

## **EARTH HEAT RESOURCES LTD**

### **TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**

- The committee should consist of a majority of non-executive directors who are preferably also independent directors.
- The members' terms of appointment will coincide with the terms of appointment of other board committees, and should provide for both continuity of membership and the contribution of fresh perspectives.
- The committee will meet on a regular basis. Special meetings will be authorised at the request of any committee member or of the external or internal auditors. The external auditors should have the right to attend all meetings of the committee. At each meeting there should be an opportunity to discuss matters separately with management and with the external auditors.
- The full Board must be kept informed of the committee's activities by a report to the Board following each committee meeting.
- The committee will review all published financial statements which require approval by the board of directors prior to approval by the board. Statements include quarterly, half year audited and year-end audited statements, statements in prospectuses and other offering memoranda and statements required by regulatory authorities.
- The committee will review any report of management which accompanies published financial statements (to the extent that such a report discusses the financial position or operating results) for consistency of disclosure with the financial statements themselves – again, before approval by the board.
- The committee will review the audit plans of the external auditors (and internal auditors if appointed), including the degree of co-ordination between the two parties. Also, the committee will ascertain the extent to which the planned audit scope can be relied upon to detect weaknesses in internal controls, fraud, conflicts of interest or other illegal acts. Another duty of the committee is to review any significant recommendations by the auditors to strengthen internal controls.
- The Committee will review and monitor the risk management and ethical practices and activities of the Company.
- The Committee will assess management's programs and policies which deal with the adequacy and effectiveness of internal controls over the company's business processes, including the financial statements and the information technology process.
- The Committee will review the results of the internal and external audits, any changes in accounting practices or policies and subsequent effects on the financial statements. In addition, the committee will review any accruals, provisions or estimates which significantly affect the financial statements as well as other sensitive matters, such as disclosure of related party transactions.
- The Committee will review jointly with management, the external auditors and, if necessary, legal counsel, any litigation, claim or other contingency, including tax assessments, which could have a material effect upon the financial position or operating results of the company, and the manner in which these matters have been disclosed in the financial statements.

- The committee will review the minutes of audit committee meetings of any controlled entities for significant issues and auditors' recommendations.
- The committee will consider any other matter which affects its recommendation to the board of directors concerning the approval of the financial statements.
- The committee will review the company's required corporate governance practices and seek assurance that the policies and practices are being observed. The committee will also discuss the proposed contents and format of the Corporate Governance Statement required by the Australian Stock Exchange.
- The committee will monitor the standard of corporate conduct in transactions with related parties. Committee members must be aware of actual or potential conflicts of interest, including transactions which are not at arm's length to ensure such transactions are on commercial terms.
- The committee will review policies and procedures which deal with regular examination by the CEO of officers' expenses and benefits, including the use of company assets. Moreover, the committee will make inquiries about the results of these examinations.
- The committee will review the basis and content of reports issued by the auditor; the quality of the internal controls; the size, complexity and financial condition of the company; and the extent of internal audit and other support for the external auditors from the organisation.
- The Committee will assess whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review; and
- The Committee will provide advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001.
- If a change in external auditors is proposed, the committee will inquire about the reasons for such a change (including the response of the incumbent auditors), and the qualifications of the proposed new auditors, before making its recommendations to the board of directors.
- The committee will review the external auditor's remuneration from time to time and make appropriate recommendations to the board.
- The Chair will ensure that during periods of his or her absence, an Acting Chair is appointed to ensure the seamless continuation of the Committee's business during that period of absence.