

Audit and Risk Committee Charter

Mount Gibson Iron Limited

ACN 008 670 817

Adopted by the Board on 31 October 2011

Committee Charter

1 Membership of the Committee

- 1.1 The Committee must consist of:
- (a) only non-executive directors;
 - (b) a majority of independent directors;
 - (c) an independent Chairman, who is not Chairman of the Board; and
 - (d) a minimum of 3 members of the Board.
- 1.2 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 Chairman of the Board, with a copy to the Chairman of the Committee.
- 1.3 Members of the Committee, and any other Directors wishing to attend, are entitled to be present at Committee meetings.
- 1.4 The Committee may extend an invitation to any person to attend all or part of any meeting. In particular, the Committee may meet with external auditors, external advisors, any executive or other employee, or any other non-executive Director, and may do so either with or without management present.
- 1.5 The Managing Director, the Chief Financial Officer, the senior internal audit executive and representative(s) of the external auditors will normally be invited to attend Committee meetings.
- 1.6 It is intended that all members of the Committee should be financially literate and have familiarity with financial management and at least:
- (a) one Committee member should have expertise in financial accounting and reporting (ie be a qualified accountant or other financial professional with experience of financial and accounting matters); and
 - (b) one Committee member should have experience in, and an understanding of, the iron ore industry.
- 1.7 The Company Secretary must attend all Committee meetings as minute secretary.
- 1.8 The Committee may engage external experts to provide advice to the Committee as required, at the Company's cost.

2 Administrative matters

2.1 Meetings

- 2.1.1 The Committee will meet as often as the Committee members deem necessary in order to fulfil their role and responsibilities in accordance with this Charter. However, it is intended that the Committee will normally meet at least 4 times each year (2 meetings are specifically held to review the Company's annual and half-yearly accounts).
- 2.1.2 The Committee will approve, at its last meeting each year, a meeting planner for the next year which identifies and allocates to a planned meeting on a set date in that year items

of Committee business considered essential to the due performance of its role and discharge of its duties.

2.2 Quorum

2.2.1 The quorum for Committee meetings is 2 members.

2.3 Convening and notice of meeting

2.3.1 Any Committee member may, and the Company Secretary must upon request from any member, convene a meeting of the Committee.

2.3.2 Written notice (including an agenda drawn up by the Company Secretary and the Committee Chairman, together with supporting papers) will be given to every member of the Committee and the external auditors (if applicable), at least 5 days prior to each meeting of the Committee, at that person's advised address for service of notice (or another pre-notified interim address where relevant). Acknowledgement of receipt of notice by all members is not required before the Committee meeting may be validly held.

2.3.3 The Company Secretary will keep and maintain minutes of each Committee meeting.

2.4 Rights of access and authority

2.4.1 The Committee has rights of access to the Company's employees, management and auditors (external and internal), and rights to seek explanations and additional information from employees, management and auditors in order to perform its duties. In exercising these rights, the Committee is not obliged to involve management. Employees, managers and internal auditors who receive enquiries from the Committee must respond to them. While the internal audit function reports to senior management, it is acknowledged that the internal auditors should also report directly to the Committee.

2.4.2 The Committee may, at the Company's expense, seek the advice of the Company's external auditors, solicitors or other outside advisors, or institute special investigations, as to any matter within the scope of the Committee's responsibilities.

2.4.3 The Committee is authorised to resolve any disagreements between management and the external auditors regarding the Company's financial reporting.

2.5 Minutes

2.5.1 Minutes of meetings of the Committee must be kept by the Company Secretary (or a delegate approved by the Committee Chairman) and (after approval by the Committee Chairman) be circulated prior to, and tabled at, the next Board meeting. All minutes of the Committee must be entered in a minute book maintained for that purpose and be available at all reasonable times for inspection by any Director.

2.6 Reporting

2.6.1 The Committee Chairman will report the findings and recommendations of each meeting of the Committee, at the next Board meeting. As part of the report the Committee Chairman will bring forward all findings and recommendations of the Committee which require Board endorsement or approval.

