



**ARC MINERALS LTD**  
(the "Company")

**AUDIT & RISK COMMITTEE**

**TERMS OF REFERENCE**

*Last review: September 2018*

**1. CONSTITUTION**

The Audit and Risk Committee ("Committee") shall be constituted by resolution of the Board of Directors in accordance with the Articles of Association of the Company.

**2. MEMBERSHIP**

- 2.1 Members of the Committee shall be appointed by the Board on the recommendation of the Remuneration and Nomination Committee in consultation with the Chairman of the Committee and shall comprise a Chairman and at least two other members.
- 2.2 All members of the Committee shall be non-executive directors who are independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgement. At least one of the members of the Committee shall have recent and relevant financial experience.
- 2.3 Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence. Where possible, the Chairman and members of the Committee should be rotated on a regular basis.
- 2.4 Appointments to the Committee shall be for a period of up to three years extendable by no more than two additional three-year periods, provided that the director continues to meet the criteria for membership of the Committee.
- 2.5 The Board shall appoint the Chairman of the Committee who shall be a non-executive director and determine the period for which he or she shall hold office. The Chairman of the Board shall not be eligible to be appointed as Chairman of the Committee. In the absence of the Chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of the non-executive members present to chair the meeting.
- 2.6 Only members of the Committee shall have the right to attend Committee meetings. However, other individuals and/or external advisers may be invited to attend for all or part of any meeting as and when appropriate.
- 2.7 The external auditors shall be invited to attend meetings of the Committee on a regular basis.

### **3. SECRETARY**

The Company Secretary or his or her nominee shall act as the Secretary of the Committee.

### **4. QUORUM**

The quorum necessary for the transaction of business shall be two. 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. Save where he has a personal interest, the Chairman of the Committee shall have a casting vote.

### **5. FREQUENCY OF MEETINGS**

The Committee shall meet at least once a year and at such other times as the Chairman of the Committee shall require or as may be requested by the Board of Directors.

### **6. NOTICE OF MEETINGS**

6.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any member thereof, or at the request of the external audit lead partner or head of internal audit function, if they consider it necessary.

6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no fewer than five working days prior to the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate at the same time.

### **7. MINUTES OF MEETINGS**

7.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

7.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

7.3 Minutes of Committee meetings shall be circulated to all members of the Committee and, once agreed, to all members of the Board.

### **8. ANNUAL GENERAL MEETING**

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

### **9. DUTIES**

9.1 **In respect of Internal Control and Risk Management, the Committee shall:**

- 9.1.1 review and approve the statements to be included in the annual report concerning internal controls and risk management;
- 9.1.2 review the adequacy and effectiveness of the Company's internal controls and risk management systems;
- 9.1.3 review the Company's procedures for detecting fraud;
- 9.1.4 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 9.1.5 review the adequacy and effectiveness of the Company's anti-money laundering systems and controls.

**9.2 In respect of Internal Audit requirements, the Committee shall:**

- 9.2.1 monitor and review the requirement for and, where present, the adequacy and effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 9.2.2 approve the appointment and removal of the head of the internal audit function;
- 9.2.3 consider and approve the remit of the internal audit function and ensure that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
- 9.2.4 review the management of financial matters and ensure that the internal auditors are free from management or other restrictions;
- 9.2.5 review and assess the annual internal audit plan;
- 9.2.6 receive a report on the results of the internal auditors' work on a periodic basis and promptly review all reports on the Company from the internal auditors;
- 9.2.7 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 9.2.8 meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

**9.3 In respect of External Audit requirements, the Committee shall:**

- 9.3.1 make recommendations to the Board for it to put to shareholders for their approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the external auditor and terms of engagement of the external auditor. The Committee shall oversee the selection process for new auditors and ensure that at least once every 10 years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms. The Committee shall ensure that all tendering firms have access to information and individuals during the tendering process, as is necessary. If an auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required;
- 9.3.2 meet regularly with the external auditor, and at least once a year without management being present to discuss its remit and any issues arising from the audit;

- 9.3.3 oversee the relationship with the external auditor including (but not limited to):
- (a) approval of the auditor's remuneration, whether the level of fees for audit or non-audit services is appropriate to enable an effective and high quality audit to be conducted;
  - (b) approval of the auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (c) assessing annually the auditor's independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - (d) 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);
  - (e) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (f) 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;
  - (g) assessing annually the auditor's qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - (h) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (i) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation.
- 9.3.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 9.3.5 review the findings of the audit with the external auditor. This shall include but not be limited to the following:
- (a) a discussion of any major issues which arose during the audit;
  - (b) any accounting and audit judgements;
  - (c) levels of errors identified during the audit; and
  - (d) the effectiveness of the audit process;
- 9.3.6 review any representation letter(s) requested by the external auditor before they are signed by management;
- 9.3.7 review the management letter and management's response to the auditor's findings and recommendations; and
- 9.3.8 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.
- 9.4 **In respect of Financial Statements, the Committee shall:**
- 9.4.1 monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal

announcements relating to the Company's financial performance, reviewing significant financial reporting issues and judgements contained in them;

9.4.2 review summary financial statements, significant financial returns to regulations and any financial information contained in certain other documents, such as announcements of a price sensitive nature;

9.4.3 The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year to year basis and across the Company/group;
- (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 judgments, taking into account the views of the external auditor;
- (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

9.4.4 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

## **10. WHISTLEBLOWING**

The Committee shall review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

## **11. OTHER MATTERS**

11.1.1 give due consideration to law and regulations, the provisions of the Code and the requirements of the AIM Rules for companies issued by London Stock Exchange plc as appropriate;

11.1.2 be responsible for coordination of the internal and external auditors;

11.1.3 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort;

11.1.4 at least once a year, 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; and

11.1.5 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance where required;

11.1.6 work and liaise as necessary with all other Board committees; and

- 11.1.7 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.

## **12. AUTHORITY**

The Committee is authorised by the Board:

- 12.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 12.2 to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference;
- 12.3 to commission any reports or surveys which it deems necessary to help it fulfil its obligations;
- 12.4 to call any member of staff to be questioned at a meeting of the Committee as and when required; and
- 12.5 have the right to publish in the Company's Annual Report and Accounts details of any issues that cannot be resolved between the Committee and the Board.

## **13. REPORTING RESPONSIBILITIES**

- 13.1 The Chairman of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities, and on how the Committee has discharged its responsibilities. This report shall include:
- (a) the significant issues that it considered in relation to the financial statements and how these were addressed;
  - (b) its assessment of the effectiveness of the external audit process and its recommendation of the appointment or reappointment of the external auditor; and
  - (c) any other issues on which the Board has requested the Committee's opinion.
- 13.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed and shall compile a report on its activities to shareholders to be included in the Company's Annual Report and Accounts. The report shall include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to the matters communicated to it by the auditor; and all other information requirements in order to comply with applicable laws and regulations including but not limited to the provisions of the AIM Rules of the London Stock Exchange, the QCA Corporate Governance Code, as well as guidelines published by the Association of British Insurers and the National Association of Pension Funds and any other applicable rules, as appropriate.
- 13.3 Where requested by the Board, the Committee should review the content of the Company's Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair,

balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

#### **14. DEFINITIONS**

**"Board"**

shall mean the full Board of Directors;

**"Committee"**

shall mean the Audit and Risk Committee.