

CARBINE RESOURCES LIMITED
ACN 122 976 818

AUDIT COMMITTEE CHARTER

1 INTRODUCTION¹

The Audit Committee's ("**Committee**") objective is to assist the Board of Carbine Resources Limited ("**Carbine**") to fulfil its responsibilities in relation to Carbine's accounting and financial reporting practices².

The Committee makes recommendations to the Board and does not have any power to commit the Board or management to these recommendations. The Committee has unrestricted access to executives of Carbine, and to the internal and external auditors in order to fulfil its purpose and undertake its duties.

Carbine recognises that the Committee plays a key role in assisting the Board to fulfil its responsibilities to oversee financial reporting, internal control structure, risk management systems and the internal and external audit functions.

The Committee is also intended as an effective mechanism for the auditor to communicate in an informal and confidential way with the members of the Committee about these issues as well as potentially troublesome issues at a relatively early stage and to broach sensitive issues in an uninhibited fashion³.

The Committee oversees:

- (a) the adequacy of Carbine's accounting system and internal control environment;
- (b) the adequacy of Carbine's system for compliance with relevant laws, regulations, standards and codes;
- (c) the effectiveness of their internal accounting controls;

1 Australian Stock Exchange Corporate Governance Council, Corporate Governance Principle and Recommendations, Recommendation 4.1.

2 ASX Corporate Governance Council, Corporate Governance Principle and Recommendations, Recommendation 4.1, Commentary and guidance.

3 The importance of effective auditor communication with audit committees has been emphasised by the AuASB in its revision of AUS 710, "Communication with Management on Matters Arising from an Audit". AUS 710 was revised to include material recognising the importance of audit committees in the corporate governance process. Appendix 1 to AUS 710 provides guidance on matters the auditor considers when communicating with an audit committee.

- (d) the identification of improvements that can or should be made to Carbine's internal controls, policies and financial disclosures;
- (e) that the internal auditor has an unobstructed and clear communication channel to the Committee;
- (f) the frequency and significance of all transactions with related parties and assesses their propriety;
- (g) the integrity and quality of Carbine's financial information including financial information provided to ASIC, ASX and shareholders; and
- (h) the independence, objectivity, scope and quality of the external audit⁴.

2 AUDIT COMMITTEE

2.1 Composition⁵

The Committee will comprise at least two members. The Committee members:

- (a) must not be executive directors;
- (b) must be appropriately financially literate and at least one member must have accounting or associated financial management expertise; and
- (c) must be independent of management and free of any relationship or arrangement that may, in the opinion of the Board, be construed as comprising a conflict of interest.

The Board will confirm the membership of the Committee annually. The Board will appoint one of the committee members as chairman. The chairman of the Committee must not be the chairman of the Board.

The chairman will invite Carbine's chief executive officer, corporate director, auditor and other advisers to attend committee meetings when appropriate.

- (a) Removal or resignation

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

⁴ Committee members should understand the importance of the auditor remaining independent. Committee members should be familiar with the rules in section 324 of the Corporations Act concerning who can and cannot be an auditor, Australian rules on auditor independence contained in The AuASB's Auditing Standard AUS 1, and Statement of Auditing Practice AUP 32 "Audit Independence"; and the two main professional bodies' Code of Professional Conduct.

⁵ ASX Corporate Governance Council, Corporate Governance Principles and Recommendations, Recommendation 4.2.

- (b) Committee may invite

The Committee, if considered appropriate, may invite any executive management team members or other individuals to attend meetings of the Committee.

- (c) Secretary

The company secretary will be the secretary of the Committee.

2.2 Meetings

- (a) Frequency

The chairman will convene at least two meetings of the Committee each year and any additional meeting that the chairman considers necessary or appropriate to carry out the Committee's responsibilities. In addition, the chairman must call a meeting of the Committee if required by any committee member, Carbine's chief executive officer, the Board or the external auditor.