2.6.2 The Committee will report to the Board annually, in writing, on all matters relevant to the performance of its role and the discharge of its duties during the period since the last report, having regard to the duties of the Committee as set out in this Charter and Recommendation 4.3 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

- 2.6.3 The Committee will have no executive powers with regard to its findings and recommendations.

3 Role & Responsibilities

3.1 Overview

3.1 The Committee's key responsibilities and functions are:

- (a) Assist the Board to meet its oversight responsibilities in relation to:
 - (i) the Company's financial reporting obligations;
 - (ii) compliance with legal and regulatory requirements, including accounting standards;
 - (iii) internal control structure;
 - (iv) risk management procedures; and
 - (v) the internal and external audit functions.
- (b) Oversee the Company's relationship with the external auditors and the external audit function generally.
- (c) Oversee the Company's relationship with the internal auditors and the internal audit function generally.
- (d) Oversee the preparation of the financial statements and reports to ensure that they are fair and accurate and comply with the requirements of the Corporations Act and the applicable accounting standards.
- (e) Monitor the Company's financial controls and systems to ensure that they are in place and operating effectively.
- (f) Manage the Company's processes of identifying and managing financial risk and review the Company's effectiveness in doing so.

3.2 Audit

3.2.1 The Committee's primary roles in relation to audit are:

- (a) to assist the Board to meet its oversight responsibilities in relation to the Company's reporting of financial information;
- (b) to ensure the appropriate application and amendment of accounting policies and accounting standards;
- (c) to make recommendations to the Board on the appointment, independence and remuneration of the external auditors;
- (d) to provide a link between the external auditors, the Board and management of the Company; and
- (e) to oversee the internal audit function in accordance with the provisions of this Charter.

3.2.2 The following are intended to form part of the normal procedures for discharge of the Committee's audit responsibility:

- (a) Engage in the proactive oversight of the Company's financial reporting and disclosure processes, and oversee and review the outputs of that process (including review of the Company's financial statements for accuracy and to

ensure they reflect a true and fair view, as a basis for recommendation to and adoption by the Board).

- (b) Assist the Board in determining the reliability and integrity of accounting policies and financial reporting and disclosure practices.
- (c) Review for adherence to accounting standards and policies and other requirements relating to the preparation and presentation of financial results, taking into account:
 - (i) critical accounting policies and practices and any changes in them;
 - (ii) decisions requiring a major element of judgment;
 - (iii) the extent to which financial statements are affected by any unusual transactions;
 - (iv) the clarity of disclosures;
 - (v) significant adjustments resulting from the audit;
 - (vi) the going concern assumption;
 - (vii) compliance with accounting standards; and
 - (viii) compliance with the requirements of the Corporations Act, ASX Listing Rules and other legal requirements.
- (d) Review the financial statements and reports and the results of external audit of those statements and reports (including assessing significant estimates and judgments and assessing whether external reporting is consistent with the Committee members' information and knowledge, and is adequate for shareholder needs).
- (e) Review the appropriateness of the accounting policies adopted by management in the composition and presentation of financial statements and reports (or any changes made or contemplated in relation to the Company's accounting policies) and assess the management processes supporting external reporting.
- (f) 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.
- (g) Review management processes supporting external reporting, and any complaints or concerns raised internally regarding financial or accounting processes and practices.
- (h) Ensure that procedures are in place to verify the existence and effectiveness of accounting and financial systems and other systems of internal control which relate to financial risk management.
- (i) Recommend for Board approval the proposed scope of internal audit and external audits.
- (j) Invite the external auditors to attend Committee meetings to, at least, review the audit plan, discuss audit results and consider the implications of the external audit findings for the Company.
- (k) Provide the opportunity for Committee members to meet with the external auditors (without members of senior management being present) at least twice a year.
- (l) Review the effectiveness of the annual audit, placing emphasis on areas where the Committee or the external auditors believe special attention is necessary.
- (m) Review the results and effectiveness of the internal audit programs and the performance and objectivity of the internal audit function, including whether the

internal auditors are adequately resourced and co-ordinated with the external auditors.

