THE PHILODRILL CORPORATION Internal Audit Charter

Internal auditing is an important management tool and is one of the ways Philodrill's Management maintains the integrity, efficiency and effectiveness of its financial, operational, information systems, and other management control systems. Internal Audit operates as an independent yet integral part of management, conducting its duties professionally and with objectivity.

Philodrill's Chief Audit Officer is employed by the Chief Executive Officer and Chief Financial Officer (CFO) with the concurrence of the Audit Committee of the Board of Directors. Independence and accessibility to Philodrill and related information sources are essential to internal auditing being performed freely and objectively.

Purpose and Mission

The purpose of Philodrill's Internal Audit (IA) is to provide independent, objective assurance and consulting services designed to add value and improve Philodrill's operations. The mission of IA is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. IA helps Philodrill accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The IA report to the Audit Committee and administratively to the Chief Financial Officer (CFO). It functions independent of each business unit and corporate function. IA is authorized to:

- Have unrestricted access to all company or related functions, records, property, and personnel.
- Have full and free access to the Audit Committee, including in private meetings without management present.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary cooperation and assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.
- Consult to management on matters such as the design of business control systems, risk management activities, and governance processes.
- Participate as member of other board committees, teams, etc. provided such participation does not compromise or appear to compromise the independence of IA.

Independence and Objectivity

The Chief Audit Officer will ensure that IA remains free from all conditions that threaten the ability of internal auditor to carry out the responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Audit Officer determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties. Internal auditor will maintain an unbiased mental attitude that allows him to perform engagements objectively and in such a manner that he believes in the work product, that no quality compromises are made, and that he do not subordinate the judgment on audit matters to others.

The Chief Audit Officer will refrain from performing any operational duties for the organization or its affiliates. Accordingly, internal auditor will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair his judgment, including:

- Initiating or approving transactions external to IAS activity.
- Directing the activities of any employee not employed by or assigned to IA, except in the context of providing assistance with continuous improvement initiatives, consultative engagements, or other non-independence conflicting requests from management.

Internal auditor will:

- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Officer will confirm to the Audit Committee, at least annually, the organizational independence of IA. The Chief Audit Officer will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Accountability

The Chief Audit Officer, in the discharge of his/her duties, shall be accountable to management and the Audit Committee.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments on the adequacy and effectiveness of Philodrill's system of risk management, control, and governance processes, as

designed and represented by management, is adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed.
- Control processes, governance and risk management activities are effective and continually reviewed to determine need for improvement.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources and assets are acquired economically, used efficiently, and adequately protected. Operations or programs are consistent with established goals and objectives and are being carried out effectively and efficiently.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

The Chief Audit Officer will report periodically to senior management and the Audit Committee regarding:

- IA's purpose, authority, and responsibility, adapting it as necessary for changing business objectives.
- IA's audit plan and performance relative to its plan.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit activities, including root cause analyses as appropriate.
- Audit staff qualifications and resource requirements.

The Chief Audit Officer also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. IA may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided IA does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Chief Audit Officer and staff of IA have responsibility to:

- Develop, using an appropriate risk-based methodology, a flexible annual audit plan, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval.
- Develop a reasonable budget sufficient to accomplish the approved audit plan.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management or the Audit Committee.

- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement is properly planned and executed.
- Maintain a professional audit staff (or secure comparable augmentation resources) with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Evaluate the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Obtain management's response and corrective actions to be taken in regard to specific findings.
- Assist with the administration, disposition and reporting of corrective actions committed to by the auditee.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Establish and ensure adherence to policies and procedures designed to guide IA activity. Ensure emerging trends and successful practices in internal auditing are considered.
- Assist in the investigation of suspected fraud and notify management and the Audit Committee of the results. Act as a conduit to the Audit Committee for notice and information relating to all fraud within the company.
- Consider the scope of work of the external auditors and others, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.