

AUDIT AND RISK COMMITTEE CHARTER

1. MEMBERSHIP

The Audit and Risk Committee (**Committee**) must consist of:

- a) at least three members, all of whom are non-executive Directors;
- b) a majority of independent Directors; and
- c) an independent Chairman, who is not Chairman of the Board.

The Board will nominate the Chairman of the Committee from time to time.

The Board may appoint additional non-executive directors to the Committee or remove and replace members of the Committee by resolution. Members may withdraw from membership by written notification to the Board.

Board members may attend Committee meetings at any time. Others, including members of management, may attend all or part of a meeting of the Committee at the invitation of the Committee Chairman.

It is intended that all members of the Committee should be financially literate and have familiarity with financial management and the members between them must have the accounting and financial expertise and a sufficient understanding of the industry in which the Company operates to be able to discharge the Committee's mandate effectively. At least one member should have relevant formal qualifications and experience (i.e. be a qualified accountant or other finance professional with experience of financial and accounting matters).

The Company Secretary must attend all Committee Meetings as minute secretary.

2. ROLE AND RESPONSIBILITIES

2.1. Overview

The Committee's key responsibilities and functions are to oversee the Company's:

- a) financial reporting process;
- b) relationship with the external auditor and the external audit function generally;
- c) relationship with the internal audit function (if any, recognising that the internal audit function may be provided by an internal or external provider);
- d) financial controls and systems;
- e) processes for monitoring compliance with laws and regulations; and
- f) processes for identifying and managing risk.

2.2. Financial Reporting

The responsibilities of the Committee in relation to financial reporting are as follows:

- a) Review, and discuss with management and the external auditor, the Company's corporate and financial reporting and disclosure processes and make recommendations to the Board in relation to the adequacy of those processes.
- b) Review the Company's financial statements for completeness, for accuracy, for adherence to accounting standards and policies, and to ensure they reflect the understanding of the Committee members of, and otherwise provide a true and fair view of, the financial position and performance of the Company, as a basis for recommendation to and adoption by the Board.
- c) Receive and review reports of the external audit of the Company's financial statements. This shall include, but not be limited to, the following:
 - a discussion of any major issues which arose during the audit;
 - any key accounting and audit judgements;
 - the auditor's explanation of how the risks to audit quality were addressed;

- the auditor's view of their interactions with senior management;
 - levels of errors identified during the audit; and
 - the effectiveness of the audit.
- d) Review and make recommendations to the Board in relation to the appropriateness of the accounting policies, judgements and choices adopted by management in preparing the Company's financial reports, including significant changes in the selection or application of accounting principles.
- e) Review any proposed payment of a dividend to shareholders.
- f) Review the financial sections of the Company's Annual Report and related regulatory filings prior to release and consider the accuracy and completeness of the information provided.
- g) Before the Board approves the financial statements, receive from the Managing Director and Chief Financial Officer a declaration that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with accounting standards and give a true and fair view of the financial position of the Company, and that this opinion has been formed on the basis of a sound system of risk management and internal control that is operating effectively. Ensure an appropriate review of any identified exceptions.
- h) Review the management representation to the external auditor in relation to the financial statements.
- i) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters, and procedures for the confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.
- j) Ensure that procedures are in place designed to verify the existence and effectiveness of accounting and financial systems and other systems of internal control which relate to financial risk management.
- k) Discuss with management and the external auditor the process for, and disclosures made by, the Managing Director and Chief Financial Officer in connection with their certification of the periodic reports.

2.3. External Audit

The Committee's primary roles in relation to external audit are to review and make recommendations to the Board in relation to:

- a) the reporting of financial information;
- b) the appropriate application and amendment of accounting policies; and
- c) the appointment, independence and remuneration of the external auditor.

The Committee also provides a link between the external auditors, the Board and management of the Company.