- (b) Calling meeting and notice

Any committee members or the secretary may call a meeting of the Committee. A notice of each meeting confirming the date, time, venue and agenda will be forwarded to each member of the committee (with a copy to all Board members) in the week prior to the date of the meeting. The notice for members will include relevant supporting papers for the agenda items to be discussed.

- (c) Advice

The Committee may have access to employees of Carbine and to appropriate external advisers. The Committee may meet with these external advisers without management being present.

- (d) Report to board

The chairman of the Committee reports the findings and recommendations of the Committee to the Board after each Committee meeting.

The report must contain all matters relevant to the Committee's responsibilities including:

- (i) assessing the external reporting including whether it:
 - (A) is consistent with members information and knowledge; and
 - (B) is adequate for shareholder needs;
- (ii) assessing the management processes supporting external reporting;
- (iii) procedures for selecting and appointing the external auditor and for the rotation of external audit engagement partners;
- (iv) recommendations for the appointment or removal of an auditor;

- (v) assessing the performance and independence of the external auditors and whether the Committee is satisfied that this independence has been maintained having regard to the provision of non-audit services;
- (vi) assessing the performance and objectivity of the internal audit function; and
- (vii) the results of its review of risk management and internal compliance and control systems.

(e) Minutes

Minutes of proceedings and resolutions of committee meetings will be kept by the secretary. Minutes will be distributed to all committee members and the chairman of the Board, after the committee chairman has given the preliminary approval. Minutes, agenda and supporting papers, will be made available to any director upon request to the secretary, providing no conflict of interest exists.

(f) Quorum and voting

A quorum will comprise any 2 independent non-executive director Committee members. In the absence of the Committee chairman or appointed delegate, the members will elect one of their number as chairman for that meeting.

Each member will have one vote and the chairman of the Committee will not have a second or casting vote.

3 DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the Committee are to engage in the pro-active oversight of Carbine's financial reporting and disclosure process and the outputs of that process. The Committee is not responsible for the day-to-day tasks involved in ensuring the accuracy of the accounts. That is the role of management. Nor is the Committee liable to micro-manage the finances of Carbine. However, relying on the external auditor and financial management, the Committee is expected to exercise a high level of due diligence in relation to the accuracy of:

- (a) preparation and distribution of full and half year reports (full or concise) reconciled with any preliminary final report;
- (b) information likely to have a material effect on the value of securities, as and when Carbine becomes aware of it;
- (c) preliminary final report in the form set out in Appendix 4B of the ASX Listing Rules.

The Committee will also review and consider all Carbine's publicly released material concerning financial information.

3.1 The Committee will have the following duties and responsibilities⁶:

(a) External reporting⁷

Review and assess the external reporting of Carbine. In particular the Committee will:

- (i) Review and assess the appropriateness of Carbine's accounting policies and principles. Any significant changes to Carbine's policies and principles will be reviewed and assessed by the Committee. To ensure that the Committee can carry out this duty effectively, management is required to inform the Committee of:
 - (A) any changes in accounting policies or their application during the reporting period; and
 - (B) the methods used to account for unusual transactions, for which there may be no specific accounting standard, including management's reasoning in determining that method.
- (ii) Review and assess any significant estimates and judgments in financial reports. To ensure that the Committee can carry out this duty effectively, management should inform the Committee of the method and process used in making material estimates and judgments, including management's reasoning in determining that method.
- (iii) Upon receipt of information from management relating to accounting policy choice or method for making significant estimates and judgments, the Committee may seek the opinion and views of both internal and external auditors in relation to that choice or method. This opinion should include the appropriateness, and not just the acceptability of that choice or method.
- (iv) Review and assess the processes used by management to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting by Carbine of financial and non-financial information. These include, but are not limited to:
 - (A) Australian Accounting Standards;
 - (B) Corporations Act 2001 (Cth);

⁶ These principles have been developed from international reports, best practice guides and standards. Particular reliance has been placed upon the Blue Ribbon Committee, *Report and Recommendations of the Blue Ribbon*.

