



## AUDIT COMMITTEE CHARTER

### A. PURPOSE

An audit committee is a committee of a board of directors to which the board delegates its responsibility for oversight of the financial reporting process. Traditionally, the audit committee has performed a number of roles, including:

- (a) helping directors meet their responsibilities;
- (b) providing better communication between directors and the external auditors;
- (c) enhancing the independence of the external auditor;
- (d) increasing the credibility and objectivity of financial reports; and
- (e) strengthening the role of the directors by facilitating in-depth discussions among directors, management and the external auditor.

National Instrument 52-110 *Audit Committees* ("NI 52-110") and Rule 10A-3 of the United States Securities Exchange Act of 1934, as amended require that the audit committee also be responsible for managing, on behalf of the shareholders, the relationship between the issuer and its external auditors. In particular, it provides that an audit committee must have responsibility for:

- (a) overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditors' report or related work; and
- (b) recommending to the board of directors the nomination and compensation of the external auditors.

As used herein, the term NI 52-110 shall include, where appropriate, Rule 10A-3.

Although under corporate law, an issuer's external auditors are responsible to the shareholders, in practice, shareholders have often been too dispersed to effectively exercise meaningful oversight of the external auditors. As a result, management has typically assumed this oversight role. However, the auditing process may be compromised if the external auditors view their main responsibility as serving management rather than the shareholders. By assigning these responsibilities to an independent audit committee, NI 52-110 ensures that the external audit will be conducted independently of the issuer's management.

NI 52-110 provides that an audit committee must be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the issuer, including the resolution of disagreements between management and the external auditors regarding financial reporting. Notwithstanding this responsibility, the external auditors are retained by, and are ultimately accountable to, the shareholders. As a result, NI 52-110 does not detract from the external auditors' right and responsibility to also provide their views directly to the shareholders if they disagree with an approach being taken by the audit committee.

The Board of Directors (the "Board") of Quaterra Resources Inc. (the "Company") is responsible for the management of the business and affairs of the Company. The Audit Committee (the "Committee") is appointed by the Board as an independent and objective party to assist in fulfilling the Board's responsibility for oversight of the Company's financial reporting process.

The Company must comply with the applicable requirements of NI 52-110 which includes having a written charter that sets out the Committee's mandate and responsibilities. The Board may, at any time, amend or rescind any of the provisions hereof, or cancel them entirely, with or without substitution.

### B. AUTHORITY

1. The Committee, through its Chair, may directly contact any officer or employee of the Company as it deems necessary or advisable to fulfill its duties and responsibilities, and any officer or employee may



bring before the Committee any matter involving questionable, illegal or improper financial practices or transactions;

2. The external auditors will report directly to the Committee. The external auditors shall have a direct line of communication to the Committee through its Chair and may bypass management if deemed necessary; and
3. The Committee may engage, at the Company's expense, outside legal counsel or other advisors as the Committee considers necessary to fulfill its duties and responsibilities and to negotiate compensation arrangements for any such advisors.

#### **C. COMPOSITION AND MEETINGS**

1. The Board, at its organizational meeting held in conjunction with each annual general meeting of the shareholders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee;
2. The Committee shall be composed of three or more members of the Board, all of whom are independent and financially literate within the meaning of NI 52-110. The members of the Committee shall appoint from among themselves a Chair of the Committee. The Chair shall have responsibility for ensuring that the Committee fulfills its principal duties and responsibilities effectively;
3. A minimum of two and at least 50% of the members of the Committee present either in person or by telephone or other telecommunication device at a Committee meeting shall constitute a quorum;
4. If and whenever a vacancy shall exist in a Committee meeting, the remaining members of the Committee may exercise all of its powers and responsibilities provided a quorum has been established;
5. Any matters to be determined by the Committee shall be decided by a majority of votes cast at a Committee meeting called for such purpose. Actions of the Committee may be taken by an instrument or instruments in writing signed by all of the members of the Committee, and such actions shall be effective as though they had been decided by a majority of votes cast at a Committee meeting called for such purpose. All decisions or recommendations of the Committee shall require the approval of the Board prior to implementation;
6. The time and place at which a Committee meeting shall be held, and procedures at such meetings shall be determined from time to time by the Committee. A Committee meeting may be called by email, telephone, facsimile, letter or other communication means, by giving at least 48 hours notice. Notice of a Committee meeting shall not be necessary if all of the members are present either in person or by telephone or other telecommunication device or if those absent have waived notice or otherwise signified their consent to the holding of such meeting;
7. The Committee may invite such officers, directors and employees of the Company and its subsidiaries as it may see fit, from time to time, to attend at Committee meetings;
8. The Committee shall keep minutes of its meetings which shall be submitted to the Board. The Committee may, from time to time, appoint any person who need not be a member, to act as a secretary at Committee meetings;
9. The Committee shall meet at least quarterly, at the discretion of the Chair or a majority of its members, as circumstances dictate or as may be required. Any member of the Committee or the external auditors may request a meeting of the Committee; and
10. The external auditors shall receive notice of and have the right to attend all Committee meetings.