- (n) Monitor the independence of the internal audit programs from the external auditors and management.
- (o) Approve the internal audit program and review its outcomes.
- (p) Review and recommend to the Board the appointment and dismissal of the senior internal audit executive.
- (q) Review the performance, independence and objectivity of the external auditors.
- (r) Review the procedures for selection and appointment of the external auditors and for the rotation of external audit engagement partners in accordance with the Company's Auditor Independence Policy and External Audit Policy.
- (s) Make recommendations to the Board in respect of the appointment (including the termination of an engagement), compensation, terms of engagement and other contractual terms of the external auditors.
- (t) Develop and oversee the implementation of the Company's policy on the engagement of the external auditors to supply non-audit services and ensure compliance with that policy, including periodically reviewing the Company's Auditor Independence Policy and External Audit Policy.
- (u) Provide advice to the Board as to whether the Committee is satisfied that the provision of non-audit services by the external auditors 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.
- (v) Recommend to the Board whether the Board should approve the annual financial statements and notes, and make the declaration required by section 295 of the *Corporations Act* in relation to them.
- (w) Recommend to the Board whether the Board should approve the financial report for each half-year, and make the declaration required by section 303(4) of the *Corporations Act* in relation to the report.
- (x) Recommend to the Board whether to accept the Directors' Report for each financial year and half-year.
- (y) On a regular basis, review its own performance and this Charter to ensure that it is operating effectively.

3.3 Risk

3.3.1 The Committee's specific function with respect to risk management is to review and report to the Board to ensure that:

- (a) the Company's ongoing risk management program effectively identifies all areas of potential risk;
- (b) adequate policies and procedures have been designed and implemented to manage identified risks;
- (c) a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- (d) proper remedial action is undertaken to redress areas of weakness.

3.3.2 The following are intended to form part of the normal procedures for discharge of the Committee's risk management responsibility, in relation to the Company and its controlled entities:

- (a) Evaluating the adequacy and effectiveness of the management reporting and control systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of balance sheet risks.
- (b) Evaluating the adequacy and effectiveness of financial and operational risk management control systems by reviewing risk registers and reports from management and external auditors.
- (c) Ensuring that significant risks are identified and promptly reported to the Board.
- (d) Evaluating the structure and adequacy of business continuity plans.
- (e) Evaluating the structure and adequacy of insurance coverage, on an annual basis.
- (f) Reviewing and making recommendations on the strategic direction, objectives and effectiveness of financial and operational risk management policies.
- (g) Overseeing the establishment and maintenance of processes to ensure that there is:
 - (i) an adequate system of internal control, management of business risks and safeguard of assets; and
 - (ii) a review of internal control systems and the operational effectiveness of the policies and procedures related to risk and control.
- (h) Evaluating exposure to fraud and overseeing investigations of allegations of fraud or malfeasance.
- (i) Reviewing key corporate governance practices for completeness and accuracy.
- (j) Reviewing the procedures in place for management of unusual types of transactions and potential transactions that may carry more than an acceptable degree of risk, in particular related party transactions.
- (k) Reviewing procedures to ensure compliance with laws and regulations (particularly those which have a major potential impact in areas such as trade practices, occupational health and safety, and the environment).
- (l) Reviewing procedures 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).
- (m) Advising the Board on the appropriateness of significant policies and procedures relating to financial processes and disclosures and reviewing the effectiveness of the internal control framework.
- (n) Reviewing policies and culture with respect to the establishment and observance of appropriate ethical standards.
- (o) Reviewing and discussing with management and the internal and external auditors the requirement for and overall effectiveness of legal, regulatory and ethical compliance programs.

4 Relationship with external auditors

- 4.1 The Committee provides a link between the external auditors and the Board and has the responsibility for the review of, and recommendation to the Board in respect of, the appointment and removal of the external auditors.

