

# MONGOLIA ENERGY CORPORATION LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 276)**

*(the “Company”)*

## AUDIT COMMITTEE

### Terms of Reference

#### 1. Membership

- 1.1 The Audit Committee should be appointed by the board of Directors of the Company (the “**Board**”) and must consist of not less than three members (the “**Member(s)**”).
- 1.2 Membership should be confined to non-executive Directors, the majority of whom must be independent non-executive Directors (“**INED(s)**”) and at least one INED with appropriate professional qualifications or accounting or related financial management expertise.
- 1.3 The Chairman of the Audit Committee shall be appointed by the Board and must be an INED.
- 1.4 A non-executive Director, who is a former partner of the Company’s existing auditing firm, is prohibited from acting as a member of the Audit Committee for a period of one year commencing on the date of his/her ceasing (a) to be a partner of the firm; or (b) to have any financial interest in the firm, whichever is the later.

#### 2. Secretary

- 2.1 The Company Secretary shall be the Secretary of the Audit Committee.
- 2.2 The Audit Committee may from time to time appoint any other person with appropriate qualification and experience as the Secretary of the Audit Committee.

### **3. Meetings**

- 3.1 The Audit Committee should meet at least twice each year. A meeting could be convened by the Secretary on request of a Member or by any Member. The Company's external auditor may also request a meeting be held if they consider it necessary.
- 3.2 Notice of any meetings has to be given at least 14 days prior to any such meeting being held, unless all Members unanimously waive such notice. Irrespective of the length of notice being given, attendance of a meeting by a Member shall be deemed waiver of the requisite length of notice by the Member. Notice of any adjourned meetings is not required if adjournment is for less than 14 days.
- 3.3 The quorum of the Audit Committee should be any two Members one of whom must be an INED.
- 3.4 Meetings could be held in person or by telephone. Members may participate in a meeting by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting are capable of hearing each other.
- 3.5 Resolutions of the Audit Committee should be passed by a majority of votes.
- 3.6 A resolution in writing signed by all the Members of the Audit Committee shall be as valid and effectual as if it had been passed at a meeting of the Audit Committee duly convened and held.
- 3.7 Full minutes should be kept by the Secretary of the Audit Committee. Draft and final versions of minutes will be circulated to all Members for their comment and records respectively, in both cases within a reasonable period of time after the meeting. Such minutes shall be open for Directors' inspection.

#### **4. Attendance at Meetings**

- 4.1 At least twice a year, representatives of the Company's external auditor will meet the Audit Committee without any Executive Directors being present, except by invitation of the Audit Committee.
- 4.2 At the invitation of the Audit Committee, other members of the Board, Chief Financial Officer, and other persons may be invited to attend all or part of any meetings.
- 4.3 Only Members of the Audit Committee are entitled to vote at the meetings.

#### **5. Annual General Meeting**

The Chairman of the Audit Committee, or in his/her absence, another Member (who must be an INED) of the Audit Committee, should attend the Company's Annual General Meeting and be prepared to respond to shareholders' questions on the Audit Committee's activities and their responsibilities.

#### **6. Powers and Responsibilities**

The responsibility of the Audit Committee is to assist the Board in fulfilling its audit duties through the review and supervision of the Company's relationship with the external auditor, the Company's financial information, financial reporting system and internal control procedures. The Audit Committee shall have the following powers and responsibilities:-

##### ***Relationship with the Company's External Auditor***

- 6.1 to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal;

- 6.2 to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;
- 6.3 to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally;
- 6.4 to report to the Board, identify and make recommendations on any matters where action or improvement is needed;

***Review of the Company's financial information***

- 6.5 to monitor integrity of the Company's financial statements and annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review any significant financial reporting judgments contained in them. In reviewing these reports (if applicable) before submission to the Board, the Audit Committee should focus particularly on:-
  - (a) any changes in accounting policies and practices;
  - (b) major judgmental areas;
  - (c) significant adjustments resulting from audit;
  - (d) the going concern assumptions and any qualifications;
  - (e) compliance with accounting standards; and
  - (f) compliance with the Listing Rules and legal requirements in relation to financial reporting;

6.6 Regarding 6.5 above:-

- (a) Members should liaise with the Board and senior management<sup>(Note 1)</sup>, and the Audit Committee must meet, at least twice a year, with the Company's external auditor; and
- (b) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer (or person occupying the same position) or external auditor;

***Oversight of the Company's financial reporting system and internal control procedures***

- 6.7 to review the Company's financial controls, internal control and risk management systems;
- 6.8 to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- 6.9 to review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow up action; and to act as the key representative body for overseeing the Company's relations with the external auditor;

- 6.10 to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- 6.11 where an internal audit function exists, to ensure co-ordination between the internal and external auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- 6.12 to review the Group's financial and accounting policies and practices;
- 6.13 to review the external auditor's management letter, any material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and the management's response;
- 6.14 to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- 6.15 to report to the Board on all of the above matters herein;
- 6.16 to consider any other matters specifically referred to the Audit Committee by the Board; and
- 6.17 to carry out annual review on the continuing connected transactions of the Group including those fallen outside Rule 14A.33 of the Listing Rules and their financial implication in their capacity as members of the independent board committee.

## **7. Reporting Responsibilities**

- 7.1 The Audit Committee shall report to the Board after each meeting.

## **8. Authority**

- 8.1 The Audit Committee is authorized by the Board to inspect all accounts, books and records of the Company.
- 8.2 The Audit Committee shall have the right to require the Company's management to furnish information on any matter relating to the financial position of the Company, its subsidiaries or affiliates, as may be required for the purposes of discharging its duties.
- 8.3 A Director as a Member of the Audit Committee may seek independent professional advice in appropriate circumstances at the Company's expense to discharge his/her duties as a Member of the Audit Committee to the Company. Arrangement to seek independent professional advice could be made through the Company Secretary.
- 8.4 The Audit Committee shall be provided with sufficient resources to discharge its duties.

*Note 1: "Senior Management" should refer to the same category of persons as referred to in the Company's annual report and is required to be disclosed under paragraph 12 of Appendix 16 to the Listing Rules.*

Revised in March 2012.