⁷ Committee on Improving the Effectiveness of Corporate Audit Committees (1999); the New York Stock Exchange, NYSE Listed Company Manual: 303.01 Audit Committee; and the Auditing & Assurance Standards Board of the Australian Accounting Research Foundation, the Australian Institute of Company Directors and the Institute of Internal Auditors □ Australia, *Audit Committees: Best Practice Guide* (2nd edition, 2001).

- (C) Listing Rules of ASX, including but not limited to:
 - the existence of an appropriate procedure for meeting Carbine’s continuous disclosure obligations;
 - reviewing for completeness and accuracy the disclosure of Carbine’s main corporate governance practices; and
 - (D) where applicable, requirements of other countries.
 - (v) Review and assess information from internal and external auditors that may affect the quality of financial reports.
 - (vi) Review and assess documents and reports to regulators and make recommendations to the Board on their approval or amendment.
 - (vii) Based on the assessment by the Committee, recommend to the Board whether the financial and non-financial statements should be signed.
 - (viii) Where management does not offer information required to make any of the reviews or assessments required under this section, ensure that the Committee acquires that information from management.
- (b) Related party transactions
- The Committee should review and monitor related party transactions and assess their propriety. The Audit Committee will:
- (i) ensure that Carbine complies with all laws and regulations in respect to director-related party transactions;
 - (ii) approve the following contracts with directors, or the related party of a director, in advance of committing Carbine:
 - (A) contracts for the supply of goods and/or services which extend beyond one year, or where the total value of goods and/or services supplied under the contract will exceed \$1 million in any one year,
 - (B) all agreements to lease and/or leases of property, and
 - (C) all agreements for the purchase or sale of freehold and/or leasehold property.
 - (iii) review the reports of the company accountant, internal audit and the external auditors relating to director-related party transactions; and
 - (iv) approve all external disclosures regarding director-related party transactions.
- (c) Internal control and risk management

The Committee should review and assess internal processes for determining, monitoring and assessing key risk areas. In particular, the Committee should consider:

- (i) non-compliance with laws, regulations, standards and best practice guidelines;
- (ii) important judgments and accounting estimates;
- (iii) litigation and claims;
- (iv) fraud and theft; and
- (v) any other business risks that are not dealt with by a specific board committee.

In relation to these risk areas, the Committee should ensure:

- (vi) that Carbine has an effective risk management system in place, including for macro risks, and that the Committee assesses this system;
- (vii) that Carbine has an effective internal control system in place, and that the Committee assesses this system;
- (viii) that Carbine has a system in place for unusual and/or high risk transactions and that the Committee assesses this system;
- (ix) that Carbine has a clear policy and procedure for reporting, actioning and documenting breaches of laws, including fraud and theft;
- (x) that it receives from management, reports on all actual and suspected breaches of laws, including fraud and theft; and
- (xi) that it meets periodically with management, and external and internal auditors to discuss Carbine's control environment, including the processes for improvement in place.

(d) External audit

The Committee and the Board will select and appoint an external auditor in accordance with Annexure 2.

The Committee should review and assess key areas relating to the external audit of Carbine. In particular the Committee should:

- (i) make recommendations to the Board on the appointment, reappointment or replacement, remuneration, monitoring of the effectiveness, and independence of the external auditor;
- (ii) if the Board disagrees with any of these recommendations, it must disclose its decision and reasons in the annual report;
- (iii) review and assess the independence of the external auditor, including but not limited to any relationships with Carbine or any other entity that

