

TETHYS PETROLEUM LIMITED



Audit Committee Charter

TETHYS PETROLEUM LIMITED

1 INTERPRETATION

In these terms of reference:-

"**Auditor**" means the external auditors of the Company;

"**Board**" means the board of directors of the Company;

"**Code of Conduct and Ethics Policy**" means the Company's Code of Conduct and Ethics Policy in force at the date of adoption of this Charter, as it may be amended or replaced from time to time;

"**Committee**" means the audit committee of the Board; and

"**Company**" means Tethys Petroleum Limited.

2 CONSTITUTION

By a resolution dated October 5, 2006, the Board resolved, pursuant to the authority and power conferred upon the Board by Article 101 of the Company's articles of association, to establish a committee of the Board to be known as the audit committee.

3 GENERAL AIMS

Without prejudice to the specific duties of the Committee detailed below, the general aims of the Committee shall be to assist the Board in meeting its financial reporting responsibilities and to oversee the Company's relationship with the Auditor.

4 SPECIFIC DUTIES

The Committee shall perform the following duties for the Company.

4.1 Financial Reporting

4.1.1 The Committee shall review the financial statements of the Company, including its:

- (a) annual and interim reports and accounts;
- (b) announcements of annual and interim results; and
- (c) any other formal announcement relating to the Company's financial results.

4.1.2 The Committee shall review and discuss with management and the Auditor:

- (a) the Company's annual audited financial statements and related documents prior to their filing or distribution, including;
 - (i) the annual financial statements, related footnotes and Management's Discussion and Analysis, including significant issues regarding accounting principles, practices and significant management estimates

- and judgements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies;
- (ii) the use of off-balance sheet financing including management's risk assessment and adequacy of disclosure;
 - (iii) any significant changes to the Company's accounting policies;
 - (iv) the Auditor's audit report on the financial statements; and
- (b) the Company's quarterly unaudited financial statements and related documents prior to their filing of distribution, including.
- (i) quarterly unaudited financial statements and related documents, including Management's Discussion and Analysis including significant issues regarding accounting principles, practices and significant management estimates and judgements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies;
 - (ii) if applicable, the Auditor's report of its review of the financial statements;
 - (iii) the use of off-balance sheet financing including management's risk assessment and adequacy of disclosure;
 - (iv) any significant changes to the Company's accounting policies.

4.1.3 The Committee shall review:

- (a) the Company's Annual Information Form, or other similar report filed with securities regulatory authorities, as to financial information;
- (b) all prospectuses and information circulars of the Company as to financial information;
- (c) any financial information contained in other documents, such as announcements of a price sensitive nature.

4.1.4 The Committee shall review:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;

- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the Auditor;
 - (d) the Company's reporting practices; and
 - (e) all significant financial reporting issues and all judgements which they contain.
- 4.1.5 The Committee shall review and discuss with management financial information, including earnings press releases, the use of “pro forma” or non-IFRS financial information and earnings guidance, contained in any filings with the securities regulators or news releases related thereto (or provided to analysts or rating agencies) and consider whether the information is consistent with the information contained in the financial statements of the Company or any subsidiary with public securities. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).
- 4.1.6 The Committee shall review the annual financial statements of any pension funds where not reviewed by the Board as a whole.
- 4.1.7 The Committee shall recommend to the Board the approval of the annual financial statements and related documents and either approve the interim financial statements and related documents or recommend to the Board such financial statements and documents for approval.
- 4.2 Internal Controls and risk management systems**
- 4.2.1 The Committee shall:
- (a) keep under review the effectiveness of the Company's internal controls and risk management systems; and
 - (b) review and approve any statements to be included in the Company's annual report and accounts concerning internal controls and risk management.
- 4.3 Ethics Reporting**
- 4.3.1 The Committee is responsible for the establishment of a policy and procedures for:
- (a) the receipt, retention and treatment of any complaint received by the Company regarding financial reporting, accounting, internal accounting controls or auditing matters;
 - (b) the confidential, anonymous submissions by employees of the Company of concerns regarding questionable accounting or auditing matters.
- 4.3.2 The Committee will review, on a timely basis, serious violations of the Code of Conduct and Ethics Policy including all instances of fraud.
- 4.3.3 The Committee will review on a summary basis at least quarterly all reported violations of the Code of Conduct and Ethics Policy.

