

## AMERICAN RARE EARTHS LIMITED AUDIT AND RISK MANAGEMENT CHARTER.

The Board of Directors ("Board") of American Rare Earths Limited ("Company") has established an Audit and Risk Management Committee ("Committee")

The Chairman's qualifications and the Committees authority, responsibility and specific duties are described below:

**Chairman's Qualifications:** To serve as the Committee Chairman, a director or consultant/advisor should be independent and will not be the Chairman of the Board. To be considered independent, a director must meet the criteria for independence required by the Australian Stock Exchange, the Securities and Investment Commission, and any applicable laws and regulations.

**An Independent Director** is a Director who is not a member of management (a Non-Executive Director) and who:

\*holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company, and

\*has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment, and

\*within the last three years has not been a principal or employee of a material\* professional adviser or a material\* consultant to the Company or another group member, and

\*is not a material\* supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material\* supplier or customer, and

\*has no material\* contractual relationship with the Company or another group member other than as a Director of the Company, and

\*is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially\* interfere with the Director's ability to act in the best interests of the Company.

The Board considers, „material“, in this context, to be where any Director-related business relationship has represented or is likely in future to represent the lesser of at least 10% per cent of the relevant segment's or the Director-related business's revenue. The Board considered the nature of the relevant industries' competition and the size and nature of each Director-related business relationship, in arriving at this threshold.

### Membership

The MD is not a member of the Committee but will attend by invitation.

Committee members shall serve until their successors shall be duly designated and qualified. Any member may be removed at any time by a majority of the Board then in office. Any vacancy in the Committee occurring for any cause may be filled by a majority nominee of the Board then in office.

External consultants/advisors can serve on the committee in order to complement the technical abilities of existing members.

The Committee's Chairman shall be designated by the Board. A majority of the members of the Committee shall constitute a quorum for the transaction of business and the act of a majority of those present at any meeting at which there is a quorum shall be the act of the Committee. In addition, to serve on the Audit Committee, a director or consultant/advisor must be financially literate (or must become so within a reasonable period of time after being appointed to the Committee), as the Board interprets such qualification in its business judgment.

### **Administrative Matters**

The Committee shall meet at least two times annually or more frequently as required. Any Committee member may, and with the Company Secretary must on the request from a member, convene a meeting of the Committee within 7 business days.

The Committee has a right to access management and seek additional information and explanations where it considers it appropriate.

The Committee, may on the approval of the Chairman of the Board, instruct the Managing Director to engage independent professional advisors as required.

The Company Secretary will be invited to attend all Committee Meetings as minute secretary. All minutes will be entered into a minute book maintained by for that purpose and be available at all times for inspection by any director.

### **Remuneration**

Members will be paid nothing in addition to their director's fees save that The Chairman of the Committee will receive an additional \$5000 per annum in addition to his director's fees.

### **Authority**

The Board has granted the Committee the authority herein provided, as well as the authority to investigate any activity of the Company and its subsidiaries. The Committee shall be, granted unrestricted access to all information and all employees shall be directed to cooperate as requested by members of the Committee.

The Committee has the authority to retain, at the Company's expense, persons having special competencies to assist the Committee in fulfilling its responsibilities.

### **Purpose and Responsibilities**

The primary responsibility for financial and other reporting, internal controls, and compliance with laws and regulations rests with the management of the Company.

The Committee's primary purposes are:

1. to assist the Board in its oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements and corporate policies and controls, the external auditor's selection, retention, qualifications, objectivity and independence, and
2. The Committee will assist the Board by reviewing the financial information that will be provided to the shareholders and others, the systems of internal controls that management and the Board have established, and the audit process.

The Committee is responsible for overseeing the integrity of the financial reporting process and that the financial statements adequately represent the Company's financial condition, results of operations and cash flows. Secondly, the Committee is responsible for overseeing the Company's compliance with corporate policies that provide processes, procedures and standards to follow in accomplishing the Company's objectives. Thirdly, the Committee is responsible for understanding the Company's internal control structure and areas that represent high risk for material misstatement of the financial statements.

The external auditor shall have direct and unrestricted access to the Committee as well as the opportunity to meet with the entire Board.

The Committee shall meet no less than two times annually. Additional or special meetings may be held at the Committee's discretion.

The board acknowledges that the business of the company includes resource exploration and that this is inherently risky and carries business and other projects risks that are particular to the business of resource exploration and development

### **Specific Duties**

In discharging its responsibilities, the Committee shall have the sole authority to, and shall, do the following:

- retain and, where appropriate, terminate the Company's external auditor,
- re-approve all auditing services and related fees and the terms thereof, including the scope of the external auditors' audit examination plan, procedures and timing of the audit,
- pre-approve any non-audit services (i.e., any services provided other than in connection with the audit or review of financial statements) to be rendered by the Company's external auditor, including the terms thereof, and the fees to be paid in connection therewith, and
- resolve disagreements, if any, between the Company's external auditor and management.
- Assess management's effectiveness, financial controls, including the Company's policies and procedures to assess, monitor, and manage business risk, and legal and ethical compliance programs.