- (iv) review and assess any prospect of auditor replacement and/or tender suggested by management. Before any decision is made, the Committee should report the results of its investigation to the Board and make recommendations;
 - (A) where the decision for replacement or a new tender is made, this tender should then be conducted by the Committee;
 - (B) if the Board disagrees with any of these recommendations, it must disclose its decision and reasons in the annual report;
- (v) review and agree on the terms of engagement for the external auditor at the start of each audit;
- (vi) review the scope of the external audit with the external auditor including identified risk areas and any additional agreed-upon procedures;
- (vii) monitor the activities and performance of the external auditor by:
 - (A) obtaining the proposed audit plan for each audit, and agreeing the audit plan with the auditor prior to commencement;
 - (B) liaising with the auditor to ensure that each audit is conducted effectively;
 - (C) reviewing the auditor's assessment of financial statement materially;
 - (D) ascertaining "root causes" of any significant external audit year end adjustments;
 - (E) appraising the quality of audit work;
 - (F) ensuring that no management restrictions or limitations are placed on the auditor; and
 - (G) asking the external auditor for an independent judgment of the appropriateness, not just the acceptability, of the accounting principles used and the clarity of the financial disclosure used or proposed to be used by Carbine.
- (viii) reviewing the external audit findings in respect of any significant deficiencies or weaknesses in controls, and ensuring that management agrees to and implements appropriate and timely corrective action.
- (ix) review and assess non-audit service ("**NAS**") provision by the external auditor, with particular consideration given to the potential for the provision of these services to impair or appear to impair the external auditor's judgment or independence in respect of Carbine;

- (x) the Committee must disclose in the annual report whether or not it believes the level of NAS provision by the external auditor is compatible with maintaining auditor independence, and should include reasons where appropriate;
- (xi) review the external auditor's audit fee, and be satisfied that an effective, comprehensive and complete audit can be conducted for that fee;
- (xii) in addition to reviewing the audit fee, the Committee should review and assess total fees paid to the external auditor, considering in particular fees paid for NAS provision, and these fees as a proportion of total fees;
- (xiii) review and monitor management's responsiveness to the external auditor's findings and recommendations;
- (xiv) review with the external auditor any significant disagreements between the external auditor and management, irrespective of whether they have been resolved;
- (xv) review all representation letters signed by management, and be satisfied that the information provided is complete and appropriate;
- (xvi) monitor the number of former employees of the external auditor currently employed in senior positions in Carbine and assess whether this impairs or appears to impair the auditor's judgment or independence in respect of Carbine;
- (xvii) consider whether taken as a whole, the various relationships between Carbine and the external auditor impairs or appears to impair the auditor's judgment or independence in respect of Carbine;
- (xviii) consider whether the compensation of the individuals employed by the external auditor who are performing the audit of Carbine is tied to the provision of non audit services and, if so, consider whether this impairs or appears to impair the external auditor's judgment or independence in respect of Carbine;
- (xix) review the economic importance of Carbine (in terms of fees paid to the external auditor for the audit as well as fees paid to the external auditor for the provision of non-audit services) to the external auditor and assess whether the economic importance of Carbine to the external auditor impairs or appears to impair the external auditor's judgment or independence in respect of Carbine; and
- (xx) at least annually, meet with the external auditor without the presence of management.

(e) Internal audit

The Committee should review and assess key areas relating to the internal audit of Carbine. In particular the Committee should:

- (i) review the internal auditor's mission, charter and resources;

- (ii) communicate the Committee's expectations to the internal auditor in writing;
- (iii) review and assess the scope of the internal audit and the internal auditor's audit plan and work program, as well as the systems in place to monitor and evaluate the effectiveness of the internal auditor;
- (iv) monitor and assess the progress of the internal audit and any implications that may arise for the control environment;
- (v) review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- (vi) oversee the co-ordination of the internal and external auditors;
- (vii) ensure that the internal auditor reports directly to the managing director and the Committee; and
- (viii) at least annually, meet with the internal auditor without the presence of management.

