

**JX Energy Ltd.**  
**(吉星新能源有限責任公司)\***

*(incorporated under the laws of Alberta with limited liability)*

**(Stock Code: 3395)**

**Audit & Risk Committee's Terms of Reference**

The board of directors (the “**Board**”) of Persta Resources Inc. (now known as JX Energy Ltd. (the “**Company**”)) has on 17 January 2017 established a committee of the Board known as the Audit & Risk Committee (the “**A&R Committee**”) of the Company, a summary of its constitution and particular duties are set out below:

**A. FUNCTIONS**

1 The A&R Committee is responsible for:

- (a) Overseeing the integrity of the Company's accounting, financial reporting and reserves reporting processes, financial statements, and system of internal controls over financial reporting.
- (b) Overseeing the management of the Company (the “**Management**”) in the design, implementation and monitoring of the risk management and internal control systems, and ensuring the Management to provide a confirmation to the Board on the effectiveness of these systems.
- (c) Overseeing and monitoring external and internal audit activities of the Company and compliance with legal and regulatory requirements; and maintaining an appropriate relationship with the Company's auditors.
- (d) Overseeing and monitoring the external reserves evaluator (the “**Reserves Evaluator**”).
- (e) Development and supervision of the Company's approach to certain corporate governance issues, including related policies.
- (f) Development, implementation and monitoring of the Company's health, safety, environment, asset integrity management and corporate security policies.

\* *For identification purpose only*

## **B. MEMBERSHIP AND TERM OF OFFICE**

- 1 The A&R Committee shall be appointed annually by the Board. The A&R Committee shall be comprised of no less than three (3) directors of the Company (the “**Directors**”), all of whom will be independent non-executive Directors. A former partner of the Company’s existing auditing firm shall be prohibited from acting as a member of the A&R Committee for a period of two (2) years from the date of his ceasing to be a partner of the firm, or to have any financial interest in the firm, whichever is later.
- 2 The chair of the A&R Committee (the “**Chair**”) shall be appointed annually by the Board and shall be an independent non-executive Director. The A&R Committee shall report to the Board.
- 3 All members of the A&R Committee shall be financially literate, as defined by the Canadian Securities Administrators in National Instrument 52–110 — Audit Committees; and at least one member shall have accounting or related financial managerial expertise as required by Rule 3.10(2) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).
- 4 Members of the A&R Committee are appointed for a one (1) year term at the meeting of the Board where the A&R Committee is firstly established.
- 5 The chief financial officer of the Company (the “**CFO**”) will act as the management liaison for the A&R Committee.
- 6 Where a vacancy occurs at any time in the membership of the A&R Committee, it may be filled by the Board on the recommendation of the A&R Committee, and will be filled by the Board if the membership of the A&R Committee falls below three (3) Directors.

## **C. MEETINGS AND PROCEDURE**

- 1 The A&R Committee shall meet at least four times per year. The Chair may call additional meetings as required. In addition, a meeting may be called by the Board chair, the CFO or any member of the A&R Committee.
- 2 The A&R Committee may, by specific invitation from the Chair, have other resource persons in attendance.
- 3 The CFO, and other management representatives of finance, risk, and audit portfolios and the external auditor are expected to be available to attend the A&R Committee’s meetings or portions thereof, in a non-voting capacity.
- 4 A&R Committee meetings may be held in person, by video conference, by means of telephone or any other communication facility that permits all persons participating to hear each other.

- 5 Notice of the time and place of each meeting may be given orally, or in writing (including by electronic means) or by facsimile to each member of the A&R Committee at least 48 hours prior to the time fixed for such meeting. Any member may, in any manner, waive notice of the meeting. Attendance of a member of the A&R Committee at a meeting shall constitute waiver of notice of the meeting except where a member attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting was not lawfully called.
- 6 A majority of members of the A&R Committee, present in person, by video conference, telephone or other communication facility, shall constitute a quorum.
- 7 All members of the A&R Committee are expected to allow themselves sufficient time to review meeting materials and be prepared for Committee meetings. A&R Committee members are expected to make every effort to attend all A&R Committee meetings.
- 8 The Chair shall preside as chair at each A&R Committee meeting, lead A&R Committee discussion on meeting agenda items and report to the Board, on behalf of the A&R Committee, with respect to the proceedings of each A&R Committee meeting. In the event that the Chair is absent from any meeting, the members present shall designate any Director present to act as chair for the meeting.
- 9 Any matter to be voted upon shall be decided by a majority of the votes cast on the question. In the case of an equality of votes, the matter shall be referred to the Board for consideration.

