



**TERRACOM**

**TERRACOM LIMITED AUDIT COMMITTEE CHARTER**

## 1. Overview

TerraCom Limited has established an Audit Committee (the “Committee”) to focus specifically on appropriate procedures and guidelines in relation to the audit and financial reporting responsibilities, and internal control and risk management of the Company.

This charter sets out the roles, responsibilities, composition and structure of the Committee.

## 2. Roles and Responsibilities

The primary role of the Committee is to assist the Board discharge its responsibilities, with regard to the following areas:

- ensuring that the Company meets its obligations to regulatory agencies;
- ensuring the quality and accuracy of published financial reports so they present a true and fair view of the company’s financial positioning and comply with relevant statutory and regulatory requirements;
- ensuring the Company adopts, maintains and applies appropriate accounting and business policies and procedures;
- reviewing and monitoring related party transactions;
- facilitating the independence of the external audit process and addressing issues arising from the external audit process;
- making recommendations to the Board in relation to the appointment of external auditors and approving the remuneration and terms of their engagement; and
- ensuring that the Company maintains effective internal control and a risk management framework in order to safeguard the Company’s financial and physical resources.

Ultimate responsibility for the integrity of the Company’s financial reporting rests with the full Board notwithstanding the establishment of the Committee.

In performing its duties, the committee will maintain effective working relationships with the Board, management and the external auditors. To perform his or her role effectively, each committee member will obtain an understanding of the responsibilities of committee membership.

The responsibilities of the Committee include:

### 2.1 Financial Reporting

- a) review and assess the appropriateness of the Company’s accounting policies and principles and any significant changes to those policies and principles;
- b) review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements;
- c) understand and review significant, complex, unusual transactions

- d) understand judgemental areas such as valuation of assets and liabilities; environmental liability; litigation reserves; and other commitments and contingencies
- e) review annual and interim financial statements and determine whether they are complete and consistent with the information known to the committee members and reflect appropriate accounting principles; and
- f) meet with management and the external auditors to review the financial statements and the results of the audit.

## **2.2 External Audit**

- a) review and agree the terms of engagement of the external auditor at the commencement of each audit;
- b) review the scope of the external audit with the auditor, including identified areas of risk, and additional procedures if required;
- c) review the external auditor's fee, ensuring that a comprehensive and complete audit can be conducted for the agreed fee;
- d) evaluate the performance of the external auditors, including assessment of the auditor's independence taking into account factors which may impair the auditor's judgement in audit matters related to the company, including but not limited to –
  - the provision of non-audit services by the auditor (if any);
  - the number of former employees of the auditor in senior positions in the company;
  - the overall economic importance of the company to the auditor;
  - any other relationships with the company or any other party.
- e) review the auditor's findings and management's responsiveness thereto, discussing with the auditor any matters involving disagreement whether resolved or otherwise;
- f) review and assess any management recommendation and, in accordance with this policy or otherwise, consider the prospect of auditor replacement, tender for auditor services as required, and make appropriate recommendations to the Board;
- g) subject to f) above, ensure the rotation of the audit partner, and other persons playing a significant role in the audit, at intervals not exceeding 5 years;
- h) ensure the external auditor complies with relevant guidelines for the provision of non audit services, and if such services are provided assess the impact on Auditor's independence; and
- i) ensure significant findings and recommendations made by the external auditors are received, discussed and responded to on a timely basis.

### **2.3 Internal Control and Risk Management**

- a) review and assess the adequacy of the company's systems of internal control, financial and non-financial.
- b) review and assess the effectiveness of the company's risk management systems in respect of both the identification and management of risks.
- c) review and assess the adequacy of the company's systems to monitor and ensure compliance with laws and regulations.
- d) review and assess that management systems provide for and support as appropriate the reporting of all actual and suspected breaches of laws, including fraud and theft.
- e) review that all necessary compliance reports, statements and representations in relation to internal control and risk management are provided by management in accordance with this
- f) policy and the laws, regulations and other reporting requirements relating to external reporting by the Company.
- g) meet periodically with management, and not less frequently than annually with external auditors, to discuss the company's control environment including the processes for improvement in place.
- h) periodically seek advice from external auditors regarding the completeness and quality of financial and operational information being provided to senior management and the Board, where such advice is considered by the Committee to be necessary to the carrying out of their duties.

### **2.4 Compliance with Laws and Regulations**

- a) review and assess the processes used by management to monitor and ensure compliance with laws, regulations and other requirements relating to the Company's external reporting of financial and non financial information. Examples include but are not limited to:
  - Australian Accounting Standards
  - Corporations Act 2001 (Cth)
  - ASX Listing Rules
- b) ensure all regulatory compliance matters have been complied with.

### **2.5 Other responsibilities**

Undertake assignments, special projects and investigations, as directed by the Board.

### **3. Committee Composition**

#### **3.1 Membership**

The ASX Corporate Governance Council recommends that the Committee be structured as follows:

- a) the committee must have a minimum of three members;
- b) all members should be non executive directors;
- c) the majority of directors are to be independent; and
- d) the committee chair is to be independent and not the chairman of the board.

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. If a Committee member retires, is removed or resigns from the Board, that member ceases to be a member of the Committee. The Board will appoint the successor.

#### **3.2 Qualifications**

Each director should be capable of making a valuable contribution to the Committee. As such, the Committee must include:

- at least one member who is a qualified accountant or other professional with experience of financial and accounting matters;
- some members who have an understanding of the industry in which the Company operates; and

members who have an appropriate understanding of applicable legal requirements.

#### **3.3 Meetings**

The Committee will meet as frequently as required in order to undertake its role effectively but must, at a minimum, meet twice a year. Special meetings may be convened as required.

Proceedings of all meetings will be minuted and kept by the Company Secretary. The minutes shall be signed by the chair, and distributed to all Committee members and tabled at a subsequent Board meeting for noting.

A Quorum for Committee meetings will be at least two members, save that one of the members of the quorum must be an independent.

The Committee may invite other persons to its meetings as it deems necessary (eg the Chairman, Group Managing Director, Chief Financial Officer, and External Auditor).

### **4. Access to information**

#### **4.1 Company Information and Personnel**

The Committee is granted unrestricted access to all information of the Company and its subsidiaries and shall have right of access to:

- all levels of management; and
- the external auditors.

#### **4.2 Independent Professional Advice**

The Committee, or any individual Committee member, with approval of the Chair of the Board, is entitled to obtain independent professional or other advice at the expense of the Company where they consider it necessary to carry out their duties.

### **5. Review**

The Company Secretary, in conjunction with the Committee, will conduct an annual review of the Charter to ensure that it continues to reflect the current processes and guidance utilised when assessing the integrity of the Company's financial reporting.

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

### **6. Publication of the Charter**

The Audit and Compliance Committee Charter is available to all directors and staff of the Company. In addition a copy of this Charter is to be placed on the Company's website at [www.terraresources.com](http://www.terraresources.com).