(f) Internal monitoring

The Committee should conduct internal monitoring of Carbine by

- (i) Ensuring that an appropriate internal control framework is established and maintained, including systems for:
 - (A) incurring and recording liabilities and expenses, and arranging for payment;
 - (B) recording, monitoring and maintaining assets;
 - (C) managing and investing liquid funds;
 - (D) measuring financial performance of individual employees, groups and business units, and monitoring their performance against budget.
- (ii) Assessing internal processes for identifying and managing risk areas including:
 - (A) compliance with laws, regulations, standards and best practice guidelines;
 - (B) important judgments and accounting estimates;
 - (C) litigation and claims;
 - (D) fraud and theft.
- (iii) Receiving reports on all suspected and actual frauds, thefts and breaches of the law.

- (iv) Reviewing in draft any financial report and directors' report that Carbine proposes to distribute to shareholders and other external parties with particular emphasis on the accuracy and completeness of information and key disclosures, changes from prior periods, and important judgment questions impacting the overall integrity of the information.
- (v) When satisfied with the propriety and accuracy of the draft financial report and directors' report, recommending the financial report and directors' report to the Board for approval and release.
- (vi) Assessing the management of non-financial information in internal and external documents to ensure the information does not conflict inappropriately with the financial report and directors' report.

3.2 Compliance

The Committee must ensure that they have an appropriate understanding of any relevant laws, regulations, Listing Rules, and codes of particular significance to Carbine, and its programs to ensure compliance including with respect to:

- (a) trade practices;
- (b) workplace health and safety;
- (c) equal opportunity; and
- (d) other matters.

3.3 Disclosures

In order to maintain transparency the role of the Committee is to be fully and fairly reported. Consistent with the disclosure policy the Committee will review all public disclosures and statements concerning the matter the subject of this policy including disclosures in:

- (a) ASX filings;
- (b) the annual report; and
- (c) press releases.

8 ASX Corporate Governance Council, Corporate Governance Principles and Recommendations includes in the Guide to Reporting on Principle 4 the matters that should be included in the annual report.

4 NEW CANDIDATES

4.1 Candidate identification

Having regard to the skills required and the skills currently represented on the Committee; the Committee will implement a process for the identification of suitable candidates for appointment to the Committee.

In determining the process for the identification of suitable candidates, the Committee will ordinarily ensure that a search is undertaken by an appropriately qualified independent third party acting on a brief prepared by the Committee which identifies the skills sought.

The Committee will make recommendations to the Board on candidates it considers appropriate for appointment.

4.2 Induction of new members

New Committee members must be given a copy of this charter, together with sufficient information about Carbine and its:

- (a) business operations and industry in which it operates;
- (b) financial performance;
- (c) risk management system;
- (d) internal control system;
- (e) financial reporting policies including related-party issues;
- (f) legal and regulatory requirements including external reporting and compliance responsibilities;
- (g) code of ethical conduct; and
- (h) unusual transactions.

All material previously provided to Committee members on matters still before the Committee must also be given to new members.

4.3 Reviewing related party transactions

In accordance with Annexure 2, the Committee must review and monitor the propriety of all related party transaction. The Committee must consider and ensure that all related party transactions that Carbine enter into comply with the law, are for fair value and are at arms length. The Committee must review and approve all material transactions that Carbine wishes to enter into with a related party.

4.4 Other responsibilities

- (a) Understanding the business environment for Carbine; and
- (b) initiating and supervising special investigations.

5 RESOURCES

Where the Committee considers it necessary or appropriate in order to fulfil its responsibilities, the Committee will be entitled to:

- (a) access all books and records of Carbine;
- (b) draw on the expertise and resources of any employee of Carbine, the internal auditors and external auditors; and
- (c) select and engage an external adviser or external service provider involving, where appropriate, advisers that are 'independent' in the sense that they are not usual service providers to Carbine.

In this context "independent" refers to the restrictions on relationships between the advisers providing the advice and management and/or third parties that might affect the adviser's capacity to provide zealous representation and advice to the Committee and should be determined in a way that is consistent with the Committee's approach to audit independence.

The Committee may access these resources without management present. The Committee will meet with the external auditors at least once a year without management present.

6 REVIEW

The Committee will review its performance and compliance with its terms of reference on an annual basis.