#### **D. DUTIES AND RESPONSIBILITIES**

- 1 The A&R Committee will provide assistance to the Board in fulfilling its oversight responsibility relating to the integrity of the Company's financial statements and the financial reporting process, the Company's annual report and half-year report, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements, the annual valuation of the Company's reserves by the external Reserves Evaluator, the Company's health, safety and environmental matters, and any legal compliance or ethics programs as established by the Management and the Board. In so doing, it is the responsibility of the A&R Committee to maintain and foster free and open communication between the A&R Committee, the independent auditor, the Reserves Evaluator and the Management.
- 2 The primary responsibility of the A&R Committee is to keep abreast with any change on accounting policies and practices, and oversee the Company's financial reporting process on behalf of the Board and report the results of its activities to the Board. The Management is responsible for the preparation, presentation and integrity of the Company's financial statements and for the appropriateness of the accounting principles and reporting policies that are used by the Company. The independent auditor is responsible for auditing the financial statements.

3 The A&R Committee shall:

*Committee Independence*

- (1) Maintain a summary of the A&R Committee's composition and each A&R Committee member's independence status.

*External and Internal Auditors*

- (1) Oversee the work of the external auditor and have a clear understanding with the Management and the external auditor that the external auditor reports to and is ultimately accountable to the Board and the A&R Committee.
- (2) The A&R Committee shall have the ultimate authority and responsibility to evaluate and, where appropriate, recommend the replacement and removal of the external auditor to the Board. The A&R Committee shall assure itself that the external auditor is independent from management and the Company, and will have access to all information about the audit firm's relationship with the Company that is necessary to come to a reasonable conclusion.
- (3) Determine, with delegated responsibility and in compliance with the requirements of the Listing Rules, and on an annual basis, the appointment and reappointment of the external auditor, for the purpose of preparing or issuing an audit report or performing other audit, review or attest functions, and put it to the Company's shareholders for approval at the Company's annual general meeting.
- (4) Review and approve the audit scope and engagement letter of the external auditor, including any significant scope changes.
- (5) Review and recommend to the Board the compensation of the external auditor.
- (6) Oversee the work of the external auditor for the purpose of preparing an audit report, including the resolution of disagreements between the Management and the external auditor regarding financial reporting.
- (7) Discuss and review with the Management and the Company's external auditors the annual audited financial statements and external auditor's report. Formally recommend for approval to the Board the annual audited financial statements.
- (8) Review with the Management and the external auditors and formally recommend for approval to the Board the quarterly unaudited financial statements and any significant changes to the Company's accounting principles made during the quarterly period.
- (9) Meet on a periodic basis with the external auditor, at least quarterly in advance of Board meetings.

- (10) Evaluate annually the external auditor's qualifications, performance and independence and present the A&R Committee's conclusions with respect to the external auditor to the Board.
- (11) Develop a policy on engaging the external auditor to employ non-audit services; review and pre-approve the provision of all permitted non-audit services (including the fees and terms thereof) in advance of the provision of those services by the external auditor to the Company.
- (12) Review and approve the Company's hiring policies regarding present and former employees and partners of the external auditor.
- (13) Act as the key representative body for overseeing the Company's relationship with the external auditor.
- (14) In the event the Board disagrees with the A&R Committee on the selection, appointment, resignation or dismissal of the external auditors, the A&R Committee shall provide a statement explaining its recommendations to the Company and also the reason(s) why the Board has taken a different view for inclusion in the Corporate Governance Report issued by the Company in accordance with Appendix 14 of the Listing Rules.
- (15) Where the number of the "withheld" votes exceeds that of the "for" votes of the elected auditors which gives rise to concerns of the Directors regarding the appropriateness of such auditors' appointment, the A&R Committee shall play a consultative role and the Directors will, upon consulting the A&R Committee, call a special meeting of the shareholders of the Company (the "**Shareholders**") and propose ordinary resolutions to the Shareholders to consider removing the elected auditors and appointing replacement auditors in its stead for the remainder of its term.

*Oversight of Company's Risk Management and Internal Controls Systems, Financial Reporting System and Corporate Governance*

- (1) Review with external auditors and the Management their periodic assessment of the Company's risk management and internal controls systems over financial reporting ("**ICFR**"). Review the external auditor's management letter, any material queries raised by the external auditor to the Management about accounting records, financial accounts or systems of control and the Management's response and ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.

