

#### AUDIT COMMITTEE FUNCTION AND AUTHORITY

While primary responsibility for the Company's financial reporting and internal controls is vested in management, the Board is the overseer of this function and ultimately bears full responsibility for it.

Accordingly, the Board must ensure that:

- there is proper and reliable financial and management reporting;
- external reporting complies with statutory, ASX and other requirements;
- an effective and efficient audit is carried out;
- internal controls and procedures are established and abided; and
- financial risks and other business risks are effectively managed.

The Board also bears the final responsibility for ensuring that the Company is aware of, and complies with all applicable laws and regulations, including Corporations Act and the ASX Listing Rules.

The purpose of the Audit Committee is to assist the Board to fulfill its corporate governance and supervisory responsibilities in relation to the matters noted above. Nothing in this Charter shall derogate from the Board's responsibility with respect to overseeing those matters.

The Audit Committee operates principally in a review and/or advisory capacity except where decision making authority is specifically delegated by the Board.

The Audit Committee shall have the authority within the scope of its responsibilities to seek any information it requires and to investigate any aspect, function or activity of the Company or any of its controlled entities.

The Audit Committee shall have unfettered access to the external auditor, management and other employees.

The Audit Committee shall also have the ability to consult independent experts and retain persons having particular skills and expertise where it considers it necessary (with due regard to costs) to carry out its duties. However, prior approval from the Chairman and Managing Director is required, which approval may not be unreasonably withheld.

#### OBJECTIVES

The main objectives of the Audit Committee include the following:

- Assisting the Board to discharge its responsibility to exercise due care, diligence and skill in relation to:
  - reporting of financial information to users of financial reports;
  - application of accounting policies;
  - financial management;
  - internal control systems;
  - risk management procedures and practices;
  - business policies and practices;
  - protection of the Company's assets; and
  - compliance with applicable laws, regulations, standards and best practice guidelines.
- Improving the credibility, objectivity and transparency of the accountability process (including financial reporting).
- Improving the efficiency of the Board by delegating tasks to the Audit Committee and thus allowing more time for issues to be discussed in sufficient depth.
- Improving the effectiveness of the external audit function.
- Improving the quality and completeness of internal and external reporting of financial and non-financial information.
- Strengthening the role and influence of non-executive directors.

#### MEMBERSHIP

The Board shall appoint the members of the Audit Committee, which will be comprised of:

- only non-executive directors; and

- at least three members.

The Chairman of the Audit Committee shall be one of the members nominated by the Board from time to time. The Chairman of the Board shall not be Chairman of the Audit Committee.

The Managing Director/Chief Executive Officer shall not be a member of the Audit Committee.

Members shall have the appropriate skills (including financial literacy) and time to fulfill their role on the Audit Committee. A majority of members shall have significant industry-specific financial and business experience.

Members shall be given the opportunity to attend technical and professional development courses to help them keep up to date with legislative, accounting and other relevant issues.

The Secretary of the Audit Committee shall be the Company Secretary, or such other person as nominated by the Board.

Members of the Audit Committee shall be appointed by the Board for a period determined by the Board.

The Board shall ensure that there is an appropriate degree of continuity of the membership of the Audit Committee and any change to the membership of the Audit Committee requires the approval of the Board.

New members shall receive an appropriate induction to acquaint them with the objectives and practices of the Audit Committee.

#### MEETINGS

Meetings of the Audit Committee will take place regularly in accordance with a schedule of meetings containing pre-arranged dates having regard to fulfilling the committee's objectives. Additional unscheduled meetings may be held as required. In any event, there shall be at least two meetings annually.

The Chairman of the Audit Committee shall be required to call meetings of the Committee if requested to do so by any of the following:

- a Director;
- the Company Secretary;
- Chief Financial Officer; and/or
- the external auditor,

or otherwise as the Chairman deems necessary.

The external auditor shall be entitled to attend the meetings of the Audit Committee except in situations where there could be a perceived conflict of interest. Management may attend Audit Committee meetings, having regard to the relevant circumstances necessitating such attendance.

The Secretary shall keep minutes of meetings of the Audit Committee and circulate them to committee members and Board members. All minutes shall be approved by the Audit Committee and signed by the Chairman for identification purposes. Ordinarily, minutes of meetings of the Audit Committee should be included in the papers for the next full Board meeting after each committee meeting. In addition to formal minutes, the Audit Committee should report to the Board in accordance with section 6 of this Policy.

The Secretary, in conjunction with the Chairman, shall be responsible for drawing up the agenda and supporting documentation and circulating to the Audit Committee members and the external auditor in adequate time to allow members to review the information prior to each meeting. Members of the Audit Committee and the external auditor shall be entitled to contribute to the agenda and the Secretary shall ensure that such persons are invited to contribute to the agenda in a timely fashion.