4.4 Internal Audit

The Committee shall consider annually whether there is a need for an internal audit function and make a recommendation to the Board accordingly. In the event that an internal audit function is introduced, the Board shall extend as appropriate the terms of reference to include, inter alia, monitoring and reviewing the effectiveness of the internal audit function, senior appointments and removals in respect of that function, resourcing of that function, meetings with the internal auditors and reviewing executive management's responsiveness to findings and recommendations of the internal audit function.

4.5 External Audit

4.5.1 The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment or removal of the Auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) oversee the Company's relationship with the Auditor including (but not limited to):
 - (i) approval of their remuneration, whether fees for audit or non-audit services and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the Auditor as a whole, including the provision of any non-audit services;
 - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the Auditor and the Company (other than in the ordinary course of business) or any other conflict of interest;
 - (v) agreeing with the Board a policy on the employment of former employees of the Auditor, then monitoring the implementation of this policy;
 - (vi) ensuring receipt, at least annually, from the external auditor of a formal written statement delineating all relationships between the Auditor and the Company, including non-audit services provided to the Company;
 - (vii) monitoring the Auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees

paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and

- (viii) assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the Auditor on their own internal quality procedures;
- (c) overseeing the work of the Auditor, including the resolution of disagreements between management and the Auditor;
- (d) meeting regularly with the Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the Auditor at least once a year, without executive management being present, to discuss their remit and any issues arising from the audit;
- (e) reviewing and approving the annual external audit plan and ensure that it is consistent with the scope of the audit engagement;
- (f) reviewing the findings of the audit with the Auditor;
- (g) reviewing any representation letter(s) requested by the Auditor before they are signed by the executive management;
- (h) reviewing the executive management letter and executive management's response to the Auditor's findings and recommendations;
- (i) giving consideration to the rotation of the audit partner on a periodic basis;
- (j) reviewing any related findings and recommendations of the Auditor together with management's responses including the status of previous recommendations;
- (k) reviewing any serious difficulties or disputes with management encountered during the course of the audit, including any restrictions on the scope of the Auditor's work or access to required information; and
- (l) reviewing any other matters related to the conduct of the external audit, which are to be communicated to the Committee by the Auditor under generally accepted auditing standards.

4.5.2 The Committee shall develop and implement policies and procedures on the supply of non-audit services by the Auditor, taking into account any relevant statutory requirements on the matter. If such policies and procedures have not been adopted, the Committee shall pre-approve any non-audit services to be provided to the Company or its subsidiaries by the Auditor, except that the Committee has delegated a de minimis level of \$20,000 per annum to the Committee Chair who will report to the Committee at their next meeting of any work approved with this limit.

4.6 **Other Matters**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- (b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members; and
- (c) oversee any investigation of activities which are within its terms of reference.

5 REPORTING

- 5.1 The chairman of the Committee shall report to the Board generally on its proceedings after each meeting.
- 5.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any matter within its remit where action or improvement is needed.
- 5.3 The Committee's Charter shall be available on request and shall be available on the Company's website (if any).

6 REGULATORY DUTIES

In carrying out its duties the Committee shall:

- (a) give due regard to:
 - (i) all relevant legal and regulatory requirements; and
 - (ii) the rules of any stock exchange or which the Company's securities may be listed;
- (b) ensure that it has such information as it considers necessary or desirable to fulfil its duties as set out in these terms of reference.

7 MEMBERSHIP

- 7.1 Members of the Committee shall be appointed from time to time by the Board, in consultation with the chairman of the Committee.
- 7.2 The Committee shall be made up of at least three members each of whom shall be a member of the Board.
- 7.3 The chairman of the Board shall not be a member of the Committee.
- 7.4 All members of the Committee shall be "independent" as that term is defined under the requirements of applicable securities laws and the standards of any stock exchange on which the Company's securities are listed, taking into account any transitional provisions that are permitted.
- 7.5 Members shall serve one-year terms and may serve consecutive terms to ensure continuity of experience. Members shall be reappointed each year to the Committee by the Board at the Board meeting that coincides with the annual shareholder meeting. A member of the Committee shall automatically cease to be a member upon ceasing to be a

director of the Company. Any member may resign or be removed by the Board from membership on the Committee or as Chair.