#### **D. PRINCIPAL DUTIES AND RESPONSIBILITIES**

1. The overall duties and responsibilities of the Committee shall be as follows:
  - (a) assist the Board in the discharge of its responsibilities relating to the Company's accounting principles and reporting practices including its approval of the Company's annual and quarterly consolidated financial statements and corresponding management's discussion and analysis ("MD&A");
  - (b) establish and maintain a direct line of communication with the Company's external auditors and assess their performance;
  - (c) ensure that the management of the Company has designed, implemented and is maintaining an effective financial reporting system;
  - (d) ensure compliance with NI 52-110; and



- (e) report regularly to the Board on the fulfillment of its duties and responsibilities.
2. The duties and responsibilities of the Committee as they relate to the external auditors shall be as follows:
    - (a) verify the independence of external auditors and recommend to the Board a firm of external auditors to be nominated for the purpose of preparing or issuing an auditors' report or performing other audit, review or attest services for the Company;
    - (b) monitor the independence of the external auditors, receive any required formal written statement from the external auditor delineating relationships between the external auditor and the Company, and confirm the external auditor's independence to the Board on an annual basis;
    - (c) recommend to the Board the compensation of the external auditor;
    - (d) oversee the work of the external auditor, including the resolution of disagreements between management and the external auditor regarding financial reporting;
    - (e) pre-approve all non-audit services to be provided to the Company by the external auditors unless otherwise provided for in NI 52-110;
    - (f) review the audit plan of the external auditors prior to the commencement of the audit;
    - (g) review with the external auditors any changes or proposed changes in accounting policies, the presentation and impact of significant risks and uncertainties and key estimates and judgments of management that may be material to the Company's financial reporting;
    - (h) discuss with the external auditors the quality and appropriateness of the Company's accounting principles;
    - (i) review with the external auditors, upon completion of their audit:
      - (i) contents of their report including the scope and quality of the audit work performed;
      - (ii) adequacy of the Company's financial and auditing personnel;
      - (iii) co-operation received from the Company's personnel during the audit;
      - (iv) internal resources used;
      - (v) significant transactions outside of the normal business of the Company;
      - (vi) significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems; and
      - (vii) the non-audit services provided by the external auditors; and
    - (j) periodically review the Company's financial and auditing procedures and the extent to which recommendations made by the external auditors have been implemented.
  3. The Committee shall review and discuss with Management and the Auditors, where appropriate, the following financial documents and reports prior to public disclosure:
    - (a) the annual report, including the audited financial statements and the Auditors' report to the shareholders of the Company, and quarterly financial statements and corresponding MD&A;
    - (b) all press releases containing financial information extracted or derived from the Company's financial statements or MD&A;
    - (c) all certifications that may be made by Management on the annual or quarterly financial results, disclosure controls and procedures and internal controls over financial reporting;
    - (d) any legal, tax or regulatory matters that may have a material impact on the Company's operations and financial statements; and
    - (e) all financial information contained in any prospectus, information circular or other disclosure documents or regulatory filings containing financial information of the Company.
  4. The Committee shall recommend to the Board the amendment or approval of all annual and interim financial statements and MD&A and any other documents that may be reviewed by the Committee.
  5. Other duties and responsibilities of the Committee shall be as follows:
    - (a) ensure that procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements, such as press releases, and periodically assess the adequacy of the procedures;



- (b) implement procedures for the confidential receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters;
- (c) implement procedures for the confidential receipt, retention, and treatment of complaints received by Quaterra regarding the alleged violation of and Corporate Governance policies of Quaterra (including its subsidiaries);
- (d) periodically review with the Company's management complaints received under sections 5(b) and (c) above;
- (e) review and approve the Company's hiring policies regarding partners, employees or former partners and employees of the present and former external auditors of the Company; and
- (f) make recommendations to the Board with respect to any changes or improvements to the financial reporting process including this Charter.

#### **6. RELATED PARTY TRANSACTION REVIEW**

In addition to other responsibilities of the Committee, the Committee shall, in compliance with Section 120 of the NYSE Amex Company Guide, review and recommend to the Board of Directors the approval or non approval of all related party transactions, subject, where applicable, to, the related party and the board of directors complying with the provisions of the *Business Corporations Act (British Columbia)*.