In discharging these roles, the Committee will:

- a) Review and make recommendations to the Board in relation to the scope and adequacy of the external audit, including the proposed fees.
- b) Review the effectiveness of the annual audit, placing emphasis on areas where the Committee or the external auditors believe special attention is necessary.
- c) Review the performance, independence and objectivity of the external auditors.
- d) Review and make recommendations to the Board in relation to the procedures for selection, appointment and termination of the external auditors and for the rotation of external audit engagement partners.
- e) Recommend to the Board the selection and termination of the external auditor.
- f) Assume responsibility for the appointment, compensation, the terms of engagement (including the audit plan) and other contractual terms, fees and other compensation to be paid to the external auditor and ensure that any key risk areas for the Company and financial requirements are incorporated into the audit plan.
- g) Develop and implement a policy on the supply of non-audit services by the external auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters:

- threats to the independence and objectivity of the external auditor and any safeguards in place;
 - the nature of the non-audit services;
 - whether the external audit firm is the most suitable supplier of the non-audit service;
 - the fee for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - the criteria governing compensation.
- h) Provide advice to the Board as to whether the Committee is satisfied that the provision of non-audit services is compatible with the general standard of independence, and an explanation of why those non-audit services do not compromise audit independence in order for the Board to be in a position to make the statements required by the Corporations Act 2001 (Cth) to be included in the Company's annual report.
- i) Oversee the coordination of the internal and external audit.

2.4. Internal Audit

The Committee provides a link between the internal audit function and the Board. The head of the internal audit function has a direct reporting line to the Committee and therefore, to the Board.

The Company does not currently have an internal audit function. The decision on whether or not to set up an internal audit function shall be made by the Board on the recommendation of the Committee (which shall consider annually whether there is a need for an internal audit), based on the growth of the Company, the scale, diversity and complexity of the Company's activities and the number of employees, as well as cost and benefit considerations. This shall include determining whether the internal audit function is to be provided by an internal or external party provider. If the Board recommends the appointment of an internal audit function, the Committee shall:

- a) Monitor and assess the role and the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system and the work of compliance, finance and the external auditor.
- b) Approve the appointment and removal of the head of the internal audit function.
- c) Review and approve the role and mandate of the internal audit function, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation.
- d) Ensure internal audit has unrestricted scope, the necessary resources and appropriate access to information to enable it to perform its function effectively, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan and ensure that the internal audit function is equipped to perform in accordance with the relevant professional standards for internal auditors.
- e) Ensure the internal auditor has direct access to the chairperson of the Board and the Committee Chairman and is accountable to the Committee.
- f) Review and approve the annual internal audit plan and ensure it is aligned to the key risks of the Company's business and receive regular reports on work carried out.
- g) Determine whether it is satisfied with the quality, experience and expertise of internal audit is appropriate for the business.
- h) Consider whether an independent, third party review of processes is appropriate.
- i) Review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.
- j) Meet the head of internal audit at least once a year, without management being present.

2.5. Risk Management and Internal Control

The responsibilities of the Committee in relation to risk management and internal control are as follows:

- a) Oversee and advise the Board on high-level risk related matters, including risk appetite and tolerance in determining strategy, as well as management of key risks.
- b) Oversee management's implementation of the risk management strategy, including:
 - monitoring management's performance against the entity's risk management framework, including whether it is operating within the risk appetite set by the Board;

- ensuring that management has appropriate processes for identifying, assessing and responding to risks in a manner that is consistent with the Company's risk appetite, and that those processes are operating effectively;
 - challenging management's proposals and decisions on all aspects of risk management arising from the Company's activities; and
 - seeking reports from management on any key risk exposures and incidents.
- c) Review the trends in the Company's risk profile and report to the Board on key risks.
- d) Review the procedures in place to ensure compliance with insider trading laws, continuous disclosure requirements and other best practice corporate governance processes (including requirements under the ASX Listing Rules, Corporations Act and AASB requirements).
- e) Advise the Board on the appropriateness of significant policies and procedures relating to financial processes and disclosures and reviewing the effectiveness of the Company's internal control framework.
- f) Monitor whether management is communicating the importance of internal control and management of risk throughout the organisation and therefore setting up an appropriate 'control culture'.
- g) Review and make recommendations to the Board in relation to the risk disclosures in the Company's periodic reporting documents, including the operating and financial review in its Annual Report.
- h) Evaluate the adequacy and effectiveness of the Company's identification and management of economic, environmental and social sustainability risks and its disclosure of any material exposures to those risks.
- i) Oversee the establishment and maintenance of processes to ensure that there is:
- an adequate system of internal control, management of business risks and safeguard of assets; and
 - a regular review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control.
- j) Evaluate the Company's exposure to internal and external fraud, overseeing investigations of allegations of internal fraud or malfeasance and make recommendations to the Board in relation to any incident involving internal fraud or external fraud due to a breakdown of the Company's risk controls.
- k) At least annually, evaluate and make recommendations to the Board in relation to the structure and adequacy of the Company's insurance program having regard to the Company's business and the insurable risks associated with its business.

