



carbonenergy

AUDIT AND RISK COMMITTEE CHARTER

CARBON ENERGY LIMITED
ADOPTED IN MARCH 2014

AUDIT AND RISK COMMITTEE CHARTER

Carbon Energy Limited (“COMPANY”)

1. Overview

The Audit and Risk Committee (Committee) has been established to assist the Board of the Company in fulfilling its corporate governance responsibilities in respect of:

- The reliability and integrity of financial information for inclusion in the Company’s financial statements;
- Audit, accounting and financial reporting obligations;
- The adequacy of the Company’s audit arrangements; and
- The Company’s internal control systems and risk management framework.

In particular, the Committee is to undertake the functions of the Audit Committee referred to in the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations.

This Audit and Risk Committee Charter (Charter) sets out the functions and responsibilities of the Committee and details the manner in which the Committee will operate.

2. Duties and Responsibilities

In assisting the Board (and without limiting its scope), the Committee will:

2.1 Audit

- (a) oversee the effectiveness and appropriateness of administrative and accounting controls used by management and monitor compliance with applicable accounting standards and other requirements;
- (b) review the adequacy of the financial reporting processes;
- (c) review and recommend to the Board the draft annual and interim financial statements;
- (d) review Management’s representations and declarations in regard to preparation of financial statements;
- (e) oversee the selection and appointment of the external auditors as well as evaluating their performance;
- (f) review the scope and results of external and internal audits; and
- (g) oversee the application of *GOV-POL-10 Code of Conduct* and *GOV-POL-17 Whistleblower Policy*, including reviewing and approving any proposed amendments to either document. In regard to the *Whistleblower Policy*, this will extend to approving the appointment of the Reporting and Investigation Officer.

2.2 Risk

- (a) review the effectiveness of the Company’s internal controls;
- (b) oversee the Company’s risk management framework including:
 - monitor the internal processes for identifying, assessing, monitoring and managing risks;
 - annually review the risk management policy and register and mitigating activities; and
 - report to the Board, at least annually, regarding these matters.

2.3 Other

- (a) consider and report to the Board on any other such matters as the Board may refer to the Committee from time to time or as assigned by the law or the Company's Constitution;
- (b) review this Charter annually and recommend necessary changes to the Board;
- (c) evaluate the Committee's own performance on a regular basis and if necessary, make recommendations to the Board in relation to the Committee's membership, responsibilities, functions or otherwise.

3. Access to Information and Advice

The Committee and its members have the authority to:

- seek explanations and additional information from the Company's external auditors, without management present, when required; and
- seek any information required from any employee; and all employees must comply with such requests.

In carrying out its functions, the Committee may take independent legal, accounting or other professional advice or assistance, at the Company's expense. Unless a conflict exists or to do so would be inconsistent with the Committee's duties, the Committee is to request such advice or assistance via the Chairman of the Board. The Company is to provide the Committee with sufficient resources to undertake its duties, including provision of educational information on accounting policies and other financial topics relevant to the Company, and such other relevant materials requested by the Committee.

4. Membership

4.1 Composition of the Audit and Risk Committee

The Committee is to include at least three members, all of whom are non-executive directors and a majority of which are independent. Members may be appointed, removed or replaced by the Board by ordinary resolution.

At least one member of the Committee must have financial expertise or significant experience of financial or accounting matters.

Each member of the Audit and Risk Committee is to be financially literate (that is be able to read and understand financial statements).

Committee members may withdraw as a member of the Committee by written notification to the Board.

From time to time, non Committee members may be invited by the Committee to attend meetings.

4.2 Chair of the Committee

The Chair of the Committee is to be an independent non-executive director, other than the Chair of the Board and is to be appointed by the Board.

5. Administration

5.1 Meetings

The Committee will meet as frequently as desired but not less than three times per year.

The Company Secretary or their designate shall be the Secretary of the Committee.

Any Committee member may convene a Committee meeting. A Committee meeting may also be convened by the Company Secretary, if requested by a Committee member.

Reasonable notice must be given to every Committee member of every Committee meeting, however acknowledgment of receipt of notice by all members is not required before the meeting can be validly held.

All Committee members, relevant senior management and internal and external auditors have the right to contribute to the agenda for any Committee meeting.

5.2 Quorum and Voting

A quorum consists of two Committee members. Each member will have one vote. The Chairperson will not have a casting vote where there is a tied vote. In the case of a tied vote, the motion will lapse.

5.3 Minutes

Minutes of all meetings of the Committee are to be kept by the Secretary and the minutes and a report of actions taken or recommended is to be given at each subsequent meeting of the full Board.

5.4 Reporting

The Committee Chair will provide a report to the Board at subsequent Board meetings regarding any material matters raised at a Committee meeting regarding its activities and ensure that the Board is aware of any matter relating to the Committee which may significantly impact the financial condition or other affairs of the Company.

At the Board meeting where the Committee recommends the interim and annual financial reports to the Board the Committee Chair should specifically report on the following matters:

- (a) assessment of whether external reporting is consistent with Committee members' information and knowledge and is adequate for shareholder needs;
- (b) assessment of the management processes supporting external reporting;
- (c) recommendations for the appointment or, if necessary, the removal of the external auditor;
- (d) any recommendations for amending *GOV-MP-04 Procedure for the Selection, Appointment and Rotation of External Auditor*; and
- (e) assessment of the performance and independence of the external auditors. Where the external auditor has provided non-audit services, the report should include whether the Audit and Risk Committee is satisfied that provision of those services has not compromised the auditor's independence.

The Committee should also report on its annual review of the Company's Risk Management framework.

The Chair of the Audit and Risk Committee is to be present at the annual general meeting to answer questions, through the Chair of the Board.

5.5 Attendees

The Managing Director/CEO, other directors, members of senior management and any other Company Group employee may be invited to attend any meeting of the Committee.

If an invitee or attendee has a material personal interest in a matter that is being considered at a Committee meeting, he or she must not be present for consideration of that matter.

Representatives from the internal and external auditors will also regularly be invited to attend Committee meetings, though not necessarily for their full duration.

The Company Secretary must attend all meetings of the Committee.

6. External Auditor

The Committee is directly responsible for the appointment, compensation, retention and oversight of the external auditor engaged by the Company (including resolution of disagreements between management and the auditor regarding financial reporting) or any other public accounting firm engaged for the purpose of performing audit, review or attestation services for the Company.

In relation to the external auditor, the Committee will:

- (a) review and approve the scope and adequacy of the annual audit programme or audit plan;
- (b) review any engagement fees or terms proposed by the external auditors;
- (c) consider whether the external auditor's provision of non-audit services to the Company and any other relationship between the external auditor and the Company is compatible with maintaining the independence and objectivity;
- (d) observe the policies and procedures for the selection, appointment, re-appointment and removal (if necessary) of the external auditor and the rotation of external audit engagement partners;
- (e) at least annually, assess the performance of the external auditor;
- (f) at least annually, assess the independence of the external auditor, particularly having regard to the provision of non-audit related services, and confirm that the auditor has satisfied all professional regulations relating to auditor independence.
- (g) On an annual basis, obtain and review a report from the external auditor describing:
 - The audit firm's internal quality control and conflict procedures;
 - Any material issues raised by the most recent quality control, or peer review, of the audit firm and any steps taken to address such issues; and
 - All relationships between the external auditor and the Company.