

Charter for the Audit and Risk Committee

1. Objectives of the Audit and Risk Committee

The function of the Audit and Risk Committee ("**Committee**") is to assist the Board in fulfilling its corporate governance responsibilities in regard to:

- (a) business risk management;
- (b) compliance with legal and regulatory obligations;
- (c) the establishment and maintenance of the internal control framework;
- (d) the reliability and integrity of financial information for inclusion in the Company's financial statements;
- (e) safeguarding the independence of the external auditor; and
- (f) audit, accounting and financial reporting obligations.

2. Membership of the Committee

- (a) The Committee is appointed by the Board in accordance with clause 71 of the constitution of the Company. As required by clause 71.2 of the constitution, at least one member of the Committee shall be a Director of the company.
- (b) Members shall be appointed by the Board for a limited period and shall not automatically be re-appointed. The minimum and maximum of numbers of members of the Committee will be determined by the Board and, until otherwise determined, will be three and six respectively.
- (c) The Committee will appoint a Secretary who may or may not be a member of the Committee.
- (d) Unless there are no, or insufficient, independent directors of the company, the Committee shall consist of a majority of independent directors.
- (e) Each member of the Committee should be able to read and understand financial statements.
- (f) At least one member of the Committee must have accounting or related financial management expertise.
- (g) No Executive Director of the company shall be a member of the Committee unless required to comply with clause 71.2 of the constitution of the Committee.
- (h) The chairperson of the Board shall not chair the committee.
- (i) Unless there are no independent directors of the company, the chairperson of the Committee will be an independent director.

3. Authority of the Committee

- (a) The Committee shall make determinations about matters for which it is responsible, save where under this Charter the authority of the Committee is limited to making recommendations to the Board.
- (b) The Committee has the authority to require any manager or other employee to attend meetings and / or to provide advice or information.
- (c) The Committee has the authority to access the Company's documents and records.
- (d) The Committee may take such independent legal, financial or other advice as it considers necessary.

4. Responsibilities of the Committee

4.1 Generally

- (a) To assess whether the resources devoted to the accounting function are adequate to ensure that reporting arrangements are of high quality and to advise the Board of any identified shortcomings.
- (b) To ensure that periodic assessments of the financial risks faced by the Company in the course of its operating activities are undertaken and to review and agree on the arrangements effected to identify and manage or mitigate those risks.
- (c) To consider and review the adequacy of internal controls, having regard to risks.
- (d) To provide a line of communication so that employees wishing to do so may raise issues of concern relating to the management of the Company's physical and financial resources or the accuracy or sufficiency of information being provided to the Board.

4.2 Independent External Audit

- (a) To recommend to the Board the appointment, reappointment or replacement of the external auditor and the payment of annual fees (ensuring that an effective, comprehensive and complete audit can be conducted for the agreed compensation).
- (b) To review and approve the audit plans of the external auditor (It is not the duty of the committee to itself plan or conduct audits).
- (c) To review the overall scope of the external audit, including identified risk areas and any additional agreed procedure.
- (d) To evaluate the overall effectiveness and independence of the external auditor.
- (e) To resolve any disagreement between management and the external auditor regarding financial reporting.
- (f) To monitor and ensure compliance by the external auditor with the independence requirements imposed by the *Corporations Act* including receiving and reviewing the independence declaration provided to the Directors of the Company by the external auditor pursuant to section 307C of that Act.
- (g) If appropriate, to pre-approve any arrangements for the provision of non-audit services by the external auditor to ensure that its judgement or independence as external auditor are not impaired.

- (h) On an annual basis, to obtain and review a report from the external auditor describing:
 - (i) the audit firm's internal quality control and conflict procedures;
 - (ii) any material issues raised by the most recent quality control, or peer review, of the audit firm and any steps taken to deal with such issues; and
 - (iii) all relationships between the external auditor and the Company or senior management of the Company (to assess the auditor's independence).
- (i) To set clear hiring policies for employees or former employees of the external auditor to comply with the Corporations Act and prevent the impairment, or perceived impairment, of the external auditor's judgement or independence.
- (j) Prior to the annual approval of the Directors' Report, to pass a resolution to provide the Board with the written advice required from the Committee by section 300 (11D)(a) of the Corporations Act relating to:
 - (i) whether the provision of non-audit services during the year by or on behalf of the external auditor is compatible with the general standard of independence for auditors imposed by the Act; and
 - (ii) the reasons why the Board should be satisfied that the provision of non- audit services during the year by or on behalf of the external auditor did not compromise the auditor independence requirements of the Corporations Act.

4.3 Internal Reporting

- (a) To review the completeness and quality of financial and operational information presented to the Board by management, and to suggest ways in which such information might be improved.
- (b) To periodically seek advice from the external auditor regarding the completeness and quality of financial and operational information being provided to the Board.

4.4 External Reporting

- (a) To review the draft half yearly and annual financial statements to ensure they represent a true and fair view of the Company's financial position and performance. The Committee should focus on:
 - (i) compliance with accounting standards (including an assessment of the appropriateness of management's selection of accounting policies and disclosures);
 - (ii) significant changes in accounting policies and practices;
 - (iii) major judgemental areas ; and
 - (iv) significant audit adjustments.
- (b) To review the declarations signed by the Managing Director and Manager Finance & Company Secretary pursuant to section 295A of the Corporations Act and ASX Corporate Governance Principles, recommendations 4.1 and 7.2.
- (c) To monitor the processes in place to ensure compliance with statutory and Australian Securities Exchange requirements, including the continuous disclosure obligations.
- (d) To consider the effects on the Company of any new or proposed accounting practices, principles or developments, disclosure requirements and legislative or regulatory pronouncements.