In addition, the Committee will be subject to a periodic comprehensive review that includes surveys of directors, committee members, the internal and external auditors, senior financial and other management.

ANNEXURE 1

Statement of director–related transaction policies

1 INTRODUCTION

The following policies are set out as guidance to the application of related party transactions.

2 WHO ARE DIRECTOR–RELATED PARTIES IN THE CONTEXT OF CARBINE?

A “**director-related party**” means, in relation to particular directors, the spouses of such directors, relatives of such directors or spouses, and any other entity under the joint or several control or significant influence of such directors, spouses or relatives.

“**Spouses**” and “**relatives**” are intended to be considered according to the likely level of influence rather than on the immediacy of the family relationship. They relate to members of the same household who may be expected to influence, or be influenced by, the director in dealings with the company. Again it is the substance of the relationship that is the key.

“**Significant influence**” means the capacity of an entity to affect substantially (but not control) either, or both, of the financial or operating policies of another entity. The meaning of “significant influence” is crucial in the determination of what constitutes a director-related party.

Significant influence is likely to exist when:

- (a) a director holds or has an interest in a substantial proportion of the voting power of shares of another entity. The holding of 20% or more of the voting power in an entity, in the absence of evidence to the contrary, leads to a presumption of significant influence. However, this percentage cannot be regarded as an absolute cut-off point. It may be necessary to consider the distribution of the voting power, ie a 5% or 10% interest may also indicate a director is able to exert significant influence where the remaining voting power is spread widely and evenly;
- (b) a director’s immediate family holds or has an interest in a substantial proportion of the voting power of shares of another entity;
- (c) a director has an “executive” role (executive, director with a hands-on role) in relation to another entity.

“**Significant influence**” may exist when:

- (d) a director is a director of another entity. However, in normal circumstances an individual director is probably unable to “effect substantially either, or both, of the financial or operating policies” of that entity. Even if the director is non-executive chairman he or she individually may not be in a position to “effect substantially either, or both, of the financial or operating policies” of that entity;
- (e) a director’s immediate family holds directorship of another entity;
- (f) a director participates in other ways in policy-making decisions of, or has a significant financial or personal interest in other ways in, another entity.

3 IDENTIFICATION AND ONGOING ASSESSMENT OF DIRECTOR-RELATED PARTIES IN THE CONTEXT OF CARBINE

- (a) Each director must advise the Audit Committee in writing by 30 June and 31 December each year whether they have any director-related parties as defined in this policy and, if so, disclose names of each such party. Changes in status of director-related party relationships will be advised at the time the change occurs.
- (b) Directors will advise the Audit Committee through the company secretary of any relationships where they have uncertainty regarding the status of a particular relationship.
- (c) The corporate director, with the assistance of the company secretary, will institute a search for director-related parties of Carbine utilising Carbine statutory information and readily available public information.
- (d) The Audit Committee will review and determine the status of any relationship where there is uncertainty regarding the status of that relationship under the definition.
- (e) The corporate director, with the assistance of the company secretary, will maintain a register of director-related parties so identified.

4 DIRECTOR-RELATED PARTY TRANSACTIONS

4.2 Responsibilities of individual directors

- (a) All directors will provide monthly details of all director-related party transactions with Carbine or its subsidiaries to the company secretary for review by the corporate director. This information need only be provided monthly where the total of the transactions exceed \$1,000,000 in a month. In all other cases, the information will be provided by 15 July in respect of the previous 12 months ending 30 June.
- (b) Information provided by directors should include the:
 - (i) nature of the transaction(s);

- (ii) name of the director-related party the transaction was with;
 - (iii) date of the transaction;
 - (iv) dollar amount of the transaction; and
 - (v) name of Carbine entity which is party to the transaction.
- (b) In relation to merchandise and/or services supplied to Carbine or its subsidiaries, directors will ensure access to books and records of their director-related parties for independent external review by the external auditors to enable comparison of pricing and terms of trade of similar goods or services to other customers of the supplier.

