



AUDIT COMMITTEE CHARTER

EMERALD RESOURCES NL

AUDIT COMMITTEE CHARTER

The Board operates an Audit Committee as a Sub Committee of the Board. The Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee comprising of three (3) members. All members of the Audit Committee must be non-executive directors and should consist of a majority of independent directors.

This Charter governs the operations of the Audit Committee. The Committee shall review and reassess the Charter at least annually and obtain the approval of the Board of Directors.

1. PURPOSE

The Audit Committee shall provide assistance to the Board of Directors in fulfilling its corporate governance and oversight responsibilities, as well as advise on the modification and maintenance of the Company's financial reporting, internal control structure, risk management systems, external audit functions and appropriate ethical standards for the management of the Company. A further purpose of the Committee is to check the ongoing independence of the Auditors. In doing so, it is the responsibility of the Committee to maintain free and open communication between Committee, external auditors and management of the Company.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.

2. ROLE

The role of the Audit Committee is to:

- Assist the Board in carrying out its responsibility to exercise due care, diligence and skill in relation to the Board's reporting of financial information, application of accounting policies, financial management, internal control systems, business policies and procedures, compliance with applicable laws and regulations, and monitoring and controlling of business risks;
- Provide a formal forum for communication between the Board, auditors and senior management
- Ensure the effectiveness of tax risk management and compliance
- Improve the effectiveness of the external audit function and the communication between the Board and the external auditors
- Ensure the effectiveness of the internal controls

3. MEMBERSHIP

The Committee shall be members of, and appointed by, the Board of Directors and shall comprise at least two directors that have diverse, complementary backgrounds and are independent of management and the Company. All members of the Audit Committee must be non-executive directors. In addition, the Committee Chair shall have leadership experience and strong finance, accounting and/or business background. All committee members shall be financially literate or become financially literate within a reasonable period of time after appointment. Furthermore, at least one member shall have a reasonable level of accounting and/or related financial management expertise as determined by the Board of Directors.

Members of the Committee shall be considered independent so long as they do not have any relationship with the Company that may interfere with the exercise of independent judgement. Majority of members should meet the definition of independent director as outlined in the ASX Corporate Governance Principles and Recommendations. The only compensation shall be directors' fees for services provided to the Audit Committee.

4. MEETINGS

The Company Secretary shall be appointed secretary of the Committee. The Secretary, in conjunction with the Committee Chairman, shall draw up an agenda, which shall be circulated at least one week prior to each meeting to the members of the Committee and the external auditors.

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The Committee Chairman will call a meeting of the Audit Committee if so requested by any Committee Member, or by the external auditors.

The external auditors should be given notice of all meetings and have the right to attend and speak. Executive management and technical personnel are to attend Committee meetings, or part thereof, as requested by the Chairman of the Committee to provide required reports and presentations to the Committee.

The Committee shall meet at least two times each year (ie. before completion of the half-yearly and annual accounts) with the auditors and appropriate members of management. The purpose of these meetings shall be to:

1. Review and if necessary, have input into external audit plans.
2. Review and approve the half-yearly financial report.
3. Update the external audit plans.
4. Review and approve the annual financial report.

Furthermore, the Committee shall meet in private sessions as and when required to assess management's effectiveness. Minutes of all meetings of the Committee are to be kept by the Company Secretary.

5. RESPONSIBILITIES

The Audit Committee shall consider any matters relating to the financial affairs, corporate governance, external audit, and internal controls of the Company and its controlled entities that it considers necessary. In addition, the Audit Committee shall examine any other matters referred to it by the Board.

The Committee shall ensure it understands the Company's structure, controls and types of transactions in order to adequately assess the significant risks faced by the Company in the current environment.

5.1 External Audit

The Committee shall be directly responsible for making recommendations to the Board of Directors on the appointment, re-appointment or replacement (subject, if applicable, to shareholder ratification), remuneration, monitoring of effectiveness and independence of the external auditors, including resolution of disagreements between management and the auditor regarding financial reporting. In assessing which external audit firm to be engaged, factors such as reputation, knowledge of industry, resources, commitment and value added benefits to the Company should be considered. Further, if it is deemed necessary based on lack of actual perceived independence, the Committee shall request for the rotation of external engagement partners.