- 7.6 All members of the Committee must be “financially literate” as that qualification is interpreted by the Board and or acquire such literacy within a reasonable period of time after joining the Committee. At the present time, the Board interprets “financial literacy” to mean a basic understanding of finance and accounting and the ability to read and understand financial statements (including the related notes) of the sort released or prepared by the Company in the normal course of its business.
- 7.7 The Board shall appoint the chairman of the Committee who shall be a non-executive director of the Company. In the absence of the Chairman, the remaining members of the Committee present at a fully convened Committee meeting may elect one of their number to chair the meeting. The Board shall determine the period for which the chairman of the Committee holds office.
- 7.8 The Board may from time to time remove members from the Committee.
- 7.9 The membership of the Committee shall be set out in the annual report of the Company.

8 SECRETARY

The Board shall from time to time nominate an appropriate person to be the secretary of the Committee.

9 MEETINGS

- 9.1 The Committee shall meet at least two times in each year at appropriate times in the reporting and audit cycle and at such other times as the chairman of the Committee shall require.
- 9.2 Meetings of the Committee shall be summoned by the secretary of the Committee at the request of any member of the Committee or at the request of the Auditor or any internal auditor if they consider it necessary.
- 9.3 Unless otherwise agreed, at least three (3) working days notice shall be given of each meeting of the Committee.
- 9.4 Unless otherwise agreed, notice of each meeting of the Committee shall:
- (a) confirm the venue, time and date of the meeting;
 - (b) include an agenda of items to be discussed at the meeting; and
 - (c) be sent to each member of the Committee, the secretary, any other person required, invited or entitled to attend the meeting and all other non-executive directors of the Company.
- 9.5 Supporting papers shall be sent to members of the Committee and to other attendees at the same time as the relevant notice.

- 9.6 The quorum necessary for the transaction of business by the Committee shall be two members of the Committee and a duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 9.7 Only members of the Committee shall have the right to attend meetings of the Committee. However, others (such as the other directors, representatives from the finance function of the Company and external advisers) may be invited to attend and speak at (but not vote at) a meeting of the Committee as and when appropriate.
- 9.8 The Auditor shall be invited to attend and speak at meetings of the Committee on a regular basis but shall not be entitled to vote at such meetings.
- 9.9 Meetings of the Committee may be held by conference telephone or similar communications equipment whereby all members participating in the meeting can hear each other; provided always however that at least once per annum a direct meeting shall be held between the Committee and the Auditor where a quorum of the members of the Committee and the Auditor are present in person at the same location.
- 9.10 Matters for decision by the Committee shall be decided by a majority decision of the members.

10 **MINUTES**

- 10.1 The secretary of the Committee shall minute the proceedings and resolutions of Committee meetings and record the names of those present and in attendance.
- 10.2 The secretary of the Committee shall ascertain, at the start of each Committee meeting, the existence of any conflicts of interest and minute them accordingly.
- 10.3 Following each meeting of the Committee, the secretary shall circulate, for comment, draft minutes to each member who was present at the meeting.
- 10.4 After approval and signing of the minutes by the chairman of the Committee meeting, the secretary shall circulate copies of the minutes to all members of the Board, (unless a conflict of interest exists).

11 **AUTHORITY**

- 11.1 The Committee is a committee of the Board and as such exercises such powers of the Board as have been delegated to it.
- 11.2 The Committee is authorised by the Board to investigate any activity within its terms of reference.
- 11.3 The Committee is authorised to:
- (a) seek any information it requires (including from any employee of the Company) in order to perform its duties;

- (b) obtain outside legal or other professional advice (including the advice of independent consultants) on any matters within its terms of reference including, without limitation, any legal matters which could have a significant effect on the Company's financial position;
- (c) to commission any reports or surveys, which it deems necessary, to help it fulfil its obligations;
- (d) to secure the attendance of external advisors at its meetings (if it considers it necessary); and
- (e) to call any employee to be questioned at a meeting of the Committee as and when required,

all at the Company's expense.

12 **OWN PERFORMANCE**

At least once a year, the Committee shall review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.