- (2) Assess the reliability of reported results and the quality of reporting earnings in the financial statements. For example, the A&R Committee shall:
- (a) Assess how aggressive or conservative the Management has been in preparing the financial statements and, in particular, whether the Management's assessment of materiality for financial statement purposes is appropriate on both a quantitative and qualitative basis.
  - (b) Be sensitive to significant accounting and reporting developments and issues and their impact on financial reporting.
  - (c) Review the appropriateness of significant accounting policies and consider alternative treatments under the applicable generally accepted accounting principles.
  - (d) Review significant estimates made by the Management in preparing the financial statements, the process used to develop them and the impact of those estimates on the financial statements.
  - (e) Review significant financial reporting risks, including fraud risks, and plans to mitigate them.
  - (f) Discuss the risk management and internal control systems with the Management to ensure that the Management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting function.
  - (g) Consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the Management's response to these findings.
  - (h) Ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the issuer, and to review and monitor its effectiveness.
  - (i) Review the Company's financial and accounting policies and practices.
  - (j) Report to the Board on the matters set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules; and ensure the Company disclose in the Corporate Governance Report a narrative statement on how it has complied with the risk management and internal control code provision during the reporting period.

- (k) Ensure that the adequacy of resources, staff qualifications and experience, training programmes, and budget of the Company's accounting and financial reporting function.
  - (l) Review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control, auditing matters or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.
  - (m) Formulate whistle-blowing policies and systems so that the employees and other persons (e.g. customers and suppliers) who have connections with the Company can, in confidence, report to the A&R Committee concerns about any impropriety relating to the Company.
- (3) Advise the Management and assist in the implementation, oversight and maintenance of a compliance program with corporate policies that have been put in place by the Company from time to time, including but not limited to the following:
- (a) Corporate Code of Conduct.
  - (b) Ethics Policy.
  - (c) Corporate Communication Policy.
  - (d) Privacy Policy.
- (4) Review legal and regulatory matters, including correspondence with regulators and governmental agencies that may have a material impact on the interim or annual financial statements, regulatory reporting requirements and reports received from regulators or governmental agencies. Relevant members of the Management (e.g., from the Company's legal, tax, regulatory affairs, and any other applicable department) should be invited to attend the meeting in person to deliver their reports.
- (5) Conduct annual review and discuss with the Board, in particular:
- (a) The changes, since the last annual review, in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment.
  - (b) The scope and quality of the Management's ongoing monitoring of risks and of the internal control systems, and where applicable, the work of its internal audit function and other assurance providers.
  - (c) The extent and frequency of communication of monitoring results to the Board which enables the Board to assess control of the Company and the effectiveness of risk management.

- (d) Significant control failings or weaknesses that have been identified during the period.
- (e) The effectiveness of the Company's processes for financial reporting and compliance with the Listing Rules.

*Review of the Company's financial information*

- (1) Monitor integrity of the Company's financial statements, annual report and accounts, half-year report and, if prepared for publication, quarterly reports, as well as the financial sections of prospectuses and other public reports requiring approval by the Board before such documents are publicly disclosed by the Corporation, and to review significant financial reporting judgments contained in them. In addition, the A&R Committee shall review regulatory filings and decisions as they relate to the Company's financial statements. In reviewing these reports before submission to the Board, the A&R Committee should focus particularly on:
  - (a) Any changes in accounting policies and practices.
  - (b) Major judgmental areas.
  - (c) Significant adjustments resulting from audit.
  - (d) The going concern assumptions and any qualifications.
  - (e) Compliance with accounting standards, the Listing Rules and legal requirements in relation to financial reporting.
- (2) Regarding paragraph 1 above, members of the A&R Committee should liaise with the Board and senior management and the A&R Committee must meet, at least twice a year, with the Company's auditors; and the A&R Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

*Independent Qualified Reserves Evaluators*

- (1) On an annual basis, recommend to the Board the appointment of the independent qualified Reserves Evaluator for the purpose of reporting on the Company's oil and gas activities to the Company's shareholders.
- (2) Review the process of providing information to the Reserves Evaluator and consider the adequacy of such procedures.



- (3) Meet with the Management and the Reserves Evaluator, both collectively and independently, to:
  - (a) Determine if there are any restrictions affecting the ability to give an unqualified reserve report.
  - (b) Review the reserves and resources data and the Reserve Evaluator's report.
- (4) Consider and discuss with the Management and the Reserves Evaluator, the material assumptions and operating parameters used in creating the reserve report.
- (5) Annually review and approve the expected fees of the independent qualified Reserves Evaluator.
- (6) Review the Company's annual reserves data prior to disclosure to the Company's shareholders.

