

**Hurricane Energy Plc (the "Company")**

## **Audit and Risk Committee Terms of Reference**

Terms of Reference for the Audit and Risk Committee (the "Committee") of the Board of Directors (the "Board") of the Company constituted pursuant to Article 92 of the Company's Articles of Association by a Resolution of the Board passed on 20 January 2011 and as reviewed, amended and adopted by the Board on 15 January 2018.

### **1. Membership**

- 1.1. Members of the Committee shall be appointed by the Board on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit and Risk Committee. Whilst the Company is a smaller company below the FTSE 350 index the Committee shall be made up of not less than 2 independent non-executive directors.
- 1.2. All members of the Committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience. The Audit Committee as a whole shall have competence relevant to the sector in which the Company operates. The Chairman of the Board shall not be a member of the Committee, however whilst the Company is a smaller company, the Chairman of the Board may be a member but not the chair of the Committee.
- 1.3. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Financial Officer, Chairman of the Board, Chief Executive Officer, Chief Operations Officer, other directors, any relevant senior member of staff and other non-members may be invited to attend all or part of any meeting as and when appropriate.
- 1.4. The external auditor will be invited to attend meetings of the Committee on a regular basis.
- 1.5. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods provided the director remains independent.
- 1.6. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

### **2. Secretary**

- 2.1. The Company Secretary, or his/her nominee or a person appointed by the Committee Chairman, shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

### **3. Quorum and voting**

- 3.1. The quorum necessary for the transaction of business shall be 2 members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.



3.2. In the event of an equality of votes the Committee Chairman shall have a second or casting vote.

#### **4. Frequency of meetings**

4.1. The Committee shall meet at least three [ideally 4 meetings in line with financial reporting.] times a year at appropriate times in the financial reporting and audit cycle and otherwise as required. Meetings may be held by telephone.

4.2. Outside of the formal meeting programme, the Committee Chairman or to a lesser extent any Committee member will/may maintain a dialogue with key individuals involved in the Company's governance.

#### **5. Notice of meetings**

5.1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of the external auditor if they consider it necessary.

5.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

#### **6. Minutes of meetings**

6.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

6.2. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

6.3. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

#### **7. Annual General Meeting**

7.1. The Committee Chairman shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.

#### **8. Duties**

The Committee should carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

##### **8.1. Financial Reporting**

8.1.1. The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the auditor. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain



other documents, such as announcements of a price sensitive nature.

8.1.2. The Committee shall review, challenge where necessary and report its views to the Board:-

8.1.2.1. the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;

8.1.2.2. the methods used to account for significant or unusual transactions where different approaches are possible;

8.1.2.3. whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

8.1.2.4. the clarity of disclosure in the Company's financial statements including any strategic reports and corporate governance statements relating to the audit and risk management, internal control, the going concern basis of accounting and longer term viability. Such review should take into consideration the context in which these statements are made; and

8.1.2.5. all material information presented with the financial statements.

## 8.2. Narrative Reporting

Where applicable and as requested by the Board, the Committee shall review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy and whether it informs the Board's statement in the Annual Report on these matters that is required under UK Corporate Governance Code provisions and regulations.

## 8.3. Internal Controls and Risk Management Systems

The Committee shall:-

8.3.1. keep under review the effectiveness of the Company's internal financial and non-financial controls and risk management systems; and

8.3.2. review and approve the statements to be included in the Annual Report concerning internal controls and risk management and the viability statement.

## 8.4. Whistleblowing and Fraud

The Committee shall

8.4.1. review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and

8.4.2. review the company's procedures for detecting fraud and for the prevention of bribery and receive reports on non-compliance.

## 8.5. Internal Audit

8.5.1. The Committee shall consider annually whether there is a need for an internal audit function and make a recommendation to the Board. In so doing the Committee shall consider (if appropriate) the role and mandate of any internal audit appointment(s), the effectiveness of any internal audit work requested/undertaken



(including approving an internal audit plan to ensure alignment to the key risks of the business), and the Committee may request/receive regular reports on any internal audit matters. The Committee may also consider whether an independent, third party review of processes is required/appropriate.

## 8.6. External Audit

The Committee shall:

- 8.6.1. consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall ensure compliance with any regulatory requirements in relation to audit tendering and oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 8.6.2. oversee the relationship with the external auditor including (but not limited to):-
  - 8.6.2.1. approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective audit to be conducted;
  - 8.6.2.2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.6.2.3. assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services and the approval of any non-audit services together with an assessment of whether such non-audit services have a direct or material effect on the audited financial statements;
  - 8.6.2.4. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
  - 8.6.2.5. if applicable, recommend to the Board a policy on the employment of former employees of the Company's external auditor and monitor the application of any such policy;
  - 8.6.2.6. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
  - 8.6.2.7. assessing periodically their qualifications, expertise and resources and the effectiveness of the audit process;
- 8.6.3. meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 8.6.4. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;



8.6.5. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

8.6.5.1. a discussion of any major issues which arose during the audit;

8.6.5.2. any accounting and audit judgements;

8.6.5.3. levels of errors identified during the audit; and

8.6.5.4. an evaluation of the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the Committee.

The Committee shall also review the effectiveness of the audit process:

8.6.6. review any representation letter(s) requested by the external auditor before they are signed by management; and

8.6.7. review the management letter and management's response to the auditor's findings and recommendations.

## **9. Reporting Responsibilities**

9.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities;

9.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;

9.3. The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report; and

9.4. In compiling such reports referred to in 8.1.1 and 9.1.3 the committee should include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the inputs to the Board's viability statement.

## **10. Other Matters**

The Committee shall:-

10.1. have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required and be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;

10.2. give due consideration to laws and regulations, and the provisions of the UK Corporate Governance Code, (as revised in April 2016) and the FRC Guidance on Audit Committees, (published in April 2016) as appropriate;

10.3. oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort; and

10.4. at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.



## **11. Authority**

The Committee is authorised:

- 11.1. to seek any information it requires from any employee of the Company in order to perform its duties;
- 11.2. to obtain, at the Company's expense independent legal or other professional advice on any matter within its terms of reference;
- 11.3. to call any employee to be questioned at a meeting of the Committee as and when required; and
- 11.4. to publish in the Company's Annual Report, details of any issues that cannot be resolved between the Committee and the Board.