A Committee member or a delegated senior executive can approve all audit and non-audit services provided by the external auditors other than in the instance where the fee fall outside budget parameters and are in excess of \$30,000. In this instance, full Audit Committee approval must be received for such a transaction.

The Committee, Committee member or delegated senior executive shall not engage the external auditors to perform any non-audit/assurance services that may impair or appear to impair the external auditor's judgement in respect of the Company.

5.2.1 Assessment of the External Audit

The Committee, at least on an annual basis, shall obtain and review a report by the external auditors describing (or meet, discuss and document the following with them):

- The audit firm's internal quality control procedures.
- Any material issues raised by the most recent internal quality control review, or peer review, of the audit firm, or by an inquiry or investigation by government or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.
- All relationships between the external auditor and the Company (to assess the auditor's independence).

Independence of the External Auditors

The Committee shall review and assess the independence of the external auditor, including but not limited to any relationships with the Company or any other entity that may impair or appear to impair the external auditor's judgement or independence in respect of the Company.

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5.2.2 Scope of the External Audit

The Committee shall discuss with the external auditors the overall scope of the external audit, including identified risk areas, significant problems that may be foreseen and any additional agreed upon procedures. The Committee shall also discuss the impact of any proposed changes in accounting policies on the financial statements and review the nature and impact of any changes in accounting policies adopted by the entity during the year.

In addition, the Committee shall also review the external auditor's compensation to ensure that an effective, comprehensive and complete audit can be conducted for the agreed compensation level. Further, the Committee shall liaise with the external auditors to ensure their approach to the review/audit of the annual and half-year statutory accounts are conducted in an effective manner.

- Manage the performance of the external auditors
- Make recommendations to the Board regarding the appointment of the external auditors
- Approve the terms of engagement and audit fee of the external auditors
- Review and approve the annual external audit plan
- Review external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management
- Review the type of non-audit work carried out by the external auditors (and the associated fees), to ensure that the conduct of such work does not compromise the independence of the external auditors
- Review the annual declaration of independence from the external auditors;
- Initiate and supervise special investigations

5.2 Reporting

The primary responsibility of the Audit Committee is to oversee the Company's financial reporting on behalf of the Board and report the results of its activities to the Board.

Whilst the Audit Committee has the responsibilities for the Company's financial reports including the appropriateness of the accounting policies and principles that are used by the Company. The external auditors are responsible for auditing the Company's financial reports and for reviewing the Company's unaudited interim financial reports.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behaviour. The following shall be the principle duties and responsibilities of the Audit Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

In reviewing the Company's financial reports, the Committee shall consider with management the following:

- Review significant accounting policies, judgements and estimates applied in financial reporting to ensure appropriateness for the organisation and compliance with accounting standards
- Review financial statements and other financial information to be distributed externally
- Monitor the procedures in place to ensure that the entity is in compliance with the Corporations Act, Australian Securities Exchange Listing Rules and other legislative and reporting requirements
- Review related party transactions and consider the adequacy of disclosure of those transactions in the financial statements

5.3 Communications with Stakeholders

The Committee shall be responsible for monitoring compliance with the Corporations Act and ASX Listing Rules.

The Committee shall review the half-year financial report and the preliminary final report prior to the filing of these with the ASX. The Committee is responsible for making the necessary recommendation to the Board for the approval of these documents. Also, the Committee shall discuss the results of the half-year review and any other matters required to be communicated to the Committee by the external auditors under generally accepted auditing standards. The Chair of the Committee may represent the entire Committee for the purposes of this review.

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The Committee shall review all representation letters signed by management including the declaration from the Company Secretary on compliance with statutory responsibilities to ensure that the information provided is complete and appropriate. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the external auditors under generally accepted auditing standards.

The Committee is responsible for reviewing the draft financial statements and the audit report and to make the necessary recommendation to the Board for approval of the financial statements.

The Committee shall establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters. The Committee shall receive corporate legal reports of evidence of a material violation of the Corporations Act, the ASX Listing Rules or breaches of fiduciary duty. The Committee is responsible for reviewing reports on any major defalcations, frauds and thefts from the Company.