The Committee is also expected to perform the following additional duties:

- Prior to the audit, review the experience and qualifications of the members of the external audit team and the quality control procedures of the external auditor.
- Review with the external auditor and management, the Company's policies and procedures relative to the adequacy of internal accounting and financial reporting controls, including the controls over half year and annual financial reporting.
- Make all necessary inquiries of management and the external auditors concerning compliance with established standards of corporate conduct.
- Review with management and the external auditor:
  - (i) the Company's policies with respect to risk assessment and risk management,
  - (ii) the Company's major financial risk exposures, and
  - (iii) the steps management has taken to monitor and control such exposures.
- Review with management and the external auditor, risks of material misstatement and the processes and controls implemented by the Company to manage the risks.
- Review with management and the external auditor, the accounting and reporting principles and practices applied by the Company in preparing its financial statements, including:
  - (i) issues regarding accounting principles,
  - (ii) analyses prepared by management and/or the external auditor setting forth significant financial reporting issues, estimates and judgments made in connection with the preparation of the financial statements, and
  - (iii) the effect of regulatory and accounting initiatives on the financial statements of the Company.
  - (iv) reviewing the Company's policies and procedures for compliance with Australian Equivalents to International Reporting Standards (AIFRS)
- Discuss with management the types of information (including financial information and earnings guidance) to be disclosed in half year and annual financial statements.

- Prior to the release of each half year and annual financial statements, discuss with management and the external auditor the results for the half year or the year, including any significant transactions which occurred during the 6 months or the year, any significant adjustments, management judgments and accounting estimates, new accounting policies and any disagreements between management and the external auditor.
- Prior to the release of information to the market pertaining to Resources and Reserves and for each annual Resource and Reserve statement, review with the Principal geologist and/or Responsible Person the reporting procedures and methodology regarding the reporting of Resources and Reserves.
- Prior to the release of the annual financial statements meet to review and discuss with management and the external auditor, on completion of their audit, the financial results for the year and the results of the audit, including.

the Company's annual financial statements and related notes.

- (ii) Management's discussion and analysis of the financial condition and results of operations.
- (iii) the results of the audit, including the nature and number of unrecorded adjustments resulting from the audit.
- (iv) the external auditors' management recommendations.
- (v) any significant transactions which occurred during the year.
- (vi) any significant adjustments.
- (vii) management judgments and accounting estimates.
- (viii) new accounting policies.
- (ix) alternative treatments of financial information within generally accepted accounting principles, ramifications of the use of alternative disclosures and treatments, and the treatment preferred by the external auditor; and
- (x) review the Corporate Governance Statement included in the annual financial statement in accordance with ASX Listing Rule 4.10.3.
- (xi) any disagreements between management and the external auditor.

Prior to the release of half year financial statements, meet to review and discuss with management the Company's half year financial statements, including:

- (i) the financial statements and related notes,
- (ii) management's discussion and analysis of the financial condition and results of operations,
- (iii) the result of the quarterly review, including the nature and number of unrecorded adjustments resulting from the review,
- (iv) any significant transactions which occurred during the quarter,
- (v) any significant adjustments,
- (vi) critical accounting policies and practices,
- (vii) new accounting policies, and
- (viii) alternative treatments of financial information within generally accepted accounting principles, ramifications of the use of alternative disclosures and treatments.

At least annually:

- (i) obtain and review from the external auditors a written statement delineating all their relationships with the Company including all non-audit services provided and related fees, and
- (ii) discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the accountants and take appropriate action to satisfy itself as to the independence of the auditors.

○ At least annually:

- (i) obtain and review a written report by the external auditor describing the firm's internal quality-control procedures any material issues raised by the most recent internal quality-control review, or peer review, of the firm, within the preceding five years, respecting any independent audit carried out by the firm, and any steps taken to deal with any such issues,
- (ii) review the external auditors work throughout the year as it relates to the Company, including obtaining the opinions of management.

- (iii) evaluate the external auditors (including the engagement partner's) performance
- (iv) present the Committee's conclusions to the full Board.

Before the appointment of external auditors for non-audit services:

The Audit Committee is to ensure that it is satisfied that the provision of those non-audit services by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

At least annually review adequacy of risk management policies and procedures:

- (i) Financial Budgeting and management reporting: The company presents to the ASX half yearly. A detailed budget is put forward to the Board by management and is approved and adopted as the annual budget. Monthly management accounts are prepared and compared to budget. Forecasts are prepared and revised on a regular basis. The Committee reports on its activity to the Board.
- (ii) Limits of authority: The Company has policies and practices in place that specify delegated authority and limits of authority in areas such as capital expenditure.
- (iii) Operational and Special reporting: The Company receives regular reports on the Company's main operations and as required on special reporting on areas such as occupational health and safety, environment and cultural heritage, corporate risk, HR and administration; and
- (iv) Corporate opportunity reviews: The Company has practices in place to review new corporate opportunities.
- (v) Managing Directors compliance statement: The Board is provided with a written statement that:
  - The integrity of the financial statements is founded on a sound risk management and internal compliance and control, which in all material respects, implement the policies and arrangements assumed by the Board; and
  - The risk management and internal compliance and control system of the Company are operating efficiently and effectively, in all material respects.

Prepare the "Report of the Audit Committee" included in the Full Board papers. Such report is to include:

- (i) that the independence of the external auditors has been reviewed.
  - (ii) that the audited financial statements have been reviewed and discussed with management; and
  - (iii) the Committee's recommendation with regard to the audited financial statements.
- Meet periodically and separately with each of management and the external auditors.
  - Review with the external auditors' difficulties or problems encountered in the course of any audit work, including any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
  - Set clear hiring policies for employees or former employees of the external auditors in accordance with applicable laws and regulations.
  - Take such action as necessary to assure the rotation of the engagement audit partner at least every five years or such other period as may be required under applicable law.
  - Establish procedures for processing internal complaints regarding accounting, internal controls or auditing matters, and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing practices.
  - Conduct an annual performance self-evaluation of the Committee.

- Apprise the Board of significant developments in the course of performing the above duties, including reviewing with the full Board any issues that arise with respect to the quality or integrity of the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's external auditors.
- Review and reassess the adequacy of this charter on an annual basis and submit any proposed revisions to the Board for consideration and approval.
- Review and approve tenders and submissions relating to the provision of on-going professional services.
- Review and approve related party transactions.