2.6. Compliance

The responsibilities of the Committee in relation to compliance are as follows:

- a) Review the procedures the Company has in place to ensure compliance with laws and regulations (particularly those which have a major potential impact on the Company in areas such as anti-money laundering, trade practices and occupational health and safety).
- b) Review and discuss with management and the internal and external auditor the overall adequacy and effectiveness of the Company's legal, regulatory and ethical compliance programs, including monitoring compliance with Company policies.
- c) Obtain regular updates from management on any compliance matters.
- d) Review the findings of any compliance-related examinations by regulatory agencies and authorities.
- e) Review the Company's Code of Conduct, and ensure arrangements are in place for dissemination to all employees, including communicating the importance of the Code of Conduct, and monitoring compliance.

2.7. Related Party Transactions

The responsibilities of the Committee in relation to related party transactions are as follows:

- a) Review and monitor all related party transactions and investments involving the Company.
- b) Consider, and where appropriate, make recommendations to the Board as to whether the related party transactions that the Company proposes to enter into comply with law, are for fair value and are at arm's length.

3. RIGHTS OF ACCESS AND AUTHORITY

The Committee has rights of access to management and to auditors (external and internal) without management present, and rights to seek explanations and additional information from both management and auditors. Whilst the internal audit function reports to senior management, it is acknowledged that the internal auditors also report directly to the Committee.

4. REVIEW

The Board will periodically review the membership and Charter of the Committee to determine its adequacy for current circumstances and the Committee may make recommendations to the Board in relation to the Committee's membership, responsibilities, functions or otherwise.

5. ADMINISTRATIVE MATTERS AND PROCEDURES

The proceedings of the Committee will be conducted in accordance with provisions set out in Attachment 1.

ATTACHMENT 1 – ADMINISTRATIVE MATTERS AND PROCEDURES

Meetings

The Committee will meet as often as the Committee members deem necessary in order to fulfil their role. However, it is intended that the Committee will normally meet at least twice per year.

Meetings of the Committee may be held or participated in by conference call or similar means, and decisions made by circular or written resolution.

Quorum and Voting

The quorum is at least 2 members. Each member of the Committee will have one vote. The Committee Chairman will not have a casting vote. If there is a tied vote, the motion will be referred to the Board for resolution.

Secretary

The Company Secretary, or his or her delegate, must attend all Committee meetings as minute secretary.

Convening and Notice of Meeting

Any member may, and the Company Secretary must upon request from any member, convene a meeting of the Committee. Notice will be given to every member of the Committee, of every meeting of the Committee. However, there is no minimum notice period and acknowledgement of receipt of notice by all members is not required before the meeting may be validly held.

Independent Advice

The Committee may seek the advice of the Company's auditors, solicitors or other independent advisers, consultants or specialists as to any matter pertaining to the powers or duties of the Committee or the responsibilities of the Committee, as the Committee may require and at the Company's expense.

Minutes

Minutes of meetings of the Committee must be kept by the Company Secretary and, after approval by the Committee Chairman, be presented at the next Board meeting. All minutes of the Committee must be entered into a minute book maintained for that purpose.

Reporting

The Committee Chairman will, if requested, provide a brief oral report as to any material matters arising out of the Committee meeting. All Directors may, within the Board meeting, request information of members of the Committee.

Approved by Galaxy Resources Limited Board

August 2018 Rev 2
00-EXE-CHA-0001