The quorum for meetings of the Audit Committee shall be two members.

#### RESPONSIBILITIES

The Audit Committee's main responsibilities are discussed below under the relevant headings.

#### EXTERNAL REPORTING

- Assess the appropriateness of the Company's external reporting.
- Consider the appropriateness of the Company's accounting policies and principles and any changes and, as well as the methods of applying them, ensuring that they are in accordance with the stated financial reporting framework.
- Assess significant estimates and judgments in financial reports by enquiring of management about the process used in making material estimates and judgments and then enquire of the external auditor's basis for the conclusions and the reasonableness of management's estimates.
- Review management's processes for ensuring and monitoring compliance with laws, regulations and other requirements (including applicable Accounting Standards, Corporations Act and ASX Listing Rules) relating to the external reporting by the Company of financial and non-financial information.
- Ensure that a comprehensive process is established by the Company's management to capture issues for the purposes of continuous disclosure to ASX.
- Review the Company's corporate governance reporting practices to ensure compliance with the requirements contained in the ASX Listing Rules and ASX Best Practice Recommendations.
- Where necessary, seek guidance from the external auditor about the appropriateness, not just the acceptability of the accounting principles used and the clarity of the financial disclosure practices used or proposed to be used by the Company as put forward by management.
- Recommend to the Board whether the financial and non-financial statements should be signed based on the Audit Committee's assessment of them.
- Review representation letters provided by management to the Board.

#### RELATED PARTY TRANSACTIONS

Review and monitor the propriety of related party transactions.

#### INTERNAL CONTROL AND RISK MANAGEMENT

- Assess the internal process for determining and managing key risk areas, particularly:
  - non-compliance with laws, regulations, standards and best practice guidelines, including environmental and industrial relations laws;
  - important judgments and accounting estimates;
  - litigation and claims;
  - fraud and theft; and
  - relevant business risks.
- Ensure that the Company has an effective risk management system and that significant risks to the Company are reported to the Board.
- Assess suspected and actual frauds, thefts and breaches of laws.
- Assess and monitor the effectiveness of the Company's internal control system with management and the external auditor.

#### EXTERNAL AUDIT

- Make recommendations to the Board on the appointment and remuneration of the external auditor and the rotation of the external audit engagement partner.
- Monitor the effectiveness and independence of the external auditor.
- Ensure that any suggestions by management that the auditor needs to be replaced or that the audit needs to be put out to tender are referred to and examined carefully by the Audit Committee with it reporting to the Board on its examination before any decision is made by the Board.
- Review the external auditor's fee and be satisfied that it is competitive and that an effective, comprehensive and complete audit can be conducted for the set fee.
- Provide notices of meetings and meeting materials to the external auditor and, subject to the auditor's right to attend all meetings, invite the auditor to review the audit plan, discuss audit results and consider the implications of the external audit findings for the control environment.
- Together with the external auditor, review the scope of the external audit (particularly the identified risk areas) and any agreed additional procedures on a regular and timely basis.
- Enquire of the auditor if there have been any significant disagreements with management, irrespective of whether or not they have been resolved.

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**Policy: Audit Committee Charter & Terms of Reference**

- Monitor and critique management's responsiveness to the external auditor's findings and recommendations.
- Provide the opportunity for the Audit Committee members to meet with the external auditor without management personnel being present.

**REPORTING TO THE BOARD**

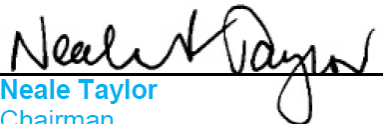
The Audit Committee shall report to the Board as appropriate from time to time. Such reports should contain all matters relevant to the Audit Committee's roles and responsibilities and may include any or all of the following (as required):

- Assessment of whether external reporting is consistent with the Audit Committee's information and knowledge and if it is adequate for shareholder needs.
- Assessment of the management processes supporting external reporting.
- Recommendation of procedures for the selection, appointment and removal of the external auditor and for the rotation of external audit engagement partners.
- Assessment of the performance and independence of the external auditor and whether the Audit Committee is satisfied that independence of this function has been maintained having regard to the provision of non-audit services.
- The results of its review of risk management and internal compliance and control systems.

**OTHER**

- Review any regulatory reports submitted to the Company and monitor management's response to them.
- Take an active interest in ethical considerations regarding the Company's policies and practices.
- Identify and direct any special projects or investigations deemed necessary.
- Critically examine the Audit Committee's own performance at regular intervals and recommend to the Board any changes in the committee's responsibilities.

Approved by the Board of Tap Oil Limited.



Neale Taylor  
Chairman  
for and on behalf of the Board  
of Directors



Date