half-year statutory reviews are conducted in an effective manner.
- evaluating the need for an internal audit function.

4.5 OTHER MATTERS

The Committee shall:

- examine any other matters referred to it by any Board of the entities within the Group.
- act honestly and exercise the degree of care and diligence expected of a reasonable person.

5.0 POWERS OF THE COMMITTEE

5.1 ACCESS TO INFORMATION

The Committee has the authority to seek any information it requires from any officer or employee of the Carnegie Group and such officers or employees shall be instructed by the Board to respond to such enquiries.

5.2 INDEPENDENT ADVICE

The Committee is authorised to take such independent professional advice as it considers necessary.

5.3 COMMUNICATIONS WITH AUDITOR

The Chairman has the authority of the Carnegie Board to deal directly with the appointed auditor.

5.4 DECISION MAKING

Where any Committee member (or ex-officio management representative) has a contrary view to a Committee decision, that view is to be reported to the relevant Board.

5.5 REVIEW OF TERMS OF REFERENCE

These terms of reference will be formally reviewed by the Committee in April of each year. The Committee may make suggestions to the Board for changes to these terms. Only the Board has the power to change the terms of reference.