4.5 Business Risk Management

- (a) To oversee the establishment and implementation of risk management, internal compliance and control systems and to ensure there is a mechanism for assessing the efficiency and effectiveness of those systems.
- (b) To approve and recommend to the Board for adoption the Company's Risk Oversight and Management Policy to establish an effective and efficient system for:
 - (i) identifying, assessing, monitoring and managing risk; and
 - (ii) disclosing any material change to the risk profile.
- (c) To regularly review and update the risk profile and the Risk Oversight and Management Policy.

4.6 Insurance

The Committee shall:

- (a) conduct an annual review of a detailed paper (to be prepared by management) on the Company's insurance program containing all material facts about the program including the types and levels of cover, premiums, principal terms and exclusions;
- (b) review and approve any material new insurances, proposed cancellations or variations of existing policies;
- (c) be advised of any Company or industry developments (including incidents or claims) which may materially affect the Company's insurance program.

4.7 Legal and Regulatory Compliance

- (a) The Committee will, in conjunction with the Board, endeavour to ensure that the Company complies with all:
 - (i) relevant statutory and regulatory obligations; and
 - (ii) internal policies and procedures (including the Alliance Code of Ethics).

5. Procedures of the Committee

5.1 Attendance

- (a) All directors who are not members of the committee are encouraged to attend meetings of the Committee.
- (b) If they are not members of the Committee, the Chairperson of the Board, Managing Director and the Manager Finance & Company Secretary may attend meetings of the Committee in an ex-officio capacity.
- (c) The external auditor shall be invited to attend all meetings (though not necessarily for all agenda items).
- (d) The Committee may invite other persons it considers appropriate to attend meetings of the Committee.

5.2 Meetings

- (a) The Secretary of the Committee shall propose a schedule of meetings to ensure that all of the responsibilities of the Committee are addressed during the financial year.
- (b) The quorum for a meeting of the Committee may be fixed by the Committee and, unless so fixed, is two members, including at least one Director, present. The quorum must be present at all times during the meeting.
- (c) Normally the Committee shall meet on at least two occasions per financial year.
- (d) Additional meetings may be requested by any member of the Committee, the Chairperson of the Board or the relevant partner from the external auditor.
- (e) Meetings of the Committee may be held by any technological means allowing its members to participate in discussions even if all of them are not physically present in the same place. A member who is not physically present but participating by technological means is taken to be present.
- (f) The members of the Committee may pass a resolution without a meeting of the Committee if all of the members of the Committee for the time being entitled to vote on the resolution sign a document containing a statement that they are in favour of the resolution set out in the document. Separate copies of a document may be used for signing by members of the Committee if the wording of the resolution and statement is identical in each copy. The resolution is passed when the last member of the Committee signs.

5.3 Agenda and Minutes

- (a) The Secretary shall (in conjunction with the Chairperson) be responsible for:
 - (i) drawing up the agenda for each meeting, supported by relevant documentation, and circulating that material to Committee members in sufficient time for due prior consideration; and
 - (ii) preparing proper minutes of the meetings of the Committee.
- (b) The Secretary shall provide draft minutes to the chairperson within ten business days after a meeting. The minutes shall be distributed to all members of the Committee after the chairperson has reviewed them.
- (c) Minutes shall be accompanied by an 'action plan' detailing matters that require attention as the result of the Committee's deliberations.
- (d) Minutes of each Committee meeting must be included in the Board papers for the next full Board meeting after each meeting of the Committee.

5.4 Reporting to the Board

- (a) The chairperson of the Committee must report the Committee's findings to the Board after each meeting of the Committee.
- (b) In conjunction with the approval of the Half-year and Annual financial Report, the Committee is to prepare a report to the Board. The report is to contain all matters relevant to the Committee's role and responsibilities including:
 - (i) assessment of whether external reporting is consistent with Committee members' information and knowledge and is adequate for shareholder needs;

- (ii) assessment of the management processes supporting external reporting;
- (iii) procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners;
- (iv) recommendations for the appointment or removal of the auditor;
- (v) assessment of the performance and independence of the external auditor and whether the Committee is satisfied that independence of this function has been maintained having regard to the provision of non-audit services;
- (vi) if applicable, assessment of the performance and objectivity of the internal audit function;
- (vii) the results of its review of risk management and internal compliance and control systems; and
- (viii) if applicable, a summary of any complaints managed in the period.

5.5 Complaint Procedures

- (a) In assisting the Board, the Committee is to ensure that there are adequate procedures for the receipt, retention and resolution of complaints (including “whistleblowing” complaints) received by the Company, including in relation to risk management, legal or regulatory compliance, accounting, internal accounting controls or auditing. This is to include a process for confidential anonymous complaints by employees or other stakeholders.

5.6 Maintenance of Registers

- (a) The Secretary of the Committee shall maintain a register of recommendations made by the external auditor. The register shall record a summary of management responses to those recommendations, and whether the recommendations were adopted, implemented, or rejected.
- (b) The Secretary shall provide to the Committee at each meeting a summary of the register, highlighting management responses to recent recommendations and any recommendations that have yet to be resolved.

5.7 Review of Committee Performance

- (a) The Committee shall review its performance annually, with particular attention being paid to the extent to which it has met its responsibilities in terms of this Charter. The Board will conduct an annual review of the operation and performance of the Committee.

5.8 Review and Changes to this Charter

- (a) The Committee will review this Charter at least annually and otherwise as often as it considers necessary.
- (b) The Board may change this Charter from time to time by resolution.

**This Charter for Audit and Risk Committee Policy was adopted by
the Alliance Resources Limited Board on 29 November 2007.
Last reviewed by the Board on 15 August 2012.**