4.3 Responsibilities of management

- (a) Management have primary responsibility for ensuring the integrity, fairness and accurate reporting of all transactions with all employees, customers and suppliers. Senior management must be in a position to positively assert that appropriate controls are effectively operating to address all business risks and therefore, specifically in relation to director-related parties, the risk of non-arm's length dealings. Senior management will formally represent that this is the case each half year.
- (b) Management must report any contracts requiring prior approval by the Audit Committee to the corporate director prior to committing Carbine.
- (c) Transactions with director-related parties are transactions where there is, prima facie, a conflict of interest, will be actively monitored by senior management as a high priority business issue.

4.4 Responsibilities of the corporate director

- (a) The corporate director will maintain a director-related party transaction management information system to enable the monitoring of all director-related party transactions on a timely basis by the Audit Committee, the preparation of annual accounts disclosures and review by the external auditors.
- (b) The corporate director will review details in relation to director-related party transaction provided by directors and from the management information system and seek further explanation or review of any transaction where appropriate.
- (c) The corporate director will review any contracts requiring prior approval of the Audit Committee.
- (d) The corporate director will report to the Audit Committee each half-year on the results of reviews of transactions with director-related parties.

4.5 Responsibilities of internal audit

Internal audit will conduct reviews of director-related party transactions with a primary objective of determining whether such transactions were entered into in the course of a normal employee, customer or supplier relationship and on terms no more favourable than

those available, or which might reasonably be expected to be available, on similar transactions to other employees, customers or suppliers and were on an arm's length basis.

Secondary objectives will be to ensure that transactions with director-related entities are properly recorded in the books of Carbine and to monitor the overall magnitude of director-related party transactions in order to be in a position to keep the Board informed.

(a) Scope

- (i) A review will be conducted of transactions where transactions with a director-related party for a month exceed \$1,000,000.
- (ii) In addition, a review will be conducted of transactions with director-related parties as directed by the corporate director for any reason.

(b) Working program where a review takes place.

- (i) Review Carbine records to determine there were no similar transactions omitted from the transaction data supplied.
- (ii) Examine process by which the arrangement governing the transaction was originally allocated to the director-related entity.
- (iii) Compare cost of item or service to the cost of similar items or services.
- (iv) Compare terms under which transactions took place to terms governing similar transactions.
- (v) Ensure transactions and provisions of goods and services are subject to normal management evaluation of performance against financial and non-financial supplier key performance indicators.
- (vi) For supply of merchandise review actions necessary for subsequent disposal of merchandise particularly in terms of markdown levels necessary to clear.
- (vii) Discuss related arrangement and specific transaction with the Carbine executive most directly responsible for execution of them with a view to confirming the primary objective of the review.
- (viii) Analytically review transaction quantum overall with individual director-related parties and obtain and corroborate explanations for major fluctuations.

(c) Timing of reviews

As some of the data required for review is available at different times and the timing of its availability is inconsistent from business to business, and as some data can only be reviewed meaningfully at certain points in the financial cycle not all aspects of reviews can be completed on a real time basis.

- (i) Internal audit will conduct focussed reviews in areas particularly vulnerable to transactions with director-related parties and conflicts of interest such as merchandise buying, property and capital expenditure.
- (ii) Internal audit, in conjunction with the corporate director, will report to the Audit Committee each half year on the results of its activity in relation to transactions with director-related parties.

Internal audit, in conjunction with the corporate director, will report to the Audit Committee each half year on the results of its activity in relation to transactions with director-related parties.

ANNEXURE 2

Procedure for the selection and appointment of an external auditor

1 INTRODUCTION

The Board is responsible for the initial appointment of the external auditor. The members at the next annual general meeting must ratify the appointment of an external auditor.

When a vacancy occurs, the Audit Committee (“**Committee**”) will meet and determine whether a replacement auditor should be selected by way of a formal tender or some other method. The Board is responsible for the appointment of the external auditor. The members at the next annual general meeting must ratify the appointment of an external auditor to fill a vacancy.