5.4 Financial Management

The Committee shall discuss with management and the external auditors, the adequacy and effectiveness of the accounting and financial controls, including the Company's policies and procedures to assess, monitor and manage business risk and legal and ethical compliance programs with the objective of recommending enhancements and improving the quality of the accounting function. Any option obtained from the external auditors on the Company's choice of accounting policies or methods should include an opinion on the appropriateness and not just the acceptability of that choice or method.

The Committee shall meet separately and periodically with management and the external auditors to discuss issues and concern warranting Committee attention, including but not limited to their assessment of the effectiveness of internal controls and the process for improvement. The Committee shall provide sufficient opportunity for the external auditors to meet privately with the members of the Committee. The Committee shall review with the external auditor any audit problems or difficulties and management's response. Further, the Committee shall review audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management.

The Committee shall receive regular reports from the external auditor on the critical policies and practices of the Company and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.

Committee oversight of financial risk to include:

- Ensure that management has put in place a process to identify, manage and report on the significant financial risks facing the business
- Review policies on sensitive issues or practices
- Review significant transactions which are not a normal part of the Company's business
- Review declarations from management on compliance with statutory responsibilities

5.5 Tax Risk Management and Compliance

In monitoring of Company's tax risk management and governance, the Committee shall consider the following:

- Review the company's tax risk governance framework; adequacy of staff capacity and capability; IT systems, controls and procedures for dealing with tax law and administrative updates; effective use of tax advisors; and self-assurance processes to periodically test the effectiveness of its tax policies
- Tax reporting to the Committee that includes status of tax lodgement, tax advice taken on technical issues, tax issues identified, escalated and mitigated and the status of franking credits

5.6 Internal Controls

- Reviewing the adequacy, effectiveness and appropriateness of the Company's accounting control systems and policies

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- Reviewing and evaluating the controls and processes in place to ensure compliance with approved policies, internal controls, and applicable accounting standards and other requirements relating to the preparation and presentation of financial results
- Confirming the reliability, integrity and effectiveness of accounting, treasury and hedging policies and financial reporting and disclosure practices
- Approving the appointment, and removal, of the internal auditor including the:
 - Role, scope, nature and suitability of the internal audit function
 - Internal audit programme and any changes to it
 - Internal audit fees
- Confirming that any internal control recommendations made by the internal or external auditor and approved by the Committee have been implemented by management on a timely basis
- Reviewing and making recommendations to the Board in relation to incidents involving actual or potential breach of Company financial policies, actual or potential fraud or other breakdown of the Company's internal controls
- Confirming the system of controls, including information system controls, effectively safeguards the assets as recorded in the financial statements of the Company
- Confirming that processes are in place such that accounting records are properly maintained in accordance with statutory requirements

5.7 Financial Corporate Governance

In conjunction with the Board, use all reasonable endeavours to:

- Monitor developments in corporate governance practices
- Benchmark the entity's policies against best practice
- Ensure that policies exist to deal with conflicts of interest
- Review past or proposed transactions between the corporation and members of management or the Board
- Make recommendations on corporate governance standards and practices to the Board
- Liaise with the Board on documentation relating to corporate governance on an annual basis

6. REPORTING

The Chairman of the Audit Committee shall report the findings and recommendations of the Committee to the Board after each Committee meeting. The minutes of all Committee meetings shall be circulated to all members of the Board.

7. AUTHORITY

The Audit Committee shall have the authority to seek any information it requires from any officer or employee of the Company or its controlled entities and such officers or employees shall be instructed by the Board of the Company to respond to such enquiries. The Audit Committee is authorised to take such independent professional advice as it considers necessary.

The Audit Committee shall have no executive powers, unless otherwise stated in this Charter, with regard to its findings and recommendations.

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8. COMMITTEE PERFORMANCE

To determine whether it is functioning effectively, the Committee shall:

- Review this Charter annually.
- The Board will assess the performance of the Committee on an annual basis.

The Directors acknowledge that all proceedings of the Board and its Committees are strictly confidential and that a Director will be expected to resign from the Board if he/she commits a breach of this confidentiality.

The Board must approve any amendments made to the Charter as a result of any review.

Document Control

Document: Audit Committee Charter

Owner:

Review: Every 2 years (or as required)

Version: v2020.01

Related Documents: [Code of Conduct](#)

Revision History

Mark Clements 23-09-20

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