*Health, Safety and Environment*

- (1) Develop policies and maintain standards of performance that meet or exceed legal and regulatory requirements and industry standards in the areas of health, safety, environment, asset integrity management and corporate security stewardship.
- (2) Identify risks related to health, safety, environment, asset integrity management and corporate security and, recommend the adoption of appropriate programs to reduce risks.
- (3) Review the Company's strategies with respect to health, safety, environment, asset integrity management and corporate security.
- (4) Review and monitor the policies and practices relating to the reporting of health, safety, environment, asset integrity management and corporate security incidents with respect to the Company's employees, facilities and operations, in compliance with regulatory laws.
- (5) Review with management the methods of communicating health, safety, environment, asset integrity management and corporate security policies and practices.
- (6) Review and make recommendations to the Board with respect to the insurable risks related to health, safety, environment, asset integrity management and corporate security issues.
- (7) Monitor current, pending or threatened legal action by or against the Company, related to health, safety, environment, asset integrity management and corporate security issues.
- (8) Review, with management, the Company's loss prevention policies and emergency response plans and recovery programs, and require management to implement and routinely test the plans.

- (9) Review reports regarding significant health, safety, environment, asset integrity management and corporate security incidents, emerging issues, summaries of inspections or audits, and corrective actions taken in response to deficiencies.
- (10) Require management to take steps to ensure that employees receive the training necessary to meet health, safety, environment, asset integrity management and corporate security standards set by law and policies set by the A&R Committee.
- (11) Require management to regularly monitor and report on the Company's health, safety, environment, asset integrity management and corporate security performance.

*Others*

- (1) Develop, with the Management, a risk policy to address corporate identification and management of significant financial reporting risks, including fraud risk.
- (2) Review and discuss significant financial risks or exposures and assess the steps the Management has taken to monitor, control, report and mitigate such risk to the Company.
- (3) Conduct or authorize independent investigations into any matters which come under the A&R Committee's scope of responsibilities. The A&R Committee shall be empowered to retain, obtain advice or otherwise receive assistance from independent legal counsel, accountants, or others to assist it in the conduct of any investigation as it deems necessary to carry out its duties.
- (4) Attend the Company's annual general meetings by the Chair (or in his absence, his duly appointed delegate) and be prepared to respond to any questions of the shareholders of the Company on the A&R Committee's activities.
- (5) Do any such things to enable the A&R Committee to perform its functions conferred on it by the Board and in compliance with the requirements of the Listing Rules.

**E. COMMITTEE AND CHARTER REVIEW**

- 1 The A&R Committee will conduct an annual review and assessment of its performance, effectiveness and contribution, including a review of its compliance with its Charter, in accordance with the process developed by the Board. The A&R Committee will conduct such review and assessment in such manner as it deems appropriate and report the results thereof to the Board.
- 2 The A&R Committee will also review and assess the adequacy of its Charter on an annual basis, taking into account all legislative and regulatory requirements applicable to the Committee and will recommend changes to the Board thereon.

## **F. AUTHORITY**

- 1 The A&R Committee shall be given access to senior management of the Company and all documents as required to fulfill its responsibilities and shall be provided with the resources necessary to carry out its responsibilities.
- 2 The A&R Committee is authorized by the Board when necessary to obtain outside legal or other independent professional advice in connection with its duties at the Company's expense, including seeking advice from special personnel consulting groups so as to ensure that the Board remains informed of market trends and practices, and setting and paying the compensation for any advisors employed by the A&R Committee.

## **G. SECRETARY OF A&R COMMITTEE**

- 1 The Chair shall designate any Director, officer or employee of the Company to act as the secretary of the A&R Committee (the "**Secretary**").
- 2 The Secretary shall record and keep minutes of all duly constituted meetings of the A&R Committee. All minutes shall record in sufficient details the matters considered, decisions reached or recommendations made and any concerns raised by any member including dissenting views; and shall be available for inspection by any member of the A&R Committee and/or any Director at any reasonable time on reasonable notice.
- 3 The Secretary shall circulate the draft and final versions of the minutes of meetings and reports of the A&R Committee to all members for comments and records within a reasonable time after each meeting, subject to any legal or regulatory restrictions restricting such circulation or the making of such reports. Once they are agreed, the Secretary shall circulate the minutes and reports of the A&R Committee to all members of the Board.

## **H. REPORTING RESPONSIBILITIES**

- 1 The A&R Committee shall report back to the Board and keep the Board fully informed of its decisions and recommendations, unless there are legal or regulatory restrictions on its ability to do so.
- 2 The A&R Committee should make available these terms of reference by including them on the internet website operated by the Stock Exchange for the purposes of the Main Board and the Company's website.

## **I. INTERPRETATION**

1 Interpretation of these terms of reference shall belong to the Board.

*Notes:* "senior management" refers to the same category of persons as referred to in the Company's annual report. It is the responsibility of the directors of the Company to determine which individual or individuals constitute senior management. Senior management may include directors of subsidiaries, heads of divisions, departments or other operating units within the group as, in the opinion of the directors, is appropriate.

The Terms of Reference are available in English and Chinese versions. If there is any inconsistency between the English and Chinese versions of the Terms of Reference, the English version shall prevail over the Chinese version.