4.2 The Committee:

- (a) is responsible for overseeing the Company's External Audit Policy, a copy of which is attached to this Charter as Attachment 1.
- (b) has the responsibility and authority to review the terms of engagement of the external auditors.
- (c) will consider and make recommendations to the Board as regards the appointment and termination of the Company's external auditors, and will ensure that key partners within the appointed firm are rotated from time to time in accordance with the Company's External Audit Policy.
- (d) will meet with the external auditor at least twice each year, once at the audit planning stage and once post audit at the reporting stage, and will ensure that any auditor's management letters and management's responses are reviewed.
- (e) will make recommendations to the Board regarding the scope of the external audit, the terms of the annual engagement letter and audit fees.
- (f) must keep under review the Company's relationship with the external auditors including (but not limited to) assessment of the following factors:
 - (i) their independence and objectivity;
 - (ii) their performance;
 - (iii) the audit fees;
 - (iv) the nature and quantum of non-audit services provided by the external auditors, including the amount of fees paid for such services; and
 - (v) compliance with accounting standards and any proposals regarding such standards that the external auditors have made regarding the Company's internal auditing standards.

5 Relationship with internal auditors

5.1 The Committee has the responsibility of:

- (a) Approving the appointment of the senior internal audit executive. Any proposed change of the post holder should be considered first by the Committee.
- (b) Reviewing the internal auditors' objectives, competence and resourcing (including determining whether the internal audit function is to be provided by staff employed by the Company, or by an external provider).
- (c) Ensuring an appropriate program of internal audit activity is conducted each financial year and approving any change in the planned program of audits and the reason for any change or delay in the program.
- (d) Reviewing and monitoring the progress of an internal audit and work program (without the presence of management).
- (e) Overseeing the coordination of the internal and external audits.
- (f) Promptly reviewing reports on the Company from the internal auditors.
- (f) Evaluating and critiquing management's responsiveness to internal auditors' findings and recommendations.

5.2 The senior internal audit executive has a direct right of access to the Committee Chairman.

- 5.3 All written reports by the internal auditors must be addressed and provided to the Committee Chairman, with copies to the Managing Director and members of the Committee.

6 Review

- 6.1 The Board will, at least once in each year, review the performance of the Committee, the composition of the Committee and this Charter to determine its adequacy for current circumstances. The Committee may make recommendations to the Board in relation to the Committee's membership, responsibilities, functions, revisions to this Charter or otherwise.

Attachment 1

External Audit Policy

Appointment

The Audit and Risk Committee (**Committee**) may make recommendations to the Board for the appointment, reappointment or replacement and the remuneration of the external auditor and has responsibility for evaluating the external auditor's effectiveness and independence. The Committee will review the appointment of the external auditor annually based on its assessment of the auditor's performance.

Assessment of External Auditor

The Committee will review the performance of the external auditor on an annual basis after completion of the year-end audit. In evaluating the effectiveness of external audit, the Committee will assess the effectiveness of the external auditor based on a number of criteria including but not restricted to:

- the overall comprehensiveness of the external audit plan;
- the timeliness and quality of communications promised under the plan and delivered during the audit;
- the competency and industry knowledge of external audit staff; and
- the adequacy of resources to achieve the scope as outlined in the plan.

The Committee will seek feedback from management during the assessment process.

Independence

The Committee will review and assess the independence of the external auditor, including but not limited to any relationships with the Company or any other entity that may impair or appear to impair the external auditor's judgement or independence in respect of the Company. The review and assessment will be carried out annually at the time the external auditor presents its annual audit plan.

Prior to this review, the Committee will request a report from the external auditor which sets out all relationships that may affect its independence, including the provision of non-audit services, financial relationships, employment and other relationships and any other matters that may reasonably be thought to have bearing on the external auditor's independence. The report should outline any safeguards that the external auditor has in place to reduce any threat to independence to an acceptable level.

Before the directors approve the half-year and full year accounts, the external auditor will be asked to provide a declaration testifying to its independence in respect of the financial period in question. The external auditor will have a continuing obligation to notify the Committee, via the Company Secretary, of any new information it believes may be material to reviewing its independence.

The Committee has responsibility to develop and oversee the implementation of the Company's policy on the engagement of the external auditor to supply non-audit services and to ensure compliance with that policy.

Rotation of External Audit Engagement Partner

The external audit engagement partner is required to rotate at least once every 5 years.