The selection and appointment process is the responsibility of the Committee. The Committee must conduct the selection process and recommend a preferred external auditor to the Board. If it thinks fit, the Board will appoint the preferred external auditor recommended by the Committee.

2 ROLE OF CORPORATE DIRECTOR

If requested to do so by the Committee, the corporate director will assist the Committee in the selection and appointment process.

If requested to do so by the Committee, the corporate director will submit to the Committee the details of a proposed external auditor together with a written supporting submission.

3 FORMAL TENDER

3.1 Request for submissions

If the Committee elects to undertake a formal tender process, the corporate director will prepare a draft request for submissions that will be reviewed by the Committee. The Committee may make such changes to the draft, as it considers appropriate.

The final request for submissions must contain sufficient information to enable a potential auditor to provide a proposal and fee estimate to Carbine. Such information should include information about Carbine, its operations, its key personnel and any other relevant information about the structure of Carbine and its financial statements.

The corporate director will assist the Committee to distribute the request for submissions and to arrange for candidates to meet with the selection panel.

3.2 Selection panel

The Committee will establish a selection panel comprising the Committee, the corporate director and any other person the Committee considers appropriate to assess the suitability of the external auditor. The Committee will consult with the other members of the Selection Panel as to the preferred auditor however it is the responsibility of the Committee to recommend a preferred external auditor to the Board.

4 SELECTION CRITERIA

The candidate selected by the Committee, as the preferred external auditor must satisfy the selection criteria whether or not it is selected by way of a formal tender.

4.1 Fees

A candidate must provide a fixed fee quotation for its audit services. However price will not be the sole determining factor in the selection of a preferred external auditor.

4.2 Independence

A candidate must satisfy the Committee that it is independent and outline the procedures it has in place to maintain its independence.

The external auditor must be independent from Carbine and be seen to be independent from Carbine.

The independence of the external auditor is integral to the role of auditor and the Committee will give due consideration to this requirement when selecting a preferred auditor for recommendation to the Board.

4.3 Material matters

A candidate must outline its proposed procedures to address any issue of material significance or matter of disagreement with Carbine management.

The external auditor and the corporate director will be required to disclose to the Committee all issues of material significance and all matters of disagreement with Carbine management, whether resolved or unresolved, and to assist the Committee to review such matters.

4.4 Non-audit work

A candidate must detail its approach to the provision of non-audit related services to Carbine.

The Committee must consider the circumstances in which Carbine might use the external auditor for non-audit services. Matters to be considered include the potential quantum of non-audit fees and any circumstance where the external auditor may be required to review and rely upon work conducted by it in a non-audit capacity.

4.5 Other matters

The selection criteria may include such other matters as the Committee thinks fit.

5 POLICY ON AUDIT AND NON-AUDIT SERVICES

The Committee will develop a policy that sets out the circumstances in which Carbine may use the external auditor for other services. A copy of this policy will be provided to the external auditor.

The policy will be based on the following principles:

- (a) the auditor may provide audit and audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor;
- (b) the external auditor should not provide services that are perceived to be materially in conflict with the role of auditor;
- (c) the external auditor may be permitted to provide non-audit services that are not perceived to be materially in conflict with the role of auditor, subject to the approval of the Committee;
- (d) exceptions may be made to the policy where the variation is in the interests of Carbine and arrangements are put in place to preserve the integrity of the external audit process. The Board must specifically approve any such exception.

6 ROTATION OF EXTERNAL AUDIT ENGAGEMENT PARTNER

The Committee will ensure that the external auditor has in place arrangements for rotation of the audit engagement partner.

The audit engagement partner for the audit must rotate every 3 years.

7 REVIEW OF AUDIT ARRANGEMENTS

The Committee will review the external auditor's performance annually. As part of this review the Committee will obtain feedback from the corporate director and other members of senior management regarding the quality of the audit service.